03

Commonwealth Asia

3.1 Recent macroeconomic developments and outlook

Overview

The six Commonwealth Asian countries are a diverse group, encompassing oil exporters, islands and large emerging economies, as well as small states. They have all experienced rapid development and expansion in recent years, along with other Asian nations including China, which is the world's second-largest economy, and the largest if measured in purchasing price parity (PPP) terms. Traditionally, many of these countries were agriculturally based, providing food and jobs for rural populations. Over the past two decades, they have diversified their economies by developing high-tech manufactured goods and services.

Nevertheless, the cultivation of staple crops such as rice remains vital, and the regional economy is therefore inextricably linked with seasonal monsoon rains (Khuma and Lhada, 2011). The summer monsoon (May to September) and the winter monsoon (October to November) can vary significantly from year to year, fluctuating between periods of heavy and low rainfall (Singh et al., 2014). Using eastern India as an example, approximately 82 per cent of rainfall occurs between July and September, 16 per cent between January and May and only 2 per cent between October and December (Mukherjee et al., 2009). In recent years, however, there has been a statistically significant reduction in peak season rainfall in the region linked to global warming. Concurrently, there has also been a rise in likelihood of wet spells as well as very intense wet spells (Singh et al., 2014). This implies that countries in the region will have to prepare and adapt to a future characterised by stronger typhoons, landslides, floods, crop failures and sea level rise.

Achieving this, and spurring sustainable development, will depend on strengthening links with neighbouring countries through bodies such as the South Asian Free Trade Area (SAFTA) and the Association of Southeast Asian Nations (ASEAN) and potentially the Commonwealth. The proposed Regional Comprehensive Economic Partnership (RCEP) – a proposed grouping of 10 ASEAN member states as well as Australia, China, India, Japan, New Zealand and South Korea – has the potential to boost trade and development even further in the region. This has created more employment opportunities and higher wages. These economies have also been modernising their business facilitation services to enhance their competitiveness and support the formation of new businesses.

Economic performance

As Commonwealth Asian countries diversified, economic growth rates and general prosperity rose. The rising tide did not lift all boats, however. Poverty, inequality, access to education, housing and clean air and water remain significant challenges across the region (UNESCAP, 2014).

In 2018, the rate of economic growth within the group of countries ranged from as high as 7 per cent within Bangladesh and India to -0.2 per cent in Brunei Darussalam. Life expectancy at birth has also risen since 1990. Then, average life expectancy for the six countries was 65 years; by 2000, it had risen to 68 years; and it reached 73 years in 2017. Countries such as Brunei Darussalam and Malaysia have invested heavily in education and retooling their population and have seen the benefits in terms of growth and a reduction in poverty. Within Bangladesh and India, growth has been driven by increased activity within mining and manufacturing. In Malaysia, the tertiary enrolment ratio rose from 37 per cent in 2010 to 42 per cent in 2017, the highest among Commonwealth Asian countries. Over the same period, access to the Internet has also risen significantly in the region. However, there remains significant variability in access. At the end of 2017, the Internet penetration rate ranged from 80 per cent in Malaysia to 15 per cent in Pakistan.

Prices, wages and employment

Inflation among member countries was significantly affected by environmental factors during the period under review. Drought conditions in some countries and excess rainfall in others affected food prices and by extension the overall rate of change in prices. Average annual inflation ranged from above 5 per cent in Bangladesh, Pakistan and Sri Lanka to below 1 per cent in Brunei Darussalam and Malaysia.

Driven by strong rates of economic growth, the rate of joblessness has fallen significantly in most countries. In Pakistan, for example, in 2018 the unemployment rate was estimated at 4.4 per cent, compared with 5.4 per cent in 2008 and 8.8 per cent in 2002. Nevertheless, there are still significant differences between the participation rates for men and women in the labour force.[1] Between 2017 and 2018, rate for men was 48 per cent whereas that for women was 14 per cent. Within the 20-59 age group, the differences were even more stark, with the participation rate for males estimated at over 90 per cent for males and less than 30 per cent for females.

Fiscal developments

The fiscal position of most governments in the region deteriorated in 2018. Gross general government debt reached 69 per cent of GDP in India and 72 per cent in Pakistan. In Sri Lanka, the level of government indebtedness has spiralled to around 82 per cent of GDP – partly the result of maturing Chinese loans for post-war reconstruction that were agreed by the Rajapaksa administration. Both Pakistan and Sri Lanka have been identified as potential targets of debt diplomacy – that is, the practice of lending millions of dollars to countries that may struggle with repayments, using the debt as leverage on assets and sovereignty.

Despite the expansion in economic activity, growth in tax revenue has been relatively weak in Commonwealth Asian nations. Tax revenues as a percentage of GDP fell by 1 percentage point between 2013 and 2018 in Bangladesh, 20 percentage points in Brunei Darussalam and 5 percentage points in Malaysia. These declines have put pressure on these governments to reign in development spending and could have implications for long-run economic growth. It is therefore important that the tax base in these countries be widened to capture more revenues and build a closer link between tax revenues and economic growth.

Trade developments

Commonwealth Asian countries are highly integrated into the global economy. Trade as a share of gross domestic product (GDP) in 2017 was estimated at 64 per cent, down slightly from 2013, when it was as high as 71 per cent. The decline owed partially to the negative effects of the great recession on some economies and competition from more developed neighbours in the region. Brunei Darussalam and Malaysia are very dependent on international trade. In Brunei Darussalam, the share of trade in GDP in 2017 was 88 per cent; in Malaysia, it was 138 per cent. Both countries are also more export-oriented than their neighbours. In the case of Brunei Darussalam, this owes largely to its dependence on exports of fossil fuels. In Malaysia, there has been a growing emphasis on high-tech manufactured goods and the export of services.

Outlook

Given the relatively strong growth expected for countries within the region, most of the Commonwealth Asian countries are expected to report relatively strong growth over the medium term. In Bangladesh, Brunei Darussalam and Sri Lanka, economic activity is anticipated to be boosted by further investment spending, while growth in government and household activity was responsible for most of the expansion in India. Growth is anticipated to slow in Pakistan as a result of macroeconomic imbalances on the fiscal accounts. In Sri Lanka, the Easter Sunday terrorist attacks are likely to have negative impacts on the country's vital tourism industry.

With the anticipated improvement in the standard of living, key indicators of poverty are also expected to improve in most countries. Over the past 10 years, poverty in most Commonwealth Asian countries has declined. If these trends continue, poverty rates could fall to their lowest recorded levels. In Bangladesh and India, poverty could decline to below 20 per cent, whereas in Malaysia and Sri Lanka it should remain below 5 per cent. This should help many of these countries meet the targets for the Sustainable Development Goals (SDGs).

Malaysia is best placed to reach many of the SDGs. The country is on track to meet the targets in relation to Ending Poverty (SDG 1), Industry, Innovation and Infrastructure (SDG 9), Quality Education (SDG 4), Good Health and Well-Being (SDG 3) and Affordable and Clean Energy (SDG 7). Most countries, however, need to work more on meeting targets in relation to Zero Hunger (SDG 2), Gender Equality (SDG 5), Clean Water and Sanitation (SDG 6) and Affordable and Clean Energy (SDG 7).

In addition to indicators of poverty, many health indicators have been improving in recent years. In Bangladesh, the mortality rate for children under five years (per 1,000 live births) is expected to fall below 30; the rate is expected to remain below 10 in Malaysia and Sri Lanka. These improvements will be the result largely of rising ratios of physicians and access to physicians.

