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South Asian Integration Prospects and Lessons from East Asia

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Foreword

This working paper emerged from the background paper undertaken by ICRIER for the ADB study on "Emerging Asian Regionalism: Ten Years After the Crisis", particularly Chapter 7 on "Deepening Asian Integration". The objectives of this paper are first to assess the prospects of cooperation in South Asian economies and then to draw lessons from East Asian cooperation experience for the betterment of the South Asian prospects.

The South Asian region has long been steeped in mutual suspicions and conflict. It has traditionally followed an inward-oriented approach to development and is also a latecomer to the concept of regional integration. These factors have kept the region in a low-growth equilibrium for a long time. Given this baggage, the paper argues that South Asia can benefit from a twin track approach: better integration within itself and better integration with the rest of the world. Integration within South Asia is more likely to succeed if undertaken as a part of a broader pan Asian cooperation. In this context the presence of China and Japan as observers in SAARC is a positive development, and if the list is expanded to include South Korea and ASEAN, it can pave the way for SAARC+4 interaction which would serve to promote the emergence of pan Asian cooperation.

This paper assumes importance in the current context where conditions for South Asian cooperation have never been as favourable as they are now. The region is experiencing unprecedented growth as a result of economic reforms in the last two decades. The region can sustain its growth on the basis of reforms in a multilateral framework but prospects improve if a regional framework is also in place. The paper makes an important contribution in highlighting the lessons the region can learn from East Asia in taking the process of South Asian cooperation forward.

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Abstract

In the context of the low levels of regional cooperation among South Asian countries when compared with the successful results from cooperation in East Asia (consisting of South East and East Asian countries), the objective of this paper is first to assess the prospects of cooperation among South Asian economies and then to draw lessons from East Asian regional experiments for South Asian regionalism for the betterment of these prospects. The main argument of the paper is that South Asia should adopt a twin-track approach: better integration within itself and better integration with rest of the world particularly East Asia. Both tracks would complement and supplement each other ensuring a greater chance of success.

Keywords: South Asian integration prospects, Lessons from East Asian regionalism, Open regionalism, Asian development.

JEL Classification: F15, F33, F36, O19.

1. Introduction[*]

The South Asian region consists of a single large country, India, surrounded by a number of medium and small nations such as Pakistan, Afghanistan, Bangladesh, Nepal, Bhutan, Sri Lanka and Maldives. While India accounts for about 79 per cent of the region's GDP, Pakistan contributes 11 per cent, Bangladesh, 6 per cent and Sri Lanka, another 2 per cent. This region is generally quite poor and backward even by Asian standards; it has however, shown good economic performance in the recent past as a result of the liberalization policies pursued in the last two decades.

In line with the prevailing mainstream development thinking, South Asia as a region traditionally followed an inward looking import substitution strategy of development which favoured domestic production and discriminated against exports. This strategy involved not only industrialization behind high tariff walls, but also direct controls in the form of import and industrial licensing. The exchange rates were generally overvalued and interest rates suffered from financial repression. There was undue governmental intervention into the working of the market. The net outcome of these policies was to distort incentives and misallocate resources. Thus, the results obtained were suboptimal in terms of GDP growth, per capita income growth, export growth and poverty reduction. While many developing countries of East Asia, after completing the first stage of import substitution switched over to export expansion, countries of South Asia continued on the path of deeper and deeper import substitution.

It took a long time for South Asian countries to realize the futility of such policies. It is only in the 1980s and 1990s that governments, often under IMF and World Bank conditionality, followed policies involving both stabilization and structural adjustment. These countries were also influenced by the impressive performance of export-led growth in South-East and East Asian countries. The breakdown of communism in the former USSR and East European countries gave further impetus to economic reforms and trade liberalization. While Sri Lanka began reforming its trade and industrial policies in the 1980s, other countries followed—India and Bangladesh in the early 1990s, and Pakistan and Nepal in the late 1990s (Devarajan and Nabi, 2006).

South Asia was also relatively slow in assimilating of the importance of regionalism towards attainment of development objectives. While the European Common Market was established in 1958, Association of South East Asian Nations (ASEAN) in 1967, South Asian Association for Regional Cooperation (SAARC) was established much later in 1985. Even after 22 years of the establishment of SAARC, South Asia has shown slow progress towards regional cooperation, and continues to be one of the least integrated regions in the world. For long the region has been mired in mutual mistrust and conflict. The presence of India as a large country arouses fears of hegemony and economic dominance among the smaller neighbours, who in turn suffer from the big-brother syndrome. Of late some signs of hope have emerged that indicate that the region may overcome this legacy of mistrust and conflict, and give cooperation a chance.

[*] The authors would like to thank Pankaj Vashisht for his research assistance in preparing the tables.

While the progress of regional cooperation in South Asia has been slow, other groupings in Asia such as ASEAN have shown remarkable progress. After the financial crisis of the late 1990s, regionalism has received a boost and the desire to collectively face such crises in the future has emerged strongly. The Chiang Mai Initiative (CMI) of 2000, resulting in swap arrangements among ASEAN+3[1] countries, was the direct result of the ASEAN+3 Finance Ministers' process. Arrangements such as common currency and common monetary policies are also being discussed but, since some loss of sovereignty is involved in such initiatives, it may be some time before they are accepted.

Given that South Asian countries until now, have shown little appetite for regional cooperation while cooperation in East Asia (consisting of South East and East Asian countries) has succeeded so well, the objective of this paper is first to assess the prospects of cooperation in South Asian economies and then to draw lessons from East Asian regional experiments for South Asian regionalism for the betterment of their prospects. The main argument of the paper is that South Asia should adopt a twin-track approach: better integration within itself and better integration with the rest of the world particularly East Asia. Both tracks would complement and supplement each other ensuring a greater chance of success. Section 2 is devoted to assessing South Asia's prospects in regional cooperation. In Section 3 we assess various East Asian regional arrangements. Section 4 explores the possible lessons East Asian integration may hold for South Asia. Section 5 concludes the paper.

2. An Assessment of South Asian Prospects

As already noted, the South Asian region was late in introducing economic reforms as well as in adopting regional integration policies. In this section we make an assessment of South Asian economic prospects with or without regionalism. We start with key features of South Asian economies. Then we take up the key emerging trends which provide cause for hope. We also discuss the SAARC process and how setting up of SAFTA (South Asian Free Trade Area) is a step forward. We argue that if regionalism in South Asia is to be promoted, it should be undertaken as a part of greater integration with the rest of the world particularly East Asia as this would lend greater legitimacy (and urgency) to the SAARC process. The ultimate aim should be to form a pan-Asia bloc which includes not just East and South Asia but Central Asia as well. Finally, we also discuss some projections for India which postulate future Indian growth rates ranging from 8 to10 per cent per annum.

2.1 Key characteristics of South Asian economies

South Asian economies are diverse in terms of their geographical and economic size, population and stages of development. As noted before, and as can be seen from Table 1, India accounts for about 79 per cent of the region's GDP and the remaining 21 per cent is contributed by other economies of the region. Many of the countries share a common past

[1] ASEAN+3 consists of ten ASEAN countries – Malaysia, Indonesia, Singapore, Thailand, Philippines, Brunei, Laos, Cambodia, Vietnam, Myanmar – and three North-East Asian countries, namely, Japan, Korea and China.

and political history—India, Pakistan and Bangladesh were a part of British India before they attained independence in 1947, and before Bangladesh separated from Pakistan in 1971. Indeed strong cultural and trade ties existed among the countries of the region in the past. Today, South Asia as a region is generally characterized by backwardness and low per capita incomes, high incidence of poverty and poor infrastructure. South Asia is one of the poorest regions of the world, and after Sub-Saharan Africa, is home to the largest concentration of the world population living in poverty.

