

Global Financial Crisis and South Asian Economies: Outlook, Risks and Policy Options

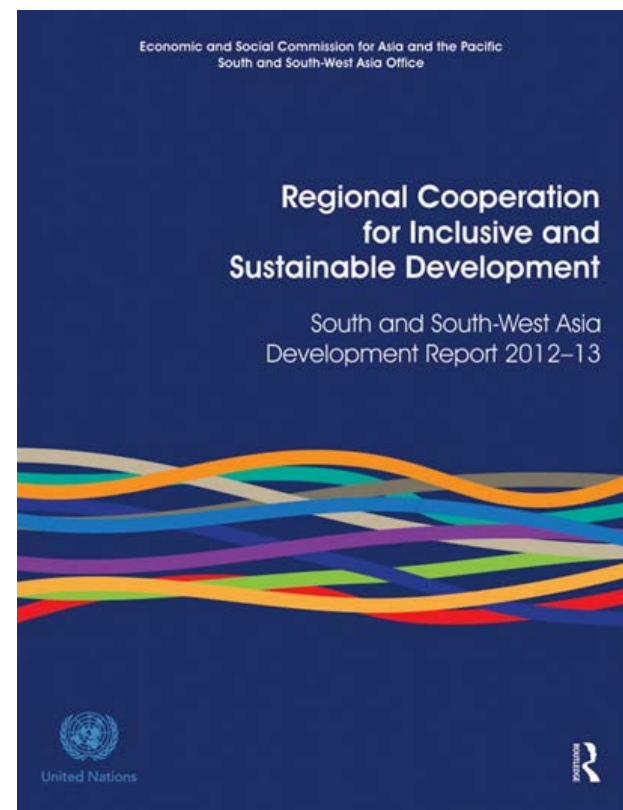
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by
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Regional cooperation for inclusive and sustainable development:

South and South-West Asia Development Report 2012-13

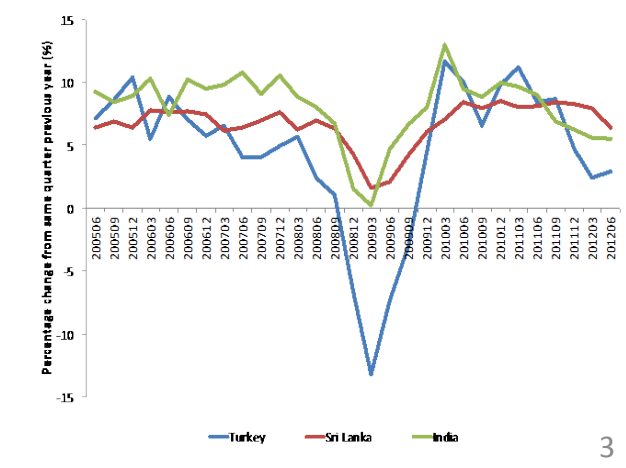
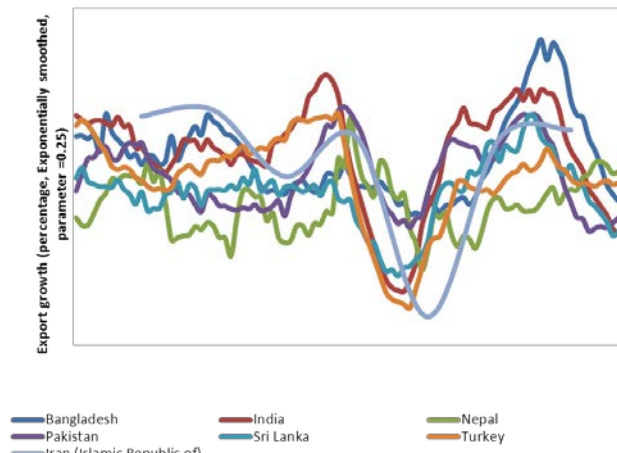
- Global economic turmoil and macroeconomic outlook
- Inclusive and sustainable development
- Global economic integration
- Regional economic integration
- Regional connectivity
- Food security and sustainable agriculture
- Regional cooperation for energy security
- Regional cooperation in disaster risk reduction
- Global partnership for LDCs and LLDCs



