

**Embargoed: not for news wire transmission,
posting on websites, or any other media use until
March 13, 2002 at 1 p.m. EST (Washington time)
or 18:00 GMT**



The World Bank

News Release No. 2002/225/S

Contacts: Ana Luna Barros (202) 473-2907
alunabarros@worldbank.org

WORLD BANK ANTICIPATES GLOBAL UPTURN, MEDIUM TERM GROWTH PROSPECTS FOR SOUTH ASIA PROMISING

New Delhi, March 13, 2002 – Developing countries now suffering from a global economic downturn are likely to experience a rebound in growth this year. But growth rates in many poor countries still will be too low for rapid poverty reduction. In South Asia, GDP in 2001 was 4.3 percent and is expected to rise to near 5.0 percent in 2002. This is following the 4.0 percent growth recorded in 2000, according to a new World Bank report.

“Many poor countries have improved their policies, institutions and performance in the past decade. Because aid increasingly is channeled to these countries, aid is more effective today than ever before,” says World Bank Chief Economist Nicholas Stern. “But even successful poor countries are being hurt by lower global growth, adverse trends in commodity prices, and declining aid.”

According to **Global Development Finance 2002**, the global economic slowdown is exceptionally deep and broad, as the deceleration in growth rates has been equally rapid for rich countries and developing countries. In South Asia, the slowdown in world trade and the regional tensions after September 11th, slowed merchandise exports from the region to 1.1 percent growth in 2001 compared to 12.3 percent in 2000.

South Asia’s agricultural sector, however, recovered in the second half of 2001, after stagnant output in the first half of 2001, with a bumper cotton crop in Pakistan and a good harvest in India. Bangladesh showed around 6 percent growth in gross agricultural output, reflecting government policies that encourage the cultivation of high-yield crops. In addition, the service sector in India (which makes up 35 percent of the regional GDP), increased by almost 7 percent in 2001 and software exports from India grew 25 percent, despite the malaise in the global high-tech markets.

Foreign Direct Investment (FDI) flows to South Asia rose to \$4.2 billion in 2001, a 35 percent increase from the previous year. Although South Asia produces 9 percent of developing countries' GDP, it attracts only 2 percent of FDI flows to developing countries. Therefore, FDI to the region remains small, only 0.5 percent of GDP. The relatively small FDI flows into the region reflect, in part, little progress in privatization, glacial industrial regulations, and slow reforms in the labor market. The distribution of FDI flows within the region is more or less proportional to GDP, with 75 percent going to India and roughly 10 percent to Pakistan and Bangladesh.

Recovery to begin late this year

The South Asia region is expected to recover modestly in 2002 with an average growth rate of 4.9 percent, and accelerating thereafter to rates above 5 percent. Agricultural output is expected to improve in the first half of 2002. This should have a stimulating effect on the industrial sector, particularly the durable goods sector, because traditionally farmers tend to buy big ticket items (furniture, motorcycles, bicycles, etc.) during periods of good harvest and consequently increased incomes. The war related aid for Pakistan, especially to the export sector, is expected to quicken the recovery of its economy

###-

Journalists can access the material before the expiration of the embargo through the World Bank Online Media Briefing Center at <http://media.worldbank.org/secure/>

For more information on the Bank's work in the South Asia region, please visit, at: <http://worldbank.org/sar>

The report summary and related materials will be available to the public on the World Wide Web immediately after the embargo expires at: <http://www.worldbank.org/prospects/gdf2002>

WB172349
L:\DRAFTPressRelease\SAS GDF Release03.doc
March 12, 2002 2:42 PM