Table 1 shows that South Asia region suffers from low per capita incomes (both in terms of US Dollars as well as in terms of purchasing power parity), low literacy levels, high incidence of poverty and high proportion of income generated in agriculture. For example, most countries in the region had per capita income per annum of less than USD 1000 in 2005. Nepal had the lowest per capita income of USD 270 and Bangladesh had the second lowest of USD 470. With the exception of Maldives and Sri Lanka, the levels of per capita income are low when compared with selected East Asian economies such as China (USD 1740), Korea (USD 15,830), Thailand (USD 2,750) and Indonesia (USD 1,280). Similarly, the proportion of the population in living extreme poverty below USD1 a day is generally higher and adult literacy rates generally lower in South Asian countries in comparison with select East Asian countries. Life expectancy at birth is also somewhat higher in select East Asian countries.

South Asian countries also display low levels of industrialization in comparison with selected East Asian countries as can be seen from the proportion of GDP originating from the industrial sector. While this proportion is less than 28 per cent for South Asian economies, for selected East Asian economies such as China (46 per cent), Korea (41 per cent), Thailand (47 per cent) and Indonesia (41 per cent) it is much higher. For the major South Asian economies of India, Pakistan, Bangladesh and Sri Lanka more than 50 per cent of the GDP is accounted for by the services sector. Indeed, they seem to have become predominantly service-based economies before fully realizing their industrialization potential.

South Asian region is also one of least integrated regions of the world; the intraregional trade is very low in comparison with other regions.[2] For example, data presented by Rana (2006) suggests that in 2005 while intraregional trade as a proportion of a grouping's world trade for ASEAN, ASEAN+3, ASEAN+3+Hong Kong+Taipei, EU, and NAFTA was respectively 24 per cent, 38.2 per cent, 54.5 per cent, 66.2 per cent and 45 per cent, for South Asia this ratio was only a meagre 5.5 per cent. While this ratio increased from 17.9 per cent in 1980 to 24 per cent in 2005 for ASEAN countries, from 30.2 per cent to 38.2 per cent for ASEAN+3, 61.3 per cent to 66.2 per cent for EU, and 33.8 per cent to 45 per cent for NAFTA, it increased marginally for South Asia from 4.6 per cent to 5.5 per cent over the same period. Data compiled by us on South Asian intraregional trade

[2] There is a large element of informal (or unofficial trade) in the South Asian region. Taneja (2004) estimates that India's informal trade with South Asian countries (Bangladesh, Sri Lanka, Pakistan, Nepal and Bhutan) to be around USD2961 million, a figure about twice the formal trade (about USD1641 million). India's formal trade with Pakistan (USD193 million) is less than 10 per cent of its estimated informal trade with Pakistan (USD2000 million).

flows as a percentage of total trade flows 1991–2006 is shown in Table 2. It can be seen that these ratios are quite low and display only modest increase over the 1991–2006 period.

2.2 Emerging Trends and Signs of Hope

Given the low level of performance in South Asian countries, is there hope for a better future? In this section we highlight the emerging trends and signs which give cause for optimism. For example, during the last two decades significant reforms have been undertaken in many South Asian economies involving trade and exchange rate policy, industrial policy, fiscal policy, investment policy and financial liberalization. In recent years the growth rates of these economies have improved, their poverty ratios have declined and their trade flows as a proportion of GDP have increased. Today South Asia, in terms of its trade flows, is much more open than at any time in the past. Inward orientation and command and control regimes of the past are gradually being given up in favour of policies which are more liberal and market friendly. However, the process is far from complete and a long road still lies ahead.

2.2 (a) Reforms

Here we briefly review the reforms undertaken so far in a few of the major South Asian economies, namely, India, Pakistan and Bangladesh:

India: A partial liberalization of the economy was attempted in the 1980s but it did not represent a break from the inward-oriented approach followed since the commencement of planning in 1951. Reforms in the 1980s took the form of more liberal import, exchange rate and industrial policies. For example many intermediate products were put under the open general licence (OGL) and could be imported freely without any license. The import of capital goods was also made easier by applying the discretionary licensing regime in a more flexible manner to encourage technological upgradation of industry. The exchange rate policy was also operated in a more flexible manner. Some industries were de-licensed, some were broad-banded, and in some automatic expansion of capacity was approved. But neither import nor industrial licensing were given up as instruments of control. Moreover, partial liberalization was accompanied by high tariffs, which combined with the prevailing quantitative restrictions, led to overvaluation of the exchange rate. The policies of the 1980s were also unsustainable because they involved large fiscal and current account deficits, overvalued exchange rate, high inflation and large debts both internal and external. These policies essentially involved living beyond ones means and soon manifested themselves in the form of a full blown balance of payments crisis in 1991, when in the wake of the Gulf war, the country was left with foreign exchange reserves barely enough to finance two weeks of imports.

More comprehensive reforms were undertaken after the crisis of 1991. Starting with two-step devaluation, the Indian Rupee was gradually freed. In August 1994 it was made convertible for current account transactions under Article VIII of the IMF. A partial liberalization of the capital account was also attempted: now the Rupee is almost fully convertible for non-residents but partially so for residents. The peak rates of import duties for non agricultural products were gradually reduced from very high levels in 1991 to 10 per cent in the 2007 Budget. As a result trade weighted average tariff has come down from 87 per cent in 1990-91 to 9 per cent currently. In response to the WTO ruling after the US filed a complaint against India, quantitative restrictions on the import of consumer and agricultural products were also removed by 2001. Far reaching changes in industrial policy were also made. The list of industries solely reserved for the public sector was drastically pruned from 18 to 3, namely, defence aircrafts and warships, atomic energy generation and railway transport. Industrial licensing has been almost abolished except in a few hazardous and environmentally sensitive industries. The need for the large industrial houses to obtain a separate clearance under the Monopolies and Restrictive Trade Practices Act has been abolished, and the Act itself is being replaced with a new competition law. Items of production reserved for the small scale sector have been gradually reduced from about 800 earlier to about 200 now. Foreign Exchange Regulation Act, under which foreign companies were required to dilute their equity to 40 per cent, was amended to make it easier for foreign firms to operate in India and for Indian businesses to operate abroad. This Act has now been replaced with a liberal Foreign Exchange Management Act (FEMA). Foreign investment rules have been liberalized with automatic approval for foreign equity up to even 100 per cent in priority sectors subject only to a registration procedure with the Reserve Bank of India. The policy now allows 100 per cent or majority foreign ownership in most industries except banking, insurance, telecommunication and airlines. Investment not covered under the automatic route is allowed on a case to case basis by the Foreign Investment Promotion Board (FIPB). However, most foreign investment caters to the domestic market and is not geared towards exports, as in China. In infrastructure, reforms achieved good results in telecommunications. Railways have also turned around from a loss making enterprise to one generating handsome surpluses. Some headway has also been made in ports, civil aviation and national highways. But the electricity sector is a major cause for concern with demand far exceeding the availability. In general the condition of infrastructure in India continues to be poor. Another area of concern relates to the labour laws, whereby a firm employing more than 100 workers cannot close down or retrench workers unless permitted by the state government, and this permission is rarely granted. In agriculture, an emergence of a unified market continues to be thwarted by laws such as the Essential Commodities Act, which restricts the inter-state or even inter district movement of agricultural commodities, or Agricultural Produce Commodities Act, which allows the traders to buy farm produce in regulated markets only, prevents them from entering into contractual relationship with the farmers to buy directly from them. Ahluwalia (2002), in recent assessment of reforms in India, points out that the pace of reforms in India has been gradual but 8 per cent sustained growth is still a feasible prospect because even gradual reforms have brought about substantial cumulative change.

