



Source: CIA World Factbook.

# West & South Asia

## Situation Analysis

The nine countries of South-West Asia have enjoyed robust annual growth rates in recent years, consistently averaging more than 7.5% since 2003. In 2006, India, the largest economy in the region, achieved more than 9% GDP growth, whilst the GDP of almost all other countries grew with more than 6%. Positive GDP growth figures are accompanied by impressive growth of the region's exports, which averaged 21% per annum during 2001-2005. However, the percentage of exports to GDP remains relatively low.

South-West Asia includes 5 LDCs (Afghanistan, Bangladesh, Bhutan, Nepal and the Maldives) of the 14 situated in Asia and Pacific and the incidence of poverty remains high across the region. The region's rapid economic growth and increasing trade flows (except in Nepal) has had a positive impact on poverty reduction and the number of people in South-West Asia living on less than US\$ 1 a day dropped from 41% to 31% during the period 1990-2001. Nonetheless, inequality continues to persist and has even been exacerbated in some of these countries.

Although agriculture is still a major export sector in the region, its share in total merchandise export dropped considerably in the last two decades in favour of manufactured goods, which saw its share in total merchandise exports rise considerably. Textiles and clothing remains the predominant export item for most countries. All countries in the region have a trade deficit, with the exception of Iran (Islamic Republic of), which saw its export revenues rise due to the recent increase in the price for crude oil. Services exports are expanding rapidly across the region and now account for 26% of the region's total exports. This is largely due to India's boom in outsourced IT services and the growing importance of tourism.

Several countries are facing security challenges and have to cope with conflict and civil strife, e.g. Afghanistan, Nepal, Pakistan and Sri Lanka. In addition, many LDCs in the region are seriously constrained by their remoteness or isolation from markets (e.g. through their land-locked country status in the case of Nepal, Bhutan and Afghanistan), which contributes to

raising the costs to export per container to US\$ 1,599 in Nepal and US\$ 2,500 in Afghanistan, as compared to US\$ 797 for Sri Lanka. Across the region, there are great disparities in terms of the business environment and the relative ease of doing business, e.g. related to enforcing contracts, starting new businesses or obtaining credit.

Trade liberalization in South-West Asia has taken place at different levels. At the multilateral level, most countries have acceded to the WTO or are in the process of doing so, as in the case of Afghanistan, Bhutan and Iran. In addition, steps have been taken towards deepening of economic cooperation in the existing regional agreements like the South Asian Free Trade Agreement (SAFTA). Furthermore, many countries in the region, and India and Pakistan in particular, are pursuing free trade arrangements with countries in East and South East Asia either individually or as a group. The business community, especially the small and medium-sized enterprises in these countries, face the challenge of coming to grips with this complex situation..

### The West and South Asia export performance

Country	Exports (US\$ million)	Exports to GDP (%)	Exports per capita (US\$)	Growth of export value (% p.a.)	Share of exports to the region (%)	HDI ranking (out of 177)
India	103,308	15	94	24	7	126
Iran	59,999	37	886	26	2	96
Pakistan	16,031	17	103	8	12	134
Bangladesh	10,198	18	72	11	2	137
Sri Lanka	6,144	31	314	7	12	93
Nepal	670	10	25	-3	57	138
Afghanistan	252	4	11	34	47	-
Maldives	153	4	465	19	13	98
Bhutan	118	18	129	42	76	135
Total for the region	196,873		129	21	6	

Source: ITC TradeMap, WB, UNDP Human Development Indicators. Data refer to 2005 and growth rates to 2001-2005. Export figures only include trade in goods.

# Trade Challenges

## ITC's Strategic Objectives

### Trade Policy and Regulations

#### **A lack of regional integration**

South-West Asian countries are insufficiently integrated and face tariff and non-tariff barriers that hamper trade among them. This is illustrated by the fact that intraregional trade in 2005 amongst the SAARC member countries accounts for a mere 5 percent. This is in sharp contrast with the intraregional trade amongst ASEAN member countries, which is estimated at 26%.

