

## South Asia in the corona crisis: economic and political consequences

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# SWP Comment

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## South Asia in the Corona Crisis

Economic and Political Consequences

*Christian Wagner and Tobias Scholz*

**In the countries of South Asia, the rampant coronavirus pandemic could affect more than 1.9 billion people – almost a quarter of the world’s population. Given the weaknesses of national health care systems, the fight against the virus seems to be lost before it has even begun. The economic damage will increase the levels of poverty and inequality, and it is likely to exacerbate rather than mitigate a number of existing conflicts. On the domestic front, it is feared that authoritarian tendencies will increase during the management of the crisis. In the regional context, China could further expand its influence at the expense of India.**

The health care systems of the countries of South Asia are dramatically underfinanced and poorly equipped. In a regional comparison, Sri Lanka spends the most on health – about 4 percent of its gross domestic product (GDP). In contrast, India invested only 1.28 percent of its GDP in the public health care system in 2018/19. The country has 7 hospital beds per 1,000 persons, Pakistan has 6 beds, Bangladesh has 8, China has 42, and the United States has 29. In all countries, there is a lack of respiratory equipment and adequate protective equipment for health professionals. In addition, modern medical facilities are mainly to be found in urban centers, whereas rural areas are significantly worse off.

These structural deficits are more acute than ever in the current crisis. The low infection figures officially reported in mid-April were mainly due to a lack of testing capacity. At that time, only 291 tests per

million inhabitants were carried out in India, 506 in Pakistan, 302 in Sri Lanka, and 162 in Bangladesh.

At the beginning of April, India reported a mortality rate of 3 percent, Pakistan 1 percent, and Bangladesh 10 percent.

### The Economic Consequences

India’s economic growth had already fallen below 5 percent by the end of 2019. Not only India and Pakistan – the two largest economies in the region – but also Bangladesh and Sri Lanka were already in the midst of an economic downturn before the crisis. Now the Covid-19 pandemic has accelerated it.

International financial institutions such as the World Bank and the International Monetary Fund (IMF) have drastically revised downwards their growth forecasts for



the countries in the region. The abrupt shutdown of key industries, such as textile production in Bangladesh or the tourism industry in Sri Lanka and the Maldives, will drive up debt and accelerate the threat of recession. The World Bank predicts that 2020 could be the worst business year for South Asia in more than 40 years.

The pandemic is hitting poorer population groups in particular with full force. In India, the unemployment rate had already climbed to its highest level in decades by 2019. In addition, around 90 percent of all employees in the country work in the informal sector. These approximately 450 million people have no social security net whatsoever. After the curfew came into force on March 25, many workers made their way back to their villages. There were also isolated violent clashes with the police. As the states also closed their borders, many migrant workers have been stranded, and their lack of supplies has become a further problem.

The crisis could have a particularly dramatic impact on agriculture, as it is still the largest employment sector in many states and often dependent on seasonal or migrant workers. If the extensive initial restrictions continue, migrant workers will not only lose their incomes, but in many cases there could also be crop failures and local famines. As the economy comes to an abrupt halt, the problems associated with it unfold, such as growing unemployment, poverty, and supply shortages. All governments then face a similar dilemma: They are ultimately responsible for deciding whether more people will die from the virus or from the measures taken to contain it.

All states have responded to the emergency situation with national aid packages. The Indian government initially made \$22 billion available to alleviate the economic and humanitarian consequences in the short term, whereas the states initiated their own aid programs.

One of the few rays of hope in India is that many poor families now also have a bank account to which the government can transfer state social benefits directly.

In 2018, the Narendra Modi government also launched a new health insurance program for poorer population groups. Although around two-thirds of all Indian families are entitled to food aid from the Public Distribution System, there are probably several million people who are not covered by the program.

In Pakistan, the government of Prime Minister Imran Khan initially provided \$8 billion to fight the pandemic. As the country currently has double-digit inflation and the IMF did not grant it a rescue package to stabilize the economy until November 2019, Pakistan will have the hardest time obtaining further international aid. The government expects up to 18.5 million people to lose their jobs as a result of the crisis, or more than 30 percent of the workforce. Another measure has been to expand social programs such as the Benazir Income Support Programme.

The situation is further aggravated by the fact that states are losing important external sources of funding. India is the country with the largest volume of remittances from guest workers abroad. In the Gulf region alone, an estimated six to seven million Indian guest workers are employed. For Bangladesh, Nepal, and Sri Lanka, too, remittances by guest workers to their home countries are important means of economic support.

Since their economic situations vary, the individual countries will pursue different strategies in coping with the economic crisis. Countries such as Bangladesh, the Maldives, Nepal, Pakistan, and Sri Lanka are likely to press for rapid integration into the global economy. Not only do they fear for their most important industries, such as textile production and tourism, but they also want to be able to send their workers abroad again as soon as possible.