Pakistan:[3] The strategy adopted since 1999 involved macroeconomic stabilization, structural adjustment and governance reforms. In May 1998, the country was faced with a major external debt crisis and had been put in a selective default category by the S&P and Moody's. However, Pakistan lacked credibility with the IMF as in the 1990s the country

[3] The write-up on Pakistan is based on Husain (2006).

had entered into several agreements with the IMF but never implemented reforms beyond the first or second tranche. To establish good credibility with the IMF and to obtain restructuring of its Paris Club debt, Pakistan prepared itself with prior policy actions, performance criteria and structural conditions. Only after completing the standby programme to the full satisfaction of the IMF was Pakistan able to secure a long-term restructuring with respect to its Paris Club debt. Other components of the 1999 strategy included tax and fiscal policy reforms, privatization of state owned enterprises, financial sector reforms, trade liberalization, foreign investment policy, deregulation of oil and gas, telecommunications and civil aviation sectors. Privatization process was initiated earlier in 1991 under Nawaz Sharif and continued under Benazir Bhutto and Pervez Musharraf governments, indicating a broad consensus in favour of privatization. Similarly, financial sector reforms were also initiated in the early 1990s when domestic private banks and foreign banks were also permitted to set up shop along with the existing public sector banks. Trade liberalization, which was also started before 1999, involved a drastic reduction in peak and average tariffs. Non-tariff barriers and para-tariffs were also reduced along with selective exemptions and concessions. The Central bank was given autonomy and Ministry of Finance's control over banking institutions was diluted. Some governance reforms aimed at devolution of powers and responsibilities, particularly relating to social services, from the federal and provincial governments to local levels were also attempted. Apart from the devolution plan, other elements of governance included separation of regulatory and policy functions (which were earlier combined within the government), setting up of National Accounting Bureau (an anti-corruption agency), reforms in the federal institutions such as Central Board of Revenue, Securities and Exchange Commission of Pakistan, Pakistan Railways and State Bank of Pakistan.

Bangladesh:[4] Like her neighbours in South Asia, Bangladesh also embarked on an inward-oriented strategy of development soon after it became independent in 1971. After a decade or so Bangladesh became disenchanted with these policies as the economic performance of the economy was not as per expectations. Since the late 1970s, Bangladesh followed a more open trade and exchange rate policies. In 1979 the currency was linked to a basket allowing for more flexibility and during 1996–7 it was made convertible on the current account under Article VIII of the IMF. In 1985–6 import licensing procedure was relaxed by bringing out a negative and restricted list, and beginning 1987–8, under the World Bank conditionality, the negative list was stipulated to be brought down by 20 per cent annually. In 1991 the negative and restricted lists were consolidated. Although Bangladesh has made substantial progress in reducing the use of quantitative restrictions to protect its industry, it remains the only country in South Asia with traditional quantitative restrictions on imports still in place (World Bank, 2004). Trade related restrictions cover mainly three categories of imports: agricultural products, packaging materials, and textile products. Some bans and restrictions also exist on health, religion, environmental and cultural grounds. At the same time reduction in peak and average tariff rates were also attempted; the number of tariff rates and their variability were also brought down.

[4] The write up on Bangladesh is based on Love and Chandra (2005).

2.2 (b) Economic Performance

In this section we review the economic performance of South Asia to see whether reforms have made any difference, particularly in recent years, in terms of GDP growth, per capita income growth, saving and investment rates, openness, export growth, and reduction in poverty.

Table 3 shows that for the major South Asian economies such as India, Pakistan and Bangladesh, GDP growth rate has improved in recent years. India's average annual growth of GDP in constant 2000 USD increased from 5.5 per cent during 1991–2000 to 6.8 per cent during 2001-2005, Bangladesh's average growth increased from 4.8 per cent to 5.4 per cent, and Pakistan's from 3.9 per cent to 4.8 per cent during the same period. These rates compare quite favourably with select East Asian economies (barring China). Even in war ravaged Afghanistan growth performance during recent years has been quite impressive, with GDP growth averaging 16.5 per cent during 2002–05. In Bhutan growth rates during both periods continue to average around 6.3 per cent.

Similar trends were noticed in per capita income growth (Table 4). For the major economies of the region such as India, Pakistan and Bangladesh, per capita income growth accelerated in recent years. In India average per capita income growth increased from 3.6 per cent in 1991–2000 to 4.6 per cent during 2001–2004. For Pakistan the increase was from 1.4 per cent to 1.6 per cent and for Bangladesh the increase was from 2.6 per cent to 3.3 per cent over the periods under consideration. In Bhutan also there was an increase from 3.3 per cent in 1991–2000 to 3.5 per cent in 2001–04.

Devarajan and Nabi (2006) attribute much of South Asia's recent growth to significant and sustained policy reforms that governments undertook in the last two decades. Institutions such as democracy and relatively free press have also played their part in making reforms more sustainable albeit slow. They point out that South Asia's performance is all the more impressive because the subcontinent suffers from many growth retarding factors such as corruption, conflict, high fiscal deficits and dependence on an enclave natural resource. For example, Bangladesh is considered by Transparency International to be the most corrupt country in the world. Sri Lanka and Nepal have suffered sever civil conflict. Maldives has successfully developed an enclave type tourism industry. Yet these countries have grown impressively in recent years contributing to significant reductions in poverty.

Savings and investment performance of South Asian countries is shown in Tables 5 and 6. Table 5 shows that for most countries of the region, average saving rates were higher in 2001–04 than during 1991–2000. But the rates in select East Asian countries were generally higher in both periods. Table 6 shows the gross capital formation rates—it can be seen that investment rates in the second period were higher for most countries except Maldives, Pakistan and Sri Lanka. In many of the East Asian countries the investment rates have declined after the crisis of 1997. Table 7 shows that South Asian region receives very meagre FDI net inflows, which were less than 1 per cent of South Asian GDP in 2005. Of the USD 9.8 billion received by South Asia in 2005, 67 per cent went to

India, 22 per cent to Pakistan, and 8 per cent to Bangladesh. In comparison with East Asian countries FDI net inflows into South Asia are quite low. For example, China alone received net FDI of USD 79.1 billion in 2005, eight times the amount received by South Asia as a whole.

Tables 8, 9 and 10 show that South Asia as a region has become much more open over the years. Imports, exports and trade as a proportion of GDP have gone up for major economies of the region during 1991–2005. For South Asia as a whole import–GDP ratio increased from 12.3 per cent in 1991 to 18.3 per cent in 2005, exports–GDP ratio increased from 8 per cent to 12.1 per cent, and trade–GDP ratio from 18.4 per cent to 30.4 per cent. Even in Afghanistan the trade–GDP ratio increased from 44.7 per cent in 2001 to 51.5 per cent in 2005. However South Asian trade flows as a proportion of GDP are quite low in comparison with select East Asian economies.

Table 11 shows that export performance of South Asian countries in recent years has been quite impressive, with India, Bhutan, Afghanistan and Pakistan showing acceleration in export growth from 1991–2000 to 2001–2005. South Asia as a region accelerated its export growth from 9 per cent to 14.2 per cent during these periods. South Asia's export growth compares quite favourably with select East Asian economies during 2001–05 if one ignores China.

National poverty ratios for India, Bangladesh and Nepal also show a decline over the years (Table 12). In India poverty ratio declined from 36 per cent in 1993–4 to 28.6 per cent in 1999–2000; in Bangladesh it declined from 51 per cent in 1995–6 to 49.8 per cent in 2000; and in Nepal the ratio declined from 41.8 per cent in 1995–6 to 30.9 per cent during 2003–04. In Pakistan and Sri Lanka the poverty ratios seem to have increased. Overall, South Asian poverty ratios are still quite high in comparison with East Asian standards.

India's experience shows that growth is good for poverty alleviation (Ahluwalia, 2005). Poverty did not decline in the in the 1970s when growth was weak, but it did decline in the 1980s and 1990s when growth was strong. Independent experts such as Angus Deaton have concluded that not only did poverty decline during 1980s and 1990s, the decline was greater in the 1990s. Ahluwalia (2005), however, cautions: 'It is perfectly possible to envisage a growth process that reduces poverty – but increases relative inequality, or the rural urban divide, or regional inequality; any of these could become a political problem and would need to be addressed'. Devarajan and Nabi (2006) point out that although poverty in South Asia has reduced, regional inequality has increased. For example, in Sri Lanka, the Western Province led by Colombo has 30 per cent of the country's population but accounts for 47 per cent of the national GDP. In Pakistan's Punjab, central and northern districts are more prosperous than the southern districts. In India the head count poverty ratio in the poorest northern states was 35 per cent while in the prosperous southern states the ratio was much lower at 18 per cent. It is important to stop or reverse this trend of growing inequality as otherwise this may act as a brake on future growth and poverty reduction.

