

December 2024

Implications of Geoeconomic Fragmentation for South Asia

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Central Bank of Sri Lanka

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Three Questions

What is the growth outlook for South Asia?

What is the untapped potential of openness to global trade and investment?

What are the implications of geoeconomic fragmentation?

Three Questions & Answers

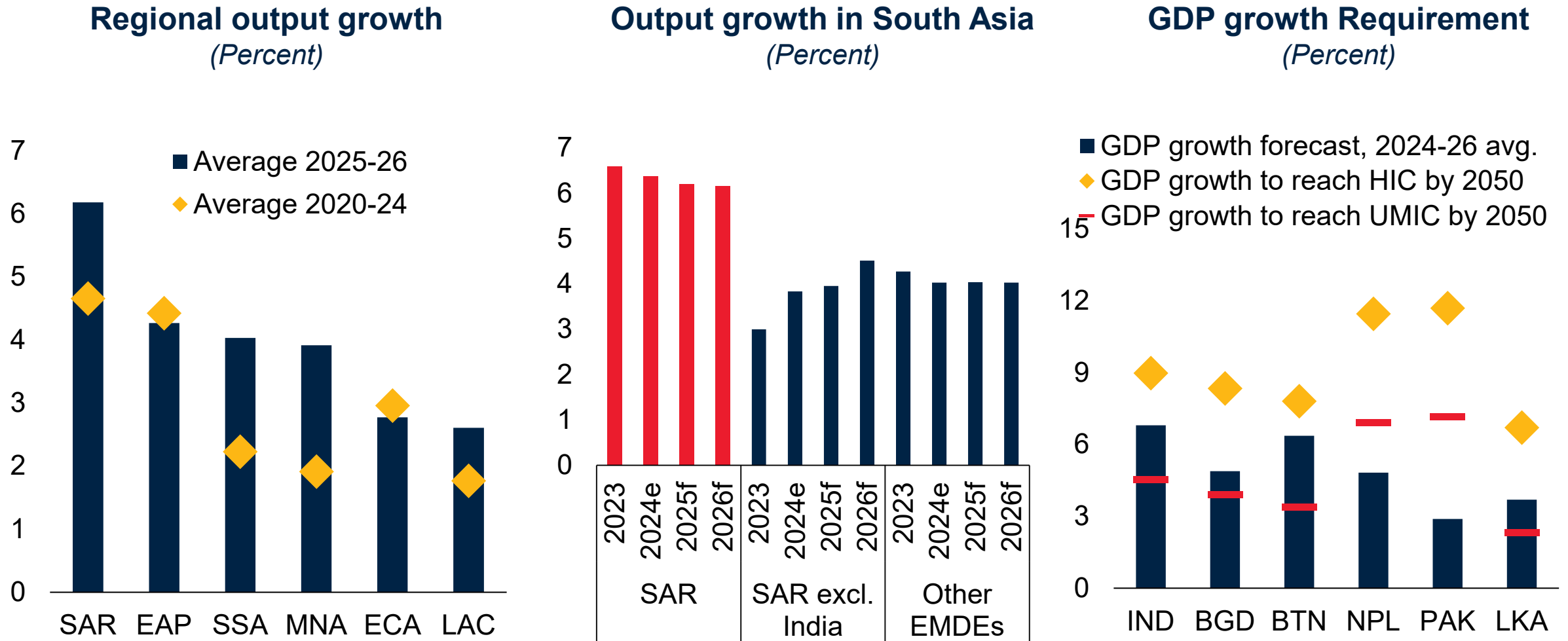
What is the growth outlook for South Asia? *Fastest-growing EMDE region, but growth would need to be faster to meet government goals and to lower debt more rapidly.*

What is the untapped potential of openness to global trade and investment?

What are the implications of geoeconomic fragmentation?

Growth Outlook for South Asia

Fastest Growing EMDE Region, But Not Fast Enough for Official Goals



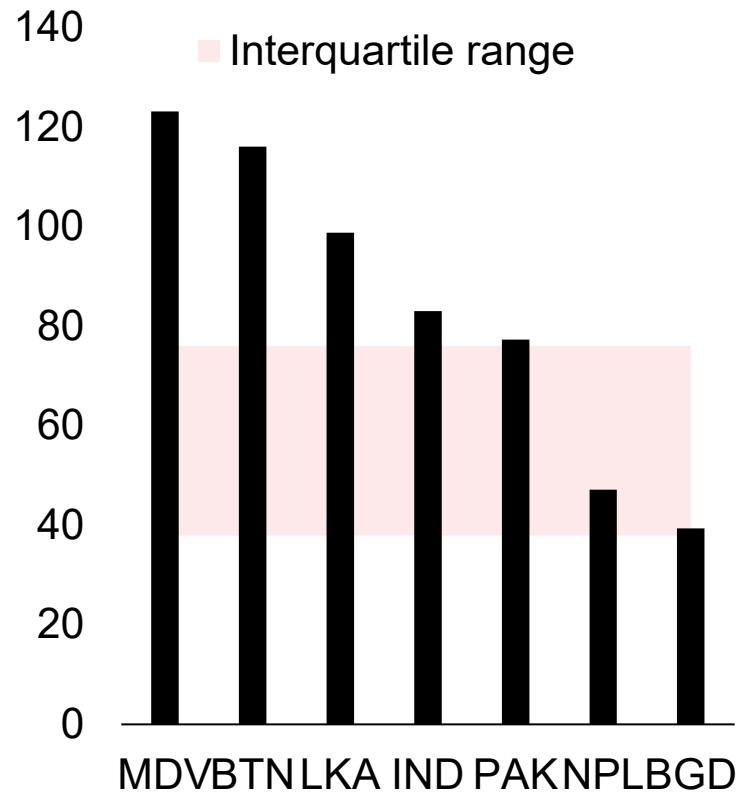
Sources: Macro Poverty Outlook (World Bank); World Bank.

4 Left Panel: Aggregates computed using real GDP weights at 2015 prices and market exchange rates. Center Panel: Aggregates computed using real GDP weights at 2015 prices and market exchange rates. Right Panel: Figure shows the GDP growth rate forecast for 2024-26 and the GDP growth rate required to achieve high-income and upper middle-income status by 2050. Population growth is from United Nation population projections. The threshold for high- and upper middle-income status is assumed to grow by 1.5 percent, its average growth rate between 1990 and 2010. The income threshold is based on GNI per capita in current U.S. dollars (Atlas method). Since the income threshold is based on GNI, while the forecast is based on

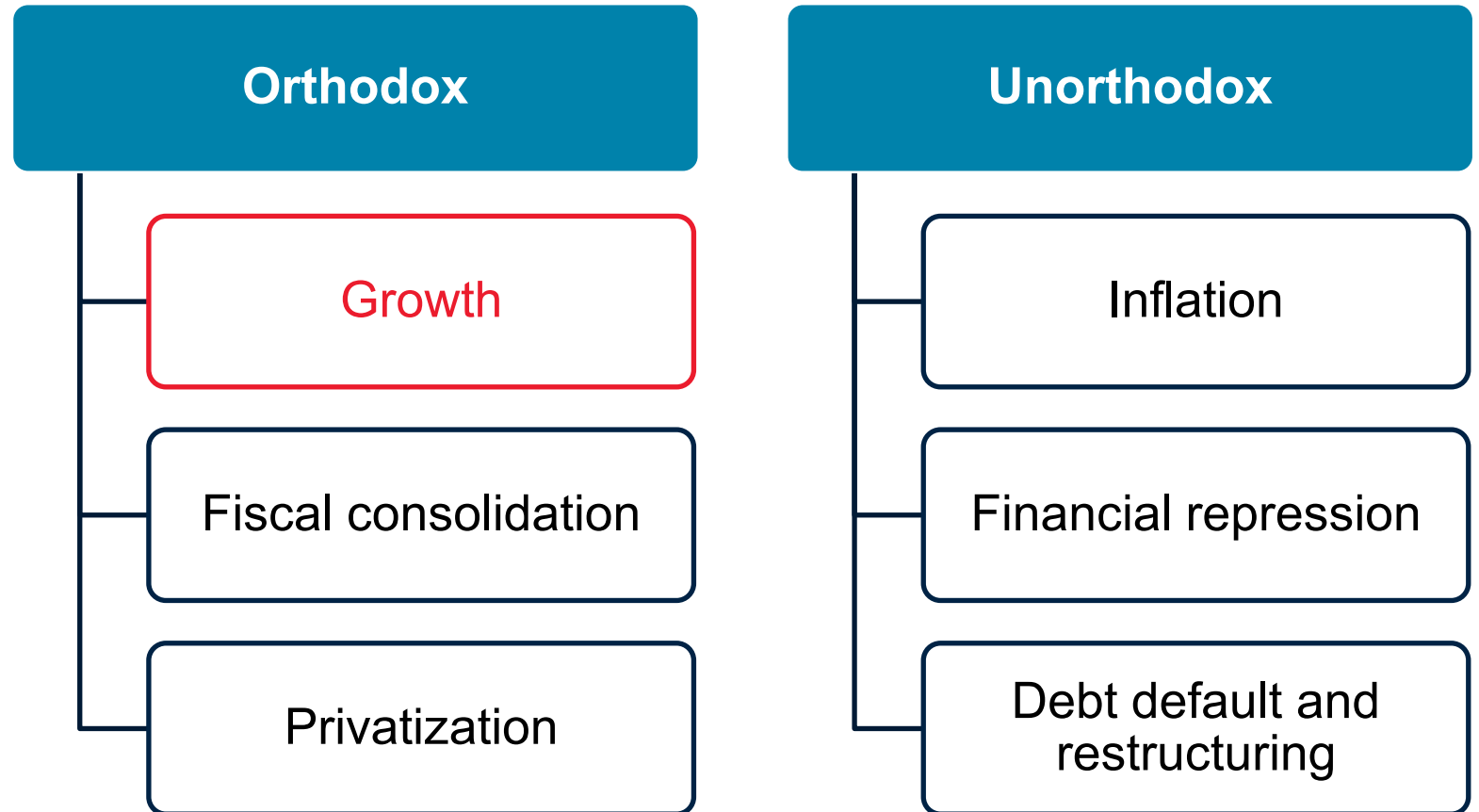
Risks

Elevated Risks from Government Debt

Government debt
(Percent of GDP)



Options for dealing with high debt



Source: CEIC, IMF WEO database; [Kose, Ohnsorge, Reinhart, and Rogoff \(2021\)](#).

Left Panel: Source of data for Sri Lanka is CEIC, data as of June 2024. Red shade indicates interquartile range for EMDEs.