Trade within the region is likely to be boosted with the Asia-Pacific Trade Agreement (APTA), which includes Bangladesh, China, India, Lao People's Democratic Republic, South Korea and Sri Lanka. Countries concluded the fourth round of negotiations in 2017 covering over 10,000 items for preferential trade. Members of the grouping stand to reap significant groupings from the preferential trade agreement as it includes two of the fastest-growing economies in the world. As a result, since 2005, intraregional exports in the region have more than doubled. If these trends continue, the members of the APTA will provide a dynamic market for each other's exports.

The fiscal positions of most countries in the Commonwealth Asian region is expected to improve in the short term. The only exception is Pakistan, where weak revenue growth and rising government spending is expected to lead to government debt continuing to expand. Without any adjustment to the structural challenges in relation to raising revenue, it is unlikely that debt levels in the country will decline in the short term. Challenges in relation to raising revenue are compounded by the demands of the populous for spending in relation to health, education and housing.

3.2 Bangladesh

Country data	
Population (millions) (2017)	164.7
Area '000 km^2	147.6
GDP (US$, billion, 2018)	287.6
GDP per capita, PPP current international US$ (2018)	1,744.5
Currency	Bangladeshi taka (BDT)

Straddling the delta of the mighty Ganges, Brahmaputra and Meghna rivers, Bangladesh has traditionally relied on crops grown on its fertile, alluvial soils. Rice is the main food crop, cultivated for domestic consumption, and it remains a key export commodity, along with sugarcane and potatoes. Bangladesh is also a major producer of jute. However, millions of people live in flood-prone areas, whether from rivers swollen with monsoon rains and Himalayan meltwater or from coastal storm surges whipped up by cyclones in the Bay of Bengal.

Economic performance

The level of economic activity in Bangladesh has grown significantly over the past 10 years. In 2017, the total value of goods and services produced in the country was US$638 billion (GDP, PPP current international US$), an increase of US$317 billion when compared with 2008. During this period, the economy continued its transition from a primarily agriculture-based economy to one more driven by manufacturing and services. During the period under review, value added was driven largely by three main industries: agriculture, mining and manufacturing, which accounted for 54 per cent of gross value added in Bangladesh. Growth in all of these key industries has been relatively strong: mining and manufacturing both grew by on average 10 per cent per annum while agriculture, hunting, forestry and fishing rose by 3 per cent. The average rate of inflation over the past 10 years has been 5 per cent. In 2017, average inflation fell to 4 per cent, about 2 percentage points lower than in the previous year.

Bangladesh's economic expansion has been driven largely by investment spending in recent years. Gross capital formation expenditure rose from US$421 million in 2014 to US$542 million in 2017. This represents an average annual rate of growth of 9 per cent per year, one of the fastest rates of growth among Commonwealth Asian countries. In 2017, in particular, gross capital formation rose by US$50 million, or from US$492 million in 2016 to US$542 million in 2017. As a result, the share of investment spending in GDP rose from 28 per cent in 2013 to 30 per cent by 2017. Conversely, exports of goods and services were relatively weak for the period under review. Exports of goods and services fluctuated around US$273 million, with virtually zero growth in exports of goods and services reported during the period.

Prices, wages and employment

As a result of floods, food prices have remained high within recent years and have pushed up the overall rate of inflation. In 2018, the rate of inflation was estimated at 5.6 per cent, following increases of more than 5 per cent since 2009. In an attempt to reduce the impact of food price inflation, government has been attempting to increase food imports. This has slowed the rate of food price inflation and non-food prices have remained stable.

Bangladesh in 2017 had a population of 164 million, up from 162 million in 2016. This relatively rapid rate of population growth has characterised the economy. Since 2010, the population has risen by 12.5 million, or an annual rate of increase of 1.1 per cent.

Fiscal developments

The central government fiscal deficit has remained quite small and hence the ratio of debt to GDP has not changed much over the period. In 2018, the fiscal deficit was estimated at 4.1 per cent of GDP, up from 3.3 per cent in 2017 and in line with the five-year average fiscal deficit of 3.4 per cent. As a result, the gross debt to GDP ratio was estimated at 35 per cent in 2018, just 2 percentage points higher than in 2017, and marginally higher than the five-year average for the ratio.

Trade developments

In line with the relatively small fiscal deficit, the external current account was balanced for much of the period. Only in 2017 and 2018 did the external current balance turn into a deficit, largely because of a slowdown in the rate of growth of exports.

Key development challenges

Poverty remains a challenge for the country. In 2016, it was estimated that 24 per cent of the country lived below the national poverty line, and it ranked 136 out of 189 countries in relation to human development.[2] In addition, issues in relation to income and gender equality are also relevant. Women account for only approximately 11 per cent of senior and middle management positions, while prevalence of undernourishment is estimated at 15 per cent of the population. In addition, although the most recent estimate of the Gini coefficient of 37 is 7 percentage points lower than in 2010, it still indicates that inequality remains an issue for the country.[3]

3.3 Brunei Darussalam

Country data	
Population (millions) (2017)	0.450
Area '000 km^2	5.76
GDP (US$, billion, 2018)	14.1
GDP per capita, PPP current international US$ (2018)	32,413.9
Currency	Brunei dollar (BND)

Brunei Darussalam is situated on the northern coast of the island of Borneo, with the South China Sea to the north and surrounded by the Malaysian province of Sarawak. Relative to the other Commonwealth Asian countries, it has a small population but boasts a high rate of adult literacy (96 per cent), largely in English. The country's economy is dependent mainly on the export of hydrocarbons, with crude oil and natural gas accounting for almost 70 per cent of the economy and more than 90 per cent of exports. Brunei Darussalam became the sixth member of ASEAN in 1995.

Economic performance

Brunei Darussalam is a small and prosperous Commonwealth Asian country, with an average GDP per capita of US$32,413.9 in 2018. The global financial crisis hit its hydrocarbon-based economy hard, however; real GDP has contracted every year since 2012 amid subdued oil and gas prices and falling investment. In 2017, the real value of goods and services produced by the country was estimated at $30.8 billion, or approximately $1.3 billion less than in 2013. Brunei Darussalam has experienced falling or negative rates of economic growth since 2012.

Over the past five years, GDP per capita on a PPP basis has contracted by 2.6 per cent per year. In 2017, exports of goods and services declined by 2.7 per cent, following declines of 2 per cent and 10 per cent in 2016 and 2015, respectively. Spending on gross capital formation has been erratic over the period under review. In 2017, gross capital formation spending increased by 8 per cent, following a decline of 11 per cent in 2016 and an even larger decline of 31 per cent in 2014.

Economic activity in the country is largely driven by activities in mining and manufacturing, specifically oil production, which accounted for more than 56 per cent of GDP in 2017 (and 66 per cent in 2013). One of the reasons for the decline in the share of economic activity of mining has been the contraction in value added: while real value added in the industry rose by 1.2 per cent in 2017, this followed a contraction of 3.5 per cent in 2014 and a decline of 2.8 per cent in 2016.

Prices, wages and employment

The average rate of inflation in 2018 was low, estimated at less than 1 per cent. This was the ninth consecutive year of inflation below 1 per cent. The fall in consumer prices was broad-based across most categories, with most prices falling, including in housing, water, electricity, gas and other fuels, clothing and footwear, food and non-alcoholic beverages, and furnishing, household equipment and routine maintenance.