Global financial crisis in second stage

- Deteriorating external economic environment
- Major advanced economies face uncertain economic outlook and little macroeconomic policy space
 - Structural problems in Eurozone (default risk),
 - US (fiscal cliff, debt ceiling /QE3),
 - Drought in US, Oil price volatility
- Global slow down affecting export growth of SSWA countries

» Slow down of growth rates of GDP



Economic outlook 2012-2013

- 2012: growth slow down partly resulting from monetary tightening as in India, among other domestic factors like infrastructure shortages, or natural disasters, draught
- Afghanistan, Bangladesh, Bhutan, Sri Lanka, among others, continue to grow robustly
- Signs of economies turning corner and are likely to do better in 2013
- Medium and long-term prospects remain intact:
 - India to be the 2nd largest economy by 2050

	Real GDP growth			
	2010	2011	2012 ^a	2013 ^a
South and South-West Asia	7.6	6.7	4.5	5.4
Afghanistan	8.4	5.7	6.9	6.5
Bangladesh	6.1	6.7	6.3	6.1
Bhutan	11.8	5.4	7.9	8.4
India	8.4	6.5	5.9	6.8
Islamic Republic of Iran	3.2	4.0	-1.4	1.0
Maldives	5.7	8.5	5.5	5.0
Nepal	4.0	3.5	4.5	4.0
Pakistan	3.8	3.0	3.7	3.5
Sri Lanka	8.0	8.0	7.0	7.0
Turkey	9.0	8.5	3.2	4.2

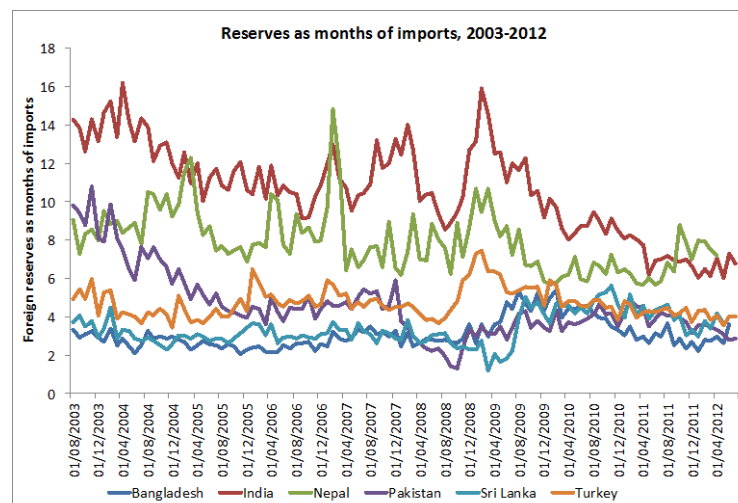
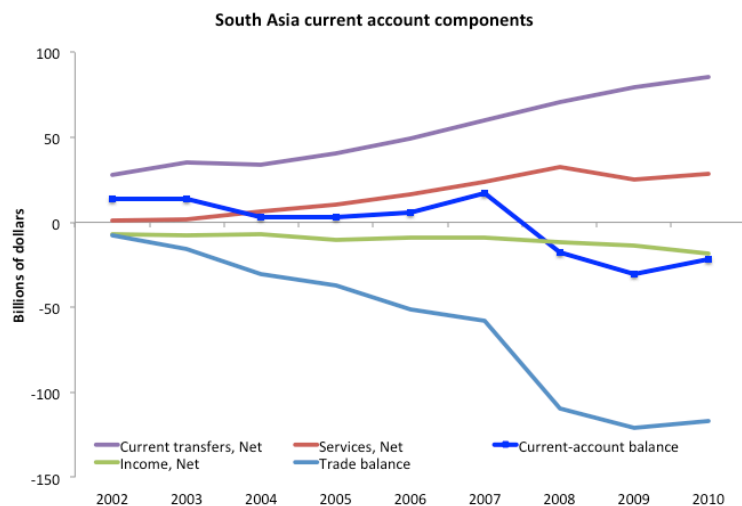


