

www.undprcc.lk/aphdr2006

Embargoed until 8 a.m. GMT (1:30 p.m. Delhi time), 29 June 2006

Trade Liberalization a Mixed Blessing for South Asia

Exports and imports grow fast, but overall economic growth falters

NEW DELHI, 29 June 2006 – Free trade in South Asia has brought widely expanded new opportunities to sell services across frontiers, but also has often undermined food production and left the sub-region behind in high-tech manufacturing, a new report released today by the United Nations Development Programme says.

South Asian exports and imports both have surged, the new UNDP Asia-Pacific Human Development Report, *Trade on Human Terms*, stresses. But it also shows overall economic growth has slowed, with a negative impact on poverty reduction.

Agriculture especially has stagnated, in part because free trade has allowed a flood of imports of cheap food, the Report states. This has turned South Asia and the rest of the Asia-Pacific region into major importers after many years as food exporters. As a whole, developing countries are expected to import about US\$50 billion of food by 2030.

“Richer farmers and agribusinesses are moving out of food production toward the cultivation of more profitable commercial crops,” notes Dr. Hafiz A. Pasha, United Nations Assistant Secretary-General and Director for the UNDP Regional Bureau for Asia and the Pacific, who formally launched the Report in Phnom Penh, Cambodia. “This has profound implications for the more than half-billion people living in the region who are food-insecure.”

At the same time, a low priority is being given to rural development, leading the Report’s authors to recommend a restored focus on agriculture, which remains the primary source of income for the poor. South Asian public expenditures on agriculture have fallen sharply: Already very low at 1.9 percent in 1990, by 2001 such expenditures reached barely 1.2 percent in three South Asian countries.

Valued added in agriculture as percentage of GDP

0.1-10 percent	15-25 percent	25-40 percent	40 – 55 percent
Hong Kong	Philippines	Bangladesh	Nepal
Singapore	China	Pakistan	Lao PDR
Japan	Fiji	Mongolia	Afghanistan
Australia	Kiribati	Bhutan	Myanmar
World	Indonesia	Cambodia	
Korea, Rep.	Sri Lanka		
Mauritius	Viet Nam		
Malaysia	India		

Thailand

Source: World Bank, 2005.

To overcome the challenges in agriculture, the Report urges that developing countries promote agricultural development, through price supports, affordable loans and other assistance, as well as significantly strengthen land reform. It also recommends offering protection to poor producers by means of tariffs, price support or subsidies.

As agriculture languishes, trade in services – especially the short-term movement of workers, business process outsourcing and special-interest tourism – has phenomenal potential to powerfully improve people’s lives and has contributed to an improved balance of trade, the Report says. Services now comprise more than one-quarter of South Asia’s exports; India’s pioneering efforts in the offshoring of IT and business process services was worth \$7.7 billion by 2001, with five of the top 10 outsourcing destinations in Asia.

“Trade is no longer restricted to goods being loaded onto ships and planes to be sold across national boundaries, but has expanded to sellers moving, buyers moving, or the work itself moving,” Mr. Pasha says. “What was previously ‘non-tradable’ has become very tradable indeed.”

Returning workers can bring back to their home countries valuable experience, enhanced skills and useful social and cultural networks, with additional key national benefits found in the large inflow of remittances from overseas workers, according to the Report.

In business process outsourcing, the Report noted that the range and complexity of activities being outsourced has expanded rapidly. The global outsourcing market has exploded from US\$570 billion in 2002 to an estimated \$1.2 trillion in 2006.

Because outsourcing employs relatively small numbers of people at the top end of the labour market, benefits ultimately depend on how well governments are able to spread such benefits to parts of the economy that are outside the outsourcing and IT enclaves, the Report says. It urges further investments in professional training, focusing on core labour standards, domestic labour laws and development of infrastructure, as well as new global negotiations to preclude the introduction of new barriers to e-commerce.

Overall, the slowdown in South Asia's economic growth largely results from the sub-region's continued reliance on traditional labour-intensive and resource-based industries, the Report finds. This has led to a weak relationship between trade and growth – but on the positive side has resulted in a stronger link between growth and employment. Employment growth in South Asia has remained fairly constant, albeit at a relatively modest rate of about 1.6 per cent.

Other key findings

The Report was developed under the auspices of the UNDP Regional Centre in Colombo. It was formally launched in Phnom Penh, Cambodia. Its other key findings on South Asia include:

- Regional trade cooperation in the sub-region has been slow to develop. The trade liberalization programme of the new South Asian Free Trade Area (SAFTA) offers a very limited reduction in import duties for intra-regional trade, which is not much more than that offered under the World Trade Organization
- Led by India, South Asia has done much better than East Asia on exports of services such as business process outsourcing, short-term labour migration and special-interest tourism; services now comprise 26 percent of South Asia's exports
- Employment growth has remained fairly constant in South Asia, despite "jobless growth" occurring in some of the most successful economies of East Asia.

* * * * *

Contacts for media:

New Delhi:

Surekha Subarwal, email: surekha.subarwal@undp.org; telephone: (91-11) 2462 8877 ext. 346

Phnom Penh:

Kay Kirby Dorji, email: kay.kirby@undp.org; telephone: (94-11) 452-6400 ext. 245; mobile: (94-77) 317 8556

Geneva:

Jean Fabre, email: jean.fabre@undp.org; telephone: (41-22) 917 8541

London:

Chandrika Deshpande, email: chandrika.deshpande@undp.org; telephone: (44-20) 7396 5338, (44-9) 5746 0246

New York:

Roshni Abayasekara-Karwal, email: roshni.karwal@undp.org; telephone: (1-212) 906 5355; mobile: (1-646-675 2523)

* * * * *

The United Nations Development Programme (UNDP) works in 37 countries in the Asia-Pacific region. From 2006 onward, UNDP Asia-Pacific Human Development Reports will become an annual series, providing the region with a new forum for furthering dialogue and constructive debate in support of a regional and global pro-poor agenda.