Three Questions & Answers

What is the growth outlook for South Asia? *Fastest-growing EMDE region, but growth would need to be faster to meet government goals and to lower debt more rapidly.*

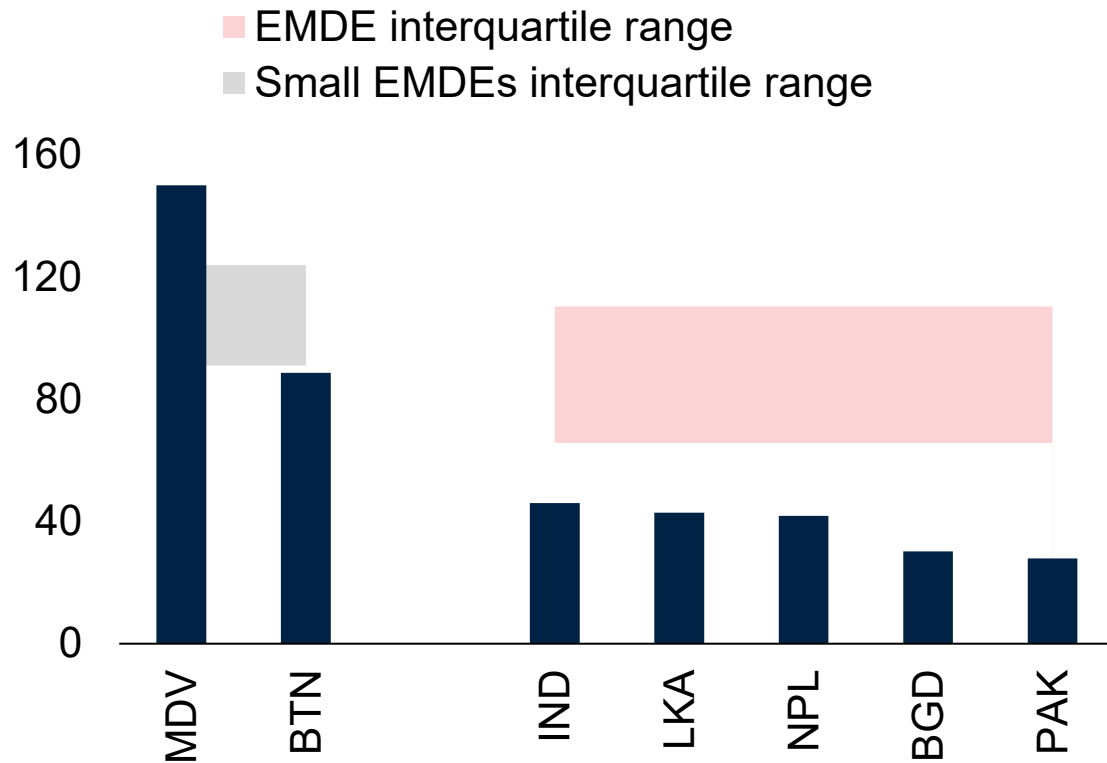
What is the untapped potential of openness to global trade and investment? *Restrictive policies contribute to unusually low openness to trade and investment.*

What are the implications of geoeconomic fragmentation?

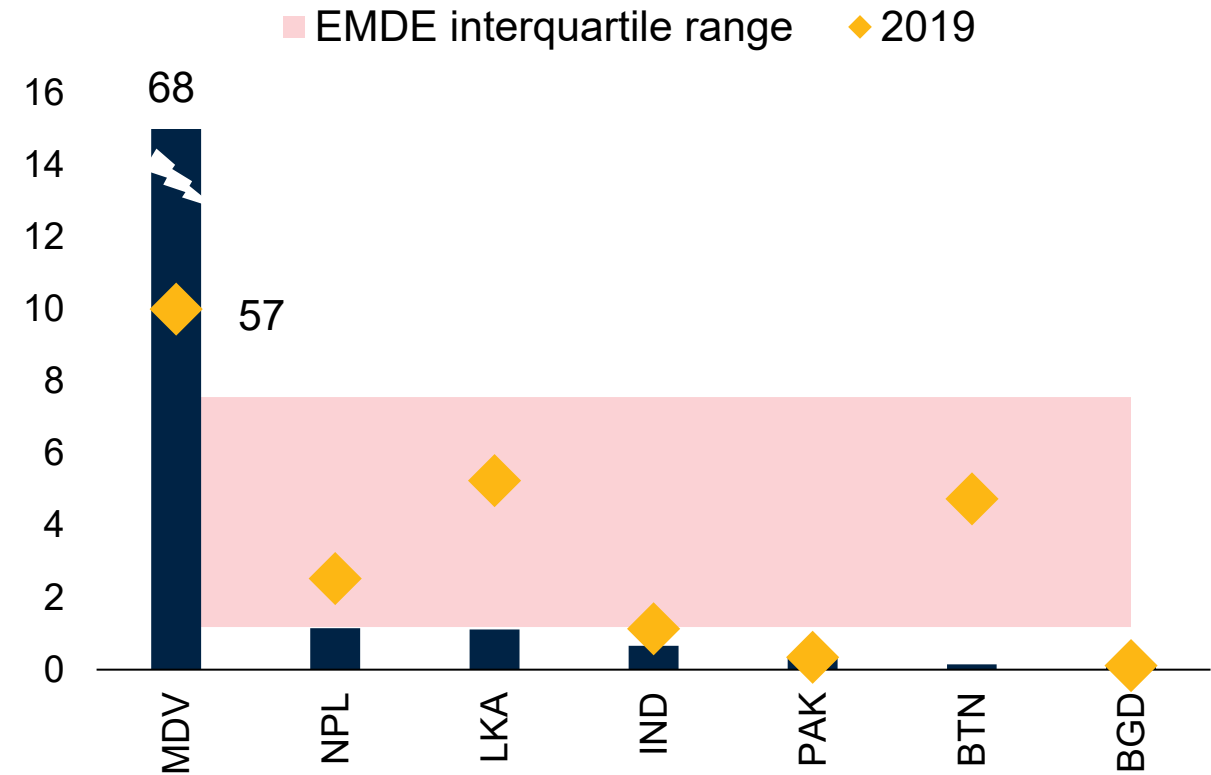
South Asia's Economic Openness

Among Least Open EMDEs to Trade

Trade, 2023
(Percent of GDP)



Tourism export, 2022
(Percent of GDP)



Sources: Aiyar and Ohnsorge (2024); Balance of Payments and International Investment Position Statistics (database); World Bank World Development Indicators (database); UN Tourism Statistics(database); World Bank.

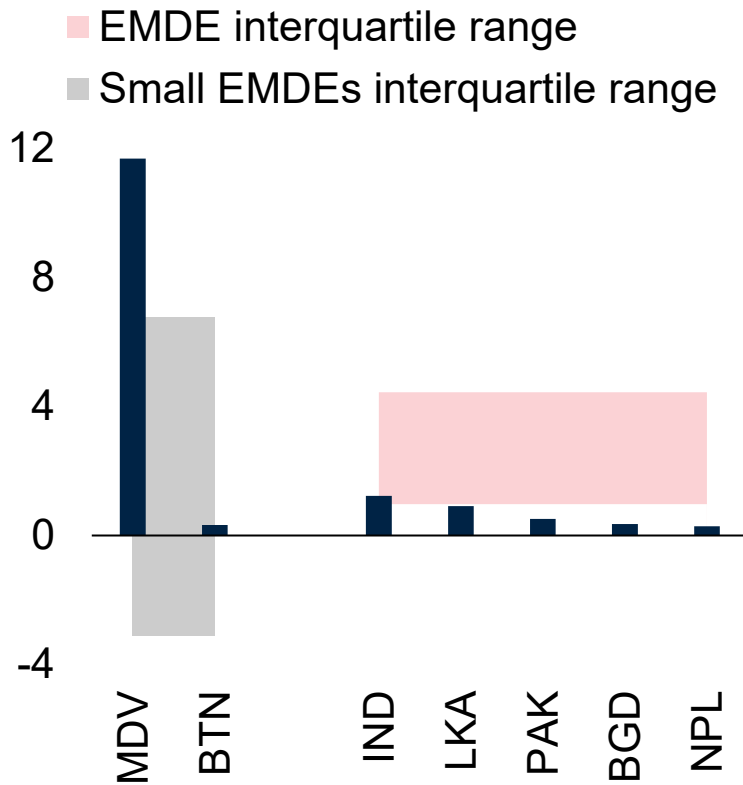
Note: Red shades denote interquartile ranges for other EMDEs, comprising 82 economies (left panel) and 61 economies (right panel). Gray shades denote interquartile ranges for small state EMDEs (as defined by World Bank 2024),

7 comprising 13 economies (left panel). Bhutan and Maldives use 2021 data for tourism export in GDP.

