

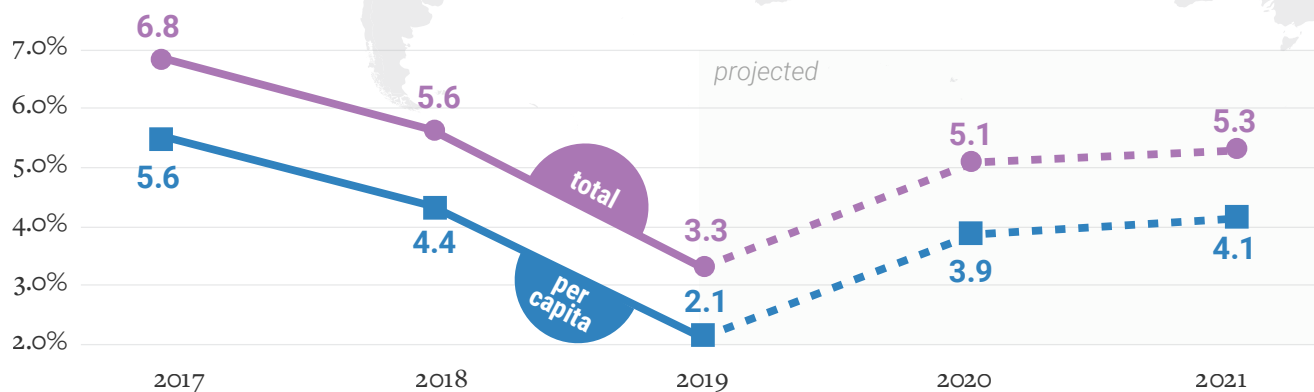
World Economic Situation and Prospects



United Nations
New York, 2020

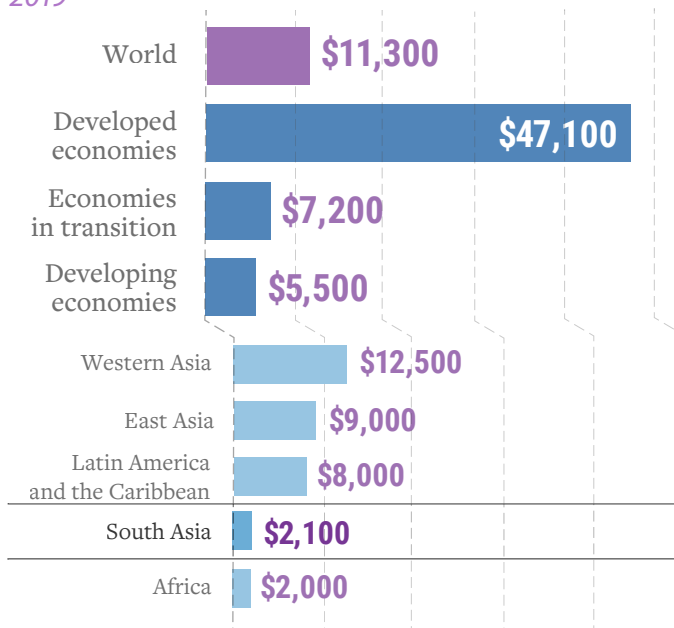
South Asia

GDP Growth



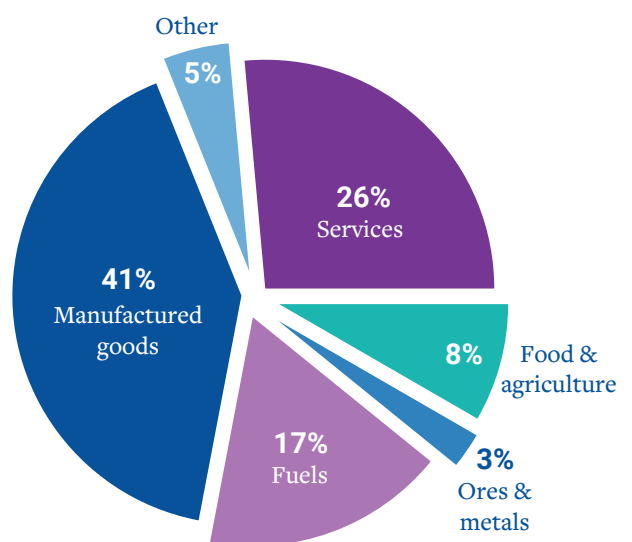
GDP per capita

2019



Export Structure

2018



The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations. The map represents countries and/or territories or parts thereof for which data is available and/or analysed in *World Economic Situation and Prospects 2020*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

