5th Informal Quarterly Meeting of the South Asian Geneva Mission Delegates at CUTS Geneva Resource Centre, 10 March 2010

Briefing Note on South Asian Countries' Needs for Aid for Trade

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INTRODUCTION

The 5th informal quarterly meeting of the South Asia Geneva Missions delegates will take place at the CUTS Geneva Resource Centre on March 10, 2010. During the last meeting it was agreed that the next meeting would be dedicated to assessing the situation in South Asian countries in order to draw in more development funds from Aid for Trade (AFT). This short note has been prepared to facilitate discussions among South Asian Mission Delegates in Geneva on this issue.

SECTION I: Under-Development and Poverty in South Asian Countries

Though over the past years there have been steady improvements in many areas in the South Asian countries, the latest indicators still confirm that the region is in an underdeveloped and poor condition (kindly see Tables I and II on the next page). The average GDP growth rate for the region was 8.25 % in 2007, ranging from 5% in Nepal to 16% in Afghanistan but plummeted to an average of 4.8% in 2009.[1] All but two out of the eight South Asian countries are ranked in the last quarter of the Human Development Index of the world. Five out of the eight countries fall into the Least Developed Country (LDC) category and the rest belong to the lower income (LIC) or lower middle income countries (LMIC). Approximately 40% percent of the 1.5 billion people in the region live below poverty line (US$1.25/day), reaching up to 50% and beyond in countries, such as Bangladesh, Nepal, and Afghanistan. Sadly poverty remains a prevalent reality throughout the region.

Other development indicators for the South Asian region evidence poor infrastructural capacity. Out of the eight countries, Maldivians have the highest account of internet access, reaching an approximate of 17% coverage, while the average access to digital technology remains under 5% throughout the rest of the region. Per capita electric power consumption in the region is also significantly lower compared to the neighboring Southeast Asia. On average 15 % of the people in South Asia do not have access to improved water source in the year 2006 (the figure in Afghanistan is almost 80% of the population), which translates into *ca*. 237 million people without good water source. Lack of paved roads is another issue area. Almost all of the countries in the region have less than half of their roads paved, restricting development and trade opportunities.

SECTION II: Selected Trade Indicators and Trade-Related Capacity Building Needs of South Asia

All of the South Asian countries are running current account deficits. The export figures of the countries have improved but the percentages of exports to GDP still remain low. In Afghanistan and the Maldives this figure is 4% and the rest of the South Asian region stays mostly below 20% of their GDP.

[1] *Asian Development Outlook 2009, ADB ,* GDP growth rates and forecasts of Developing Asia in 2009 http://www.wto.org/english/tratop_e/devel_e/a4t_e/asian_devel_bank_report_e.pdf

TABLE I: Some Basic Development Indicators for South Asian Countries (main source: HDR 2009)

COUNTRY	GDP per capita[1]	POVERTY[2]	PEOPLE IN POVERTY[3]	HDI RANKING[4]	NATIONAL POVERTY LINE[5]	GDP real growth rate[6]	GROWTH RATES[7]
AFGHANISTAN	1,054	53.0[a]	c.a. 12,190,000[c]	181	-	5.3	16.0[f]
BANGLADESH	1,241	49.6	78,697,840	148	40.0	6.4	6.0
BHUTAN	4,837	26.2	172,396	133	-	14.0[e]	14.0
INDIA	2,753	41.6	486,310,656	134	28.6	9.0[e]	7.0
MALDIVES	5,196	>1.0[b]	3,060	97	-	6.6	6.0
NEPAL	1,049	55.1	15,535, 996	144	30.9	3.2	5.0
PAKISTAN	2,496	22.6	37,041,852	142	32.6[d]	6.0	6.0
SRI LANKA	4,243	14.0	2,701,860	102	22.7	6.8	6.0

*Source: Human Development Report 2009

[1] PPP in US$, 2007

[2] % of population below income poverty line, US$ 1.25/day, 2000-2007

[3] Number of people living below US$ 1.25/day calculated from the population in 2007 and percentage of people (source for population numbers: UNCTAD Handbook of Statistics 2008)

[4] Human Development Index rank in 2006 out of 182

[5] % of population below income poverty line, national poverty line, 2000-2006

[6] Annual %, 2007

[7] % of annual GDP growth in 2008 (*source: WB)

[a] % population below poverty line in 2003 (source CIA, The World Factbook) https://www.cia.gov/library/publications/the-world-factbook/fields/2046.html

[b] Number of people living below US$1/day calculated from the population in 2007 and percentage of people (source: UNDP) http://www.mv.undp.org/v2/?lid=65

[c] Population number is an approximation between 2000 and 2005 numbers from UNCTAD Handbook of Statistics 2008

[d] Date refers to an earlier year outside the range of years specified

[e] % GDP growth annual, 2007 (source: The World Bank Group, Quick Query)

[f] % of annual GDP growth in 2007, instead of 2008 (*source: WB)

