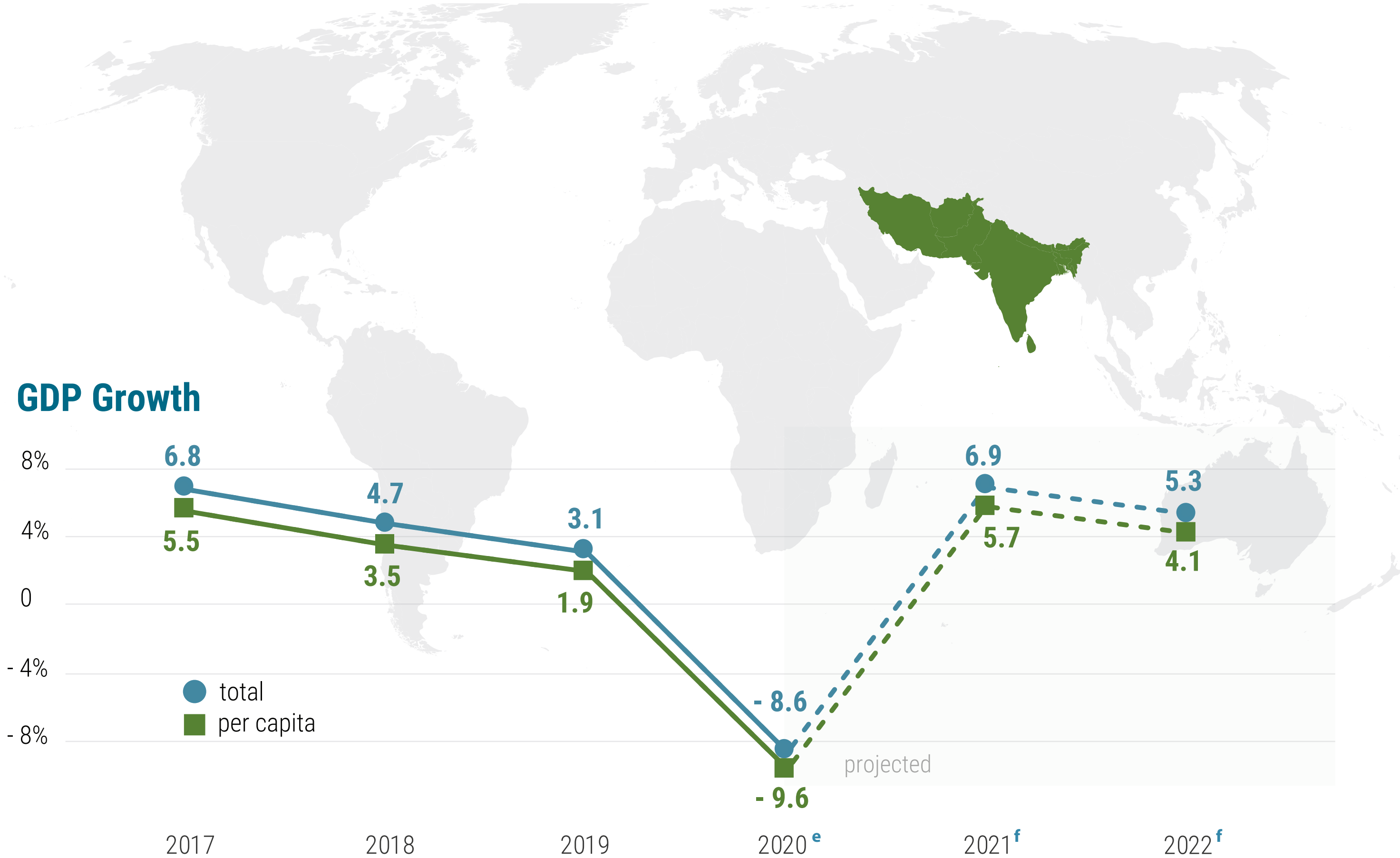
World Economic Situation and Prospects

2021

United Nations

South Asia

GDP Growth



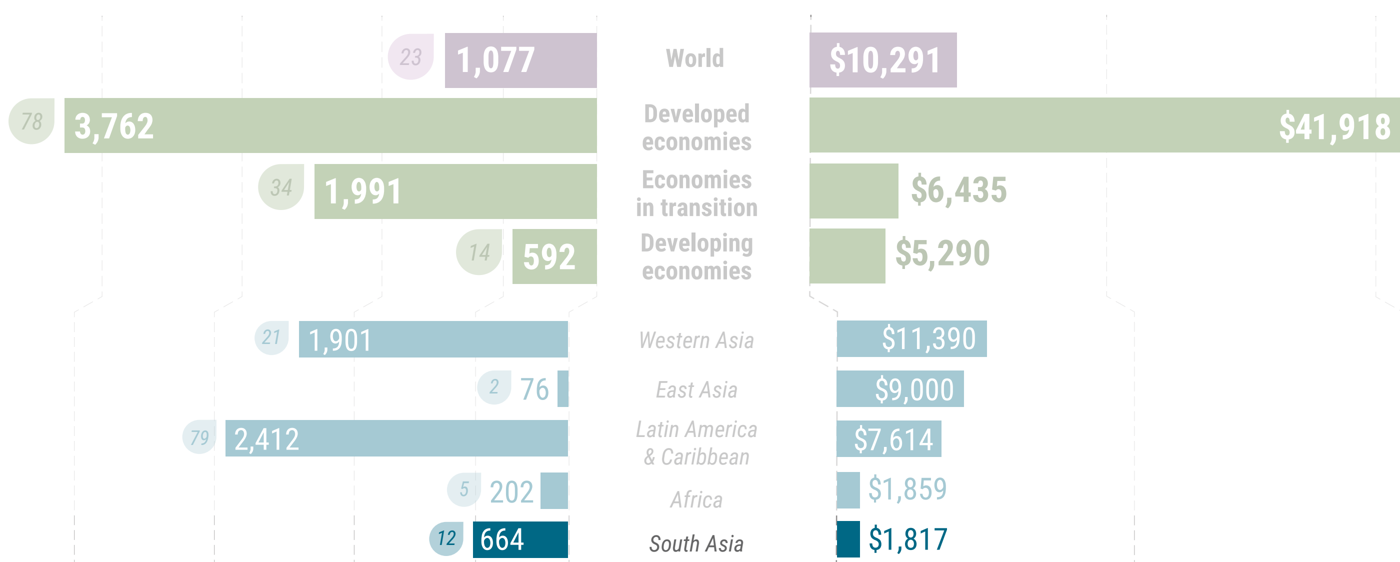
COVID-19 Cases per 100,000 people

by 1 January 2021

COVID-19 related deaths per 100,000

GDP per capita

2020



Note: 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 2021*. The shaded areas therefore do not necessarily overlap entirely with the delimitation of their frontiers or boundaries.

Aggregate data for Africa, excluding Libya.

e: 2020 estimates, **f:** 2021-22 forecasts.

Source for COVID-19 data: UNDESA calculations, based on data from Johns Hopkins University.

South Asia: this former champion will have to find its way back to growth

- The pandemic and resulting economic crisis have ravaged South Asia, the former growth champion, and turned it into the worst performing economic region
- Poverty has shot up and progress on many other Sustainable Development Goals has been reversed
- The long path to recovery will require structural reforms aimed at addressing South Asia's critical vulnerabilities

COVID-19 has hit an already vulnerable region…

Weak progress on achieving the Sustainable Development Goals—not least on ensuring the quality and accessibility of the public health infrastructure—has made South Asia a pandemic hotbed (United Nations, ESCAP, 2020). Before COVID-19 struck, the region was more or less on track towards achieving its targets on education (SDG 4) and energy (SDG 7) but was lagging behind with respect to access to drinking water and basic sanitation (SDG 6), ending hunger (SDG 2), reducing income inequality (SDG 10) and achieving gender equality (SDG 5), while in fact regressing in the area of peace, governance and institutions (SDG 16) (ibid.). Moreover, the region's public health infrastructure was in dire straits, with low levels of public health expenditure and few physicians, nurses, midwives and hospital beds per capita, as compared with both the global average and measures for other developing regions. This necessitated a rapid enforcement of lockdowns and other containment measures which were more stringent than those in other developing regions, even though caseloads and fatality were relatively moderate during the early months of the pandemic. The fact that, across South Asia, informal employment is the norm and social safety coverage minimal has aggravated the region's particular vulnerability to the unprecedented public health shock and limited the effectiveness of government response.