2.2 (c) Establishment of the South Asian Free Trade Area

SAARC was founded in 1985 at the initiative of Ziaur Rahman of Bangladesh and was taken forward by Rajiv Gandhi of India, Benazir Bhutto of Pakistan, and other leaders of South Asia. According to Sawhney and Kumar (2007), it was a top down attempt at promoting regional cooperation since the ground realities in terms of trade, investment and political will were not in place. While the establishment of EU was preceded by a strong sentiment of solidarity, this was clearly missing in case of SAARC. Even ASEAN suffered from political differences when it was founded but had a strong incentive to stay on course since there was a commonly perceived threat in the form of a resurgent China. When the South Asian leaders who backed the formation of SAARC initially, lost political support at home, the SAARC process lost its champions and became directionless. However, the common problems facing South Asia—low per capita incomes, poor infrastructure, poor social services and high incidence of poverty—may yet motivate cooperative action among countries in the region to address these challenges.

The first attempt to promote intraregional trade was made when South Asian Preferential Trading Arrangement (SAPTA) was signed in 1995. However, progress under SAPTA was dismal because of low product coverage, stringent rules of origin, product by product approach to tariff concessions, and denial of concessions to products of trade interest to each other. As can be seen from Table 2, SAPTA has made little difference to the intraregional trade which continues to be low.[5]

A new ray of hope to the SAARC process emerged with the signing of South Asian Free Trade Area (SAFTA) in January 2004 but, as pointed out by Taneja and Sawhney (2007), pessimism quickly set in. First, the liberalization of trade under SAFTA is much less ambitious than what the countries have been pursuing on their own under the WTO framework. Second, although the agreement became effective from January 2006, least developed countries were given a longer time frame to liberalize trade so that the agreement will become fully operational only by 2016. Third, services trade has been totally omitted from SAFTA. This is a major drawback considering that services sector dominates the composition of GDP in most South Asian economies and commercial services are emerging as a major export item from South Asia. Fourth, SAFTA does not address the issues of para-tariffs and non-tariff barriers among the countries of the region. Other limitations include restrictive rules of origin, existence of large negative lists and limited number of products for tariff concessions. Finally, the denial of MFN status to India by Pakistan also limits the process of trade liberalization in the region.

[5] According to Kemal (2005) and Kemal et al. (2000) the low level of intraregional trade could also be due to identical pattern of revealed comparative advantage and lack of strong complementarity in the bilateral trade structure of South Asian countries. Intra-industry trade in most products (except leather products, textile and clothing, and some basic machinery and tools) is also low. One way to promote intraregional trade, in the absence of strong complementarities, is to promote intra-industry trade in the region through production sharing arrangements and vertically integrated regional production structures.

Despite the limitations, SAFTA signifies a positive step forward in promoting more trade in the region. The significance of SAARC in the global context can be judged from the fact that China, Japan, South Korea, EU and USA have shown keen participatory interest in the grouping. China and Japan have already become observers at the SAARC summits. While the presence of China as observer increases Pakistan's comfort level in the grouping, Japan and Korea's presence can be seen as a balancing factor. The Chinese policy of entering into deeper economic cooperation among the members of the grouping than what India has been able to achieve, can only make India nervous. Thus, the presence of China and Japan along with Korea as observers can only enhance the credibility of the SAARC process, give it greater urgency, and promote regional cooperation at a faster pace than otherwise. Moreover, the presence of these countries at the SAARC meetings subjects South Asian countries, particularly India, to outside scrutiny with respect to issues such as poor trade facilitation, poor connectivity, etc., and may therefore facilitate progress in these areas. It can also be argued that the presence of these countries will also enhance the process of integration between South and East Asia. Cooperation among South Asian countries among themselves and between South Asia and East Asia should be pursued simultaneously, ultimately resulting in a pan-Asia grouping involving not only South and East Asia but Central Asia as well. This broader approach may speed up the process of South Asian integration; pursued in isolation, South Asian cooperation may not make much progress.

With the chairmanship of SAARC in January, 2007 India seems to have adopted a strong positive stance towards regional cooperation in South Asia.[6] At the latest SAARC summit held in New Delhi in April this year, India has taken the bold step of providing free market access to imports from its least developed neighbours. Given that India already has bilateral treaties with both Nepal and Bhutan, this measure will benefit Afghanistan and Bangladesh, the other two least developed economies in the region. Other measures that India has indicated it may take to foster regional cooperation are (1) commitment to reduce the Indian negative list; (2) unilateral liberalization of visas; (3) improving regional connectivity for imports; (4) addressing issues relating to trade facilitation; (5) setting up a world class South Asian University; (6) promoting South Asian textiles through textile exhibitions and SAARC fashion festival in Delhi and (7) setting up a SAARC food bank to collectively meet the region's emergencies and shortages.

These unilateral moves on the part of India have the potential to change the environment for regional cooperation in a positive way. India's willingness, unlike in the past, to involve multilateral organizations in implementing regional projects in South Asia and its successful FTA with Sri Lanka, all represent positive and hopeful signs for furthering regional integration in South Asia in the coming years.

It may also be pointed out that India–Pakistan as well as India–China relations have improved over the years. With Pakistan India has entered into a composite dialogue process in which all issues including terrorism, trade and Kashmir are being discussed. Cease fire has been declared across the line of control in Kashmir and the cross-border

[6] See Mukherjee (2007).

shelling has stopped. People to people contacts have been enhanced with more bus and train services points being started. Although Pakistan is reluctant to grant MFN status to India, it has increased the list of items in the positive list (e.g. textile machinery and chemicals) resulting in rapid growth of India's exports to Pakistan. The agreement between Pakistan and India on the conditions and price for importing Iranian natural gas has greatly improved the chances of the closure of the gas pipeline project worth USD7 billion. If the gas pipeline project between Iran, Pakistan and India comes through, it can take regional cooperation to a new level. Similarly, with China peace along the line of control is being maintained till the border issue is settled to the satisfaction of both countries. Both countries have agreed to speed up the resolution of the boundary question by discussing it at a political level (i.e., between the special representatives appointed by both countries). In the meantime, trade between India and China has seen phenomenal increases particularly in recent years. Initially, when trade was opened up with China, there were fears that the Indian market would be swamped by Chinese goods. However, nothing of that sort happened, with trade surplus remaining in India's favour for several years.

Other countries in the region have also taken some positive steps in the direction of promoting regional cooperation—a case in point is Bangladesh which has announced the restarting the rail link between Kolkata and Dhaka. This move will have significant symbolic and real positive impact on the region. Similarly the new regime in Nepal has shown more active interest in proceeding with hydro electric projects. All these developments provide a strong basis for optimism for South Asian regional cooperation. Therefore, in our view, this is an appropriate time to give the process a stronger push within the broader framework of pan-Asian cooperation.

Francois et al. (2007) analyse the impact of a pan-Asian FTA on regional incomes in global computable general equilibrium framework taking 2017 as the baseline at constant 2001 prices. They examine scenarios that include liberalization in goods, services, FDI as well as trade facilitation and trade-related infrastructure. Three scenarios are examined: (1) an ASEAN+3 scenario, (2) ASEAN+3 and India, and (3) ASEAN+3 and South Asia. The last scenario is a pan-Asian one which includes the bulk of East and South Asia but excludes Central Asia. The findings suggest that the first scenario, while benefiting ASEAN+3 incomes by 2.17 per cent, depresses South Asian incomes by 0.32 per cent. The second scenario would boost East Asian incomes by 2.29 per cent and South Asian incomes by 1.44 per cent. While Indian incomes would go up by 2.23 per cent, rest of South Asian incomes would decline. The third scenario (i.e., pan-Asian scenario) offers the maximum gains to all regions with East Asian and South Asian incomes receiving a boost of 2.31 per cent and 1.99 per cent respectively. India also benefits more from the third (2.29 per cent) as compared to the second (2.23 per cent). The conclusion from the South Asian perspective is: 'Most of the East Asian gains from a South Asian initiative follow directly from Indian participation. The other players in the region have only a limited impact on East Asia. Yet for the South Asian economies themselves, it is clear that if India looks East, they also need to be a part of the program. Hence, the politics of any regional scheme will be complex with the East Asian countries gaining most from access to India, while the South Asian economies stand to gain only if the initiatives of India directed towards East Asia involves them as well' (Francois et al. 2007, p. 14).

