

Vicious Cycle of Economic Slowdown in South Asia

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5 February 2023



Sri Lanka and Pakistan are dealing with serious economic crises. Apart from serious domestic issues like shortage of essential commodities, and power cuts, both countries have meagre foreign exchange reserves. The excessive dependence on China is the main reason for the increasing debt trap. Both countries also had to seek International Monetary Fund (IMF) assistance despite domestic opposition against the conditionalities imposed by the IMF. It is important for South Asian countries to work towards more robust economic linkages within the region and to shed dependence upon external assistance.

In recent years, economic linkages between South Asian nations – not just Pakistan – but others, including Sri Lanka and Bangladesh, have grown manifold with China. However, unlike Sri Lanka and Pakistan, Bangladesh has not been solely dependent upon China.

Both Sri Lanka and Pakistan are dealing with serious economic crises. Apart from serious domestic issues like shortage of essential commodities, and power cuts, both countries have meagre foreign exchange reserves. As of December 2022, Sri Lanka's foreign exchange reserves were estimated at US \$1.9 billion, while Pakistan's foreign exchange reserves as on January 27, 2023, were estimated at a little over US \$3 billion (the lowest in 10 years).

As mentioned earlier, both Sri Lanka and Pakistan have been excessively dependent upon China. This has been cited as one of the main reasons for the economic challenges both countries are facing. Both countries have been looking at other alternatives to get out of the prevailing mess. While Pakistan has been looking to Gulf Countries – especially UAE and Saudi Arabia – for economic assistance, Sri Lanka has sought assistance from Japan and India while also approaching China.

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Both countries also had to seek International Monetary Fund (IMF) assistance despite domestic opposition due to the conditionalities imposed by the IMF. In January 2023, Sri Lankan President Ranil Wickremesinghe said that the only option left for Sri Lanka was to approach IMF. While Pakistan PM Shehbaz Sharif in January 2023 said that there is no alternative but to seek IMF assistance, the current Finance Minister Ishaq Dar in the ruling Pakistan Muslim League Nawaz (PML-N) dispensation has been sceptical of IMF conditionalities. In fact, Dar's predecessor Miftah Ismail resigned in September 2022 and the reason for the latter's exit was the latter's perceived Pro-IMF stance. Ismail, while commenting about Ishaq Dar's approach vis-à-vis the IMF in an interview, said: "...after taking the reins, thought he would fix the economy without the IMF or by scaring the lender to accept Pakistan's demands, as he had been openly opposing the IMF conditions. He made an attempt and as a result, Pakistan suffered a big loss."

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The ruling PML-N did take some tough decisions under pressure from the IMF including a hike in petrol prices and diesel prices on January 28, 2023. The IMF has recently asked Pakistan to make more tough decisions. The ruling PML-N government, which finds itself facing multiple challenges, is not in a position to take tough decisions, because if it takes decisions like raising electricity tariffs, the price of essential commodities will also go up.

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According to many analysts, unless Pakistan takes a firm stand, it is also making way toward an economic crisis of the magnitude of Sri Lanka. All countries providing assistance to both Sri Lanka and Pakistan have said that financial assistance will be subject to both countries meeting conditionalities set by IMF.

Bangladesh too has been impacted by the Russia-Ukraine war with a hike in its fuel prices. Since last year, the country has been witnessing power cuts and providing food relief to households unable to afford the same. Antoinette M. Sayeh, the IMF's deputy managing director while commenting on the economic situation in Bangladesh said: "Multiple shocks have made macroeconomic management challenging in Bangladesh".

Dhaka has also sought assistance from IMF and has been able to secure US \$4.7 billion. It would be unfair, of course, to compare the situation in Sri Lanka and Pakistan with that of Bangladesh, since Bangladesh has foreign exchange reserves of US \$34 billion, though its current account deficit has widened and its currency has depreciated significantly.

There is growing resentment against China's economic conditionalities, especially CPEC. In addition, China's economy is slowing and it will give precedence to its domestic economic interests.

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While it is true, that IMF conditionalities may not be easy to implement for developing nations, it is important to bear in mind that developing countries, including those outside South Asia, cannot develop by being excessively dependent upon China. There is a growing amount of resentment against China's economic conditionalities – especially with regard to the China-Pakistan Economic Corridor (CPEC). In addition, China's economy is slowing and it will give precedence to its domestic economic interests. Developing countries need to get their act together, and also look at having a balanced foreign policy – a policy that is not influenced by China or the US. A number of commentators in Pakistan, while highlighting the shortcomings of IMF policies, have rightly pointed out the pitfalls of Pakistan's flawed economic policies over the years as well as its dependence upon the outside world for its economic survival.

In conclusion, it is important for countries within South Asia to focus on sustainable economic policies – which are inclusive and forward-looking – and to shed dependence upon external assistance. It is also important for South Asian nations to work towards more robust economic linkages within the region.

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