South Asia: ongoing efforts are needed to restore strong economic growth

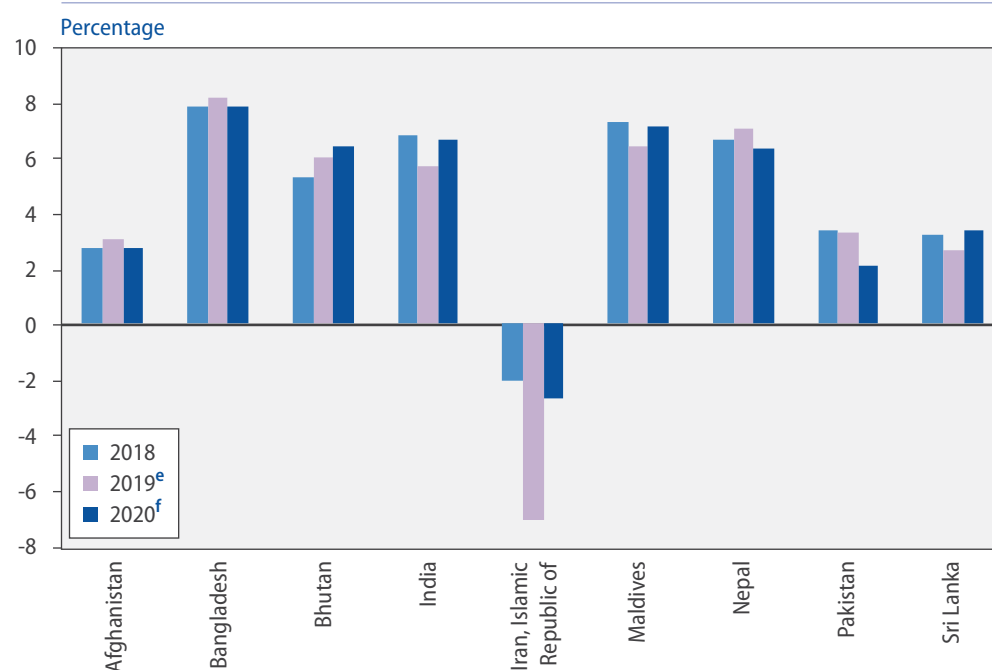
- Economic growth has slowed substantially in South Asia but is expected to recover as one-off factors wane and fiscal stimulus kicks in.
- South Asian economies remain highly exposed to a wide range of shocks, in particular extreme weather events and commodity price fluctuations.
- As growth recovers, South Asia will have to redirect spending to address structural barriers to development.

Economic growth took a hit in much of South Asia in 2019 as the impact of the global economic slowdown was compounded by country-specific crises. The economic slump in India, the deepening recession in the Islamic Republic of Iran, and the looming twin fiscal and balance-of-payments crises in Pakistan have affected the outlook for many of the smaller economies in the region, which have struggled to maintain solid growth rates in an increasingly challenging global environment. Regional GDP growth fell faster than the global average, dropping from 5.6 per cent in 2018 to 3.3 per cent in 2019, but was moderated by strong growth in Bangladesh, Bhutan, Maldives and Nepal. The regional outlook for the next couple of years is slightly more optimistic, however, with growth expected to pick up to 5.1 per cent in 2020 and 5.3 per cent in 2021 as the effects of one-off shocks dissipate and policymakers in South Asia accelerate fiscal stimulus efforts (see figure III.12). Structural constraints will need to be addressed, however, if the high growth rates enjoyed in previous years are to be restored.

While countries in South Asia are each dealing with their own structural challenges, they share a number of external and domestic downside risks that could cloud their economic outlook. External factors include ongoing trade disputes, geopolitical uncertainty

South Asia struggles with both external and domestic sources of distress

Figure III.12
GDP growth in South Asia



Source: UN DESA.

Note: e = estimates; f = forecast. GDP growth percentages are on a fiscal-year basis for Afghanistan, Bangladesh, India, the Islamic Republic of Iran, Nepal and Pakistan and on a calendar-year basis for Bhutan, Maldives and Sri Lanka.

and the increasing impact of climate change—all failures of global coordination that could severely jeopardize prospects for continued growth in the region. Although domestic factors are more diverse, there are again several common issues. Prospects for some countries in the region are dampened by political uncertainty and growing security concerns—and their negative impact on investment and consumer sentiment. A reallocation of government spending will likely be necessary to address evolving needs and any crises that may emerge within this context; however, this will limit the fiscal space to address barriers to structural transformation, in particular infrastructure bottlenecks, low productivity and persistent inequalities. An overdependence on domestic consumption or exports to drive economic growth has left many countries in the region vulnerable to shocks. Resource price fluctuations can put pressure on inflation, limiting economic activity and increasing the burden on policymakers to address short-term shocks.