2.3 Future Projections for India

The sense of optimism visible in the preceding analysis about the prospects of the region is premised to a large extent on the strong performance and future projections for India, the largest economy in the region. In this section we briefly outline some of the projections made so far.

Ahluwalia (2002) feels optimistic that India can sustain an 8 per cent growth rate[7] in the future. Although the reforms process since 1991 has been gradual, the cumulative change brought about is substantial. Ahluwalia points out that such growth rates in East Asia were associated with investment rates ranging from 36–38 per cent of GDP. Kumar et al. (2007) argue that India has apparently gotten on to a high growth trajectory since 2002-03. They maintain that India can sustain an 8 per cent GDP growth rate in coming years especially if the two constraints of availability of required skills and infrastructure, particularly electricity deficits are addressed. Poddar and Yi (2007) also project India's potential growth rate at 8.4 per cent until 2020 on the back of continued productivity growth, favourable demographic factors, and further growth in educational attainments. They point out that India's growth acceleration since 2003 represents a structural increase rather than simply a cyclical upturn. Productivity increase, especially in the manufacturing sector, is driving this increase and explains nearly half of overall growth. At this rate India's GDP (in USD terms) will surpass that of the US before 2050, to make it the second largest economy in the world.

The Planning Commission's (Government of India, 2006) projections for the Eleventh Five Year Plan (2007–2012) are even more ambitious than those of Poddar and Yi. It states: 'The 11th Plan must aim at putting the economy on a sustainable growth trajectory with a growth rate of approximately 10 per cent by the end of the Plan period'. However, the average target for the Plan is put at 9 per cent per annum with acceleration to 10 per cent towards the end. The Plan would like the 10 per cent growth to be sustained in the Twelfth Plan (2012–2017) as well so that by the end of both Plans, per capita incomes are doubled.

What is unmistakable in the above projections is the near universal optimism about the Indian growth story. Growth rates of 8–10 per cent, which are being talked about now, didn't appear feasible even a few years ago. India's strong economic performance will have significant positive impact on the neighbouring economies. This will provide the incentive for other countries to hasten the integration of South Asian economic space to take advantage of the burgeoning Indian demand. In turn, greater economic integration will provide additional growth impetus for the region which may now be seen as having entered a virtuous period of growth and poverty reduction.

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[7] This was the target for the Tenth Five year Plan (2002-2007). The actual achievement was 7.64 per cent per annum.

3. East Asian Regional Integration:[8]

As noted before, while South Asia as a region persisted with import substitution well into the 1980s, countries of East Asia after completing the first stage of import substitution switched over to export promotion. The export success of these countries led the World Bank (1993) to term it as the 'East Asian Miracle' and present it as a model for other developing countries to emulate. The region's success can be attributed to an outward oriented market-friendly approach towards development, within a framework of macroeconomic and political stability. Over the years, the East Asian region has been quite successful in raising living standards and reducing poverty.

In this section we review various East Asian integration arrangements such as Association South East Asian Countries (ASEAN), ASEAN Free Trade Area (AFTA), ASEAN+3, ASEAN+1, ASEAN Economic Community (AEC), Chiang Mai Initiative (CMI), etc. The crisis of 1997 provided an additional trigger to the process of integration, and many initiatives like monetary and exchange rate cooperation under the ASEAN+3 Finance Ministers Process, and the move towards a single market came after the crisis. Moreover, many of the ASEAN economies are engaged in bilateral FTAs with countries outside the East Asian region leading to what has been termed as 'noodle bowl' (or 'spaghetti bowl') of trade agreements which may be overlapping and inconsistent. While some have criticized these arrangements as inefficient, others have lauded their pragmatic nature.

ASEAN was formed in 1967 with Indonesia, Malaysia, Philippines, Singapore and Thailand as founding members. Brunei joined the ASEAN in 1984. Later the membership was expanded to include Vietnam (1995) Myanmar and Laos (1997) and Cambodia (1999). Now the grouping consists of ten members and fulfils the vision of its founding fathers of a united Southeast Asia. The ASEAN concord included a treaty of amity which called for mutual respect for independence, sovereignty, equality, territorial integrity and identity of nations. It also established the principle of non-interference in the internal affairs of its members. The concord also called for the establishment of a zone of peace, freedom and neutrality.

Some initial attempts at trade liberalization and industrial cooperation were not very successful. For example, the Preferential Trading Agreement (PTA) was based on a positive-list approach with small margins of preference and limited product coverage. It was expanded somewhat during the 1980s but had no real impact on trade. Similarly, industrial cooperation in the form of ASEAN Industrial Project (AIP) never really got off the ground. These early agreements in the grouping's history were mainly political and token in nature with not much real economic impact on the ground.

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[8] For a good survey of East Asian economic regionalism, see Kawai (2005) who shows that East Asian economies have achieved strong economic interdependence, particularly through external liberalization, domestic structural reforms and market driven integration with the global and regional economies. Expansion of foreign trade, direct investment and financial flows has created a 'naturally' integrated economic zone in East Asia.

The first major initiative at regional integration was the establishment of AFTA in 1992 at Singapore which committed the members to free trade in 15 years. The agreement had a number of drawbacks. For example, some transitional ASEAN countries such as Vietnam, Laos, Cambodia and Myanmar were given more time to implement the agreement. Free trade was also loosely defined to mean 0-5 per cent instead of 0 per cent tariff. Liberalization was on the basis of a sensitive list in which there were no overt commitments and these included some major sectors such as automobiles for Malaysia. ASEAN also made important progress in investment cooperation in the form of ASEAN 'one stop investment centres' and ASEAN Investment Area (AIA) both of which were aimed at reducing transaction costs.

In 2003 ASEAN leaders agreed to establish the ASEAN Economic Community (AEC) by 2020 creating a single market in which goods, services, capital and skilled labour would flow freely. Later the deadline of establishing AEC was advanced to 2015 with flexibility for new members. Plummer (2006a) points out that the effective design and implementation of the AEC may pose major challenges to ASEAN. For example, the diversity and level of development of ASEAN members may render even the creation of a customs union extremely complex. While most transitional economies continue to have relatively protected markets, Singapore's average tariff is zero. With such dispersion of tariff rates, common external tariff may be difficult. Probably the end game would be to move towards zero external tariff or pure open regionalism; but this may be politically difficult.

After the Asian financial crisis, East Asian countries have tried to promote closer monetary and financial cooperation amongst themselves. These efforts have been pitched at varying degrees of intensity: they have ranged from economic review and policy dialogue to establishing regional financing arrangements and eventually towards coordinating exchange rate policies (Rana, 2006). As a part of this initiative the ASEAN+3 process was initiated after the 1997 financial crisis, as a forum for monetary and financial cooperation. The actual trade integration between ASEAN and three other Asian countries has been based on the ASEAN+1 process. For example, each of these three Asian economies has signed framework agreements with ASEAN. While free trade agreements in goods have been implemented by ASEAN with China and Korea, negotiations for an FTA with Japan are underway. Similarly a framework agreement between ASEAN and India was signed in 2003 and became effective in 2004, but FTA is still under negotiation. A larger East Asian Free Trade Area (EAFTA) involving all the East Asian countries is at a proposal stage and its feasibility is currently being examined.