TABLE II: Other Selected Development Indicators for South Asian countries (main source: WB)

COUNTRY	ROADS PAVED[1]	INTERNET USERS[2]	MOBILE PHONES[3]	POWER CONSUMPTION[4]	ADULT LITERACY RATE[5]	WATER SANITATION[6]
AFGHANISTAN	27.0	1.9[b]	17.76	-	28	78
BANGLADESH	10.0[a]	0.3	21.79	146.0	53.5	20
BHUTAN	-	5.9	22.11	-	52.8	19
INDIA	47.0[a]	7.2 (3.95)[b]	20.06	503.0	66.0	11
MALDIVES	-	16.3	104.26	80.0	97.0	17
NEPAL	31[a]	1.4	11.56	-	56.5	11
PAKISTAN	56.0	10.8	36.36	480.0	54.2	10
SRI LANKA	-	3.9	40.16	400.0	90.8	18

*Source WB development indicators "Key Development Data & Statistics

[1] % of total roads in 2005

[2] Internet users per 100 people, 2007

[3] Mobiles per 100 inhabitants, 2007 (*source: ITU) http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx#

[4] Electric power consumption (kWh per capita), 2006, (*source: WB Development Indicators)

[5] % aged 15 and above, 1995-2005

[6] % of population not using an improved water source, 2006

[a] % of total roads in 2000

[b] Internet users per 100 people, 2007 (*source: ITU) http://www.itu.int/ITU-D/icteye/Indicators/Indicators.aspx#

In 2005, primary goods made up quarter of the exports in the majority of the South Asian countries, except in Maldives where the numbers reached 92% of all exports. Manufactured goods, typically textiles and clothing items, make up most of the region's exports, ranging, on average, between 70-90%. Out of manufactured exports high technology products remain nominal, India being the highest performer in the category with a 4.9% share of high-technology exports in total manufactured exports.

TABLE III: Selected Trade Indicators for South Asian Countries (main source: HDR 2007/2008)

COUNTRY	IMPORTS[1]	EXPORTS[2]	PRIMARY EXPORTS[3]	MANUFACTURED EXPORTS[4]	HIGH-TECH EXPORTS[5]	NEW BUSINESS REGISTRATION[6]	EXPORTS TO GDP[7]
AFGHANISTAN	-	-	-	-	-	10	4.0
BANGLADESH	23.0	17.0	10.0	90.0	-	72	18.0
BHUTAN	55.0	27.0	-	-	-	46	18.0
INDIA	24.0	21.0	29.0	70.0	4.9	32	15.0
MALDIVES	110.0?	62.0	92.0	8.0	2.1	10	4.0
NEPAL	33.0	16.0	26.0	74.0	0.1	33	10.0
PAKISTAN	20.0	15.0	18.0	82.0	1.6	24	17.0
SRI LANKA	46.0	34.0	28.0	70.0	1.5	38	31.0

*Source: Human Development Report 2007/2008

1 Import of goods and services measured as % of GDP, 2005

2 Exports of goods and services measured as % of GDP, 2005

3 Primary exports as % of total merchandise exports, 2005

4 Manufactured exports as % of total merchandise exports, 2005

5 High technology product exports as % of manufactured exports, 2005

6 Number of days required to register a new business, 2008 (source: ADB 2009, "Key Indicators for Asia and the Pacific 2009). http://www.adb.org/Documents/Books/Key_Indicators/2009/pdf/Highlights.pdf

7 exports expressed as % of GDP (source: AFT, "West and South Asia")

Some of the countries in the region are landlocked and thus find their exporting capacity severely restricted. "It costs on average of just US$608 to export one 20-foot container from the newly industrialized economies (NIE), the People's Republic of China (PRC), and India; but it costs US$1,029 from the LDCs and small states. Furthermore, it takes an average of only 16 days to process exports in the NIEs, PRC, and India, but 31 days in the LDCs and small states."[2]

Some of the main capacity building needs of the region lay in a necessity for local trade support institutions to facilitate an easier connection of the local networks and institutions to the global trade development resources, to enhance private-public partnerships, and overall to help with issues of building productive capacity. Greater engagement of the private sector is needed in order to have more coherent policy making and better leverage in the future regional and global trade agreements. Further strengthening the small and medium size enterprises (SME) needs to stay as a focus because of their potential large contribution to the economies of South Asia. High trade and business costs remain a key issue: trade related infrastructural limitations are a huge impediment and high transaction costs still inhibit trade connectedness and growth. Diversification of the yet narrow and limited range of goods would greatly enhance the competitive standing of some of the region. In order to build up exportable surplus, these are just some issues areas where work is needed and

2 *Mobilizing Aid for Trade: Focus Asia and the Pacific Report and Recommendations*, ADB and WTO, November 2007, pg 4.

where substantial and additional Aid for Trade funding from development partners can be extremely helpful.