Shocks in India, the Islamic Republic of Iran and Pakistan are felt across the region...

In India, the rate of economic expansion fell sharply from 6.8 per cent in 2018 to 5.7 per cent in 2019 owing to slackening investment, subdued consumer sentiment, and weak manufacturing and services growth. The slowdown in India has dampened export growth across the region but has had a particularly serious impact on countries such as Afghanistan and Nepal, whose economies rely heavily on trade in raw and minimally processed goods with India. The Government of India has responded to the country's disappointing economic growth performance—the combined result of policy uncertainty, a credit crunch, and the pass-through effects of the global slowdown—by committing to fiscal stimulus measures such as corporate tax cuts, increased government spending and expanded support for the struggling automobile industry to complement its already loose but thus far largely ineffective monetary policy. The resulting growth in investment and private consumption is expected to boost economic expansion from 2020 onward, though it will probably take several years for growth rates to return to their previous levels, as the Government will find it increasingly difficult to keep up the fiscal expansion. Economic growth in India is expected to return to 6.6 per cent in 2020, with inflation close to 4 per cent. The government deficit is expected to widen in the coming years, limiting the country's space for spending on infrastructure, social security and other increasingly important priorities for long-term development.

In the Islamic Republic of Iran, GDP contracted by 7.1 per cent in 2019 following a decline of 2.0 per cent the previous year. Serious flooding, the reintroduction of sanctions by the United States, and increasing tensions with Saudi Arabia have hit the economy hard, sending the country's exports into a nosedive. Investment and private consumption growth have decelerated amid growing social unrest. While the Government has already increased spending to address challenges created by the economic recession, it will take several years for economic growth to return to positive territory. The country's critical lack of economic diversification will continue to cloud its economic outlook.

Pakistan, meanwhile, has been struggling with a balance-of-payments crisis and the burden of high public debt, which have led to an arrangement with the IMF and corresponding fiscal tightening. High inflation and security concerns have hurt domestic demand and private investment, and the Government's ability to address the slowdown has been severely curtailed by the fiscal tightening. Export growth has fallen to 0.4 per cent owing to disappointing sales of textiles, which constitute 60 per cent of the country's goods exports. GDP growth has remained weak at 3.3 per cent in both 2018 and 2019—well below the 4–6 per cent range of previous years. Nevertheless, the economy of Pakistan is expected to recover slightly from 2021 onward as increased government revenues from a

tax hike allow expanded public investment and as other government reforms required by the IMF begin to bear fruit. Continued commitment to reform, combined with productive investment in infrastructure and strategic capacity development, will be critical for the country to find its way back to its previous growth path.