Several other initiatives have also emerged in the last ten years. First, ASEAN surveillance process was established in 1998 to strengthen the policy-making capacity within the group. Under this process ASEAN Finance Ministers meet annually and the ministries of finance and central bank deputies meet semi-annually to discuss issues of common interest. The second process, initiated in 1999, involves ASEAN+3 Finance Ministers. Under this process, ASEAN+3 Finance Ministers meet annually and their deputies semi-annually. Third, in May 2000, ASEAN+3 Finance Ministers met at Chiang Mai (Thailand) and agreed to develop a network of currency swaps and repurchase agreements. This was, however, a rather watered down version of the Japanese proposal in 1988 at the Manila summit of ASEAN, to establish the Asian Monetary Fund (AMF), which had to be dropped because of opposition from the US and IMF, and lack of support from China. The CMI initiative greatly expanded the ASEAN swap arrangement (ASA) and established a network bilateral swap arrangements (BSAs) for ASEAN + 3. Along with the expansion of ASAs, size of the BSAs was also expanded and now stands at USD83 billion. As noted by Hamilton-Hart (2006), for donors such as China and Japan, CMI with its linkage to IMF conditionality is a useful way of deflecting criticism of bailout exercises that are likely to involve unpopular or intrusive measures.

In May 2005, the Finance Ministers of ASEAN+3 decided to increase the percentage of swaps that can be disbursed without the IMF-supported programmes from 10 per cent to 20 per cent. They also agreed to have a collective decision-making mechanism for BSAs. According to Rana (2006), the collective decision making system is an important breakthrough for two reasons: first, it is a first step to full multilateralization of bilateral swaps, and second, it is the first time that ASEAN+3 agreed to sacrifice some national sovereignty for the common regional good. In May 2006, it was further decided that (i) all swap providing countries can simultaneously and promptly provide liquidity support to recipients in times of emergencies, and (ii) a new task force will be set up to further study various possible options towards an advanced framework of the regional liquidity support arrangement.

Some efforts have also been made in developing regional bond markets to avoid double mismatches and to keep Asian savings within Asia. An important initiative in this regard was the Asian Bond Market Initiative (ABMI) in 2003 under the ASEAN+3 Finance Ministers process. ABMI tries to reduce over-reliance on the banking sector as a source of investment funds, and to develop an alternative in the form of a pan-Asian market in long-term debt denominated in local currencies so that double mismatches of maturity and currency can be avoided. Another initiative was the creation of the Asian Bond Fund (ABF) under the Executives' Meeting of East Asia Pacific central banks (EMEAP). The ABF is designed to be a catalyst in the growth of Asian Bond markets by allocating a portion of the reserves of the central banks for the purchase of government and quasi-government securities. In 2003, EMEAP launched ABF1 with an initial size of USD1 billion to be invested in dollar denominated bonds of Asian sovereign and quasi-sovereign issuers. In 2005, implementation of ABF2 (with a size of USD2 billion) for investing in bonds denominated in regional currencies was also commenced.

Recently, there have been some attempts at exchange rate coordination. After the financial crisis, the exchange rate regimes in the region have undergone important changes with majority of the countries opting for greater flexibility. In July 2005, China and Malaysia joined Singapore in pegging their exchange rates to a basket of currencies. The increasing popularity of the basket peg suggests that overtime it may lead to enhanced exchange rate coordination in the region. In this regard, as pointed out by Yongding (2007), there are two possible directions: a low level, ad hoc cooperation of exchange rate policies, or a formal institutional coordination which may or may not lead a formal regional currency arrangement. Hamilton-Hart (2006) points out that any cooperative exchange rate setting involves a trade-off in terms of lost monetary policy autonomy. Whether this trade-off is worth it or not has been extensively analysed in the literature on optimum currency areas, and depends on the degree of factor mobility and economic integration among a group of countries, their structural similarity in terms of exposure to external shocks, and the flexibility of domestic prices. This, according to Kwan (2001), suggests that Japan, Taiwan, Singapore, Korea and Hong Kong are better placed for monetary cooperation than the much diverse East Asia as a whole. Plummer and Wignaraja (2007), on the basis of correlations of growth rates, find that symmetry in the region is increasing and is high for just about every country. This, when combined with the rising intraregional trade, which in turn is being driven by rising intra-industry trade,[9] would bode well for an 'endogenous' process of increasing symmetry. Ultimately, the creation of a common currency is a political decision,[10] which, once taken, can go a long way in financial market development in terms of diversifying and deepening the existing capital markets, as well as creating new regional markets both in equity and securities.

4. Lessons for South Asia

What can South Asia learn from East Asia? The foregoing discussion of East Asian regionalism raises several issues such as open versus closed regionalism, emergence of regional hegemons and sovereignty concerns (particularly with respect to financial, monetary and exchange rate cooperation). Lessons for South Asia would be discussed in these terms. It is to these we now turn. While analysing these points, we not only draw on the East Asian experience but on that of the EU as well.

The most important lesson from the East Asian experience is for South Asian leaderships to give primacy to economic issues and not allow political differences to stand in the way of regional cooperation. Within the ASEAN and in the larger ASEAN+3 arrangements, there have been periods of significant political differences between member countries. These differences for example, between Malaysia and Singapore, Thailand and Myanmar, China and Japan, etc. have not been allowed by political leadership in East Asia to stall the process of economic cooperation. It is time that South Asian leaders also realized that regional cooperation in South Asia will yield significant benefits and therefore agreed to keep their political differences aside to push forward on the regional economic cooperation agenda.

On the issue of 'closed versus open regionalism', South Asia would do well to adopt the open regional approach as followed in East Asia. As noted before, South Asia followed inward-looking policies for a long time, and is a latecomer to the regional cooperation movement. The inward-looking mind-sets of earlier years are still visible in South Asian approach to regionalism. For example, the SAFTA accord is characterized by large negative lists, limited products for tariff concessions, restrictive rules of origin, exclusion of services, exclusion of issues such as para-tariffs and non-tariff barriers. This should

[9] See, for example, Rana (2006).

[10] Bayoumi and Eichengreen (1999) and Bayoumi et al. (1999) have noted that historically politics, rather than economics, has been critical in determining the preconditions for a durable monetary arrangement.

change in favour of greater openness. East Asian economies have shown that bilateral and regional trade arrangements do not act as stumbling blocs for promoting multilateral trading negotiations. While multilateral liberalization under the WTO framework is generally considered to be superior or first best, some have criticized the lack of comprehensiveness of the WTO framework. For example, important sectors such as agriculture, textiles and clothing have remained outside the WTO liberalization process. Moreover, trade negotiations under the multilateral framework place far too much emphasis on tariffs to the neglect of non-tariff, non-border and dynamic effects. Therefore, South Asian governments should not view the process of bilateral FTAs within the region as inimical to the process of South Asian regional cooperation. However, Plummer's ten point agenda should guide the design of any bilateral FTAs so that these are of high quality and remain consistent with open regionalism (Plummer 2006b).[11]

In the literature, interstate distribution of power is identified as critical to the process of regional integration (Webber and Fort, 2006). For example, some authors give key role to hegemonic or dominant powers in providing a focal point around which policy coordination can take place and financial resources for more equitable distribution of gains could be provided (Maatli, 1999). In case of Europe, France and Germany have provided this focal point. As Taneja and Sawhney (2007) suggest that India should now take the lead in revitalizing SAARC. This would be in line with some countries like Malyasia and Indonesia and later Singapore having taken the lead in ASEAN. This would also be in India's interest to build greater credibility and stature in its engagement with the rest of the world. The onus is on India because of its economic dominance, its geographical location of having borders with all South Asian economies, and because it already experiences the negative consequences of porous borders without enjoying any of the positive externalities that come from greater formal regional economic cooperation. Sawhney and Kumar (2006) discuss at length the reasons why India should be more proactive in supporting SAARC and economic cooperation in the region.[12]

[11] Plummer's ten point blue print includes: (1) Comprehensive coverage of goods within a reasonable period of 10 years; (2) Comprehensive coverage of services within a reasonable period; (3) Rules of origin should be symmetrical and as low as possible; (4) To the extent possible, customs procedures should follow global best practices and WTO consistent protocols; (5) IPR guidelines should be non-discriminatory and consistent with TRIPS and other international conventions; (6) FDI related provisions should embrace national treatment, non-discrimination, shun performance requirements, and have highly-inclusive negative list, as well as provide the usual protection necessary for foreign investors; (7) Anti-dumping procedures and dispute resolution need to be transparent and fair, and the process needs to be well specified and effective; (8) Government procurement should be open and as non-discriminatory as possible, and procedures should be clear and as open as possible; (9) Policies related to competition should create a 'level playing field' for residents and partners, and they should not put non-partner competition at a disadvantage; (10) Technical barriers to trade (TBTs) should be kept to a minimum, with clear and transparent mechanisms for determination of standards.