Source: ESCAP

^aESCAP estimate and projection

Downside risks and policy challenges

- Guard against deepening of global slow down and against increased volatility brought about by quantitative easing in the US
- Inflationary pressures especially food and oil prices
 - poverty impacts
 - managing fine balance between inflation and growth
- Reforms to recover greater policy space for enhancing social expenditure and close infrastructure gaps for sustaining growth and poverty reduction
- Deteriorating balance of payments situation and reduction of reserves: regional swaps and a stronger Asian clearing union mechanism for temporary bop support
- Accelerate cooperation on remittances and protection of migrant workers



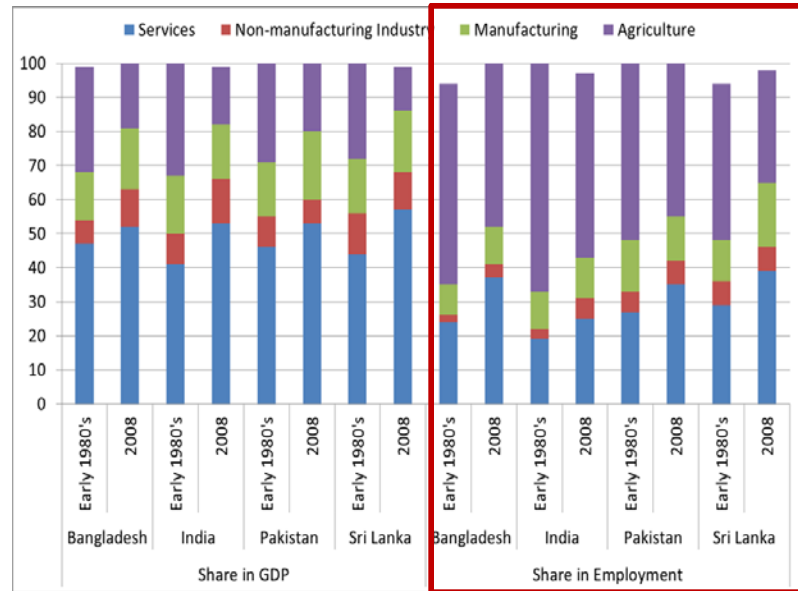
Huge potential of inclusive and sustainable development

Inclusive and sustainable development

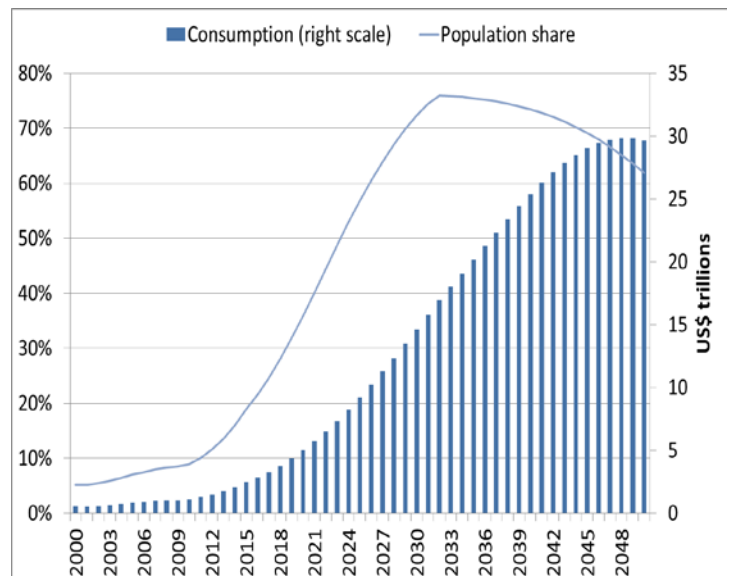
- Remarkable progress in terms of poverty reduction and MDG achievement
- Yet the region remains the largest concentration of poverty and hunger, people without sanitation and electricity. Home to most victims of child and maternal mortality
- Large and persistent inequalities holding progress on MDGs
- **Agriculture sustaining high proportion of workers with small share of GDP**

Priorities for post-2015 agenda

- Maximize growth potential through productive employment creation with revival of industry
- Investment in education and skills development
- Provide health, nutrition, sanitation, social protection and infrastructure
- Support frugal innovation for adaptation to low carbon resource efficient pathways
 - can help to harness the youth bulge into a world's largest middle class driving global growth
 - Could fill the global skills deficit