The *South Asian Strategic Framework for Aid for Trade Road Map* is an ADB AFT business plan for South Asia that aims to operationalize AFT of the region. One of the suggestions of the Road Map is to 'map service and production networks across the sub-region, thereby linking into Asia and the role of SMEs in key sectors.'[3]

SECTION III: Current Aid for Trade Flows to South Asian Countries

The current aid for trade flows to South Asian countries should be viewed in the context of their under-development and trade-related capacity building needs as described in the above sections. Hence, and in some cases, the current figures of Aid for Trade in South Asian countries exhibit substantial sums of money, but looking at per capita disbursement, we find that these sums are rather insignificant in terms of the pressing needs still present. According to the figures in 2007, the AFT numbers for Afghanistan are the highest in the region, reaching approximately US$28.1 per person, while countries such as Pakistan and Bangladesh struggle to reach the US$1.0 per person mark. Other countries in the region show per capita aid ranging from US$3.2 in Nepal to US$ 15.9 in Maldives. The major sectors funded by AFT flows across the South Asian region include: energy; transport and storage; agriculture, forestry, and fishing, while other sectors, such as communications and tourism are considerably less funded. Though aid for economic infrastructure has been a huge priority in AFT flows to South Asia, it is imperative that more funding continue to be dedicated to this sector given the enormous need for infrastructure improvement in the region.

TABLE IV: Aid for trade (AFT) Figures for South Asian Countries

COUNTRY	TOTAL AFT DISBURSE-MENTS[1]	TOTAL AFT COMMITMENTS[2]	DISBURSEMENT PER CAPITA[3]	MAJOR SECTOR FUNDED	INCOME GROUP[4]	SHARE OF TOTAL AFT[5]	WTO MEMBER	TRADE MAIN-STREAMING[6]
AFGHANISTAN	763.7	1341.2	28.1[b]	Transport and storage	LDC	5.3	O[d]	Partly
BANGLADESH	138.0	687.2	0.9	Energy; Transport and storage	LDC	2.6	M[e]	Fully
BHUTAN	56.8[a]	72.3	84.0	Energy; Agriculture, Transport and storage[c]	LDC	0.27	O	-
INDIA	1,768.0[a]	1,963.8	1.5	Banking and Financial services; Agriculture; Energy[c]	LIC	7.7	M	-
MALDIVES	4.9	13.6	15.9	Transport and storage	LDC	0.05	M	Partly
NEPAL	89.1	220.4	3.2	Agriculture, forestry, and fishing	LDC	0.83	M	Fully
PAKISTAN	122.9	408.2	0.8	Agriculture, forestry, and fishing; Energy	LIC	1.6	M	Fully
SRI LANKA	161.3	285.1	8.1	Transport and storage	LMIC	1.1	M	Fully

*Source: Aid for trade at a glance 2009 "Maintaining Momentum"

[1] In USD m in 2007, 2006 constant

[2] In USD m in 2007, 2006 constant (other source: OECD, AFT Statistical Queries)

[3] AFT in USD per capita

[4] Income group according to AFT, 2009 (LIC – Low Income Countries; LMIC – Lower Middle Income Countries)

[5] Share in % of total AFT commitments, 2007

[3] *ADB Technical Assistance Report*, Regional Policy and Advisory Technical Assistance (R-PATA), Project Number 42528, March 2009

[6] Trade mainstreaming level in the national development plan
[a] Source: OECD CRS
[b] Own calculations: dividing AFT in USD m (2006 constant) by population in 2007 (Population data UNCTAD Handbook of Statistics 2008)
[c] Source: OECD CRS
[d] Observer in the WTO
[e] Member of the WTO

Trade liberalization has been a focus for the past two decades, exemplifying the willingness of the countries to open their trade up in order to boost growth and reduce poverty. All but two of the countries are members of the WTO and the two non-members, Afghanistan and Bhutan, have observer status. At least four countries out of the eight have trade fully mainstreamed into their national development plans and in the rest of the countries, though with partial mainstreaming, trade is addressed in their cross-sectoral strategies. Trade is a priority for the countries, indicating a fertile ground for AFT.

CONCLUSION

Examining the development and trade indicators of the South Asian region, we can see that there is still much room for improvement as well as opportunities to benefit from the untapped potential of the region. But in order to "Maintain Momentum," to further develop, and to eradicate poverty, the region still needs finances to address the most pressing issues. It is important for the South Asian countries to come up with `targeted programs and defined objectives'[4] to guarantee the continued success of AFT, which the *South Asian Strategic Framework for Aid for Trade Road Map* is helping to do. Similarly, substantial additional aid is needed in transport and storage, energy, agriculture, and other sectors in order to fully benefit from the growth and development opportunities offered by trade.

[4] T. Moss, G. Pettersson, N. van de Walle, *An Aid Institutions Paradox?,* Center for Global Development, Working Paper Number 74, Januray 2006, pg 5