[12] Some important measures that India could take in this regard are: (i) reducing its negative list to a maximum of 5 per cent of total imports of by value; (ii) removing specific duties on textile, fabrics and readymade garments; (iii) rationalizing tariffs that include domestic central taxes and levies and interstate taxes on imports; (iv) reducing transaction costs at the borders; (v) removing port-specific entry conditions; and (vi) improving and simplifying regulatory conditions and testing facilities for technical barriers to trade and sanitary and phytosanitary standards.

South Asian countries must learn from both the ASEAN and the EU experiences that benefits from regional economic cooperation, though significant, do imply some costs in terms of 'limitations on sovereignty'. However, it is important to recognize that there are some major differences in the EU and ASEAN approach towards their sovereignty issues. While the EU has tried to facilitate common values and political security goals like democracy, stability and peace (Plummer 2006a and Tuschhoff 2006), ASEAN operates on the principle of strict non-interference in domestic matters. We suggest that SAARC would do well to follow ASEAN pragmatism that has facilitated the entry of former communist states like Vietnam, Laos and Cambodia and also the inclusion of Myanmar without any pre-conditions (Nesadurai, 2006).

Like ASEAN, but at an informal level, a South Asian Finance Ministers' (FMs') process has been established with help from the ADB. The meeting has so far been held on the sidelines of the ADB Annual Meetings. This should be formalized under the SAARC framework and further strengthened. This will contribute to a better appreciation of existing inter-linkages and the advantages in further strengthening them. A South Asian Commerce Ministers' forum could also be established with the aim of fostering greater trade integration and ensuring the follow up of decision taken in SAARC summits. India can take the lead in offering unilateral trade concessions and removing para-tariffs and non-tariff barriers. Trade facilitation, including customs facilitation, also needs to be emphasized. After this is achieved, countries will have the necessary confidence to move ahead on freer movement of services, capital and skilled labour. As an atmosphere of mutual confidence and trust is built, the region may then be ready for financial, exchange rate and monetary cooperation involving regional institutions. The region can also think of establishing a regional liquidity arrangement to guard against future liquidity crises with India taking the lead with its large foreign exchange reserves. In this regard, a SAARC+4[13] FMs process, similar to ASEAN+3 FMs process, can be established. This will become the starting point of an interaction between South Asia and East Asia that can contribute to the movement towards an Asian Economic Community. It is important to emphasize that the process of regional integration in South Asia will be facilitated if it is undertaken as a part of a broader project of pan-Asian cooperation.

5. Concluding Remarks

Traditionally, South Asia as a region has followed an inward-oriented development approach. Such an approach was unsuccessful in raising the living standards or reducing poverty to any significant extent. In the 1980s and 1990s, the region began to liberalize and open up with encouraging results in terms of economic performance. The region has made considerable progress in trade liberalization under the multilateral WTO framework. Sustained growth in the future is still possible under this framework, but prospects improve if an effective regional framework is also in place.[14] A regional free

[13] The 'plus 4' here can be China, Japan and Korea and ASEAN which would be represented by the country that may be holding the Chairmanship of ASEAN in that year.

[14] As already mentioned multilateral trade negotiations place too much emphasis on tariffs to the neglect of non-tariff, non-border and dynamic effects, which in turn are more effectively tackled within a regional or bilateral framework.

trade agreement SAFTA was signed in 2004, and has become effective from 2006. Although lacking in ambition, it is a step forward. Indo–Pak relations have thawed and substantial progress has been achieved in confidence building measures. Pakistan has not granted MFN status to India, linking it with Kashmir, but it has expanded the positive list of trade interest to India. India, as chairman of SAARC, has acknowledged the need to take more responsibility, offer unilateral concessions, and undertake trade facilitation measures. In a nutshell, conditions have never been as favourable for the region as they are now. This gives hope that the leadership of the region may seize this opportunity to push for closer regional integration.

In this atmosphere of optimism, what are the lessons for South Asia from the successful examples of East Asian integration? To start with, economics should be given primacy over short term political concerns. Open regionalism should be preferred to closed regionalism of Latin American or early European variety. For this the region needs to have high quality and efficient FTAs that are consistent with open regionalism. The South Asian approach needs to be dictated by pragmatism rather than by strict adherence to values such as democracy. Non-interference in each others' affairs is a good example to follow. The emerging 'noodle bowl' of trade agreements in South Asia, both at bilateral and sub-regional levels, should be viewed as 'building blocs' rather than 'stumbling blocs'. India and Pakistan will need to bury the hatchet to provide joint leadership to take the region ahead. As the cooperation progresses from trade to services, investment, financial, monetary, and exchange rate cooperation, the region will find the need to build effective regional institutions and accept some limits to sovereign policy making. To facilitate these steps, South Asian Finance Ministers' process should be strengthened and then expanded to a South Asia+4 Finance Ministers' process to initiate formal interaction between SAARC and ASEAN+3.

We suggested that regional integration in South Asia will get a boost if it is undertaken as part of a broader pan-Asian cooperation. This will lend it greater dynamism and minimize the fears of smaller member countries towards regional cooperation in South Asia. The presence of China and Japan as observers in SAARC is a positive development and augurs well for South Asian–East Asian cooperation in the future. The observers should be expanded to include South Korea as well. This will pave the way for a SAARC+4 interaction, serving to promote the emergence of pan-Asia economic cooperation which would indeed be a worthy objective.

Table 1: Some Selected Indicators of Development.

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

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

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

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

Source: *IMF DOTS Database*
Notes:

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

Table 3: Annual GDP growth rate of South Asian Countries (Constant 2000 USD).

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

Source: *World Development Indicators 2006.*

Table 3a: Annual GDP growth rate of some selected Asian Countries (Constant 2000 USD).

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

Source: *World Development Indicators 2006.*

Table 4 : Per capita GDP growth rate of South Asian Countries (Constant 2000 USD).

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

Source: *World Development Indicators 2006.*

Table 4a: Per capita GDP growth rate of some selected Asian countries (Constant 2000 USD).