Fiscal developments

The slowdown in economic activity has resulted in a narrowing of the fiscal deficit in recent years, but it still remains large. In 2018, the fiscal deficit was estimated at 8.4 per cent of GDP following a deficit of 10.6 per cent in 2017, 21.7 per cent in 2016 and 14.5 per cent in 2015. The deterioration in the government's fiscal deficit owes largely to a slowdown in government tax revenue. In 2018, tax revenue was estimated at 23 per cent of GDP, down from 47 per cent in 2013. However, gross government debt remained low at just 19 per cent of GDP. The country maintained an external current account surplus throughout most of the period, estimated at 11 per cent in 2018.

Trade developments

The economy of Brunei Darussalam is based mainly on the production of energy products for export. Oil and gas exports account for over 90 per cent of total exports from the county, with major trading partners linked to oil and gas exports – including other ASEAN member states and Australia, China, Japan and South Korea. Japan imports 90 per cent of liquefied natural gas exports from Brunei Darussalam; most of the remainder goes to South Korea (Islam and Bahari, 2012).

Key development challenges

Diversifying the economy to other areas of economic activity could reduce the volatility of economic activity and generate new employment opportunities. In 2014, an Energy White Paper outlined a long-term vision of utilising more renewable energy resources, given that climate change is likely to be a significant threat to Asia.[4] These goals include 10 per cent of total energy demand being met by renewables, the development of utility-scale solar projects and an Export-Import Bank that would finance new energy projects in the country.

3.4 India

Country data	
Population (millions) (2017)	1,339
Area '000 km^2	5,765
GDP (US$, billion, 2018)	2,972
GDP per capita, PPP current international US$ (2018)	7,166
Currency	Indian rupee (INR)

With a population of more than 1.3 billion, India is the second most populous country in the world, behind China. Given its higher rate of population growth, India is expected to overtake China in 2024. The country borders six countries (Bangladesh, Bhutan, Burma, China, Nepal and Pakistan). Its economy is based mainly on agriculture, with approximately 60 per cent of the country classified as agricultural land. However, India also has a large variety of natural resources such as coal, iron ore, lead, bauxite, rare earth elements and diamonds, among others.

A key plank of development over the medium term will be the success of SAFTA, which encompasses Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Progress on expanding trade within the region has been slow, however, partly because of the large number of products on the 'sensitive list', which exempts them from the tariff liberalisation programme. The proliferation of 'para tariffs' – duties applied on imports rather than domestic production – is also an issue that needs to be addressed if SAFTA is to have any chance of emulating ASEAN in boosting regional trade (Kathuria, 2011).

In addition to trade, the new Indian government has identified a number of priorities, such as boosting the economy through a massive programme of investment in infrastructure, including housing. It also plans to step up reforms to the banking system, including merging some of the weaker banks. The government aims to reach 50th in the World Bank's Ease of Doing Business ranking – it jumped 23 places to 77th in the 2019 edition to become the highest-ranked nation in South Asia.

Economic performance

The total value of goods and services produced by India rose throughout most of the five-year period under review. In 2017, the country's real GDP surged to an estimated US$9.6 trillion, compared with US$8.8 trillion the previous year. This expansion is even more significant if one compares the level of economic activity to that of five years ago. In 2013, real economic activity in India amounted to only US$6.5 trillion. This means that, in just five years, GDP on a PPP basis has grown by more than a third, or the equivalent of US$2.2 trillion.

On the supply side, the economy is largely driven by activities in the areas of agriculture (including hunting, forestry and fishing), mining and manufacturing. In 2017, these three sectors generated 55 per cent of all economic activity. In 2017, mining and manufacturing was up by 5.5 per cent, following gains of 8.7, 12.1 and 8.1 per cent, in 2016, 2015 and 2014, respectively. The services industries also reported relatively robust rates of growth. Wholesale and retail trade as well as transport storage and communications both rose by just under 7 per cent in 2017 following similar rates of growth in 2016.

Despite the tremendous growth in the size of the Indian economy over the past five years, the country still has one of the lowest levels of GDP per capita among Commonwealth Asian countries. In 2017, GDP per capita on a PPP basis was US$7,166, up from US$6,636 in 2016 and US$5,262 in 2013. In contrast, the average level of GDP per capita on a PPP basis among Commonwealth Asian countries was US$22,993 in 2017. Growth in the standard of living in India has been, on average, above that for other Commonwealth Asian countries. In 2017, GDP per capita on a PPP basis rose by 6 per cent, in line with the average rate of growth for the previous five years of 6.2 per cent, but marginally slower than the 6.9 per cent reported one year prior in 2016. This growth was driven largely by increases in government and household expenditure. In 2017, government final consumption spending rose by 11 per cent, while in household expenditure was up by 6.6 per cent. Since 2014, government final consumption expenditure has grown steadily, reaching as high as 12 per cent in 2016. Similarly, household consumption expenditure has grown by approximately 7 per cent per year since 2014.

Prices, wages and employment

Inflation has slowed in recent years, largely because of lower food prices owing to increased rainfall during the monsoon season, reforms in agriculture and reduced domestic demand.[5] In 2018, the rate of consumer price inflation was estimated at 3.5 per cent, down from 3.6 per cent in 2017, and significantly lower than the double-digit rates of inflation experienced in 2012 and 2013.

The unemployment rate in India has risen sharply in recent years. At the end of 2018, the unemployment rate was just over 7 per cent compared with 2017, when unemployment was just 5 per cent. This significant increase in unemployment owed to rising urban as well as rural unemployment.

Fiscal developments

The Indian government's fiscal position has improved in recent years owing to significant increases in revenue as well as expenditure restraint. In 2018, the fiscal deficit was estimated at 6.7 per cent of GDP, down from 7 per cent in 2017 and 2013. General government revenue rose from 19.6 per cent in 2013 to 20.6 per cent in 2018, while government expenditure fluctuated around 26-27 per cent of GDP. Gross government debt, however, has not changed much over the period under review, fluctuating around 69 per cent of GDP over much of 2013 to 2018.

Trade developments

In an attempt to enhance export competitiveness, a number of export support mechanisms have been implemented. Exporters of finished goods can receive a refund of Goods and Services Tax (GST) paid. In addition, for labour-intensive businesses, the export subsidy has increased by 2 per cent.

Key development challenges

Youth unemployment (persons aged 15-24 years) remains a significant challenge for India. In the 2011 Census, it was estimated that almost 20 per cent of youth were unemployed. Given that young people account for almost 40 per cent of the labour force, it is clear that a significant portion of the labour force is not being utilised. The country is also significantly behind in relation to a number of SDG targets. Against a target of 11 per cent, almost 22 per cent of Indians live below the poverty line and just 29 per cent are covered by some type of health insurance scheme. In terms of female participation in the labour force, the average female to male wage ratio is 0.7 against a target of 1, while the ratio of female to male labour force participation is 0.32, well below the target of 1. In relation to adaptation to climate change, while most homes are electrified (94 per cent), just 44 per cent use clean cooking fuel, and the renewable share of installed generating capacity is just 17 per cent.[6]

3.5 Malaysia

Country data	
Population (millions) (2017)	32.4
Area '000 km^2	330.8
GDP (US$, billion, 2018)	354.3
GDP per capita, PPP current international US$ (2018)	29,511
Currency	Malaysian riggit (MYR)

Malaysia comprises the peninsula bordering Thailand and the northern portion of the island of Borneo (Sabah and Sarawak). Most of the country's people live on the Malay Peninsula. While Bahasa Malaysia is the official language, almost 134 languages are spoken in the country, including English, Chinese and Tamil, among others. The country has been slowly transitioning from an exporter of primary products to a diversified high-technology services economy. The 2019 Budget identified a number of key medium-term policy priorities. These include addressing the slowdown in Malaysian exports, promoting fiscal responsibility, managing debt sustainability and protecting the most vulnerable members of society. To this end, the Bantuan Sara Hidup Rakyat (a cash transfer programme) will attempt to take better account of household size, while there will be a focus on education, skills and entrepreneurship.