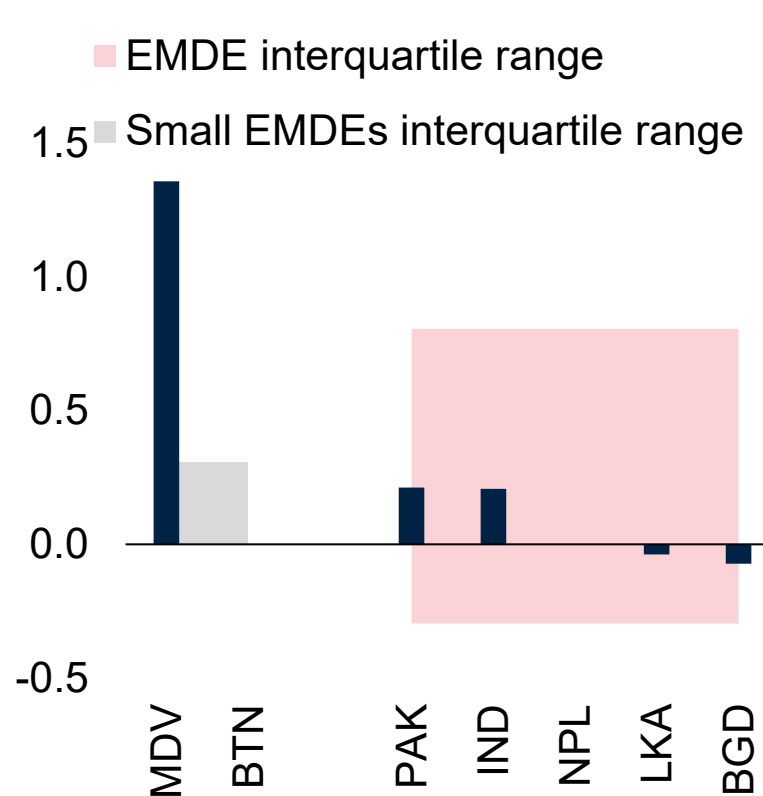
South Asia's Economic Openness

Among Least Open EMDEs to Investment, But Highly Open To Remittances

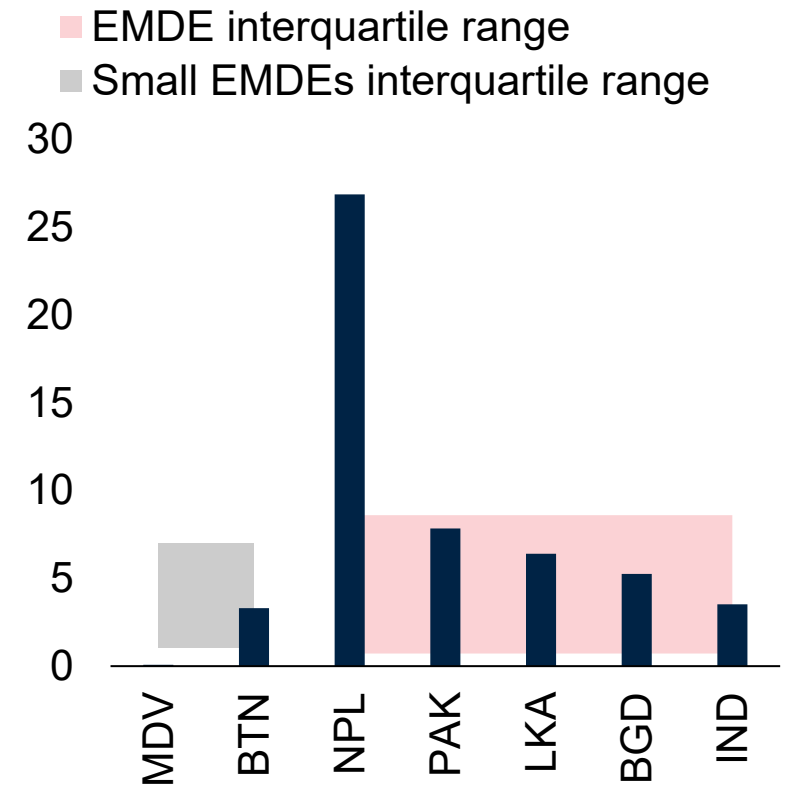
Net FDI inflows, 2021-23 average
(Percent of GDP)



Net portfolio inflows, 2021-23 average
(Percent of GDP)



Remittance inflows, 2023
(Percent of GDP)



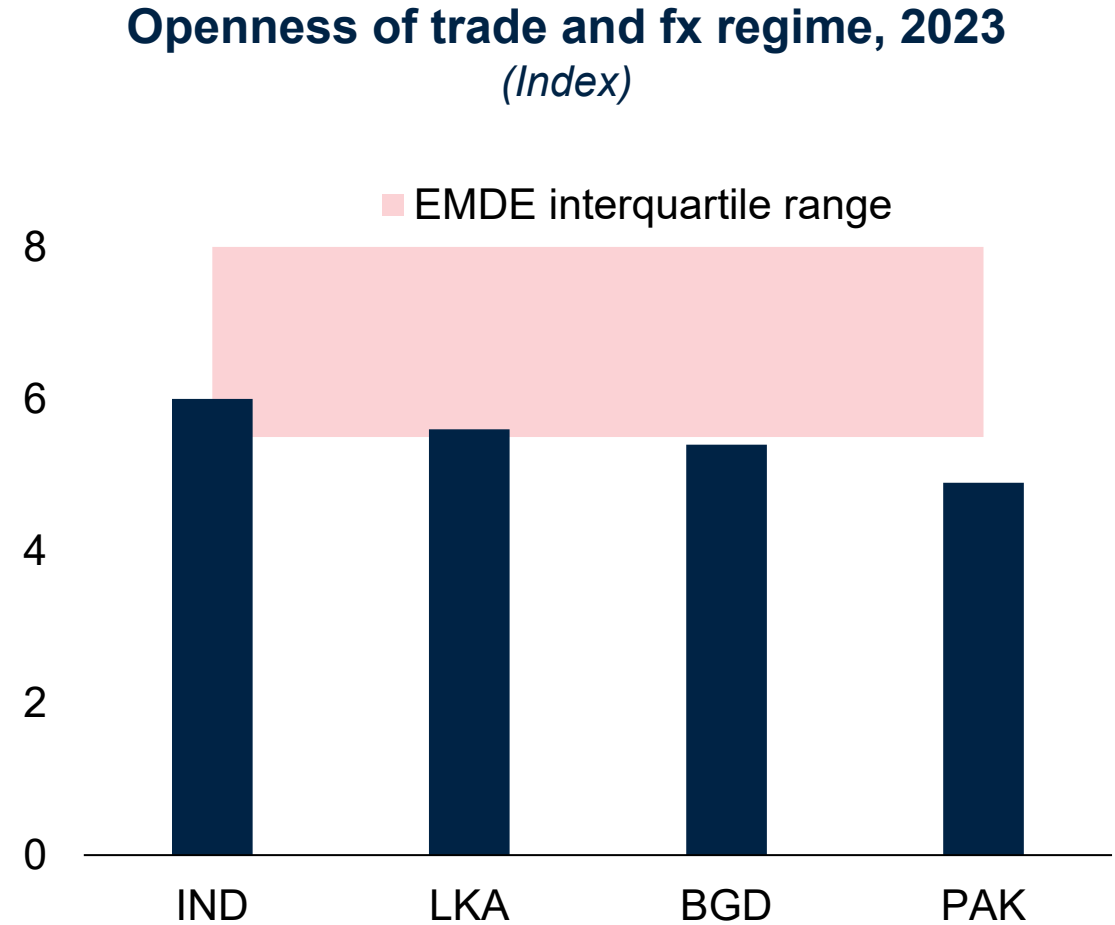
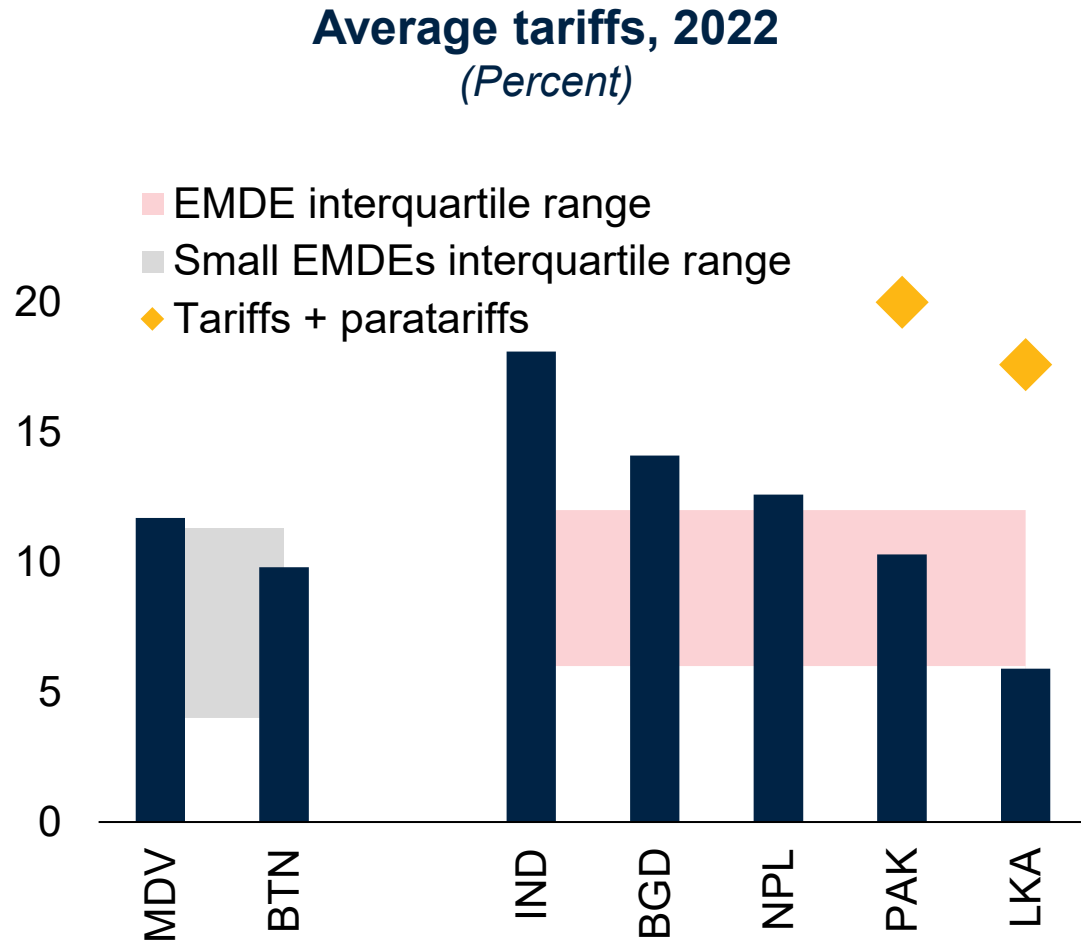
Sources: Aiyar and Ohnsorge (2024); Balance of Payments and International Investment Position Statistics (database); IMF World Development Indicators (database); World Bank.

Note: Red shades denote interquartile ranges for other EMDEs, comprising 67 economies (left panel), 64 economies (center panel), and 137 economies (right panel). Gray shades denote interquartile ranges for small state EMDEs (as defined

8 by World Bank 2024), comprising 8 economies (middle panel), 7 economies (center panel), and 28 economies (right panel). Right panel: 2022 data for Bhutan.

South Asia's Policies on Global Trade and Investment

Above-Average Tariffs on Trade, Restrictions on Investment



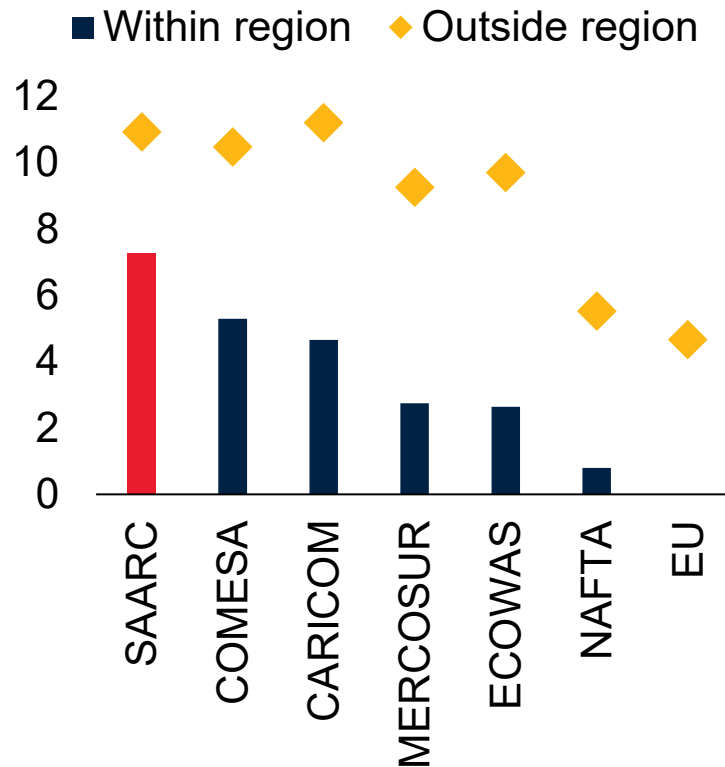
Sources: Economist Intelligence Unit Business Environment Rankings (database); WTO World Tariff Profiles (database); World Bank.