In India, the crisis could reinforce the already prevailing trend toward protectionism. The government in New Delhi has already increased customs duties in recent years. Last November, it did not join the RCEP initiative (Regional Comprehensive Economic Partnership), which would have

facilitated trade with China, among others. Prime Minister Modi has already announced that he will expand the “Make in India” initiative he launched in 2014 to strengthen national industry.

## The Political Consequences

Crises are considered to be the time of the executive. It is therefore expected that the existing authoritarian and populist tendencies in countries such as Bangladesh, India, Pakistan, and Sri Lanka will continue to grow.

Measures against the pandemic are also restricting fundamental rights in South Asia. In the name of combating disinformation and fake news, for example, voices critical of the government, television channels, and websites can be controlled even more strictly. For example, the rankings for freedom of the press and freedom of opinion in India have been deteriorating for years. In the 2020 World Press Freedom Index, the world’s largest democracy reached only 142nd place, Pakistan 145th, Bangladesh 151st, and Afghanistan 122nd.

The Supreme Court in India has recognized the right to privacy and the protection of personal data. However, the fight against the pandemic should give a further boost to those who advocate that the executive should comprehensively control and compile data. The question of whether, and to what extent, the government can use communications data to contain the pandemic could be decided in India in favor of public safety and at the expense of data protection.

India’s efforts to get the pandemic under control are also a test of federalism. The states bear the main burden in the fight against the virus. They are therefore demanding more resources from New Delhi. Another point of criticism is the partial lack of coordination between the central government and the federal states, for example in the imposition of the national curfew. The lifting of this curfew will be the next test for federalism. The states are affected differ-

ently by the pandemic, so a high degree of coordination will be necessary to prevent a renewed spread of Covid-19.

Religious events are a particular problem in many states. In India, Pakistan, and Bangladesh, for example, some of the infections could be traced back to meetings of the Tablighi Jamaat, a Muslim missionary society. In India, this is likely to increase reservations about the Muslims in the country. As a consequence, polarization between the religious communities will probably continue to increase. Pakistan was one of the few Muslim countries whose government did not succeed in closing the mosques by mid-April. The reason for that was resistance from the Islamic clergy. In Bangladesh, despite the government’s demands, about 100,000 people gathered on April 18 for the funeral of a Muslim cleric.

## The Regional Context

The corona crisis also heralds a new round in the struggle between India and China for regional influence in South Asia. Both countries are helping each other to contain Covid-19. At the end of February 2020, India sent medical supplies to China. After the crisis had spread to India, China sent extensive aid packages in return, especially protective clothing for health professionals. To respond to the crisis, India would like to expand its pharmaceutical industry, but it is highly dependent on Chinese imports.

India is the world’s largest producer of hydroxychloroquine, which was initially seen in some states as a promising treatment for Covid-19. The Indian government initially imposed an export ban, but it relaxed this again under pressure from the American government. Although India has already furnished Sri Lanka and the Maldives with medical supplies, China has considerably more resources and provided correspondingly greater support to the region. As a result, the balance of power in South Asia is likely to shift more toward China.

Surprisingly, the threat of Covid-19 has led to a revival of the South Asian Associa-

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tion for Regional Cooperation (SAARC). However, a video conference of the heads of state and government on March 15, arranged by Prime Minister Modi, was attended only by the Minister of Health on the Pakistani side, not by Prime Minister Khan. The Indian government set up a \$10 million emergency fund, which was joined by other SAARC countries. Pakistan defended itself against India's claim to regional leadership and gave \$3 million to the SAARC Secretariat. The fight against the virus thus did not lead to a renewed rapprochement between the two hostile neighbors.

## Outlook: South Asia after the Corona Crisis

The political, economic, and humanitarian problems in South Asia will continue to occupy the international community even after the corona crisis. However, with the exception of India and, to a lesser extent, Pakistan, the region has received little geopolitical attention in German and European politics. This will become even more apparent after the corona crisis. German and European aid will probably concentrate on foreign policy hotspots in the immediate vicinity.

Existing trade instruments, such as the Generalised System of Preferences, are at least one option to make it easier for countries from South Asia to return to the world market.

Despite criticism about the management of the crisis, which all governments in the region face, they will most likely emerge stronger than before. Combating the pandemic will help the state to exert greater influence over the economy. Firstly, it can alleviate the greatest needs of the population and avert an impending humanitarian disaster, and secondly, it can get economic life going again.

Economic development will suffer a marked setback in all South Asian states.

From a political point of view, it is to be feared that the pandemic will further strengthen the authoritarian and centralist tendencies that are already in effect. Newly introduced restrictions on freedom of expression and freedom of the press, as well as the possibility for greater degrees of centralization, could outlive the end of the pandemic. In the struggle for influence in South Asia, India is likely to lose further ground to China.

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