



**FIVE-YEAR REGIONAL OUTLOOK**

# South Asia

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**D**uring the next five years, slowing economic growth and growing polarization will pose an increasing risk to traditions of democratic and independent governance in several countries in South Asia. Many countries will strengthen their efforts to hedge and balance their relationships with multiple external powers, including China, Russia, Japan, and the United States. Through 2025, South Asia will have to manage the challenges that internal security problems, the risk of inter-state war, and the effects of climate change and pollution pose to at least some countries' longer-term democratic and economic development.

The judgments in this paper were made by the National Intelligence Council in consultation with outside experts and Intelligence Community analysts and do not reflect official US Government policy or the coordinated position of the US Intelligence Community.

## KEY TRENDS

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### Slowing Economic Growth

South Asia's socioeconomic development is gradually catching up with other parts of Asia, as access to clean water, electricity, the Internet, and transportation have increased in the past decade—often more rapidly than in other parts of the developing world. More than 270 million Indians climbed out of poverty between 2006 and 2016, according to an multidimensional poverty index published by international NGO, and Bangladesh has enjoyed sustained economic growth in recent years, based in part on increasing global demand for Bangladesh-made garments.

- South Asian populations have also become more connected to the rest of the world. For instance, the percentage of the population connected to the mobile Internet has almost doubled since 2014. India's more than 700 million Internet users make it the second largest online market in the world after China, according to commercially available statistics.

Some of this progress is likely to stall and possibly reverse during the next five years, however, as the prospects for rapid economic growth dim given the pandemic and other factors, some systemic. The slower pace of economic growth during the next five years is likely to be insufficient to employ the region's expanding workforce—especially as the world emerges from the pandemic. Before the COVID-19 outbreak, employment in India had reached a 40-year high until GDP growth slowed markedly in the latter half of 2019, and India's strict lockdown from March to May 2020 temporarily drove unemployment up to 23 percent.

- The region's economy is hampered by outdated legal systems, severe pollution, water shortages, and highly bureaucratic regulatory environments—all increasing investor uncertainty. No government in the region is prepared to undertake economic reforms on the scale required to generate robust growth.

- Almost all the economies in the region remain focused on agriculture, with the bulk of their workforces dependent on farming. Most countries' agricultural sectors are underproductive in relation to the large share of government funds and natural resources they consume. This disparity is driven by a variety of factors, including growing water scarcity, environmental damage and climate change effects, and government failure to reform agricultural subsidies that benefit rural constituents at the expense of growing urban populations.
- During the next five years, prospects for increased regional trade or energy cooperation are low, due in part to the high probability of ongoing hostility between India and Pakistan. Trade within South Asia is already the lowest of any region in the world.
- Many of the countries in the region—excluding India and Bhutan—will continue to look to China to finance development projects, judging from the scale of existing projects and loans. Some of this investment is likely to aggravate short- and medium-term economic and financial weaknesses throughout the region, and may have a mixed effect on long-term economic vitality because some portion of this investment probably will compound existing debt problems, lack strong connections to productive economic activity, or subsidize inefficient infrastructure developments.

### Climate Change and Environmental Degradation

The region is experiencing the effects of severe environmental degradation and climate change, including changing rainfall patterns, increasing heatwaves, salinization of river deltas, erosion, and desertification. These effects contribute to increasing rural to urban migration, overwhelming cities such as Dhaka, Bangladesh, where large and unsustainable informal settlements are increasingly vulnerable to water- and vector-borne diseases. Water insecurity in the region is also an increasing risk. For example, the United Nations

Development Program forecasts that Pakistan could face absolute water scarcity by 2025, given a combination of poor water conservation practices, rising temperatures, and decreased rainfall.

In addition, humanitarian crises triggered by cyclonic storms from the Indian Ocean probably will worsen because of the intersection of climate change effects and environmental degradation resulting from rapid urbanization and deforestation. Previous extreme weather events, such as the 1970 cyclone in the Bay of Bengal, contributed to state failure in East Pakistan and the creation of Bangladesh the next year, suggesting future events could also prompt a regional crisis with enormous humanitarian, political, and security implications to which external powers probably would try to respond.

### **Polarized Politics, Authoritarian Leaders**

Elections are the foundation of political power in some South Asian countries, although in some states, attempts to ensure election outcomes have fueled instability and opposition complaints. India's elections are the largest democratic exercise in the world, with more than two-thirds of the country's 911 million eligible voters having cast ballots in the 2019 national elections. Sri Lanka had a peaceful transfer of power in 2019 after its presidential election, as did Maldives when the country elected its third president in 2018.

