



HIGHLIGHTS from Box 1.1: SHELTERED: IMPLICATIONS OF GEOECONOMIC FRAGMENTATION FOR SOUTH ASIA

Key Points

- *South Asian economies have limited exposure to geopolitical shocks because they are among the quarter of emerging market and developing economies (EMDEs) that are least open to global trade and investment.*
- *This lack of openness limits South Asia's ability to leverage its geopolitically diverse ties and take advantage of the ongoing reshaping of global supply chains.*
- *Policy priorities to further integrate South Asia into global supply chains—while containing vulnerabilities to geopolitical shocks—include lowering import tariffs and restrictions on foreign direct investment (FDI), further improving infrastructure and logistics, and enhancing institutional effectiveness.*

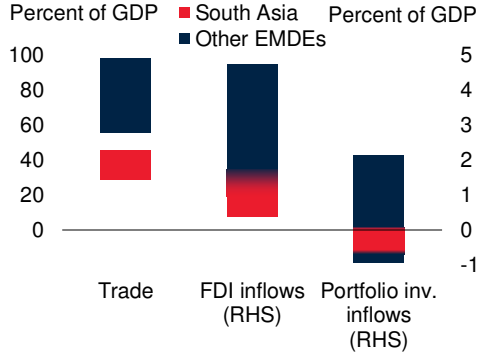
Sheltered from external shocks, including geopolitical shocks. The global economy is fragmenting along geopolitical lines, with trade and investment restrictions rising and global supply chains shifting. South Asia is more insulated from global shocks, including geopolitical ones, than most other EMDEs because of its limited openness to international trade and investment (figure 1). Since 2016, most South Asian countries have aligned their geopolitical stances, as captured by UN voting patterns, more closely with their major export markets and creditors. This has helped lower some of their vulnerabilities to geopolitical shocks.

Limited gains from diverse ties. However, this lack of openness is not only protective. Most South Asian countries maintain fairly diverse foreign investment sources and export markets and, since 2016, have further increased this diversity. But the lack of openness limits South Asian countries' ability to take advantage of their diverse ties in the reshaping of global supply chains and trade that is underway.

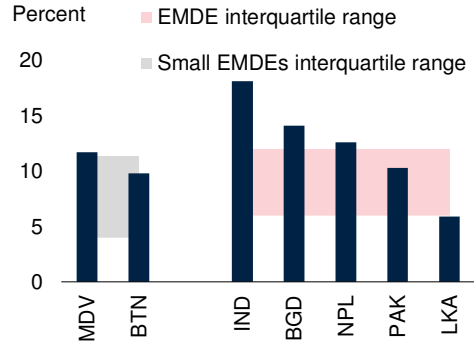
Policy implications. South Asian countries would benefit from measures to open their economies further to global trade and investment. Policy priorities include lowering import tariffs, easing restrictions on FDI, further improving infrastructure and logistics, and deepening financial markets. Joining a wide range of different trade agreements can help maintain a diverse set of trading partners and creditors and mitigate vulnerabilities to external shocks. The potential magnitude of gains is large. Cross-country evidence suggests that export connectedness might have been on par with Malaysia and Indonesia if South Asian countries had the logistics performance and low tariffs of those in the best-performing EMDE quartile.

FIGURE 1: Implications of geoeconomic fragmentation for South Asia

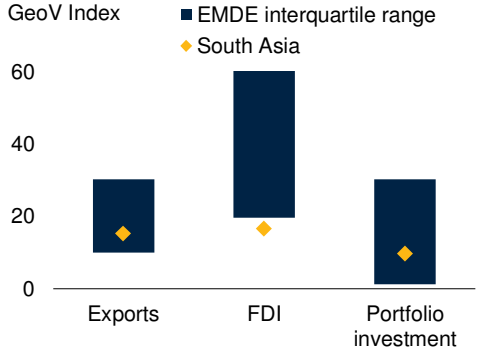
A. Openness to global trade and investment



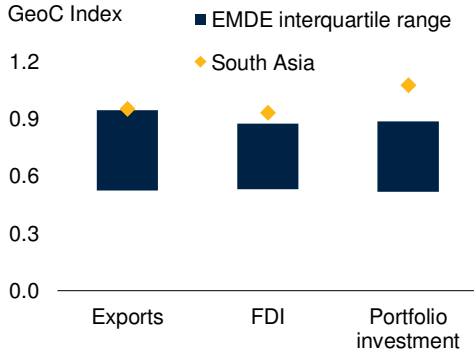
B. Average applied tariffs, 2022



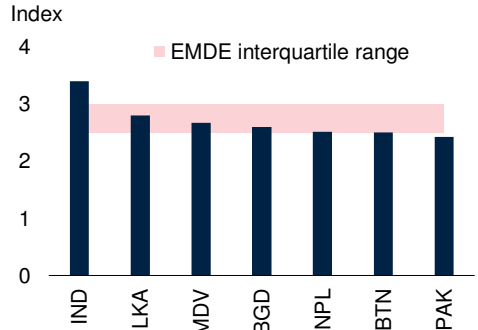
C. Geoeconomic vulnerabilities of exports and investment



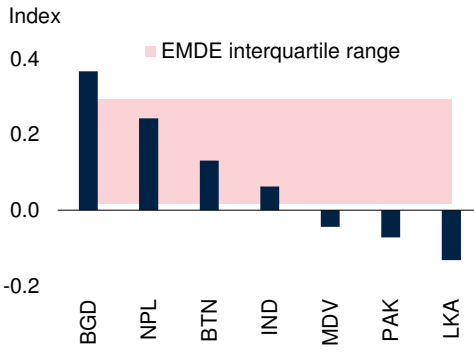
D. Geopolitical diversity of partner countries



E. Logistics performance



F. Change in South Asia’s UN voting patterns, 2016-23



Sources: Aiyar and Ohnsorge (2024); Bailey, Strezhnev, and Voeten (2017); IMF Balance of Payments and International Investment Position Statistics (database); WDI (database); World Bank International Logistics Performance Index (database); WTO World Tariff Profiles (database); World Bank.

Note: BGD = Bangladesh; BTN = Bhutan; EMDEs = emerging market and developing economies; FDI = foreign direct investment; IND = India; LKA = Sri Lanka; MDV = Maldives; NPL = Nepal; PAK = Pakistan.

A. Trade is defined as the share of goods and services exports and imports in GDP. Data is average 2020-23 and excludes small states and Afghanistan. Minimum-maximum range across South Asian countries and interquartile range across other EMDEs.

B. Simple average of the ad valorem most favored nation duties applied in 2022. Sample comprises 120 other EMDEs, of which 25 are small states.



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C.D. Geoeconomic vulnerability (GeoV) measures the trade- or liability-weighted average geopolitical distance of a country to its trading partners or creditors. Geoeconomic connectedness (GeoC) measures the trade or liability-weighted standard deviation of the geopolitical distances to export destinations or creditors South Asia aggregate reports the GDP-weighted average. Latest data are 2023 for trade (except 2022 for Bhutan) and 2022 for FDI and portfolio investment. Sample includes 127 other EMDEs.

E. Sample comprises 94 other EMDEs. Bars for Maldives, Nepal, and Pakistan show values for 2018.

F. Figure is based on the ideal point index of country voting patterns in the UN General Assembly. The index ranges from -2.5 to +2.5 points. Increasing values among South Asian economies reflect convergence towards U.S. voting patterns relative to China. Sample comprises 137 other EMDEs.