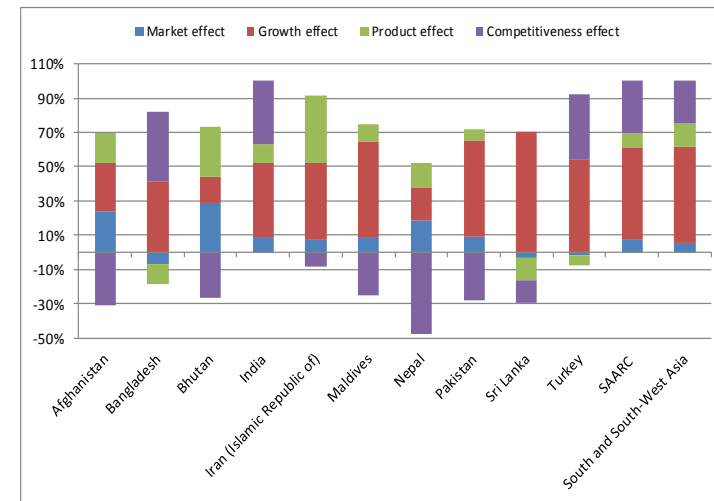
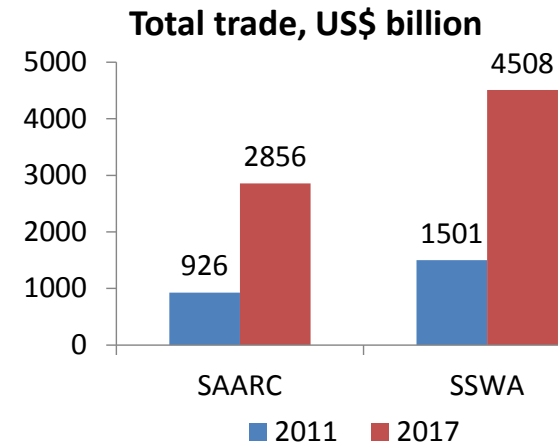
Middle class in SSWA