…and has left deep marks on every part of South Asia

The pandemic and the global economic crisis have consequently left deep marks on South Asia, turning this former growth champion into the worst performing region in 2020. Regional economic growth fell dramatically from 3.1 per cent in 2019 to -8.6 per cent in 2020, a far cry from the 5.1 per cent growth predicted in 2019. Without exception, all economies in the region have been badly hit by the crisis, whose impacts have been amplified and accelerated by existing vulnerabilities. Poorly organized labour markets and the absence of a reliable social safety net prevented Governments from implementing the effective restrictions needed to contain the spread of the pandemic, while fiscal constraints and limited economic diversification restricted Governments' manoeuvring space. In this regard, countries of the region compare unfavourably with other developing countries in Asia. Higher price inflation due to COVID-19-induced supply constraints limited the space required for monetary policy to make up for the shortfall. India's economic growth has fallen from 4.7 per cent in 2019 to -9.6 per cent in 2020,[2] as lockdowns and other containment efforts slashed domestic consumption without halting the spread of the disease, despite drastic fiscal and monetary stimulus. The Islamic Republic of Iran has suffered triply—from global sanctions, the sharp drop in oil prices and a fall in domestic consumption—which has deepened its

2 All growth figures for South Asia provided are on a calendar-year basis. For fiscal-year growth figures, please refer to the Statistical Annex.

already severe recession as evidenced by a growth contraction from -7.0 in 2019 to -13.3 per cent in 2020. Economic growth in Pakistan, which was already in the grip of an ongoing twin fiscal and balance-of-payments crisis, has fallen from 0.3 per cent in 2019 to -2.7 per cent in 2020. Maldives, meanwhile, took a brutal hit from the near standstill in international tourism, erasing more than a fifth of its output in 2020 compared with the previous year. Even Bangladesh, the fastest growing economy in the region, has seen economic growth fall, from 8.4 per cent in 2019 to 0.5 per cent in 2020, although this was cushioned somewhat by a recovery in trade and remittances in the second half of the year.

Perhaps even more worryingly, the crisis has devastated livelihoods across the region, reversing many years of progress on achieving the Sustainable Development Goals. As the population continued to grow in 2020, GDP per capita fell by nearly 10 per cent. Poverty is rising sharply and existing inequalities are widening. Nearly two out of five of 2020's new global poor are in South Asia. At the same time, it is the most vulnerable that have been hit hardest by the crisis. Women, for example, are significantly more likely to work in high-risk sectors and have been reported to suffer from increased domestic abuse during lockdowns; and children, especially those in poor households and in rural areas, suffer disproportionally from school closures, which could severely limit their lifetime earnings and increase their chances of ending up in poverty. Other vulnerable populations that have experienced a disproportional impact on their livelihood include slum dwellers, migrant workers and the elderly.

Recovery will be slow and uneven…

Economic growth in South Asia in 2021 will be insufficient, at 6.9 per cent, to make up for the losses of 2020, as pandemic hotspots re-emerge and, increasingly, the ability of Governments to deal with the multitude of challenges becomes exhausted. While trade, remittances and investment are expected to pick up in 2021, as much of the global economy moves towards recovery from the widespread lockdown, investment and domestic consumption in many South Asian countries will nevertheless remain subdued owing to the continuing threat of the pandemic and the scarring effects of the crisis. Regional economic growth for 2022 is forecast at 5.3 per cent, which would allow South Asia to finally exceed its 2019 economic output, albeit only marginally. On the other hand, South Asian countries that are relatively more exposed to global economic conditions, such as Bangladesh and Maldives with their high share of foreign trade and Nepal with its dependence on tourism and remittances, will enjoy a stronger rebound, of about 10 per cent growth in 2021. Other countries in the region will experience economic growth ranging from 3.1 per cent (Sri Lanka) to 7.3 per cent (India).

…and will remain subject to many risks

The recovery is subject, however, to significant risks. The forecasts assume effective containment of the virus in South Asia and the rest of the world including no further lockdowns in 2021, resurgence of global trade, and the effective continuation of fiscal stimulus and containment efforts in South Asia and other regions. Failure of any or all of these baseline assumptions to materialize could plunge the region deeper into crisis. Opportunities exist as well but they are less likely and would be less impactful than the downside risks. The development of new growth sectors, aided by targeted fiscal stimulus and the disruptive effects of the crisis, could propel South Asia's development trajectory and allow the region to make up lost ground much more quickly. A forceful global commitment to counter the negative consequences of the pandemic, particularly in developing countries, could also allow the region to build back better and stronger and regain its position as the global development champion.