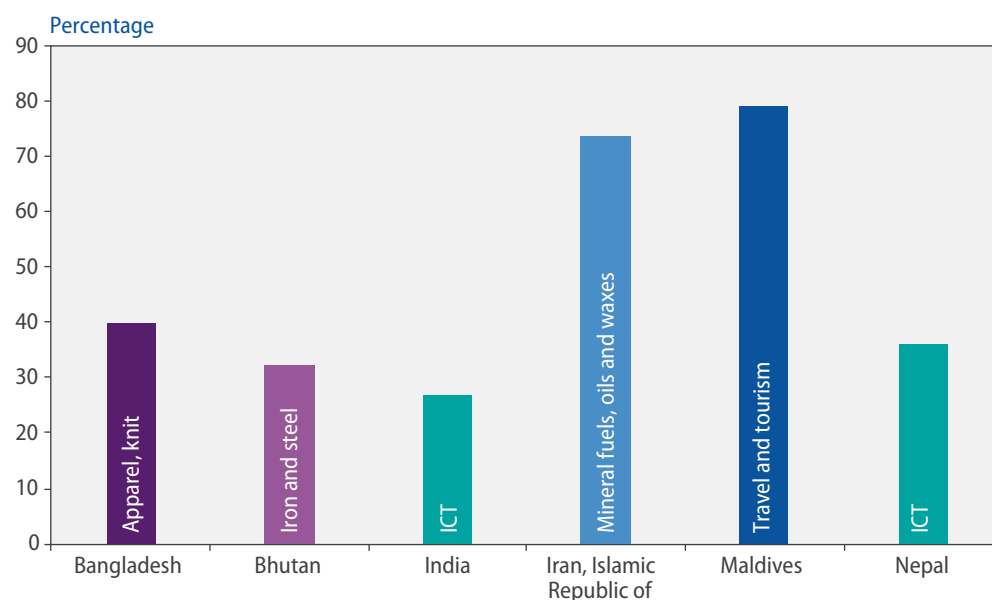
Several economies in the region have actually exceeded growth expectations—sometimes thanks in part to the same factors that have troubled their neighbours. While global trade disputes and geopolitical tensions have dampened economic growth elsewhere, Bangladesh, Bhutan and Maldives have taken advantage of significant economic opportunities created by the turmoil. Driven by the expansion of its garment industry, which has prospered partially as a result of trade disputes between the United States and China, Bangladesh enjoyed exceptional GDP growth of 8.1 per cent in 2019. Maldives saw its economy continue to grow at a rate of 6.4 per cent in 2019 as it benefited from strong growth in the tourism sector, which flourished thanks to the opening of a new airport. Strong investment growth in Bhutan boosted the rate of economic expansion from 5.3 per cent in 2018 to 6.0 per cent in 2019. It is worth noting, however, that the drivers of current economic growth also expose significant weaknesses, as all of these countries rely heavily on a small number of sectors for their economic development (see figure III.13). Bangladesh, for example, continues to depend strongly on the textiles and garment industry, a sector that ranks poorly in terms of product complexity, rendering the country's economy among the least complex in the world and leaving it highly exposed to external shocks. Meanwhile, tourism accounted for 79 per cent of exports from Maldives and for more than a quarter of the export earnings of Bhutan and Nepal. These countries will need to use the increased government revenues expected in the coming years to invest in infrastructure and productive capabilities outside of their traditional industries so that they can move up the global value chains.

The countries of South Asia have faced a combination of rising food prices, oil price fluctuations and domestic constraints; however, inflation figures and the associated monetary policy responses have been divergent across the region. Thanks to slow growth in

...except in Bangladesh, Bhutan and Maldives, which have managed to exceed expectations

A moderation in inflation allows for more accommodative monetary policy

Figure III.13
Share of largest sector in total exports, 2017



Source: UN DESA, based on data from The Growth Lab at Harvard University, The Atlas of Economic Complexity (<http://www.atlas.cid.harvard.edu>).

Note: Merchandise sectors are described at the two-digit level (HS-2); services sectors are based on the Extended Balance of Payments Services Classification 2010 (EBOPS 2010) category.

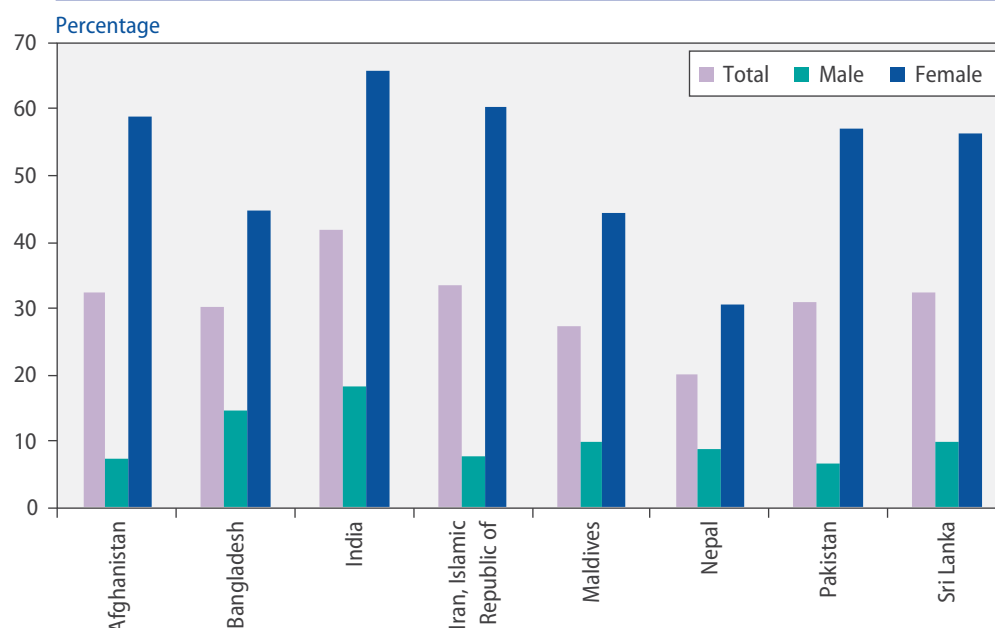
**Structural challenges
loom on the horizon,
with the effects of
climate change, low
labour productivity and
inequalities becoming
increasingly acute**