Deepening global economic integration but little diversification

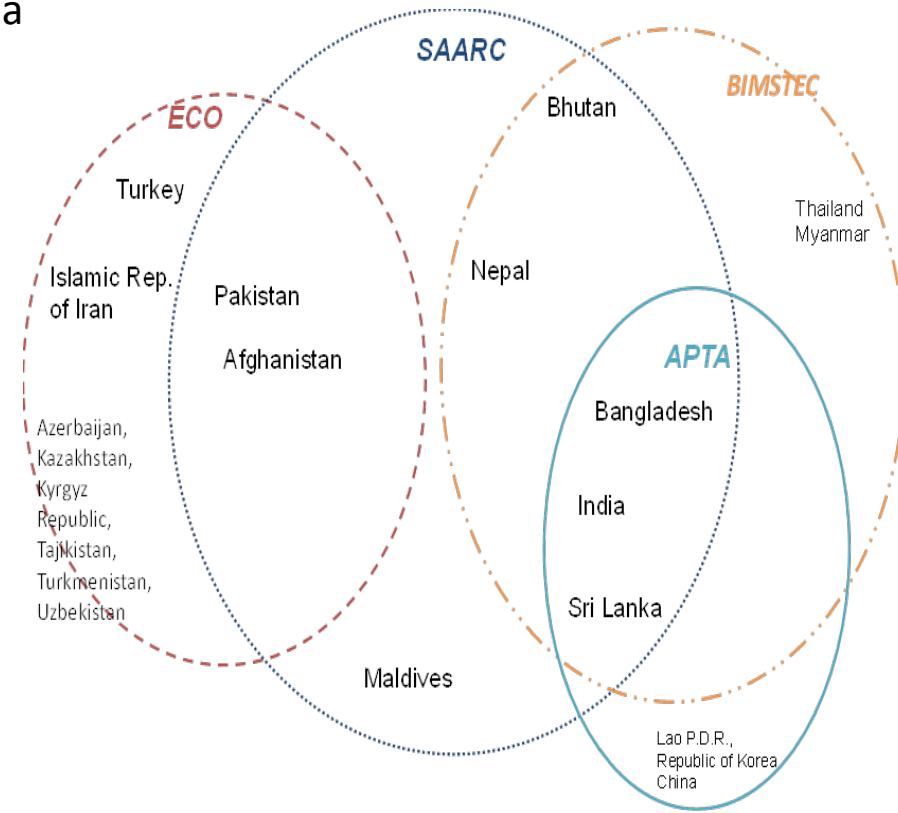
Global economic integration

- SSWA emerged as dynamic players in the world economy
 - Total trade expected to triple from \$1.5 trillion to \$4.5 trillion
 - Attractiveness to FDI improving: **India 2nd most attractive destination**
- Decomposition analysis suggests that much of the export growth over the past decade benefited from expansion of global demand
- Have not fully exploited opportunities of export expansion through product diversification and moving up the value chain
 - High concentration on few product lines and few markets, especially the LDCs
- regional cooperation for moving up the value chain in sectors of common interest like garments
- Leverage the Indian leadership to make South Asia as a bpo hub
- Coordination in global trade negotiations and for seeking their concerns



Unexploited potential of regional economic integration

- Regional integration assumes a new criticality in a changed international context
- 57% of intraregional trade potential remains unexploited in SAARC
 - Intraregional trade could generate additional \$52 billion of exports
 - Intraregional exports in 2017 could be \$167 bn
- Barriers to realization of intraregional trade:
 - Significant informal trade; estimated \$10 billion in 2011
 - Poor connectivity and trade facilitation: high trade costs
 - Poor supply capabilities in LDCs
- Significant potential of welfare gains especially for the poorer countries from SAFTA
- India-Sri Lanka FTA has helped in balanced expansion of bilateral trade
- Multiple overlapping frameworks for regional economic integration: ECO, SAARC, BIMSTEC..
- Recent developments have been helpful



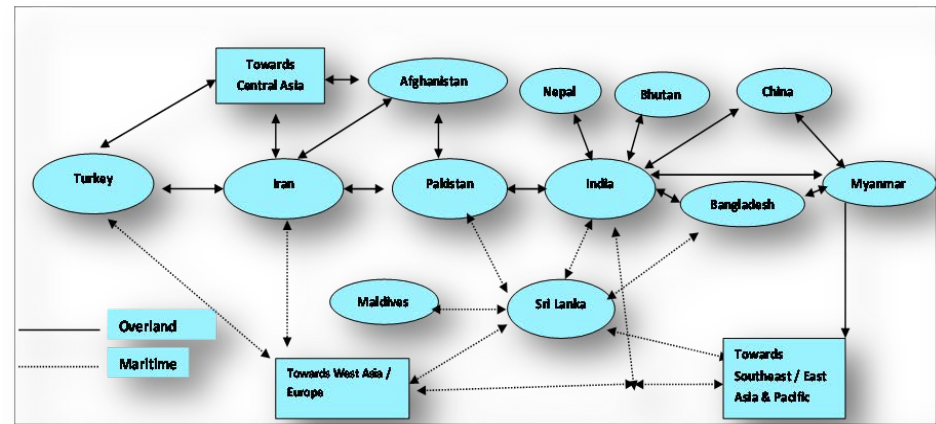
Exploiting the potential of regional economic integration

- Expediting the implementation of RTAs
- Exploiting the potential of trade in services
 - Liberalization of trade under SATIS
- Facilitating intraregional investments
 - SAARC agreement on protection and promotion of investments needs to be adopted
- Strengthening cross-border banking and financial links
- Capital raising and development finance
 - Facilitating cross-border listings
 - SAARC Development Fund to catalyze cross-border infrastructure investments
- SAARC, ECO and BIMSTEC consultations
- Long-term vision and target-setting
- Transport connectivity and trade facilitation