Year / *Country*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*1991-2000*	*2001-2004*
China	7.72	12.81	12.70	11.83	9.70	8.85	8.19	6.77	6.59	7.64	7.52	8.37	9.32	9.44	9.28	8.66
Korea, Rep.	8.38	4.92	5.19	7.57	7.62	5.98	3.67	-7.52	8.71	7.58	3.08	6.38	2.59	4.14	5.21	4.05
Malaysia	6.68	6.03	7.02	6.37	7.01	7.21	4.64	-9.61	3.66	6.44	-1.79	2.27	3.41	5.17	4.55	2.26
Thailand	7.04	6.62	6.83	7.62	7.94	4.71	-2.43	-11.42	3.42	3.75	1.21	4.36	6.09	5.26	3.41	4.23
Philippines	-2.86	-1.94	-0.17	2.09	2.42	3.61	3.01	-2.59	1.35	3.91	-0.18	2.39	1.69	4.19	0.88	2.02

Source: *World Development Indicators 2006.*

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

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

Source: *World Development Indicators, 2006.*

Table 6: Gross Domestic Savings as a % of GDP

Country	***1991***	***1992***	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***	***2004***	***1991-2000***	***2001-2004***
Afghanistan																
Bangladesh	11.33	12.54	12.86	13.54	12.64	12.38	14.70	16.68	17.34	18.42	16.97	18.38	17.58	18.67	14.24	17.90
Bhutan	23.81	22.17	33.57	37.65	42.09	35.01	24.62	22.29	24.97	19.54	27.40	32.37			28.57	29.89
India	21.94	23.03	21.27	23.07	25.33	20.59	21.32	19.69	21.70	21.91	21.78	22.27	21.56	20.65	21.98	21.56
Maldives					46.75	49.15	45.93	46.71	44.22	44.18	44.93	46.34	49.22	47.59	46.16	47.02
Nepal	8.56	10.93	12.25	9.96	15.66	14.38	13.96	13.77	13.61	15.17	14.98	13.55	13.71	12.43	12.83	13.66
Pakistan	17.47	17.07	14.68	16.78	15.83	14.47	13.23	16.67	13.95	16.12	16.12	16.68	17.54	18.39	15.63	17.18
Sri Lanka	13.86	14.99	16.01	15.22	15.29	15.32	17.32	19.13	19.48	17.43	15.77	14.44	15.90	15.90	16.41	15.50
Philippines	17.23	16.44	15.53	17.75	14.63	15.23	14.44	13.71	18.91	23.07	15.65	17.05	14.91	18.00	16.69	16.40
Thailand	36.30	35.95	35.77	35.41	35.35	35.54	35.08	36.33	33.07	31.47	30.59	30.49	31.69	31.80	35.03	31.14
China	38.38	37.95	40.37	41.78	41.49	39.80	40.53	39.31	37.06	35.17	36.28	37.73	40.03	41.22	39.18	38.82
South Korea	37.08	36.13	36.12	36.21	36.57	35.40	35.37	37.87	35.81	34.16	31.63	30.46	32.34	34.57	36.07	32.25
Malaysia	34.13	36.72	39.08	39.60	39.71	42.86	43.89	48.67	47.43	47.25	42.31	42.26	42.46	43.93	41.93	42.74

Source: *World Development Indicators, 2006.*

Table 7: Net Foreign Direct Investment Inflow

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

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

Table 8 : Merchandise Imports as a % of GDP

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

Source*: World Development Indicators, 2006.*

Table 9 : Merchandise Exports as a % of GDP

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

Source*: World Development Indicators, 2006.*

Table 10 : Total Merchandise Trade as a % of GDP

Country	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*
Afghanistan											44.69	43.35	57.66	47.21	51.45
Bangladesh	16.48	18.39	19.72	22.32	26.87	27.74	28.58	28.61	31.19	33.55	32.13	30.99	33.55	35.66	38.40
Bhutan	60.35	77.91	65.71	57.72	69.28	68.42	64.69	60.05	66.96	57.06	55.44	51.81	64.14	83.92	77.01
India	14.30	17.70	16.19	16.08	18.40	18.43	18.66	18.47	18.49	20.53	19.68	20.78	21.37	25.02	27.49
Maldives	97.06	89.20	75.59	83.54	88.48	84.80	86.31	83.25	83.75	79.72	80.48	81.79	90.19	108.49	177.88
Nepal	25.35	33.66	34.81	37.30	38.13	39.43	42.67	35.42	40.21	43.26	39.54	35.73	41.29	39.15	36.39
Pakistan	33.09	34.49	31.60	31.47	32.23	34.04	32.69	28.69	29.59	27.13	27.17	29.58	30.32	32.59	37.27
Sri Lanka	56.02	61.37	66.30	68.05	69.87	68.62	69.60	67.83	67.41	77.19	68.52	65.34	64.65	68.46	64.96
South Asian Countries	**18.37**	**21.85**	**20.43**	**20.31**	**22.66**	**22.90**	**22.26**	**22.95**	**22.41**	**24.29**	**23.10**	**23.96**	**24.66**	**27.90**	**30.41**
Thailand	67.18	65.64	66.43	69.00	75.78	70.48	79.68	87.10	88.92	106.73	109.86	104.63	109.25	119.22	129.26
Philippines	47.69	47.60	55.00	56.09	61.85	65.82	77.12	93.46	90.79	101.18	93.81	96.03	98.52	97.00	89.49
China	36.03	39.58	44.43	42.31	38.58	33.86	34.13	31.78	33.29	39.57	38.47	42.70	51.86	59.77	63.52
South Korea	49.77	48.02	45.85	46.85	50.31	50.22	54.38	65.31	59.15	65.03	60.50	57.52	61.28	70.37	69.24
Malaysia	144.50	136.31	138.70	159.03	170.66	155.42	157.50	182.37	188.79	199.50	183.94	182.57	181.42	195.90	195.26

Source*: World Development Indicators, 2006.*

Table 11 : Growth Rate of Merchandise Exports

Country	***1991***	***1992***	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***	***2004***	***2005***	***1991-2000***	***2001-2002***
Afghanistan	-19.9	-30.4	-19.1	58.5	-7.1	10.9	16.2	4.0	-20.1	10.8	-45.9	150.0	40.0	20.0	33.3	0.4	39.5
Bangladesh	1.1	24.2	21.3	15.3	19.3	21.4	13.7	6.0	7.3	16.2	-4.8	1.1	13.7	16.6	12.8	14.6	7.9
Bhutan	-10.0	4.8	-1.5	1.5	56.1	-2.9	18.0	-8.5	7.4	-11.2	2.9	6.6	17.7	24.1	51.5	5.4	20.6
India	-1.3	10.7	9.9	16.0	22.4	8.1	5.7	-4.5	6.7	18.8	2.3	13.6	15.9	32.4	18.8	9.3	16.6
Maldives	-2.3	-14.6	-19.0	43.1	12.7	-6.0	12.1	6.7	-4.3	18.8	1.2	20.0	15.2	13.2	-7.0	4.7	8.5
Nepal	26.0	43.5	4.1	-5.7	-4.7	11.6	5.5	16.7	27.0	33.6	-8.3	-22.9	16.5	14.2	9.8	15.8	1.9
Pakistan	16.8	12.1	-8.6	10.1	8.5	16.6	-6.5	-2.8	-1.1	7.2	2.3	7.3	20.3	12.1	19.2	5.2	12.3
Sri Lanka	3.9	23.6	16.5	12.2	18.4	7.8	13.3	3.7	-4.5	18.2	-11.3	-2.4	9.1	12.3	9.0	11.3	3.3
South Asian Countries	**2.9**	**12.7**	**6.7**	**14.4**	**18.9**	**10.5**	**4.8**	**-2.4**	**4.5**	**16.8**	**0.2**	**10.1**	**16.0**	**26.7**	**17.9**	**9.0**	**14.2**
Thailand	23.2	14.2	13.8	22.4	24.7	-1.3	3.0	-5.1	7.3	18.2	-5.9	4.8	17.9	21.3	13.1	12.1	10.2
Philippines	8.4	10.8	14.1	19.5	31.6	16.6	21.9	18.2	24.3	8.8	-17.9	11.7	1.4	7.2	3.8	17.4	1.3
China	15.8	18.1	8.0	31.9	23.0	1.5	21.0	0.5	6.1	27.8	6.8	22.4	34.6	35.4	28.5	15.4	25.5
Korea, Rep.	10.5	6.6	7.3	16.8	30.3	3.7	5.0	-2.8	8.6	19.9	-12.7	8.0	19.3	31.0	12.0	10.6	11.5
Malaysia	16.6	18.7	15.6	24.9	25.6	6.0	0.5	-6.9	15.2	16.3	-10.4	6.9	11.6	20.5	11.4	13.2	8.0

Source: *World Development Indicators, 2006.*

Table 12 : National Poverty Ratios in South Asian Countries

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

Source: *World Development Report 2007 (2006)*

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