Economic performance

The level of real GDP on a PPP basis has risen significantly in recent years in Malaysia. At the end of 2017, GDP on a PPP basis was US$933 million, US$68.4 million greater than in 2016. Malaysia's real GDP in 2017 was also 30 per cent higher than the figure reported for 2013. As a measure of the size of the Malaysian economy, GDP in the country was almost 40 per cent higher than the average Commonwealth country in Asia. Malaysia is also one of the most prosperous Commonwealth countries in the region. GDP per capita on a PPP basis in 2017 was estimated at US$29,511, up from US$27,731 in 2016. This means that, for 2017, GDP per capita in Malaysia was US$5,000 more than the average for Commonwealth Asian countries.

The growth in the standard of living in Malaysia was on par with that of most Commonwealth Asian countries. Between 2013 and 2017, the average growth in real per capita income for Malaysia was 3.5 per cent. Over the same period, the average growth in real GDP per capita on a PPP basis for the typical Commonwealth country in Asia was 3.1 per cent. In recent years, however, growth has accelerated in Malaysia, with GDP per capita on a PPP basis rising by 4.4 per cent, following growth of just under 3 per cent in the previous year. Household consumption expenditure was the key driver of economic activity over the period. Between 2014 and 2017, annual household consumption expenditure rose by 6-7 per cent. In 2017, growth in GDP was also driven by a 9.4 per cent increase in exports of goods and services, the largest annual rate of change during the five-year period under investigation.

Industrial output is relatively evenly balanced between manufacturing and services industries. Annual average annual growth in services has outpaced that for mining and manufacturing over the past five years. During this period, the average annual change in wholesale, retail trade, restaurants and hotels was 7.2 per cent compared with just 4.6 per cent for mining and manufacturing. Construction activity was also strong over the period, increasing by just under 9 per cent on average over the past five years.

Prices, wages and employment

The rate of change in prices in Malaysia during 2018 was less than 1 per cent, down from 3.8 per cent in 2017. The slowdown in the rate of change in prices occurred as a result of suspension of the domestic fuel price adjustment, zero-rating of GST and a fall in food prices.

Underpinned by the relatively strong growth in economic activity, unemployment in the country remained low. The unemployment rate at the end of 2018 was therefore estimated at 3.3 per cent, down from 3.4 per cent in 2017. Employment gains were mainly among skilled workers, as firms attempted to meet demand for export goods and services.

Fiscal developments

The fiscal deficit has fluctuated around 3 per cent of GDP over the past five years. In 2018, the fiscal deficit was 3.6 per cent of GDP, almost 1 percentage point higher than the deficit reported in 2017 and the largest fiscal deficit reported since 2013. This worsening of the government's fiscal position owed largely to a rise in government expenditure as a percentage of GDP from 22 per cent in 2017 to 23 per cent in 2018. At the same time, government's tax revenue collections were virtually unchanged from the previous year. As a result of the deterioration in the government's fiscal position, the level of gross government debt rose from 55 per cent of GDP in 2017 to 56 per cent of GDP in 2018. The external current account was in surplus for most of the period.

Exporters are allowed to keep their earnings in Trade Foreign Currency Accounts to meet their demands for foreign currency of up to six months. This policy should make the process of managing the foreign currency needs of exports significantly smoother.

Key development challenges

As a consequence of its development, air pollution has become a serious challenge across the country. Carbon dioxide emissions are estimated to be over 8 MT per person, up from just 5 MT per persons in 2000. Even more worryingly, more than 90 per cent of the population is exposed to air pollution levels exceeding World Health Organization guidelines.

3.6 Pakistan

Country data	
Population (millions) (2017)	201.0
Area '000 km^2	881.9
GDP (US$, billion, 2018)	312.6
GDP per capita, PPP current international US$ (2018)	5,539
Currency	Pakistani rupee (PKR)

Pakistan is divided into three main geographic areas, with the climate ranging from dry desert to arctic in the north. The economy is still largely based around agriculture, but in recent years the country has been diversifying towards textiles, chemicals and other manufactured products. The new government in Pakistan has identified a number of priorities, including reviving economic growth, addressing corruption, maintaining fiscal discipline, boosting manufacturing and enhancing productivity in agriculture (Ashgar, 2018). Targeting these areas should help diversify the economy and put it on a stable growth path.

Economic performance

The value of goods and services produced in Pakistan over the past five years has risen significantly. In 2013, GDP on a PPP basis was US$841 billion. By 2016, it had crossed the US$1 trillion mark and continues to rise. Indeed, GDP in 2017 was estimated at US$1.1 trillion, up from 2016 when it was US$1.0 trillion. In line with the rise in GDP, the standard of living has also been rising. In 2017, GDP per capita on a PPP basis was US$5,539, up from US$5,244 in 2016 and just US$4,629 in 2013. This is something of a recovery for the economy, as it was significantly affected by the global financial crisis.

After 2007, the real rate of economic growth in the economy was zero or negative. It was only in 2012 that the real rate of change in GDP per capita on a PPP basis rose above 1 per cent. Since then, growth has been relatively robust, rising at over 2 per cent per year and then in 2016 and 2017 at over 3 per cent per year. In 2017, real per capita GDP on a PPP basis rose by 3.7 per cent following growth of 3.4 per cent in 2016. Much of this growth in recent years has owed to increases in final consumption expenditure as well as gross capital formation. In 2017, household consumption rose by 8.6 per cent, while general government final consumption expenditure was up by 10.7 per cent. The growth in gross capital formation over the period was also quite robust. Spending on new machinery and buildings increased by 8 per cent in 2017, following growth of 6.6 per cent and 14.6 per cent in 2016 and 2015, respectively.

The boom in spending on gross capital formation supported strong growth in the construction industry. In 2017, the construction industry expanded by 9 per cent, following growth of 15 per cent in 2016. This industry was by far the most buoyant over the period under review. Nevertheless, the economy still remained quite dependent on agriculture as well as mining and manufacturing to generate most of its activity. Agriculture, hunting, forestry and fishing accounted for a quarter of economic activity throughout the period. In contrast, the mining and manufacturing industry, which generated almost 20 per cent of economic activity in 2013, witnessed a fall in its contribution to overall economic activity by 2017. By 2017, it accounted for 17 per cent of overall economic activity.

Prices, wages and employment

As a result of rising food prices, consumer price inflation was estimated at 5.2 per cent in 2018, compared with just 3.9 per cent in 2017. Prior to 2018, however, inflation was largely contained to between 3 and 4 per cent per annum. The monetary authorities are working towards the implementation of an inflation-targeting regime and within recent years monetary policy communications have been enhanced.