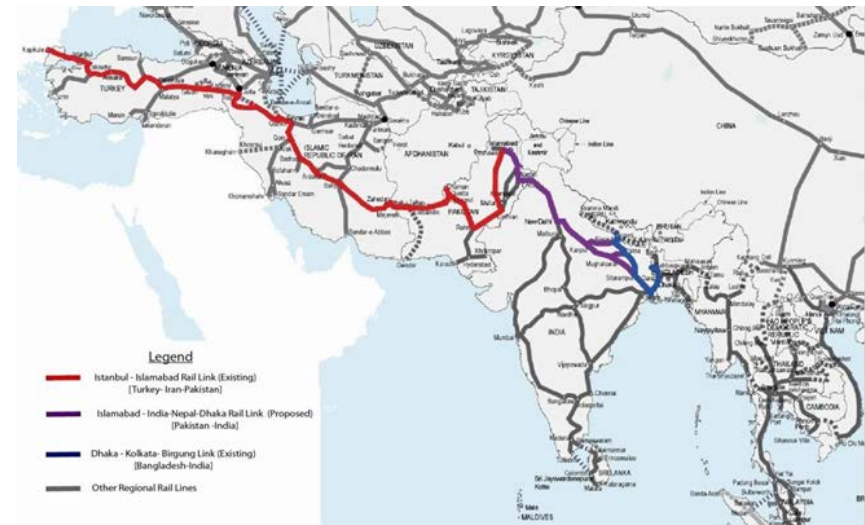
Towards seamless regional connectivity

- Better connected with Europe than with itself
- Poorly developed land routes
- High trade costs for regional trade
- ESCAP assisting with agreements on Asian Highway and TransAsian Railway
- Subregional groupings working on their own transport corridors
- Major gains from integrating ECO-SAARC-BIMSTEC transport corridors: 2 proposals
 - TIPI-BM Highway Corridor
 - ITI-DKD Container Train
- Regional transit transport agreement

TIPI-BM highway corridor
(TUR-IRN-PAK-IND-BGD-MMR)



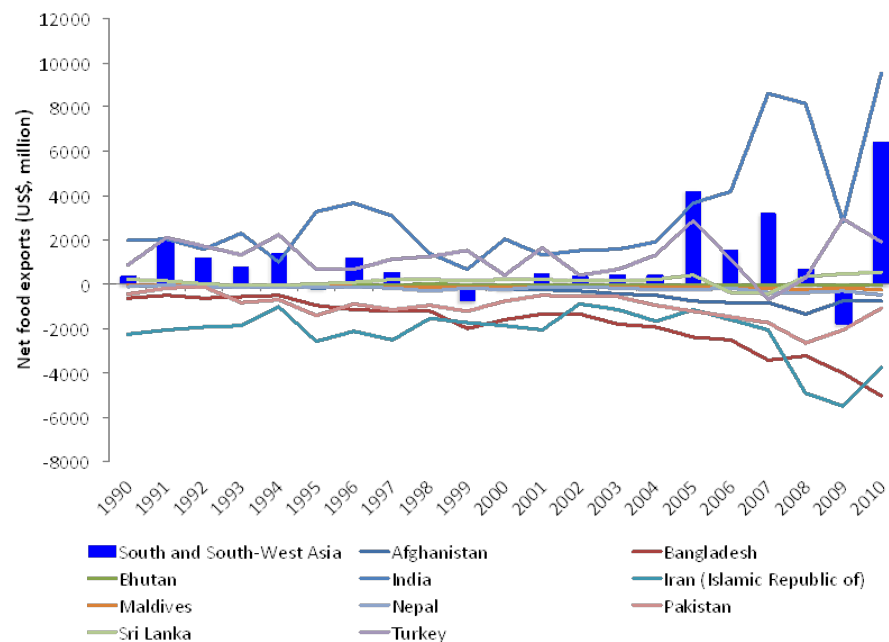
Istanbul-Tehran-Islamabad--Delhi-Kolkata-Dhaka (ITI-DKD) Railway Cargo Corridor



