

Lack of Economic Homogeneity in South Asian Countries: Holding Back the Potential

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Heterogeneity of beliefs, culture, history, geography and growth prospects in current global economic scenario has restrained the South Asian region from reaching its potential as the next investment region of the world. International research organisations such as World Bank has maintained that South Asia's potential is unquestionable. While education levels are being reorganised, there is more than one million young workers waiting to enter the workforce. With urbanisation on the rise, South Asia is expected to become the most attractive destination for business and manufacturing in the world. World Bank predicts that by 2030 more than a quarter of the world's working adults will live in South Asia, and as labour costs rise elsewhere, South Asia will become the hub for entrepreneurs. However, looking at the GDP figures, (Table 1) it is quite heart-breaking to see that the region only clocked negative growth rate year on year, even if we discount the pandemic years. Apart from a brief period of positive marginal change between 2012-2016, the annual changes for the region as a whole remains in red. If we look into the cause for the gap between performance and prediction—the only answer will be that the region has still not been able to assert its assets and has remained a heterogeneous geography to entrepreneurs and investors.

South Asia GDP Growth Rate - Historical Data		
Year	GDP Growth (%)	Annual Change
2020	-6.58%	-10.61%
2019	4.02%	-2.42%
2018	6.44%	-0.19%
2017	6.63%	-1.15%
2016	7.78%	0.29%
2015	7.49%	0.49%
2014	6.99%	0.91%
2013	6.08%	0.58%
2012	5.50%	0.36%
2011	5.14%	-2.57%
2010	7.70%	0.57%
2009	7.13%	3.90%
2008	3.24%	-4.09%

Ref: <https://www.macrotrends.net/countries/SAS/south-asia/gdp-growth-rate#>

South Asia as a Trade Bloc

As experts have pointed out, South Asia is probably the only region in the world without a functional regional organisation. The absence of regional framework for cooperative interaction has made this block an uncharted territory for economic integration, thus also creating the opportunity as the next best market. **A strategic platform to explore business opportunities, increase competitiveness and**

efficiency in trade flows and build sustainable supply chain for future development need to be the focus of the next century. The pre-eminence of India in the South Asian power configuration given its geography, demography, economics, and ecology is something that the country will need to use for actualising the non-functional regional trade bloc. India's borders have always been defined by the borders of its immediate neighbours and there is no way economic development can happen without economic integration of policies.

While an economic self-help area like the Association of South Asian Nations (ASEAN), earlier a regional geo-political minefield and current SAFTA (South Asian Free Trade Agreement), has both had limited results, the growing emphasis on economic cooperation is significant in view of the fact that intra-regional trade among SAARC countries, as a percentage of their total world trade, is presently a measly 3.4%.

At present levels of growth, the most recent World Bank projections for the year 2025 put India's population at 1.3 billion, Pakistan's at 244 million, Bangladesh's at 180 million, Nepal's at 38 million, and Sri Lanka's at 24 million. While the government of each of these countries is trying to overcome internal tension for better growth and most of the South Asian countries have initiated varying degrees of economic reforms by adopting liberalisation and free market economic policies, the pervasive domestic and regional problems tend to negate most of the constructive efforts.

Contradictory Economic Profiling of the Region in a Post Covid situation

In South Asia, the pandemic is estimated to have pushed back economic development of 48 to 59 million people in 2021. While India's economy, is expected to grow by 8.3 percent in the fiscal year 2021-22, there are countries like Nepal, Bangladesh and Sri Lanka forming the bottom of the pyramid with much softer growth outlook. China, on the other hand has already started infrastructure projects under Belt and Road initiative, spanning across South Asia. The two economic super-powers are balanced out by traditional and minor economies.

Bangladesh growth rates continue to recover, backed up by exports and domestic consumption. Maldives, is expected to post a positive recovery as tourism has bounced back strongly.

In Bhutan, output is expected to grow by 3.6 percent in fiscal year 2021-22, supported by the return of migrant labour and large infrastructure projects. In Nepal, GDP is expected to grow by 3.9 percent for the fiscal year 2021-22, as tourism and migrant worker flow recover in the country. Pakistan is also expected to grow by 3.4 percent in fiscal year 2021-22.

The huge gap between the growth rate of the countries has basically forced the region to undermine its tourism assets, harnessing of hydropower, alternate sources of energy, market for manufacturing goods and currently as technology super-power backed by start-ups. However, basic problems like lack of quality education, law and order problems, health issues need strong policy interventions and mutual interventions to realise the dream of the region becoming a hot-bed of investments.

Possible Steps towards Consolidating Globalisation

As pandemic and the current Russia-Ukraine tiff has overtly influenced the economic condition of the region with inflationary pressure and threatening rise in job losses, it is important that the region rises beyond century old contradictions and start building back afresh, thus grabbing the opportunities offered by a technology enabled ecosystem. Technology, especially in social sector has the potential to address the poor and heterogeneous social infrastructure of South Asia. And if, people can be

enabled, without the political mayhem, there is a possibility to just create enough scope for the region towards generating opportunity for growth and sustainability. I personally cannot re-emphasize more on the need for South Asian countries to come together and be allowed to operate in more cohesive and united manner.

As I am firm believer that South Asian region will become the next most coveted investment destination, it is my appeal to the leadership of each of this country to come together and device the next steps.

Firstly, we can think about technology interventions to enable social interventions and also businesses. The smaller countries will need help from the bigger counterparts like India to get going on the plan. Not only India will have access to ready market, there will be a chance to consolidate manufacturing and services business, while generating employment and value addition.

Secondly, rethink on the free trade area for regional business. The existing tariff and non-tariff barriers are only harming the region. It will need major political will to promote reforms and enable smoother business processes.

Thirdly, there needs to be regional co-operation that can support productivity through policies. Job mobility through borders, fair competition and building up an innovative ecosystem in the region will enable the bloc to sustain the ecological balance and harnessing the potential of youth—i.e the huge population.

Sri Lanka, Nepal and India

The three countries mentioned together cannot have a more heterogeneous existence.

While Sri Lanka—the island country, was always strategically located at the crossroads of major shipping routes to South Asia, the Far East and the continents of Europe and America, making the country a convenient port of call for shipping lines and airfreight services, a few wrong political decisions have turned it into a economic mess, with no medicine, short supply of food and fuel and the country running out of cash.

Nepal, though not in such a crisis, has ~~one of the weakest economic recovery rate post covid~~. The country is also struggling with job creation for its untrained labour force, low technology interventions and poor social infrastructure.

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But for India, both Sri Lanka and Nepal are strategically important. While one is required to maintain the peace in the Indian Ocean, the other is a barrier between unrequited interventions and provides major untapped sources of alternate power. It cannot continue to see either of these neighbours in a weak position, as that will become an economic threat to itself. The situation portrays how closely knitted South Asia is!

Creating optimal institutional mechanism to serve the economic disruptions and preferential treatments in trade and business will help the region nurture brotherhood. I would once again hope that these unique countries with their own strategic strengths will be able to leave aside major divergent issues and concerns that will be difficult to find convergence and unanimity and focus on areas to build up consensus on social and human development to make it a power house for workers and businesses. Designing and setting up a regulatory and policy framework towards regional integration aiming at strengthening South Asia will be beneficial for each of the economies.

Global investments are a function of stability, business processes and ease of doing business. Country specific investment funds and impact investments have already started surfacing in each of the South Asian countries as people are realising the untapped potential of the region. It is only prudent to observe that ideological and leadership integration regionally will help every country to attract more investments and grow stronger together.

Ref.:

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