Unemployment remains a challenge, particularly among the young and females. The overall rate of unemployment in 2018 was estimated at 6 per cent, largely in line with the reported rate of unemployment over the previous years. The unemployment rate for youth and females, on the other hand, is estimated at approximately 10 per cent. These rates of unemployment are even higher within rural areas.

Fiscal developments

The overall level of government indebtedness rose over the period as the government's fiscal position continued to deteriorate. In 2018, the fiscal deficit was estimated at 6.5 per cent of GDP, worsening from 5.7 per cent and 4.4 per cent in 2017 and 2016, respectively. The deterioration in the fiscal accounts owed mainly to relatively weak growth in tax revenues and continued rapid expansion in government expenditure. Over the period, government total expenditure rose from US$4,884 billion in 2013 to US$7,488 billion in 2018. Over the same period, government's tax revenue intake was just US$5,264 billion in 2018, up from US$3,011 in 2013. As a result of this widening in the fiscal deficit, the government's debt to GDP ratio was estimated at 72 per cent in 2018, almost 12 percentage points higher than in 2013. As Pakistan borrows to build out the China-Pakistan Economic Corridor of the Belt and Road Initiative, there is the possibility that debt will continue to rise. In addition to a worsening deficit on the fiscal accounts, the external current account balance deteriorated during the period and was estimated at 19 per cent of GDP, some 17 percentage points higher than in 2013.

Trade developments

Within recent years Pakistan has implemented an electronic platform for trade (WeBOC). This is meant to streamline import, export and custom clearance activities. The system can create and manage good declarations, letter of credit and e-payments, among other services.

Key development challenges

Poverty and access to technology are two of the key challenges to growth in Pakistan. It is estimated that a quarter of the population still lives below the national poverty line. In relation to technological access, only 15 per cent of people had access to the Internet in 2018, up from just 1 per cent in 2000.

3.7 Sri Lanka

Country data	
Population (millions) (2017)	21.7
Area '000 km^2	65.6
GDP (US$, billion, 2018)	88.2
GDP per capita, PPP current international US$ (2018)	11,691
Currency	Sri Lankan rupee (LKR)

Sri Lanka is an island in the Indian Ocean, located to the south of India. The country is prone to frequent weather-related natural disasters that affect agriculture. It depends on the export of textiles, tea, spices and other commodities to provide most of its foreign exchange. The island relies on imported fossil fuels as well as hydroelectric plants to provide most of its electricity needs. In 2017, 42 per cent of installed electric capacity was from hydroelectric plants, which are vulnerable to disruption during droughts.

Economic performance

The Sri Lankan economy has expanded quite rapidly over the past five years. In 2017, GDP on a PPP basis was US$275 billion, 5.3 per cent higher than in 2016. The amount of goods and services produced in the economy in 2017 was almost 30 per cent higher than in 2013. The continued expansion in the Sri Lankan economy occurred in spite of a series of major weather events that affected agricultural output. Recent terrorist attacks, however, have had a negative impact on the country's important tourism industry and will likely reduce economic activity in 2019.

The real change in the standard of living has not changed much over the period. In 2017, real GDP per capita on a PPP basis was US$11,691, just marginally higher than in 2016 and US$1,000 more than in 2013. Over the five-year period under review, the average annual rate of economic growth in GDP per capita on a PPP basis was 3.2 per cent per year. Most of this growth was driven by increases in gross capital formation. In 2017, gross capital formation is estimated to have risen by 18 per cent, following growth of 27 per cent in 2016. This significant growth in investment stimulated a significant increase in imports of goods and services, which reported double-digit rates of growth during much of the five-year period. Both household consumption and general government consumption, while positive, were significantly below the rate of growth reported for gross capital formation.

In line with the rapid pace of growth in gross capital formation, the construction industry has been the fastest-growing industry in Sri Lanka over the past five years. The average rate of growth in construction activity was 6 per cent per annum over the past five years. This growth tapered off somewhat in 2017, however, when the rate of change in construction value added was just 4.4 per cent, after expanding by 8 per cent in 2016.

Economic activity in Sri Lanka is driven largely by mining and manufacturing as well as services. The share of mining and manufacturing, led by textiles, in 2017 was estimated at 21.5 per cent, down somewhat from the 23.3 per cent reported in 2013. Besides these two areas, most economic activity is driven by services. Indeed, wholesale, retail trade, restaurants and hotels accounted for 13. 3 per cent of value added in 2017 while transport, storage and communications accounted for 13.1 per cent of GDP.

Prices, wages and employment

As a result of higher levels of food prices owing to domestic shortages caused by floods and droughts, inflation in Sri Lanka has risen in recent years. In 2017, the average rate of change in consumer prices was 7.2 per cent, up from 4.5 per cent in 2016. In 2018, however, prices declined to just 2.8 per cent as the rate of change in food prices moderated.

Since 2002, unemployment in Sri Lanka has generally trended downwards. In 2018, the average unemployment rate was estimated at 4.4 per cent, just marginally higher than the unemployment rate in the previous year. The jobless rate for women was estimated at 7.1 per cent, more than twice that for men (3 per cent).

Fiscal developments

The government's level of indebtedness has worsened over the past five years. In 2018, gross government debt was estimated at 84 per cent of GDP, up from 71 per cent of GDP in 2013. Sri Lanka's rate of indebtedness is the highest among all Commonwealth Asian countries – resulting from rising costs of servicing loans for post-war reconstruction at a time of structural economic weakness and shrinking export revenue. Many loans were arranged through Chinese banks during the Rajapaksa administration, including for Hambantota Port. In 2017, the underused facility was leased to China Merchant Port Holdings Limited for 99 years for US$1.12 billion.

The Sirisena administration has succeeded in bringing down the fiscal deficit, which narrowed to 5.3 per cent of GDP in 2018 from 6 per cent in 2016 and 7 per cent in 2015, amid improvements to the rickety tax system. The deficit remains below target, however, and a target of 3.5 per cent of GDP by 2020, in line with agreements with the International Monetary Fund (IMF), looks optimistic.

Trade developments

In attempt to enhance Sri Lanka's competitiveness, the Cabinet approved a New Trade Policy in 2017. This calls for the elimination of barriers to trade, improving the investment climate and policy, fostering firm growth and competitiveness and enhancing the efficiency of state-owned enterprises.

Key development challenges

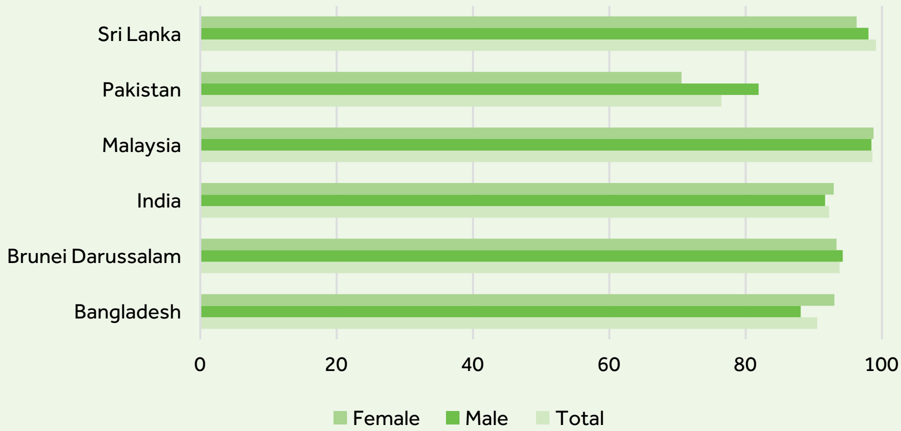
Sri Lanka has a relatively low female labour force participation rate; in 2017, this stood at 37 per cent compared with 75 per cent for men. This disparity persists despite the availability of free government-sponsored education and health care. Poverty levels remain high in parts of Sri Lanka's northern and eastern provinces. In the districts of Mullativu, Mannar and Batticaloa, rates of poverty are over 20 per cent. These areas were significantly affected by the country's civil war and still require significant investment in infrastructure and social cohesion to ease tensions (World Bank, 2017).