Regional cooperation for food security and sustainable agriculture

Food security and sustainable agriculture

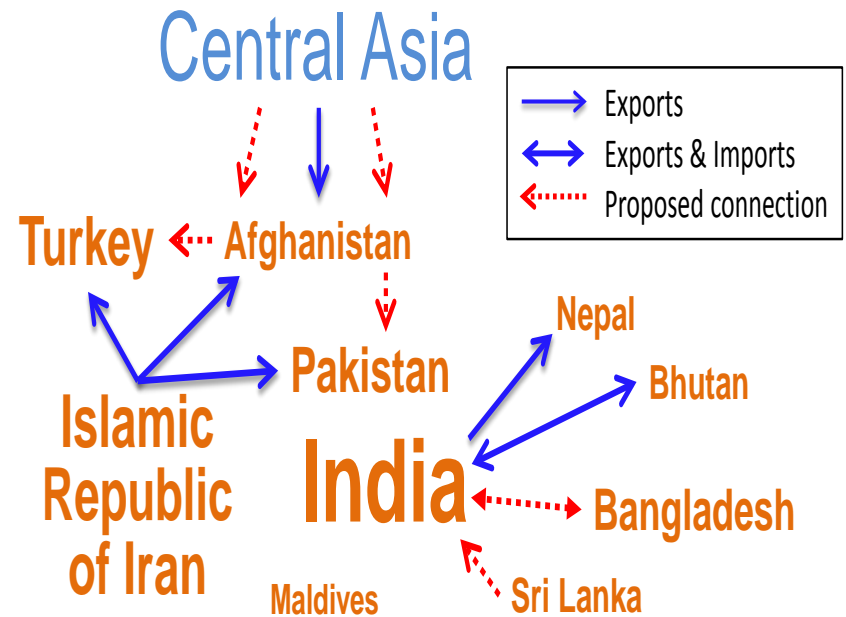
- SSWA is net food exporter but has one third of food insecure people and over half of underweight children
- Rising food prices because of supply side factors e.g. crop failures, rising cost of inputs, speculation in commodities, biofuel conversion etc.
- Regional food banks/ seed banks
- Need for a second green revolution based on sustainable agriculture
- Regional cooperation in agricultural R&D for such a green revolution



Beginning to exploit potential of regional cooperation for energy security

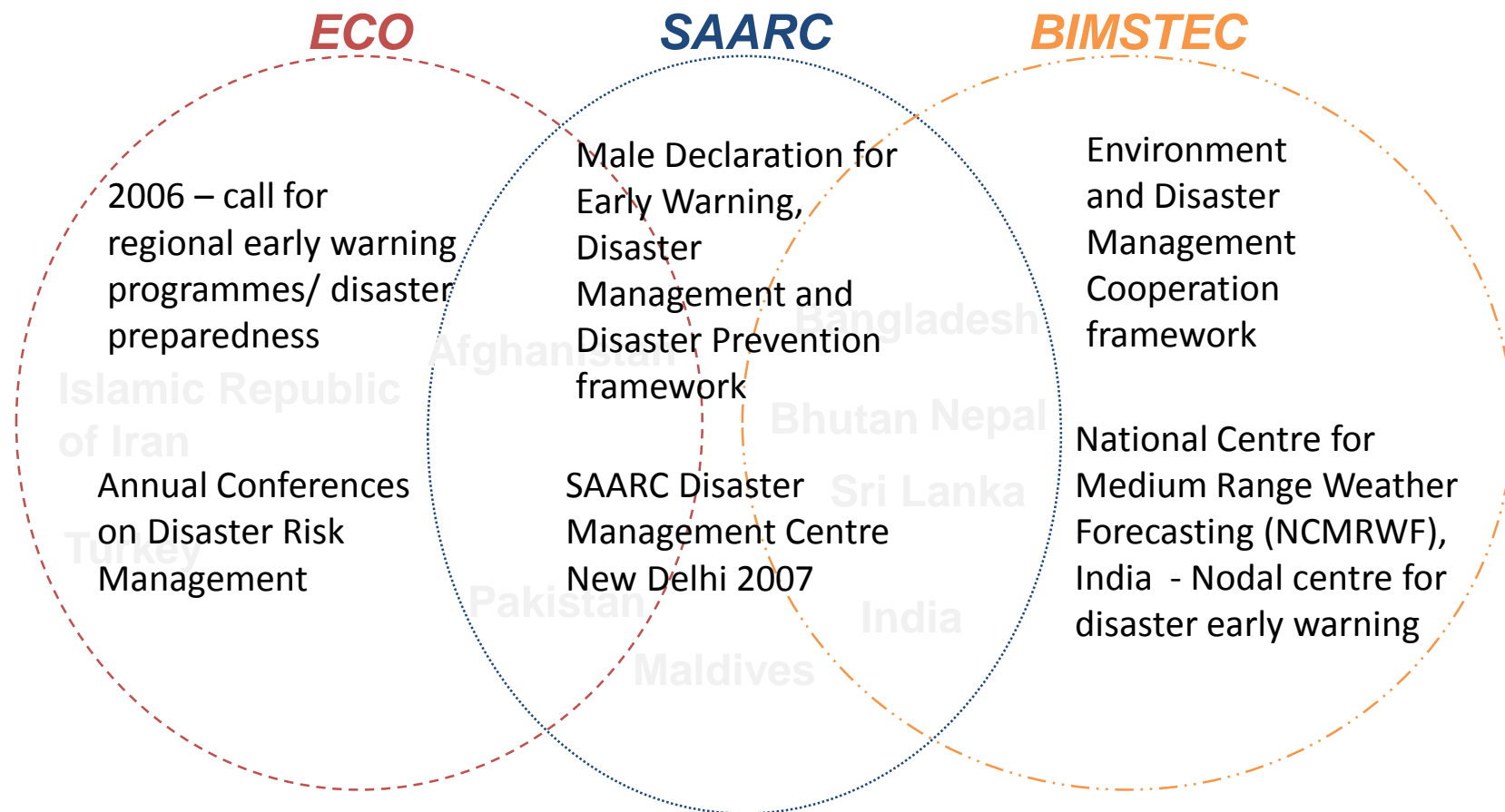
- Energy challenges
 - Exponentially growing demand, energy poverty, lack of supplies, poor energy infrastructure
 - High import dependence for fossil fuels
 - Complementarities across region in terms of demand- supply mismatches which can be optimized through grid connections and cross-country pipelines
 - Some energy interconnections have taken place, some are in process
 - Development of regional energy markets in SSWA through creation of regional energy grids and cross-country pipelines as a part of the incipient Asian Energy Highway