But to grow back stronger, South Asian countries will need first to redouble their efforts to diversify their economies, while at the same time taking stock of global trends initiated by the crisis, such as reshoring of global value chains (GVCs) (box III.3) and a decreased appetite for contact-intensive services. Economic diversification is in fact low or minimal in many South Asian economies, with the near single-trade economies of Bangladesh (garments), the Islamic Republic of Iran (oil) and Maldives (tourism) especially exposed to external demand shocks (United Nations, 2020c). South Asian Governments should promote, in particular, the development of more complex, high-skills and high value added sectors that could reach a broader base of trade partners within and outside of South Asia or even the domestic market. Achieving resilience to external shocks should be among the most important considerations within the decision framework for policymakers in South Asia who are currently rethinking their industrial policies.

Policymakers in South Asia will need at the same time to strengthen their efforts to formalize labour markets and strengthen their social protection systems to dampen the impact of the crisis on the most vulnerable and improve macroeconomic resilience. Informal workers, accounting for over 80 per cent of workers in Bangladesh, India and Pakistan (International Labour Organization, 2020b), have indeed been far more exposed to loss of employment than formal workers during the crisis and South Asia's widespread informality has almost certainly magnified the impact of the pandemic (World Bank, 2020c). The COVID-19 fiscal response in South Asia has consisted of a vast ad hoc expansion of social assistance and direct cash transfers for the most needy but this kind of special support is neither sufficient nor sustainable. Policymakers in South Asia, taking stock of recent lessons, will therefore have to design their social protection systems with a view to rendering them more inclusive, especially for those in the informal sector, and more flexible and resilient.

However, they will need significantly more fiscal space to achieve all of these goals. While increased domestic revenue mobilization can make up for some of the shortfall, both bilateral and multilateral creditors will still need to adopt a concessionary stance to avert protracted debt crises in an already deeply wounded region. Indeed, several South Asian countries have run fiscal deficits of about 10 per cent of GDP in 2020 and government debt is forecast to grow significantly for most countries. Yet, fiscal austerity is not desirable until South Asian countries are back at or close to their economic growth potential, which might still take several years.

Box III.3

Global value chains in the aftermath of COVID-19: implications for Asia and the Pacific

While developing countries in the Asia-Pacific region continue to rely on global value chains (GVCs)[a] for sustained economic growth, structural transformation and poverty reduction, the feasibility of the GVC-led development model has come under scrutiny in recent years.

Persistent trade tensions, rising protectionism and a potential economic and technological "decoupling" have cast a shadow over the future of GVCs. On the other hand, continuing deceleration in global trade implies that the "good old days" of fast growth fuelled by hyper-globalization may have truly peaked, even without factoring in the uncertainties brought about by automation and digitalization. Additionally, rising inequality and environmental damages call for new reflections on how to balance the economic, social and environmental objectives of GVC-led economic growth.

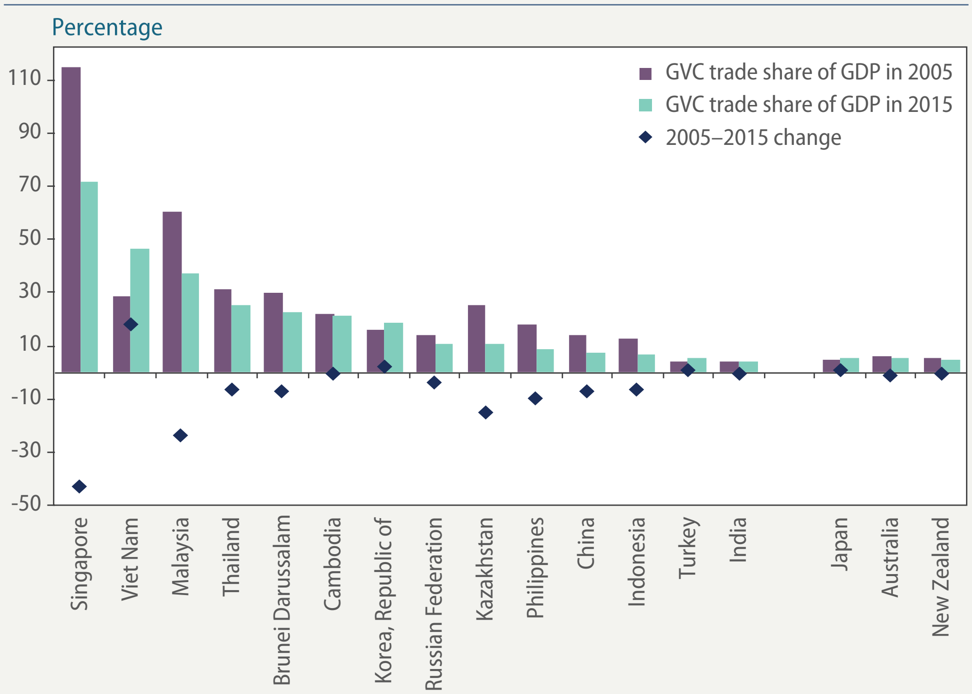
The COVID-19 outbreak has provided a new impetus for GVC adjustments, with an emphasis on GVC resilience and sovereign control over essential supplies for national security. These new considerations are likely to shift the focus from cost efficiency through lean inventories and just-in-time production towards resilience-building through shortened supply chains, greater redundancy in GVC configuration, larger buffer stocks of supplies, greater diversification to reduce overdependence, and digitalization for more efficient resilience management. Meanwhile, growing national security concerns are likely to trigger a further shift towards protectionism and onshoring, leaving less space for participation of developing countries in GVCs.