Special focus: Education

Access to education, at all levels, is one of the key drivers of growth and development. Access to education provides opportunities to escape poverty and also the quality labour that both the private and the public sectors require. In the majority of Commonwealth Asian countries, the primary school enrolment ratio exceeds 90 per cent (Figure 3.1). Pakistan's enrolment ratio, estimated at 70 per cent, is the lowest among the six countries. In addition to the relatively low primary enrolment ratio, there is also a significant gap between male enrolment (81 per cent) and female enrolment (70 per cent). While the policy documents of the government of

Figure 3.1

Primary school enrolment ratios for Commonwealth Asian countries (2017)



Source: World Bank, World Development Indicators.

Pakistan identify universal primary education as a goal, the enrolment ratios for the country are still far below those for other Commonwealth Asian countries with similar levels of income (Arif et al., 1999).

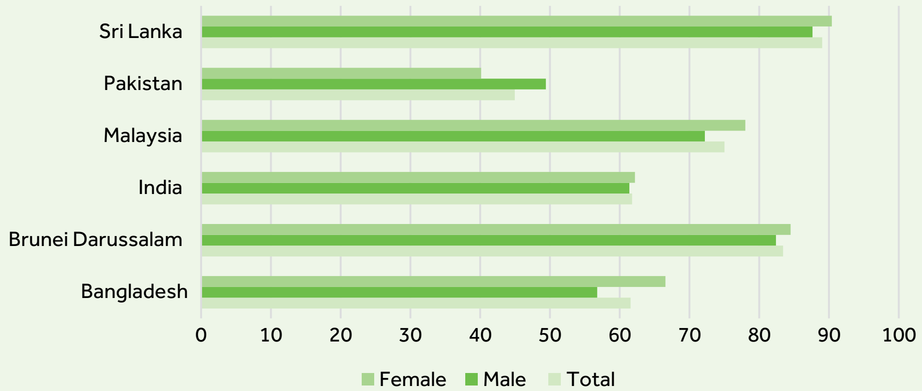
Factors influencing access to education include household income, parents' education and the ethnic background of the student. It is a something of a vicious cycle whereby poverty negatively affects the probability of school attendance for many generations. Addressing the issue of relatively low rates of primary school enrolment in Pakistan is therefore inextricably linked to the issue of poverty and it will require a multi-pronged approach to address the issue.

The performance of most Commonwealth Asian countries does not extend to the second and tertiary levels, with most countries performing poorly in relation to universal secondary school enrolment. The secondary school enrolment of most countries was over 60 per cent but nowhere close to the 90 per cent reported at the primary school level. Both Brunei Darussalam and Sri Lanka had enrolment ratios above 80 per cent. The achievements of Brunei Darussalam have been achieved through the promotion of inclusive educational practices within secondary schools. All children in the country are entitled to 12 years of free education in government schools, and under the Compulsory Education Order of 2007 attendance at school during the first nine years is mandatory for all children of school age (Fitzgerald, 2010).As a commitment to its Education For All efforts, the government also submits national reports to the United Nations Educational, Scientific and Cultural Organization. Meanwhile, in 1997, the government of Sri Lanka initiated a comprehensive set of education reforms aimed at improving access and learning outcomes (Little, 2011). While there are still a number of challenges with the implementation of these reforms (e.g. availability of finance and human resources), the policies have been beneficial, given high enrolment at the secondary level in Sri Lanka relative to its peers.

The performance of Commonwealth Asian countries on tertiary education is mixed, with countries such as Malaysia seeing relatively high rates of enrolment and

Figure 3.2

Secondary enrolment ratios for Commonwealth Asian countries (2017)



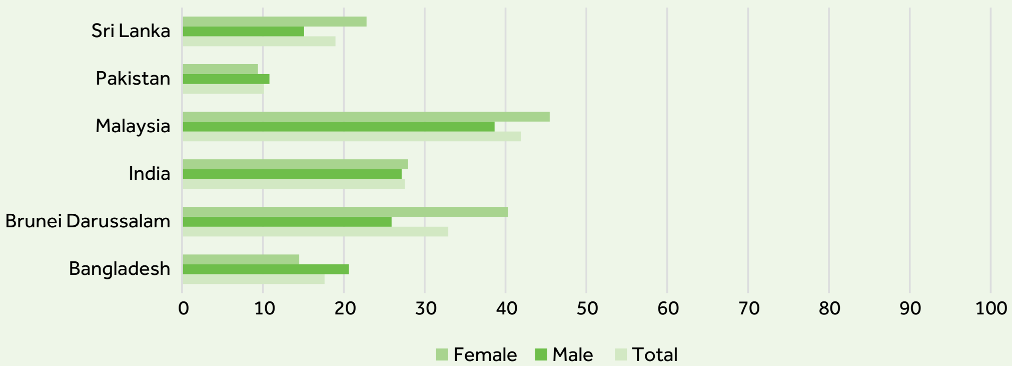
Source: World Bank, World Development Indicators.

Bangladesh, Pakistan and Sri Lanka all below 20 per cent. Enrolment at the tertiary level normally provide the human capital needed for innovative and expanding industries. Providing access to students to education beyond tertiary level will be a key part of providing the labour resources of the 21st century.

Malaysia's performance in relation to tertiary education was set out in its Wawasan 2020 (Vision 2020) of the Mahathir Administration in 1991. According to this, approximately 40 per cent of youth aged 19–24 would be admitted into tertiary education. Wawasan 2020 was then supported by the National Higher Education Strategic Plan 2020 and the National Higher Education Action Plan 2007–2010 (Mok, 2012). One of the interesting features of the Malaysian educational system is that it provides multiple routes to university education: students can pursue the traditional academic path or technical and vocational education and training as a secondary or alternative route (Da Wan et al., 2018). In addition, supporting mechanisms such as the Higher Education Student Loan Fund has also widened access

Figure 3.3

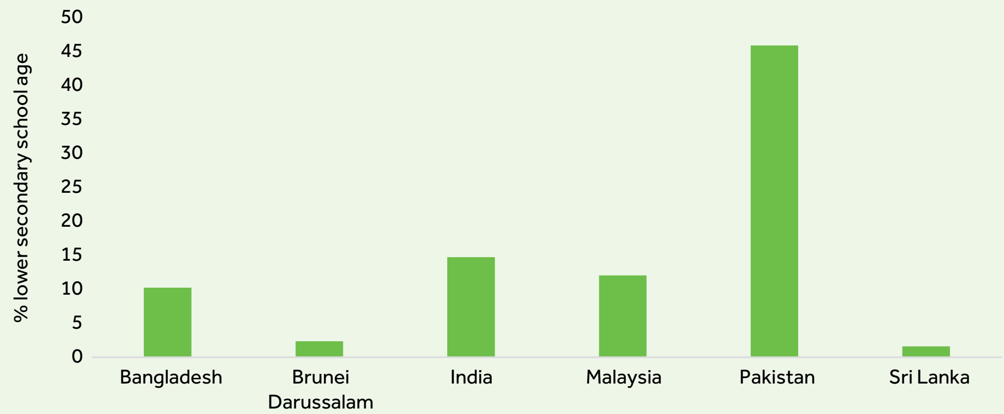
Tertiary enrolment ratios for Commonwealth Asian countries (2017)



Source: World Bank, World Development Indicators

Figure 3.4

Adolescent dropout rate for Commonwealth Asian countries (2017)



Source: World Bank, World Development Indicators.

and enhanced equity in relation to higher education. It should be noted, however, that the loan fund suffers from several problems (e.g. a high non-repayment rate) that will need to be addressed.