#### **The need to engage the private sector**

Meeting WTO obligations represents a major challenge to WTO member states in the region. Their ability to participate fully in the multilateral trade negotiations and make adjustments to their trade policies and rules remains weak. Participation of the private sector in the formulation of negotiating positions and implementation of agreements is extremely important to enhance the capacity of the governments and their negotiators to secure the best possible outcome under these circumstances and lend greater coherence to the region's existing and future trade agreements.

Support policy-makers in integrating the business sector into the global economy

### Trade Development

#### **Exports insufficiently diversified**

Many South-West Asian countries, and its LDCs in particular, are dependent on a few sectors and export their products to a limited number of importing countries. This renders their economies vulnerable to external shocks from fluctuations in world commodity prices and changing trade rules. The garment industry of several countries in the region (such as Pakistan and Nepal) is under much pressure after the phasing out of the Multifibre Agreement in January 2005 and is faced with heavy competition from, primarily, China and India. Against this background, there is an urgent need for export diversification.

#### **Need to strengthen trade support institutions**

In most South-West Asian countries, and its LDCs in particular, there is a general lack of good-quality trade support institutions (TSIs) to provide trade or sector specific advice on: standards, quality assurance, accreditation, metrology and other business services.

Develop the capacity of trade service providers to support businesses

### Building Production Capacity

#### **Strengthening SMEs**

Small and medium-sized enterprises (SMEs) form the backbone of the South-West Asian economy and account for a large portion of its exports. Although there are obvious exceptions, in most countries of the subregion the private sector, and SMEs in particular, remains weak. Companies lack expertise in such key areas as quality control, e-business, packaging and labeling, market information, marketing and contract negotiations. Low competitiveness of the products concerned results in difficulties to compete effectively in the international marketplace. As a result, in many countries, and LDCs in particular, SMEs are under much pressure and need to rethink their product or service offer and markets targeted, including exploring new niche markets with potentially higher returns.

Strengthen the international competitiveness of enterprises

# ITC Responses

## Trade Policy and Regulations

### Public-private dialogue

ITC encourages, as a priority, public-private sector partnerships and the strengthening of national consultation mechanisms among all stakeholders to support trade policy formulation and trade negotiations. Capacity building activities on WTO agreements, and in particular its implications for the private sector, remain a priority activity for the region.

### Advice on trade agreements

ITC is proposing to intensify its customized capacity building activities by providing analysis of the trading regimes and its dissemination to the private sector with a view to honing their understanding of the complex international and regional trading environment. This in turn is expected to result in effective participation of the private sector in the formulation of their governments' negotiating positions and cope with the challenges of doing business in the new environment. ITC also promotes private-sector networking at the regional level in order to facilitate regional integration.

## Trade Development

### Supporting TSIs

ITC assists countries in the region to diversify their export base starting with a detailed analysis to identify sectors with high export potential. TSIs and business associations are assisted to develop priority sectors by designing sector strategies, focusing on quality and by building their own image and brand-recognition, e.g. through geographical indications, in international markets. Whilst acknowledging the need to diversify, textiles and clothing will remain a dominant sector in the region and a significant source of employment (including of women). It will therefore remain a priority for ITC's technical assistance.

Many TSIs in the region do not yet have the human resources and management capacity to provide a full range of services to support the export activities of SMEs. ITC seeks to fill these gaps and provide assistance in areas such as trade information, export of services, quality standards and packaging.

## Building Production Capacity

### Empowering SMEs

Despite the self-evident export success and competitiveness of some major economies in South-West Asia, strengthening the supply-side capacity and building enterprise competitiveness remains a key priority of ITC in the subregion. ITC's assistance aims at improving the capacity of SMEs in business management, supply chain management and export management. Emphasis is placed on product and market development, and on supply-side constraints such as quality control, packaging and labeling, promotion and marketing, e-business, export finance and contract negotiations.