9 Left Panel: Simple average of the ad valorem MFN duties applied in 2022. Sample includes 120 other EMDEs – among which are 25 small states. Right Panel: Red-shaded areas show the interquartile range for EMDEs. Unless noted differently, data from 2023. Sample comprises 44 other EMDEs.

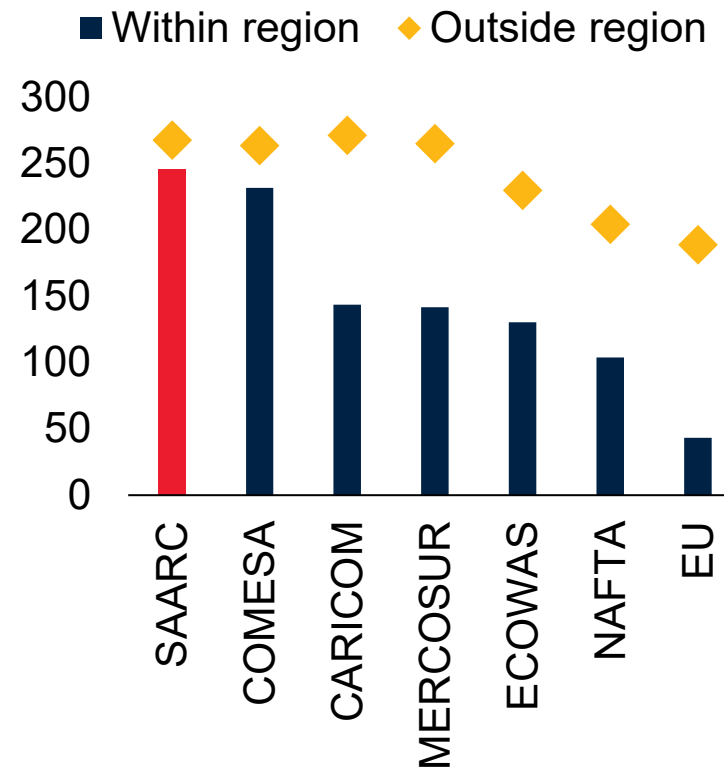
Within-Region Trade Costs

High and Rising Within South Asia

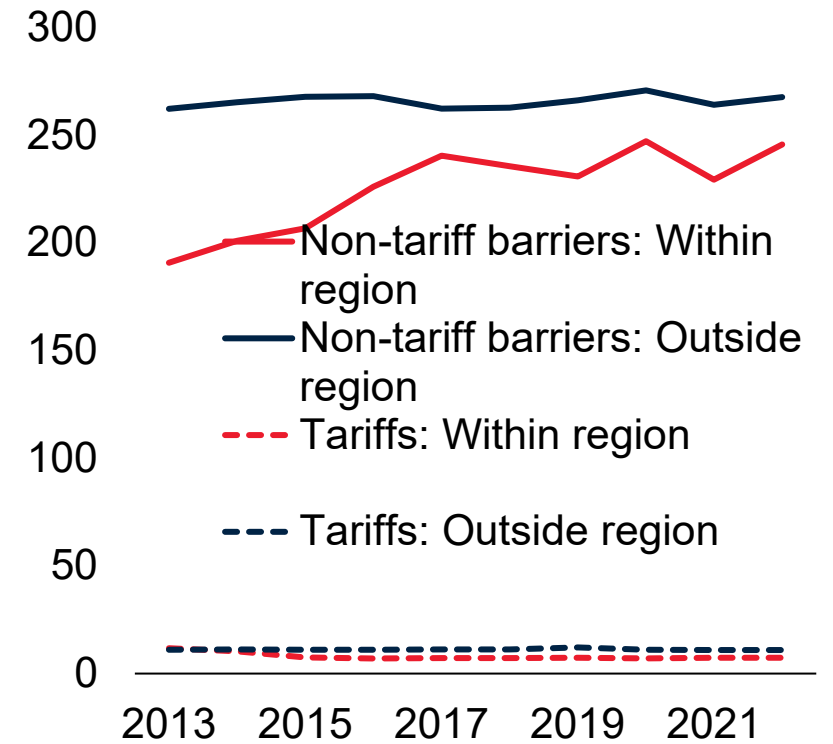
Trade cost: Tariffs, 2022
(Percent of value added)



Trade cost: Nontariff barriers, 2022
(Percent of value added)



Trade costs in South Asia: Nontariff barriers
(Percent of value added)



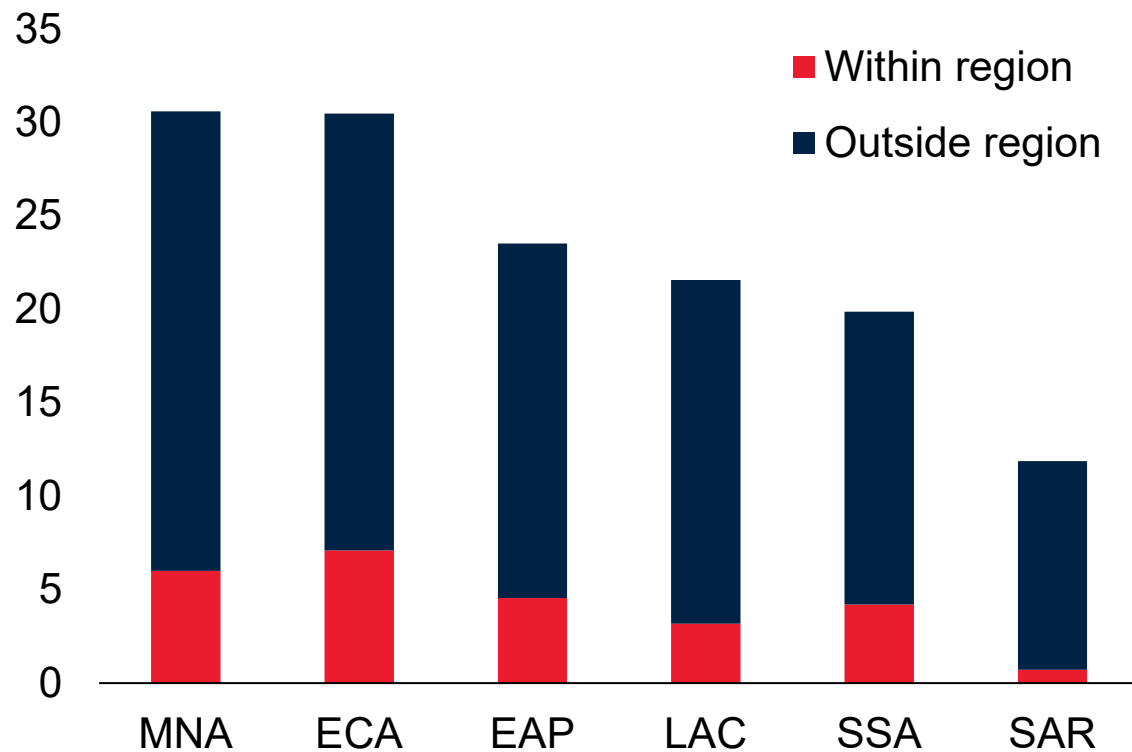
Sources: UN ESCAP-World Bank Trade Costs database; World Bank.

Note: Unweighted averages. Bilateral trade cost unavailable for Bangladesh 2015-22, Maldives – Nepal 2022, Canada 2021-22, USA 2022 and assumed to be constant at last available value. Data unavailable for Bhutan. Afghanistan is excluded from calculations for South Asia. Other missing bilateral trade cost data is not treated. Nontariff trade costs are all additional costs other than tariff costs involved in trading goods bilaterally rather than domestically.

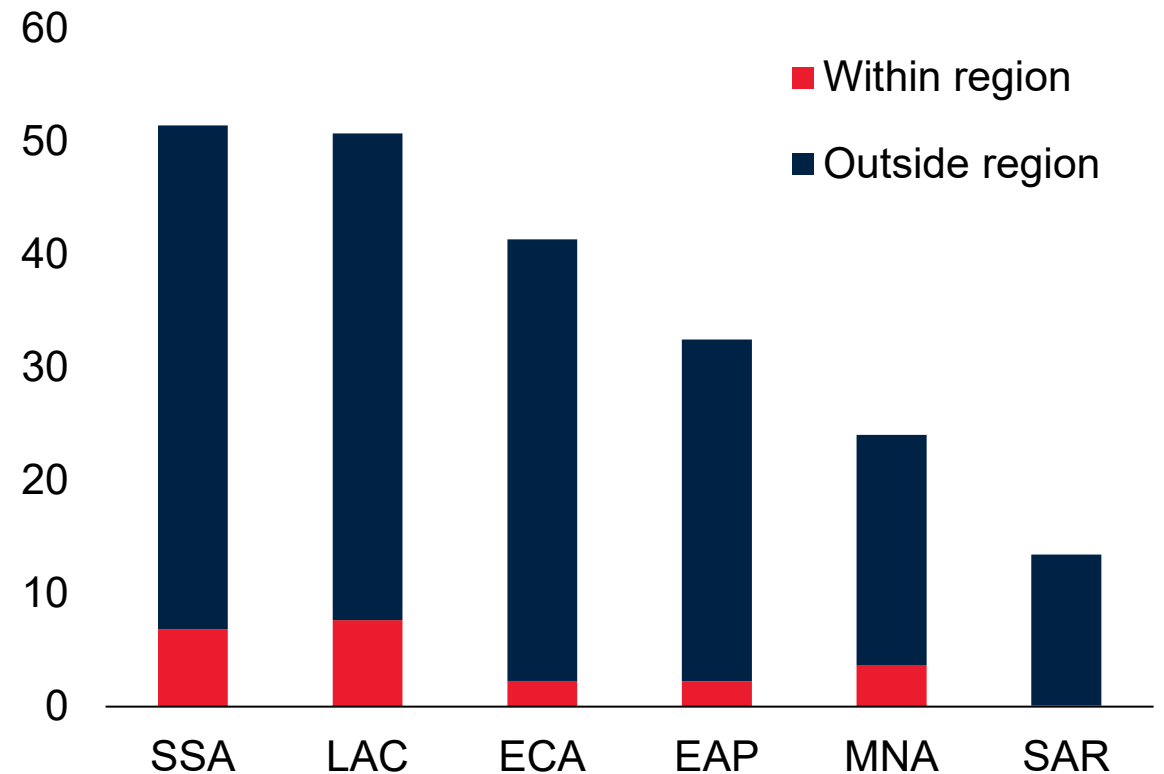
South Asia's Regional and Global Integration

The Lowest Among EMDE Regions

Composition of exports, 2023
(Percent of GDP)



Composition of FDI liabilities, 2022
(Percent of GDP)



Sources: World Bank WDI database, World Bank.