Despite the advancements in relation to education made in recent years, the adolescent dropout rate among Commonwealth Asian countries remains a problem. In four out of the six countries under investigation, the dropout rate is more than 10 per cent; in Pakistan, it is almost 50 per cent. Adolescent dropouts not only lag behind in key social statistics but also can have a negative effect on the economic, social, cultural and political balance of society (Farooq, 2013).

The key factors identified to explain this relatively high dropout rate in Pakistan include difficulty in learning, lack of interest in studies, lack of interest in school, corporal punishment, class repetition, financial difficulties and the harsh attitude of teachers. Addressing the issue of the relatively high dropout rate will therefore require both changes to the educational systems and targeted interventions to inform both parents and students about the importance of schooling to their long-run opportunities.

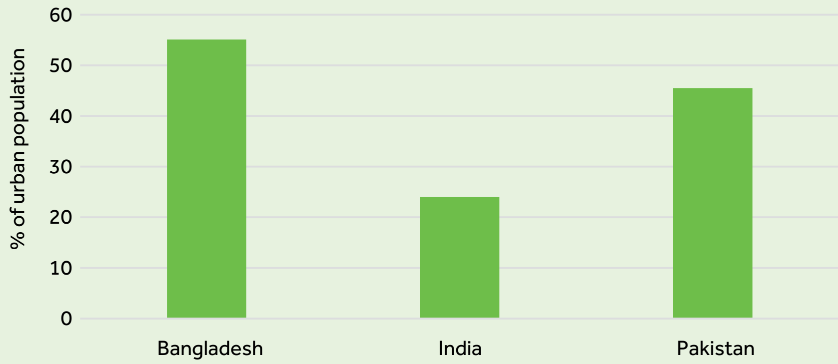
3.8 Key development challenges

The effects of climate change are already one of the main development challenges facing the Commonwealth Asian developing countries. Extreme rainfall events and flooding are an increasing risk across the region (Mirza, 2011), linked to shifts in the start and end dates of the monsoon season and more frequent and intense cyclones. Global climate change models suggest that, relative to the 1960-1990 period, rainfall in India could be more than 50 per cent higher. Floods can devastate crops and communities, with significant economic implications. In Bangladesh, for example, flood-related damage is on average US$175 million per year.

Maintaining food security, especially for the most vulnerable communities, is clearly a priority for authorities in the region as the climate changes. For many low-income households, this is about not only access to harvested crops but also jobs and income

Figure 3.5

Population living in slums in various Commonwealth Asian countries (2016)



Source: World Bank, World Development Indicators.

obtained from agriculture. Women and children are particularly vulnerable to shocks to agriculture.

Floods also have public health implications. Downstream areas of the Ganges, Brahmaputra and Meghna basins are frequently affected by cholera during flood and drought seasons. Indeed, most of the diseases occurring during the monsoon season are water-related. These include diarrhoea, dysentery and dengue fever, outbreaks of which increase if wells are drowned during floods. A lack of fuel and wood to boil and purify water only makes the problem worse. It is estimated that a 45 cm rise in sea levels would impact 11 per cent of the population in Bangladesh (Mirza, 2011). These effects could worsen if they are combined with severe cyclones and could lead to the creation of climate refugees.

While floods affect largely rural populations, cities in Commonwealth Asian countries also face challenges in relation to sustainability. In Bangladesh more than half of the urban population lives in slums, while in India and Pakistan this figure is above 20 per cent. Residents are vulnerable to many health challenges, such as HIV/AIDS (Ghosh et al., 2009), low levels of immunisation (Nath et al., 2007) and food insecurity (Gupta et al., 2015). Residents of these slums therefore face a number of development challenges that require a multi-pronged approach.

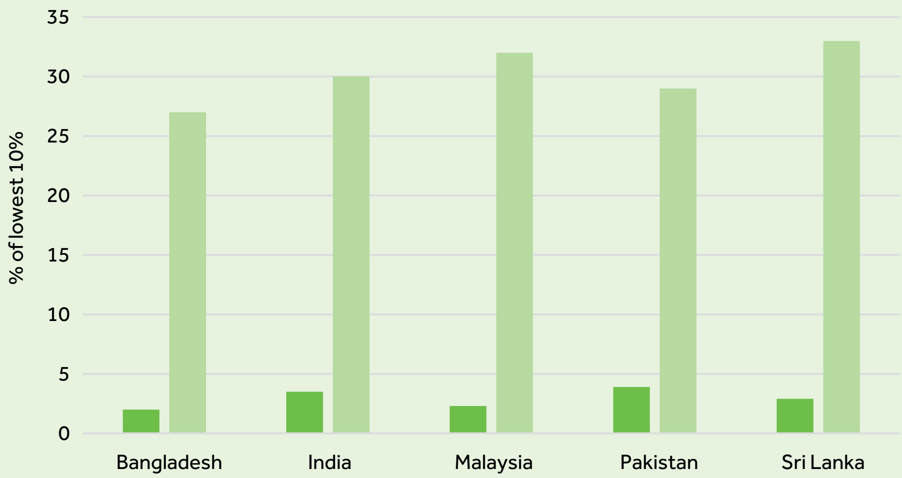
Slums are to some extent symptomatic of the problem of inequality in Asia. Even though many Commonwealth Asian countries have grown quite rapidly over the past 10 years, many on the bottom rung of society have been left behind. In many countries, the bottom 10 per cent of the population normally accounts for less than 5 per cent of national income, while the top 10 per cent normally accounts for over 25 per cent.

3.9 Policy priorities

The countries of Commonwealth Asia are very diverse. In terms of human development, some countries perform poorly in relation to indicators of human development, while other countries are in the upper tier of the United Nations Human Development Index (HDI). Brunei Darussalam was the highest ranked country, at 39th, while Malaysia was ranked 57th out of 189 nations. Both these countries performed well above their neighbours in relation to schooling (expected years of schooling in Brunei Darussalam was 14.5 years and that in Malaysia 13.7 years), the adult literacy rate was over 90 per cent and life expectancy at birth was over 75 years.

