South Asia to face slow demand

REPUBLICA
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South Asia could take a fresh pounding from sluggish demand in the development world, even though it escaped the negative impact of the global economic slowdown in 2010, says a report of United National Economic and Social Commission for Asia and the Pacific (ESCAP).

"Export growth rate in South Asia is slowing down and the region, India in particular, is exposed to volatile capital flows," said Dr Nagesh Kumar, chief economist and director of macroeconomic policy and development division, ESCAP citing the year-end update of the Economic and Social Survey 2010.

The report has mainly noted that speculative inflow, resulting from low interest rate and excess liquidity in the US and European countries, has jacked up stock prices and market, building asset bubble and exerting pressure on exchange rate in India.

This has aggravated inflationary pressure and caused food prices to rise due largely to crop failures in Russia and Kazakhstan, in South Asia.

"In such a situation, monetary policy has become merely a blunt tool to deal with food prices," said Dr Kumar, suggesting to the countries in the region and Asia and the Pacific to develop new drivers to achieve higher growth.

The updated report also suggests the countries and rural development, strengthen social protection, promote financial inclusion and exploit potential of economic integration.

However, experts from the region like Dr Saman Kelegama of Institute of Policy Studies of Sri Lanka noted that South Asian Association for Regional Cooperation (SAARC) has so far failed to spur deeper economic integration of the countries in South Asia.

"SAARC needs to reap some economic gains to regain the people's optimism. This is necessary also to overcome politics and move forward," said Dr Kelegama, making presentation at the Third South Asia Economic Summit on Saturday.

Governor of Nepal Rastra Bank Dr Yubaraj Khatiwada stressed the need for liberalization of investment in the region to boost trade.