Note: U.S. dollar GDP-weighted averages. EMDE regions defined as in the World Bank's classification.

Three Questions & Answers

What is the growth outlook for South Asia? *Fastest-growing EMDE region, but growth would need to be faster to meet government goals and to lower debt more rapidly.*

What is the untapped potential of openness to global trade and investment? *Restrictive policies contribute to unusually low openness to trade and investment.*

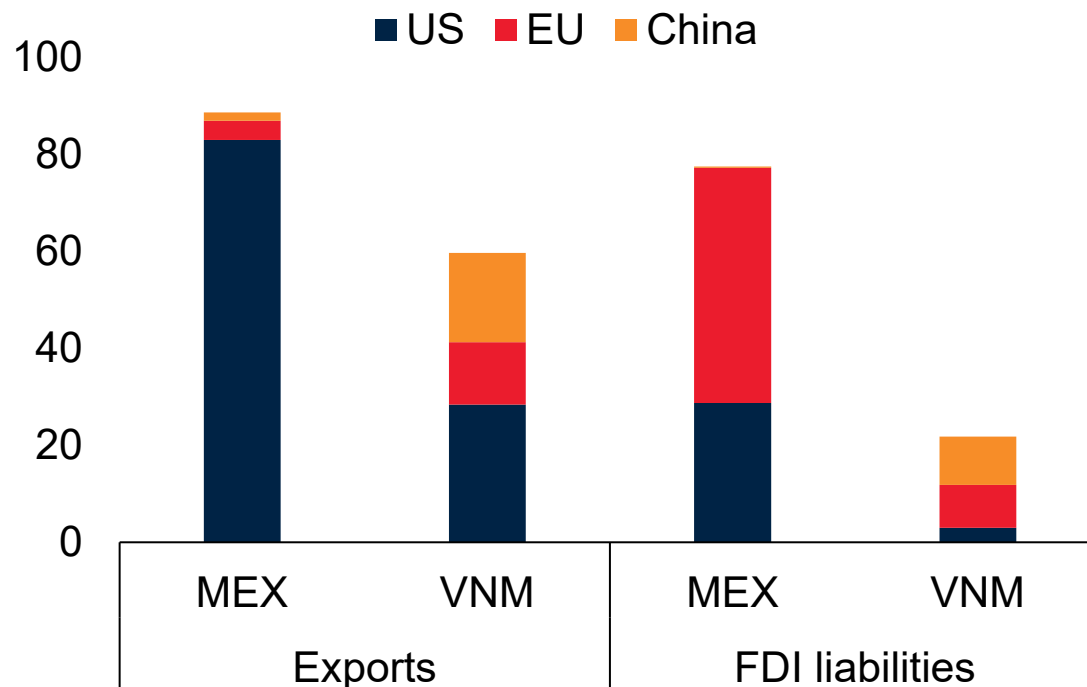
What are the implications of geoeconomic fragmentation? *South Asia would be well-placed to benefit from GVC diversification, if it was more open to trade and investment.*

Vertical and Horizontal Connector Countries

Mexico and Vietnam

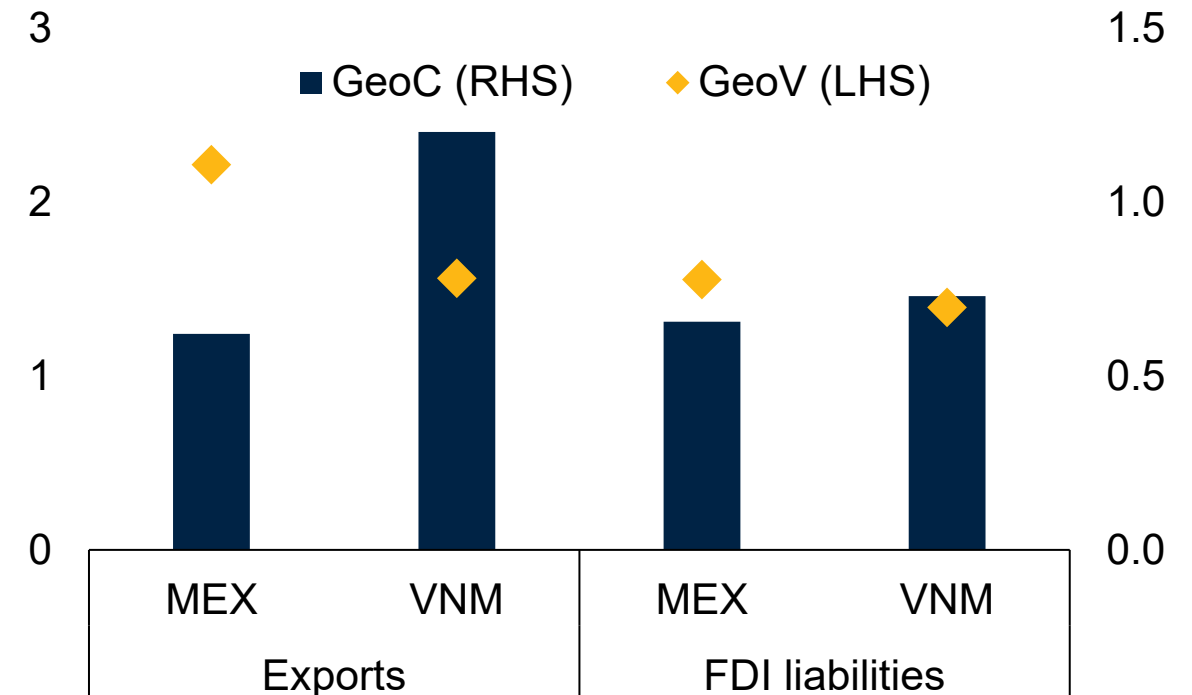
Composition of trade and FDI liabilities

(Percent of total)



Geoeconomic Vulnerability and Connectedness

(Index)



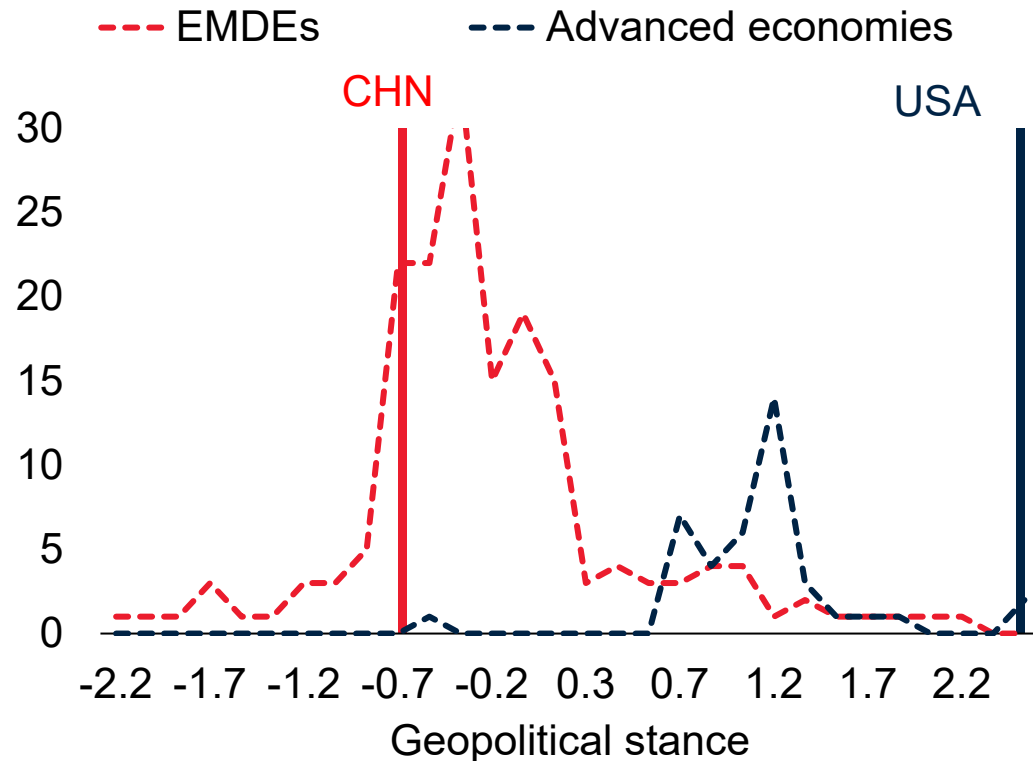
Source: [Aiyar and Ohnsorge \(2024\)](#), DOTS, CDIS, OECD Bilateral FDI Statistics, China Statistical Office, UNCTAD Bilateral FDI statistics

Note: Latest available data for exports and imports for 2023, for FDI liabilities for 2022. Left Panel: Mexico's and Vietnam's exports to the United States and China, imports from United States and China, and FDI liabilities to United States and China in percent of total exports, imports, and FDI liabilities, respectively. Right Panel: Geoeconomic Vulnerability Index (GeoV) is the trade- or FDI-weighted average of geopolitical distance; Geoeconomic Connectedness Index (GeoC) is trade- or FDI-weighted standard deviation of geopolitical distance, as captured in Bailey, Strezhnev and Voten (2017).

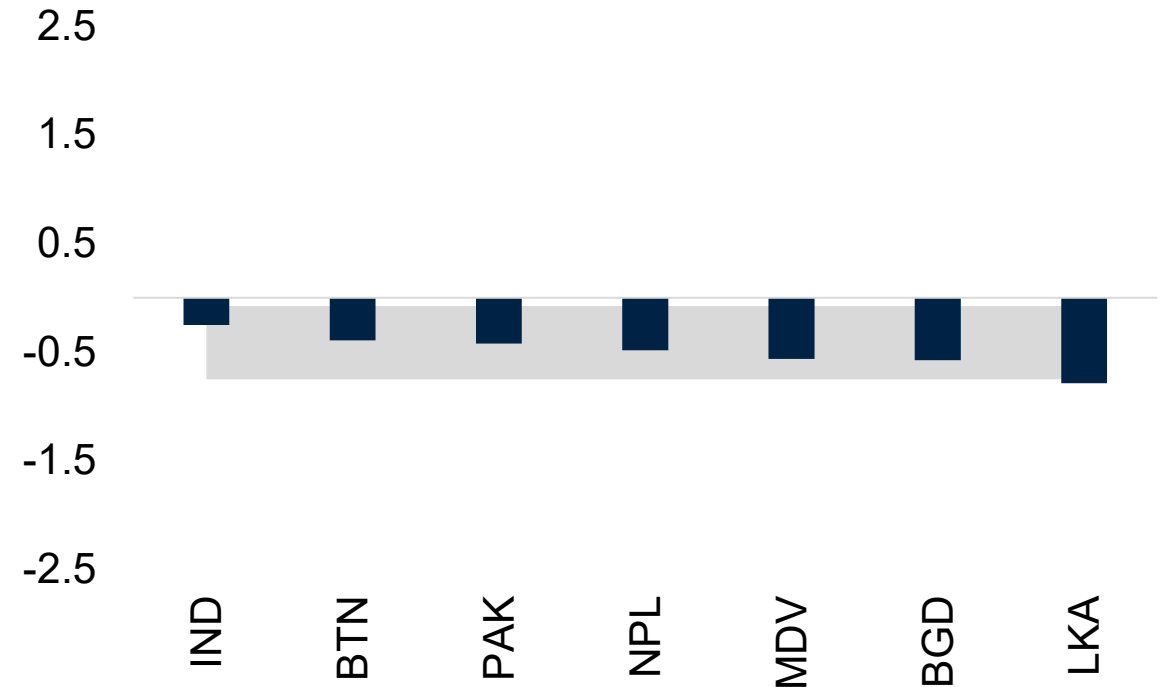
Implications of Geoeconomic Fragmentation for South Asia