both fuel and food prices, inflationary pressures have eased somewhat in many parts of the region, with rates dropping below target levels in India and Sri Lanka. The Reserve Bank of India has responded by pursuing a more accommodative stance, reflected in a series of policy interest-rate cuts in 2019, to complement the Government's pledge to provide fiscal stimulus. Meanwhile, the State Bank of Pakistan is balancing a stronger commitment to inflation targeting with a managed depreciation of the currency, but this is complicated by increases in energy tariffs that have been imposed as part of the fiscal reform package. While the tightened monetary policy in Pakistan is expected to help move inflation towards target levels in the years to come, the country's inflation remains extremely vulnerable to fuel price fluctuations and weather conditions, as is the case for most countries in the region. A good harvest and resulting moderate food price inflation will be of critical importance for the region's poor, whose household budgets are strongly linked to food prices.

Climate change will be the principal long-term risk for South Asian countries owing to their high dependence on fishing and agriculture, geographical structures, and insufficiently climate-resilient infrastructures. Natural disasters such as flooding and landslides have already proven to be extremely destructive in the region, and it is expected that they will only increase in frequency. Under business as usual, the Asian Development Bank projects that rising global temperatures will reduce GDP in South Asia by nearly 9 per cent by the end of century—not including the human and financial costs from floods, droughts and other extreme weather events—with Bangladesh, Bhutan, India, Maldives, Nepal and Sri Lanka suffering the greatest losses (Ahmed and Suphachalasai, 2014). A large proportion of these economic losses will fall on agriculture, forestry and fisheries, which together account for an estimated 42.7 per cent of the region's employment share—second only to sub-Saharan Africa. Without action, higher temperatures and shifting precipitation patterns are projected to reduce the living standards of around 800 million people in South Asia by 2050 through changes in agricultural and labour productivity, health, migration and other factors that affect economic growth and poverty reduction (Mani and others, 2018). South Asian countries will need to invest heavily in adaptation measures while promoting the transition to cleaner sources of energy. The energy transition, while urgently needed, will not come without significant expense, however. The Islamic Republic of Iran, in particular, is highly exposed to the effects of an energy transition owing to its extremely high dependence on fossil-fuel assets, which are at substantial risk of becoming stranded.

The region's young labour force is its greatest capital and has the potential to be a key driver of development, particularly within the Sustainable Development Goal framework. However, there are serious systemic and structural barriers to employment. Labour productivity in South Asia is among the lowest in the world, and informal employment is widespread (accounting for as much as 84.7 per cent of non-agricultural employment in India, for example). While average productivity growth in South Asia outpaces the global average, countries such as Afghanistan and Nepal are falling further behind. Across the region, young people are among those struggling the most. In Afghanistan, Bangladesh, Pakistan and Sri Lanka, for example, more than 30 per cent of youth are not in education, employment or training (see figure III.14); in India, this figure is over 40 per cent. Meanwhile, female labour force participation in South Asia has dwindled and is currently at 26 per cent, compared with 52 per cent for Latin America and the Caribbean and 58 per cent for East Asia and the Pacific. Demographic pressures and rapid urbanization will further compound these problems. Policymakers in South Asia urgently need to take steps to address barriers to labour force participation, particularly for women and youth. Improving access to decent employment will support both social development and economic productivity.

Figure III.14

Share of youth not in employment, education or training (youth NEET rate)

Source: ILOSTAT.

Note: The youth NEET rate represents young people who are not in employment, education or training as a share of the total number of young people aged 20–34, by gender. Figures are based on the most recent observations for the period 2010–2018.

Development prospects are also held back by persistent and often expanding inequalities. UNESCAP (2018) indicates that income inequalities increased in India, Bangladesh and Sri Lanka between the early 1990s and the early 2010s. The top 10 per cent of earners in India receive 54.2 per cent of the total national income. Gender inequalities also remain high in the subregion, according to UNDP (2019). Girls are substantially less likely than boys to complete secondary or higher education, and half of the girls in South Asia are married before the age of 18, limiting their prospects for meaningful participation in the labour market. Continued improvements in social protection coverage, comprehensive support for women's rights, the availability of affordable education and health-care services, and effective public service delivery in all areas will be needed to ensure that every individual has a chance to contribute to the development of his or her country.