It is crucial for developing countries to anticipate these upcoming changes and recalibrate their related strategies and policies. In the Asia-Pacific region, three emerging trends can be anticipated. First, there will be a continuation of the shift in GVC diversification from China to established GVC hubs in neighbouring developing countries. Before COVID-19, such GVC reallocation was largely driven by rising production costs in China. Now, the need for both supplier diversification and less dependence

a GVCs break up production processes across countries, allowing them to engage in further specialization and participate in global production through the trade of components and other intermediate goods, instead of having to produce entire products by themselves.

Figure III.3.1

Global value chain (GVC) trade as share of GDP, 2005–2015



Source: ESCAP calculation, based on World Trade Organization, "Trade in value-added and global value chains" statistical profiles; and World Bank, World Development Indicators.

(*continued*)

Box III.3 (*continued*)

on a single country for essential intermediaries provides another motivation, potentially accelerating the process. However, the process will be gradual; and it is also more likely to benefit the more advanced members of the Association of Southeast Asian Nations in the ASEAN subregion, such as Indonesia, Malaysia, the Philippines, Thailand and Viet Nam, compared with the least developed country members of ASEAN[b] and developing countries in other parts of Asia, given the manufacturing-related advantages of the members of the first group (which are necessary for implementation of local sourcing and shortened supply chains) as well as their infrastructure and institutions.

Second, rising protectionism and ongoing trade tensions, coupled with continued deceleration in global trade and economic growth, imply intensified competition for GVC investment and less space for future GVC expansion. Under such a scenario, labour's share in GVC profits could be further squeezed. The least developed countries of the Asia-Pacific region that are hoping to leverage GVCs as an engine for development, such as Bangladesh and Cambodia, may feel both increasingly compelled to divert scarce public revenues or assets[c] to GVC investments and increasingly challenged to meet the rising social-environmental standards demanded by end consumers in the advanced economies.

Last but not least, the weaker potential of GVCs to boost growth and growing public awareness of long-term social-environmental challenges would put a greater onus on policymakers to balance the demands associated with the economic, social and environmental pillars of development. Although important for economic growth and transformation, GVCs are unlikely to generate double-digit gross domestic product (GDP) growth in the near future. Within a context of lower expectations for improvements in income, the traditional GDP-centric development thinking in the Asia-Pacific region will be challenged, with social-environmental concerns becoming more urgent.

While there is no silver bullet, two strategies could help Asia-Pacific developing countries better address these challenges. First, Asia-Pacific countries should continue promoting regional integration and regional value chains. As the Asia-Pacific region is the biggest economic block and market worldwide and possesses mature and advanced regional value chains, a more integrated regional economy would help offset many of the GVC deceleration shocks from outside. Second, Asia-Pacific countries should accelerate domestic economic reforms and transformation. Between 2005 and 2015, GVC trade as a share of GDP stagnated or decreased in most countries of the region (figure III.3.1), indicating that countries may find it increasingly difficult to rely on GVCs as a main vehicle for growth thrusts. Instead, more emphasis should be placed on maximizing the catalysing effect of GVC participation for sustained productivity improvement in the domestic economy.

b Cambodia, Lao People's Democratic Republic and Myanmar.

c Such as land or resources.

Author: Zheng Jian (ESCAP), with a contribution by Witada Anukoonwattaka (ESCAP)