Geopolitically as Non-Aligned as Other EMDEs

Geopolitical stance, 2023
(Ideal point index of UN voting)



Geopolitical stance, 2023
(Ideal point index of UN voting)



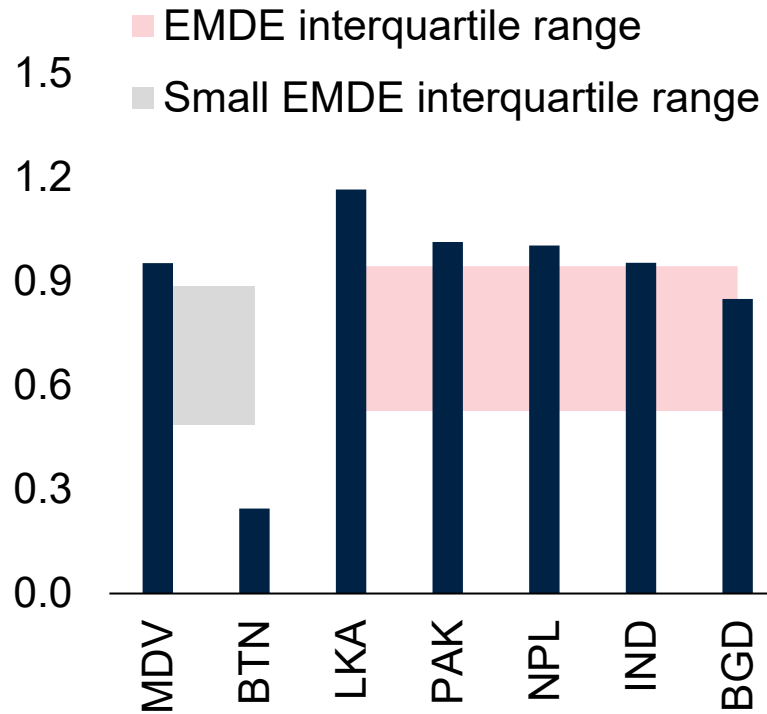
Sources: Aiyar and Ohnsorge (2024); Bailey, Strezhnev, and Voten (2017); World Bank.

Left and Center Panels: Index of UN voting patterns ranges from -2.5 to 2.5. Data for 137 EMDEs for 2023. Left Panel: Dashed lines indicate the distribution of UN voting indices for advanced economies (blue) or EMDEs (red). Vertical lines are UN voting indices of China and United States. Center Panel: Grey shade indicates interquartile range for EMDEs.

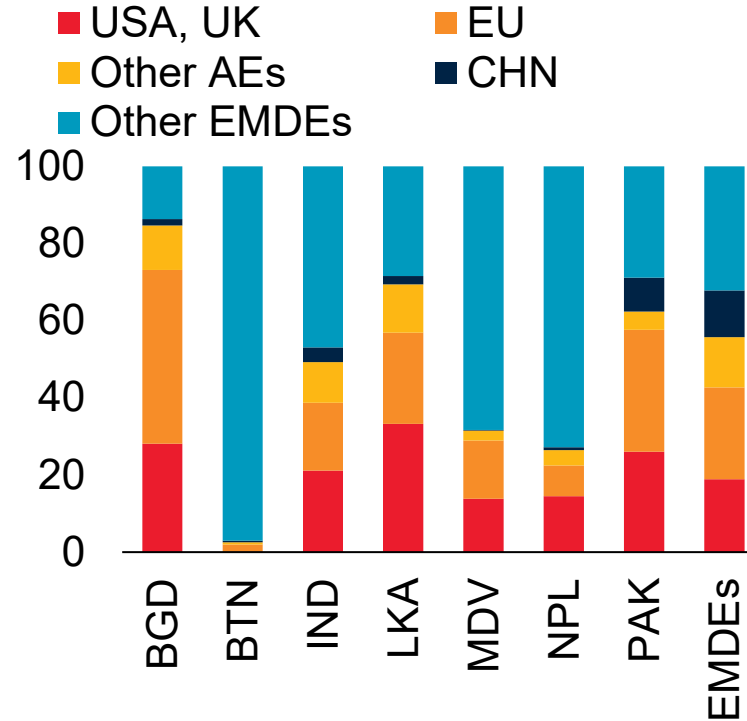
Implications of Geoeconomic Fragmentation for South Asia

Geopolitically Diversified Export Markets

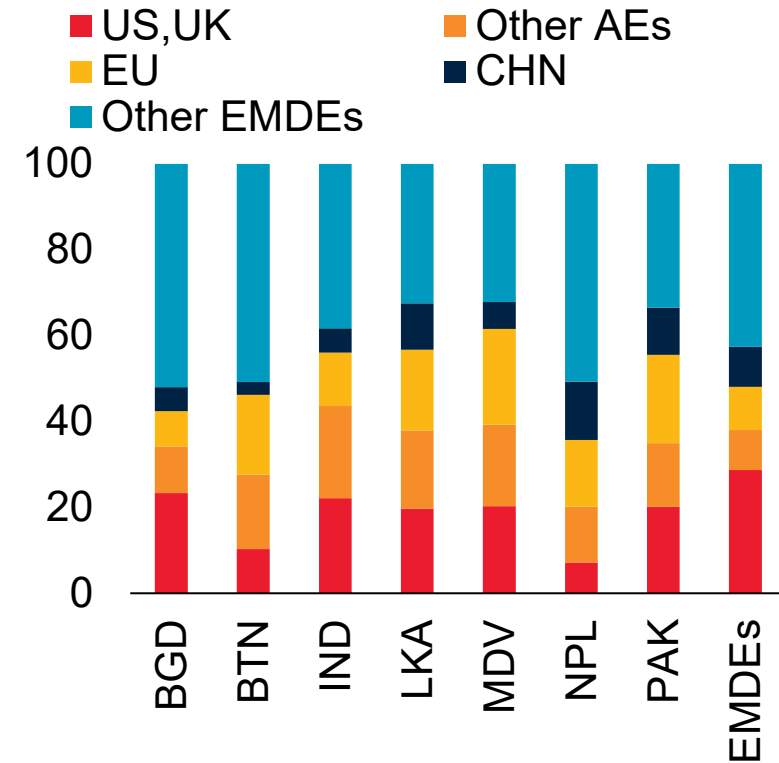
South Asia: Diversification of export markets, 2023
(*Geoeconomic Connectedness Index*)



Composition of goods exports, 2023
(*Percent of total*)



Composition of services export of travel, 2017-21
(*Percent of total*)



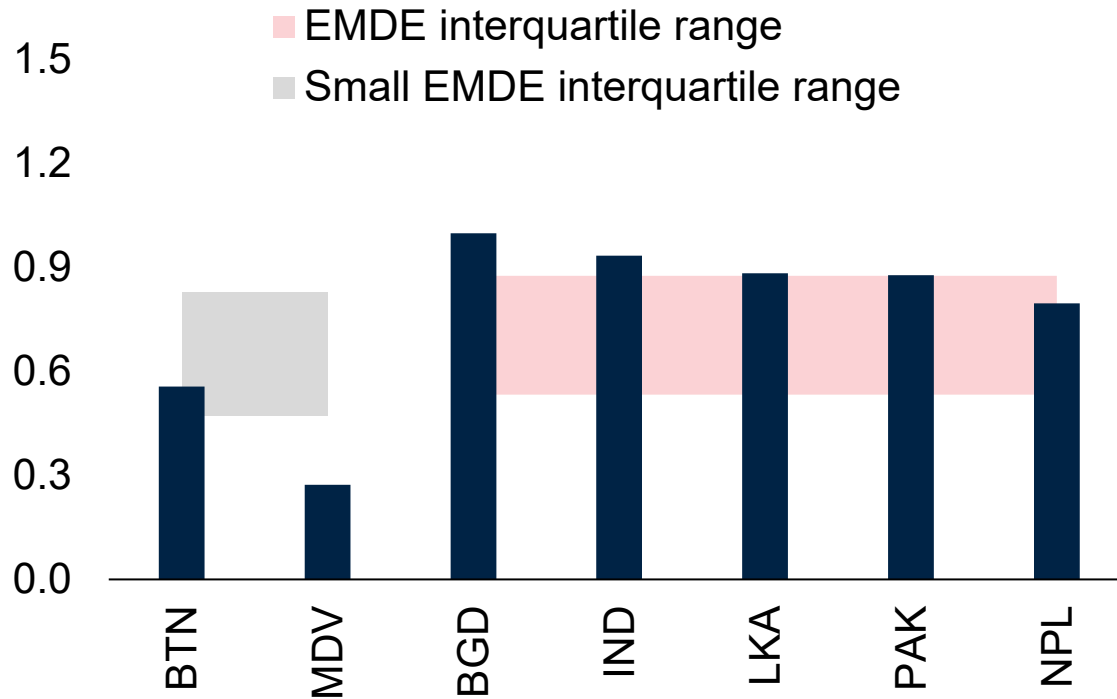
Sources: [Aiyar and Ohnsorge \(2024\)](#); [Bailey, Strezhnev, and Voten \(2017\)](#); WTO World Trade Intensity Matrix (database), World Bank.

Geoeconomic connectedness (GeoC index) measures the trade-weighted standard deviation of the geopolitical distances to export destinations. Exports refer to merchandise exports. Other EMDEs comprise 139 economies and other small states comprise 33 economies. Center and right panel: Other EMDEs include 155 economies (center panel) and 61 economies (right panel). EMDEs on the horizontal axis does not include South Asia countries and China.