South and South-West Asia Energy interconnections



Regional solutions for disaster risk reduction

Disaster risk reduction



Regional Integrated Multi-hazard Early Warning System covering South Asia – secretariat in Maldives.

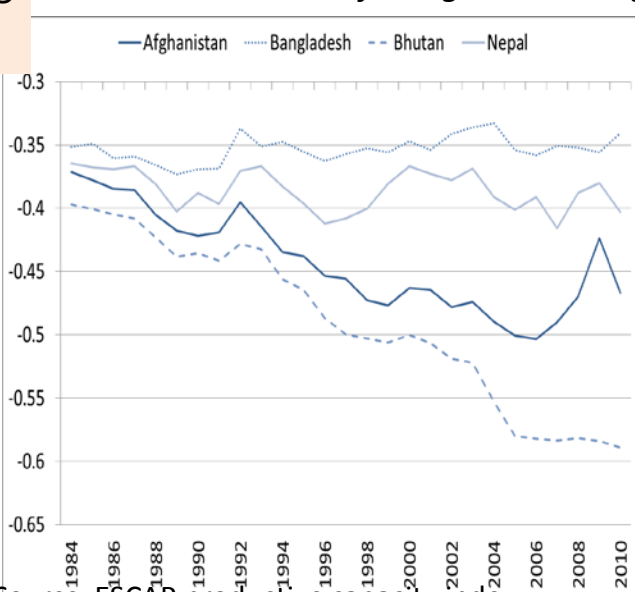
Asian and Pacific centre for the development of disaster information management (APIDM) in the Islamic Republic of Iran

Global partnership for LDCs and LLDCs

Global partnership for development

- Istanbul & Almaty programmes of action
- Major handicap for LDCs is poor productive capacity
 - ESCAP Index of productive capacity the relative position of SSWA LDCs is very low and has gone down
 - Small base of investible resources
 - LLDCs have additional handicap of access to sea
- National measures to address their constraints
 - Stable macroeconomic framework
 - Industrial policy and infrastructure development
 - Domestic resource mobilization
- International support measures
 - FDI, more effective ODA, innovative financing
 - Rise of South-South cooperation
 - (e.g. India and Turkey now spend around US\$ 1 billion per year each in S-S cooperation)
 - Market access, aid for trade
 - Connectivity and transit facilitation

Productive capacity in SSWA LDCs
Standard deviations from global average



Source: ESCAP productive capacity index

Thank you

www.sswa.unescap.org