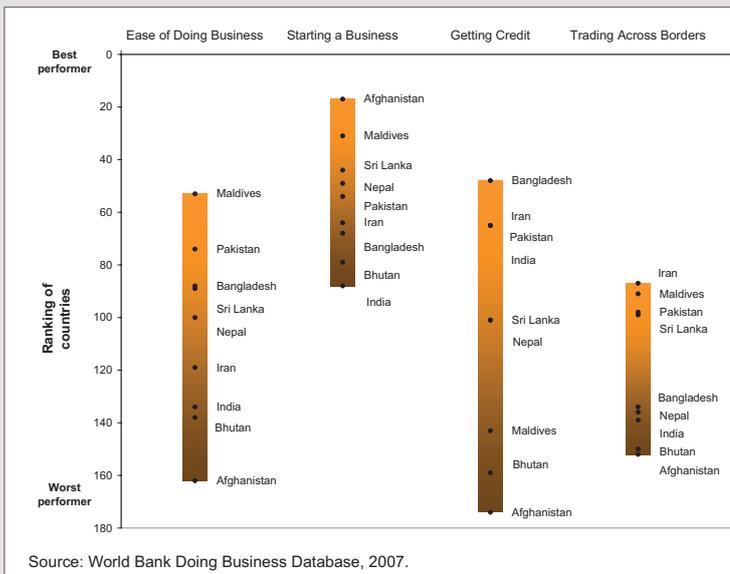
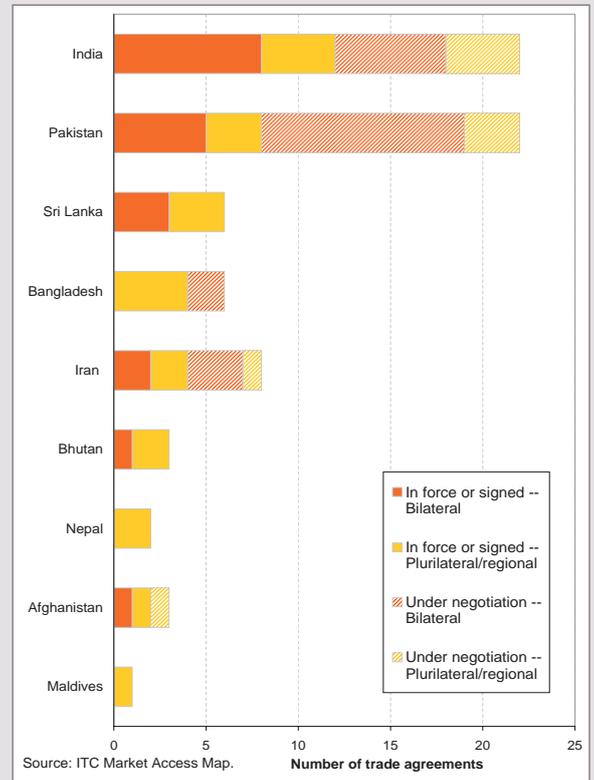
### Focus on poverty alleviation

Several new programmes will be developed in the region that are most likely to make an impact on poverty alleviation and employment generation. These programmes will boost grass-roots level production, such as handicrafts, agriculture, and community-based tourism, with an aim to create better linkages between poor communities and the target markets. Particular attention will be given to the needs of women producers and exporters, helping these to acquire the skills needed to become more competitive in domestic and international markets.

# Strengthening Links

## Trade Agreements in Force or under Negotiation

India and Pakistan are the only countries to have signed many bilateral and regional trade agreements.



# Doing Business

## Representative Indicators

There is a wide range among the South-West Asian countries in terms of the business environment.

# Concentrated or Diversified?

## Product and Market Concentration

Pakistan and India are the most diversified in terms of products and markets, whilst Iran (Islamic Republic of) is the least diversified. Generally, countries in the region export their products to a limited number of export markets.