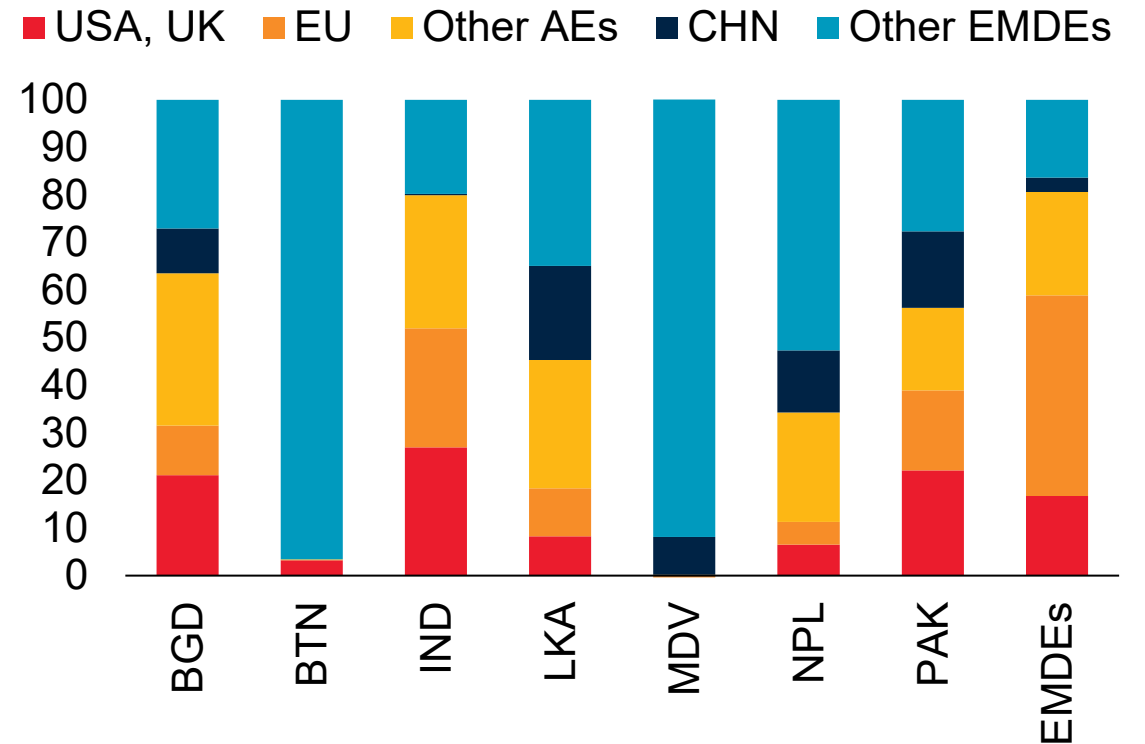
Implications of Geoeconomic Fragmentation for South Asia

Geopolitically Diversified FDI Sources

South Asia: Diversification of FDI sources, 2022
(*Geoeconomic Connectedness Index*)



Composition of FDI, 2022
(*Percent of total*)



Sources: [Aiyar and Ohnsorge \(2024\)](#); [Bailey, Strezhnev, and Voten \(2017\)](#); KNOMAD/World Bank Bilateral Remittance Matrix 2021; World Bank.

Left Panel: Geoeconomic connectedness (GeoC index) measures the FDI-weighted standard deviation of the geopolitical distances to sources of FDI. Other EMDEs include 139 economies, and other small states include 33 economies. Center and Right panel: data are for 155 economies for the center panel and 138 economies for the right panel. EMDEs on the horizontal axis does not include South Asian countries and China. Missing values for 2021 is replaced by 2017 data.

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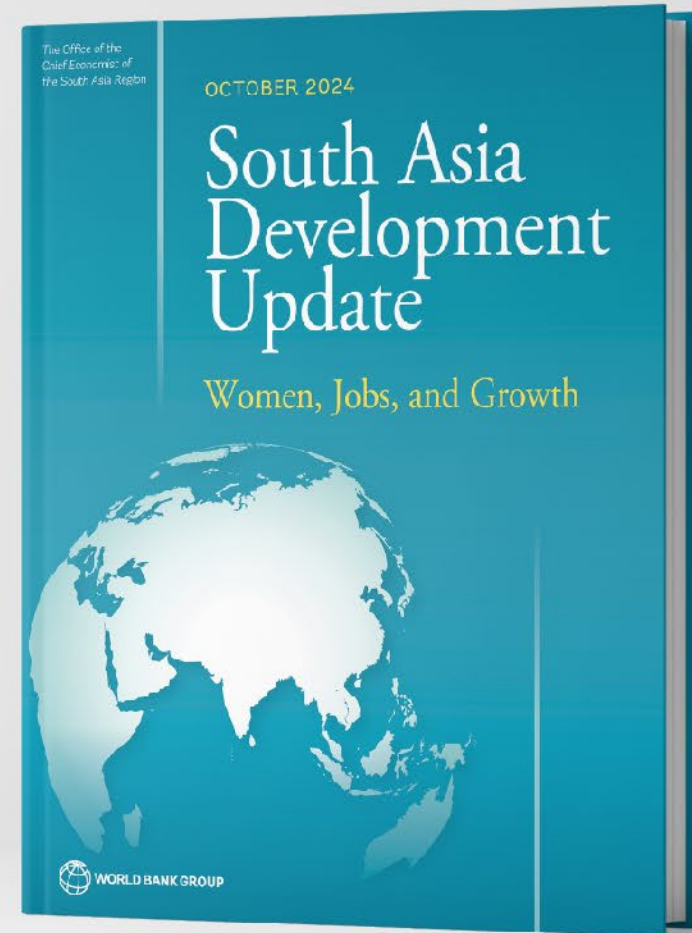
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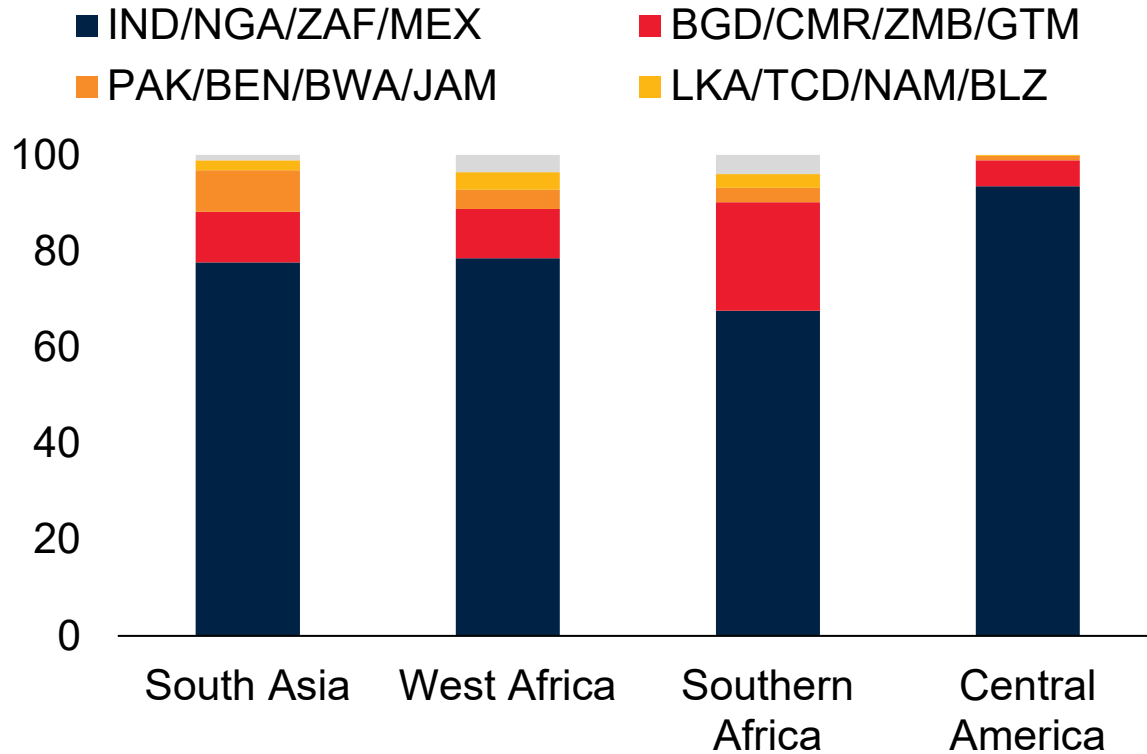


Backup Slides

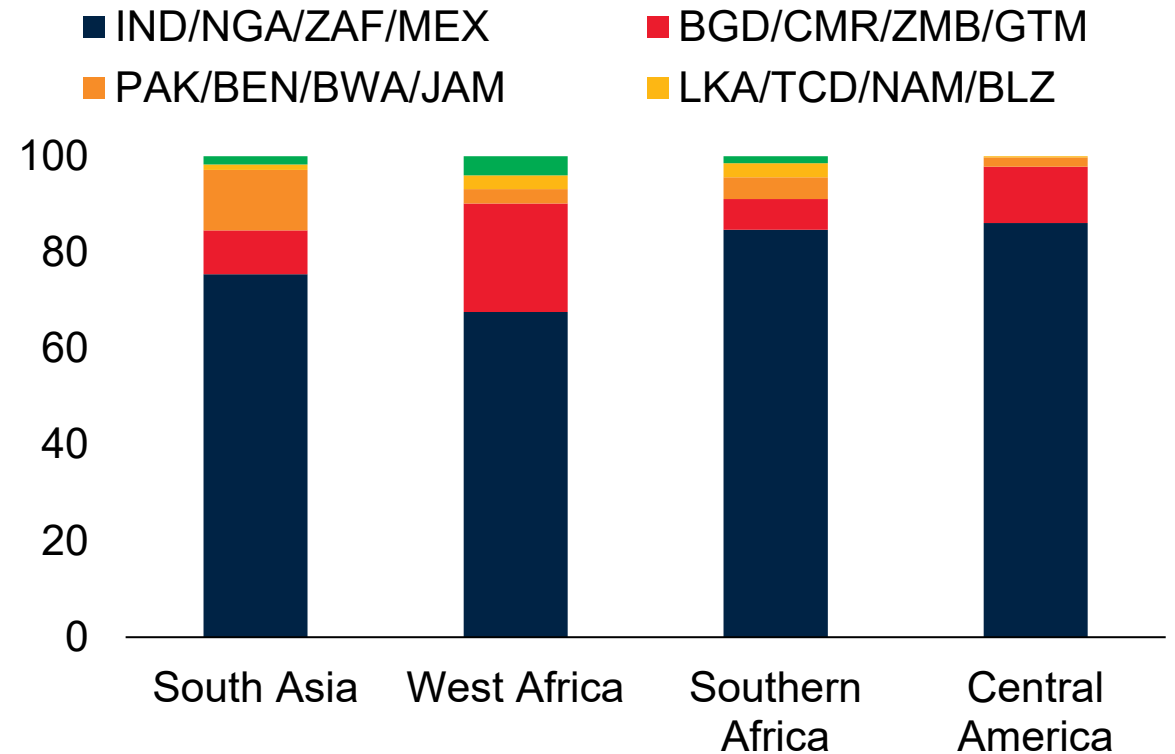
(Sub-)Regional Integration

South Asia Similar to Some Other Sub-Regions in Composition

Composition of group GDP
(Percent of group GDP)



Composition of group population
(Percent of group population)