Figure 3.6

Income share held by lowest 10% in Commonwealth Asian countries (2016)

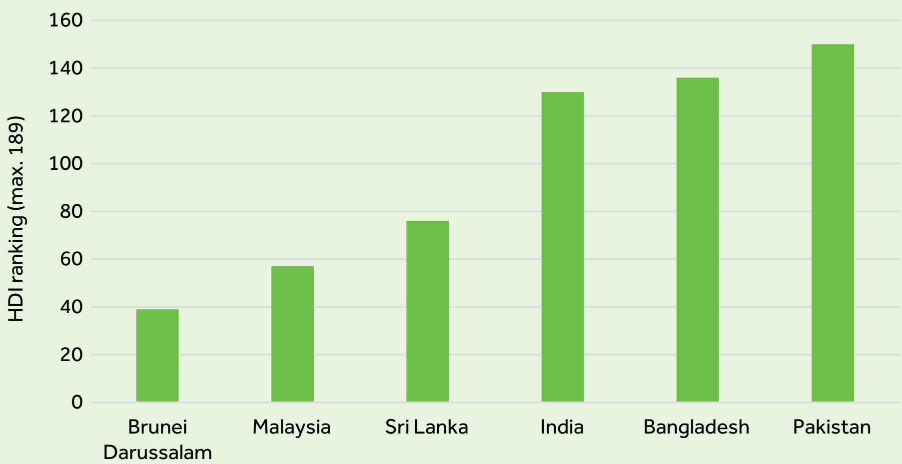


Source: World Development Indicators Database.

For those countries with poor records in relation to human development, providing essential services will be a key part in addressing the human development challenge. This means prioritising universal access to education and health as a key part of achieving the SDGs. In Bangladesh, less than half of all births are attended by a skilled health practitioner. This is in contrast with Brunei Darussalam, where the ratio is 100 per cent, and India, where it is 86 per cent. In India and Pakistan, however, over 10 per cent

Figure 3.7

HDI rank for Commonwealth Asian countries (2017)



Source: United Nations Development Programme.

of one year olds are reported to be lacking proper immunisation. Infant mortality also tends to be a challenge, with the mortality rates for infants (per 1,000 live births) estimated at 28.2 in Bangladesh, 34.6 in India and 64.2 in Pakistan.

In relation to education, many of the countries that perform poorly in terms of health also ranked low in relation to education indicators. With the exception of Malaysia, all the countries under investigation reported mean years of schooling below 10 years. In addition, mean years of schooling for females is lower than that for males. It is therefore not surprising that Malaysia, the country with the highest mean years of schooling, also reports the fastest rate of economic growth over the period and the lowest rates of poverty in the region.

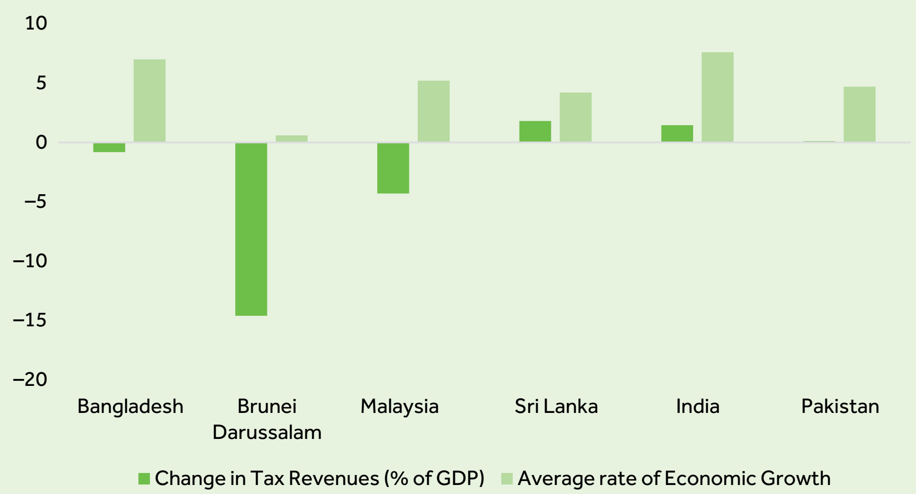
While one would have expected that growth in many Commonwealth Asian countries would be associated with increased tax revenues, there seems to have been a decoupling of the relationship between revenues and economic growth in the region. Figure 3.8 suggests that, in all of the countries under investigation, economic growth exceeded the growth in tax revenues over the period (2014–2018). This implies that, while growth and incomes are being generated in the region, this is not resulting in additional revenues that can be used to provide social services for citizens and help those at the bottom of the income ladder. This will mean the region will need to focus on utilising broader-based approaches to taxing beyond just direct taxes, as well as reducing the number of exemptions available to those contributing to income taxes.

3.10 Risks to the outlook

The countries in Commonwealth Asia are highly integrated into the global economy. Growth in many countries is driven largely by exporting to more developed countries. Any slowdown in the growth prospects for developed countries will have implications for export-dependent countries. These spill-over effects between developed countries and South Asia have been identified in relation to capital markets (Wang et al., 2005), foreign direct investment (Sahoo, 2006) and trade (Din, 2004). In addition, even if some countries are not directly affected by a slowdown in

Figure 3.8

Change in tax revenues and economic growth rates for Commonwealth Asian countries (2017)



Source: IMF, World Economic Outlook.

demand from more developed countries, integration within the region means there are likely to be spill-over effects to other nearby countries. India, for example, because of its linkages to other countries in the region, has a significant effect on growth in many other South Asian countries (Ding and Masha, 2012).

The USA, driven by accusations of unfair trade practices, imposed tariffs worth billions of dollars in 2016, prompting China to retaliate with similar tariffs. While there have been off-and-on trade talks between the two countries, an agreement has yet to be put in place to settle the dispute. The impact on Commonwealth Asian countries has been mixed. Some countries are expecting to benefit from the dispute between the two economic powers. Malaysia, for example, is hoping that some manufacturing currently based in China will move to Malaysia to avoid the tariffs placed on Chinese goods. Overall, however, the dispute between China and the USA is likely to have a negative effect on the region, owing to its effects on global growth. The China-US dispute is likely to shave a couple points off global growth and therefore negatively affect the Commonwealth Asian countries.

Political turbulence in the region has the potential to negatively affect development in the region. Sri Lanka is still tense after the suicide bomb attacks on Easter Sunday, which has exacerbated political tensions. Disputes between Buddhist and Muslim populations have increased since the attacks. The terrorism and the backlash have had a negative impact on the island's tourist industry, with many countries issuing travel warnings.

The countries of Commonwealth Asia are all likely to face significant environmental risks as a result of climate change. Typical climatic events such as cyclones and floods are likely to be more frequent and devastating, while rising sea levels will magnify the impact of these climatic changes. In 2019, both India and Bangladesh were affected by a rare summer cyclone, which killed 34 people in India and 15 in Bangladesh. The frequency of extreme floods is already on the rise in Bangladesh, India and Pakistan, and this trend will likely continue with further global warming (Mirza, 2011). Malaysia has a number of policies in place to tackle the issue of climate change, including a National Policy on Climate Change. A key plank of adaptation efforts has seen a focus on the availability of water, given that most projections for the region suggest this will be a key challenge. Other countries in the region will need to take a similar proactive stance as the effects of climate change affects the region's agricultural industry and food supply.

Notes

1 http://www.pbs.gov.pk/sites/default/files//Labour%20Force/publications/lfs2017_18/TABLE-15_perc_R.pdf

2 http://hdr.undp.org/en/data

3 A Gini coefficient of 0 indicates perfect equality.

4 https://oxfordbusinessgroup.com/analysis/embracing-renewables-confronting-reality-climate-change-has-become-priority-sultanate

5 http://www.fao.org/giews/countrybrief/country.jsp?code=IND

6 https://sdgindiaindex.socialcops.com/YuJbcq9d44/state-ut-ranking/basic#3/23.00/81.26

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