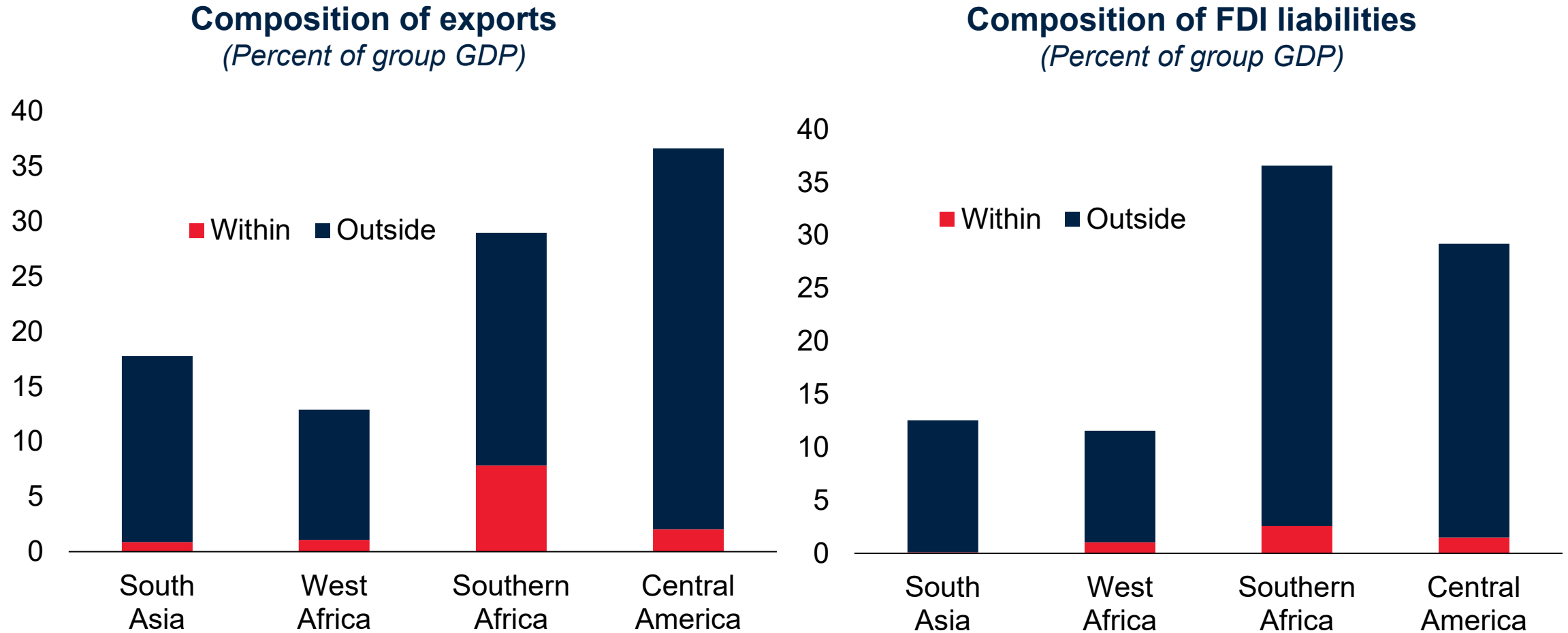


Sources: IMF; World Bank.

Note: Data for 2022. Nominal GDP in U.S. dollars. West Africa includes Nigeria ("NGA") and its neighbors (Benin BEN, Cameroon CMR, Chad TCD, Niger, and Sao Tome and Principe). Southern Africa includes South Africa (ZAF) and its neighbours (Botswana BWA, Lesotho, Namibia NAM, Eswatini, Zimbabwe ZMB). Central America includes Mexico MEX, Guatemala GTM, Jamaica JAM, and Belize BLZ.

(Sub-)Regional Integration

South Asia Has Fewer Within-Region Interactions than Other Sub-Regions



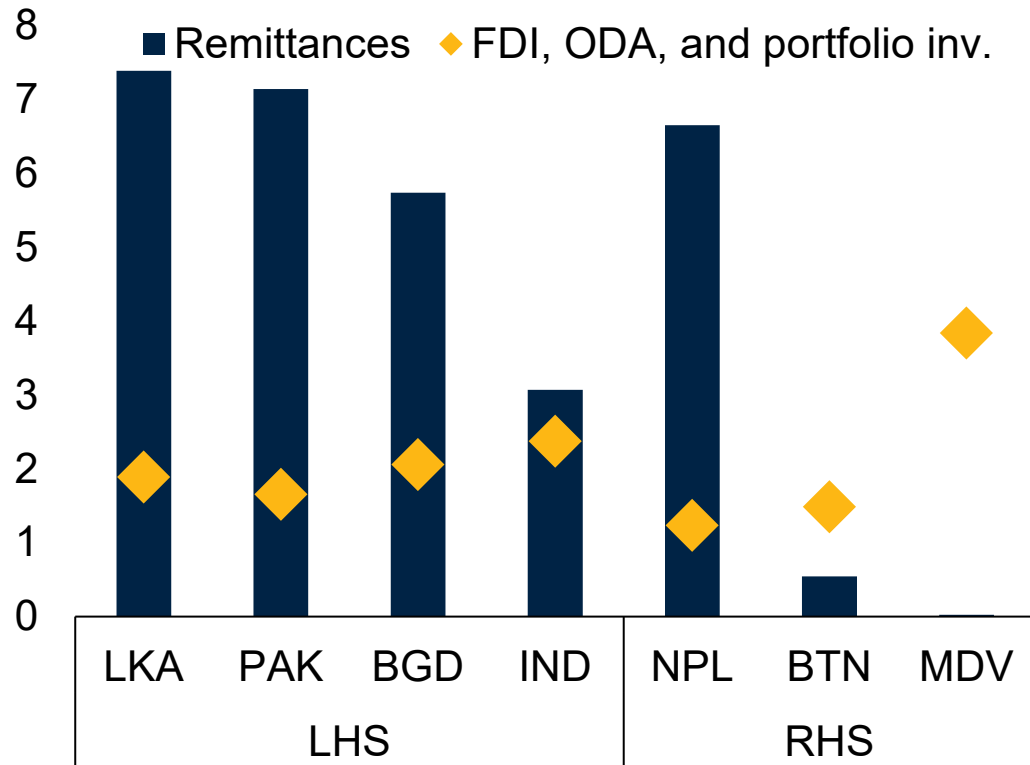
Sources: IMF; World Bank.

Note: Data for 2022. Nominal GDP in U.S. dollars. West Africa includes Nigeria and its neighbors (Benin, Cameroon, Chad, Niger, and Sao Tome and Principe). Southern Africa includes South Africa and its neighbours (Botswana, Lesotho, Namibia, Eswatini, Zimbabwe). Central America includes Mexico, Guatemala, Jamaica, and Belize.

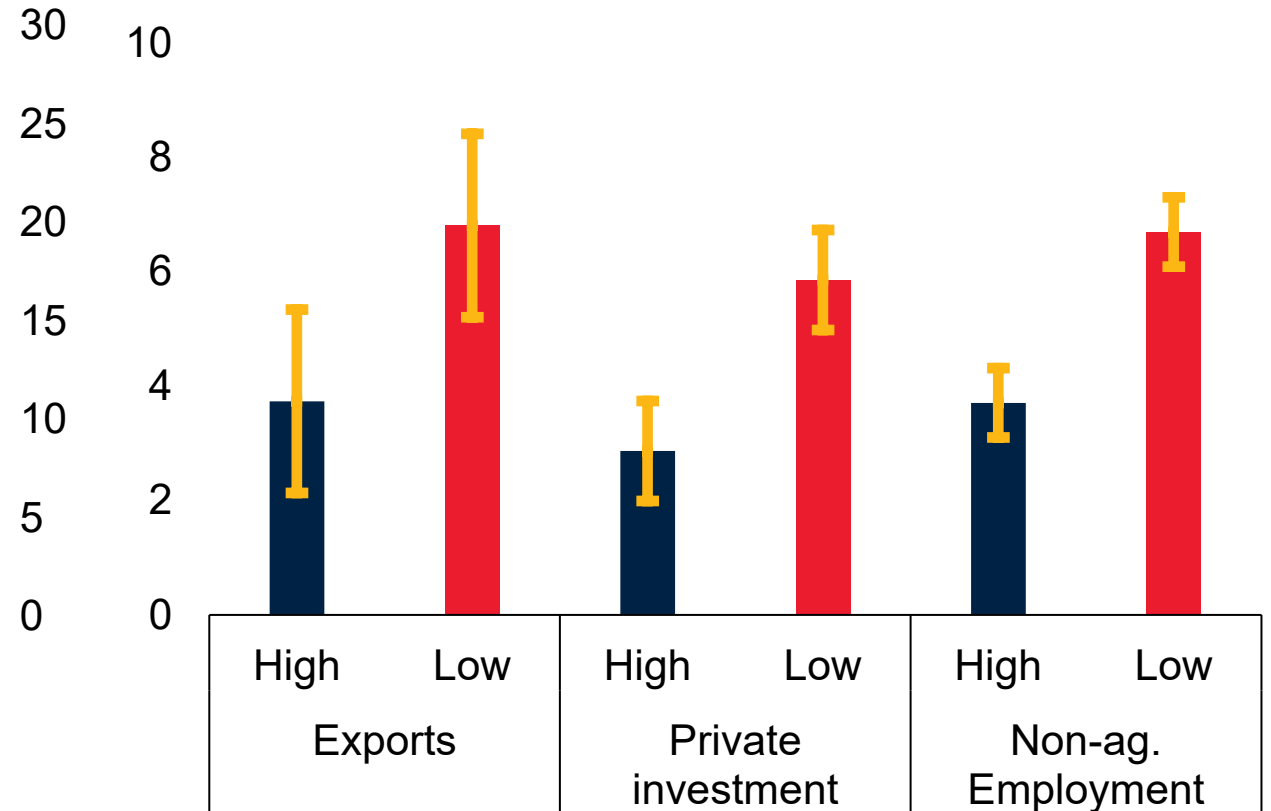
Mind the Side Effects: Remittances

Large. Associated with Lower Exports, Private Investment, Non-Ag. Employment

**Remittances and capital inflows,
2014-23 average
(Percent of GDP)**



**Remittances, by convergence club for
exports, private inv., and non-ag. employment
(Percent of GDP)**



Sources: World Development Indicators (database); World Bank.

Left Panel: Figure shows remittances in percent of GDP and the sum of FDI, ODA, and portfolio investment in percent of GDP for each SAR country. Right Panel: Bars show average remittances in percent of GDP for each convergence club during 1990-2022. Whiskers indicate 90 percent confidence intervals. "High" indicates average for convergence club with highest macroeconomic outcome (exports in percent of GDP (left), private investment in percent of GDP (center), and non-agricultural employment in percent of working-age population (right)). "Low" indicates average for convergence club with lowest macroeconomic outcome.