Despite some signs of sustained democratization, domestic politics in much of the region are likely to continue on the polarizing course of the past few years, and this trend may sharpen in some countries. "Strongperson" leaders, even those elected in largely free and fair contests, probably will push majoritarian agendas that widen factional divides—potentially weakening political stability in societies already split along sectarian and ethnic lines. This political polarization is rooted in strongly felt nationalist narratives that have become

prominent in recent years and met little effective resistance from opposition parties or the courts.

- The polarizing political rule of some leaders in the region probably will increase the inequities or abuses faced by minorities and political opponents of the ruling parties. In India and Sri Lanka, Muslims are likely to continue to experience growing political and economic discrimination from Hindu and Sinhalese Buddhist nationalist ruling parties.
- Afghanistan is seeing an intensification of ethnic tensions between Pashtuns and other ethnic groups, a trend that is accelerating as Afghans prepare for the withdrawal of Western troops.

The combination of eroding institutions, mounting security threats, and new digital technologies is likely to enable some South Asian leaders to continue advancing their authoritarian policies, but **probably in the face of an uncertain political cost associated with an economic slowdown.**

- Some of these leaders have applied majoritarian political formulae, whereas others have undermined independent judiciaries, election commissions, and politically neutral militaries and bureaucracies, weakening potential future resistance.
- Security threats have undergirded popular support for nationalist leaders, and these threats are likely to continue or worsen in some cases. For example, Sri Lankan concerns following the terrorist attacks in 2019 helped fuel Gotabaya Rajapaksa's success in the presidential election later that year, and military tensions between India and Pakistan are at their most contentious in many years, strengthening leaders in both capitals.
- Information technology is fueling authoritarian tendencies by making it easier for South Asian governments to influence their populations. In 2019, India led the world in Internet shutdowns by a wide

margin—with a number of months-long crackdowns to suppress protests, including in Kashmir. Pakistan has deployed Huawei’s *Safe Cities* technology, raising public fears of increased surveillance.

- The regional trend toward majoritarianism began during a period of economic growth, which enabled leaders to assume political risk in advancing their divisive policy preferences. An economic downturn might make nationalist policies more popular as a distraction from everyday problems, or alternatively might dampen the popularity of incumbents and improve their opponents’ electoral chances. In India and Sri Lanka, the opposition parties continue to espouse a more pluralist point of view.

### **Cultivating Multiple External Partnerships**

These economic and political trends, combined with China’s increased regional role, are pushing most governments to reaffirm the balancing approach many of them have employed in the national security sphere for decades. Most countries probably will see this as a win-win situation rather than a zero-sum calculation, as they expand ties with China, Russia, and other countries while also urging the United States to remain interested in the region.

The balancing approach, particularly in relation to China, also affects regional dynamics. Bangladesh, Maldives, Nepal, Pakistan, and Sri Lanka probably judge their countries can more easily deflect New Delhi’s demands or block its regional leadership aspirations by maintaining ties with Beijing. For its part, New Delhi probably will look for ways to mitigate Chinese influence given China’s expanding foothold in the Indian Ocean. For example, India almost certainly will continue to encourage Japan to offer economic investment and some military cooperation to other South Asian countries to push them to align more closely with New Delhi and Tokyo.

Most governments probably will try to leverage what they view as an increased desire by Russia to wield influence

in Asia, in some cases even at the expense of the United States. India almost certainly will continue to see Russia as a key defense partner, both for legacy defense systems and new capabilities, and will become increasingly focused on countering what it views as a strengthening Moscow-Beijing axis.

Even so, almost every government in the region will seek to maintain ties with the United States as part of their balancing efforts. The United States is the biggest export market for Pakistan, Sri Lanka, and Bangladesh, and most South Asian leaders continue to cultivate and publicly tout their relationships with Washington.

South Asian countries are also likely to remain critical to international peacekeeping efforts. South Asian countries in 2018 made up four of the top 10 contributing countries to UN peacekeeping missions, with Bangladesh taking the lead spot by 2020. India’s long support for UN peacekeeping formed a key part of its argument in securing a nonpermanent UN Security Council seat beginning in 2021-2022. India is also likely to seek to continue extending its regional and international role in other ways as resources permit; an Indian effort to help build capacity in Africa, for example, resulted in lines of credit totaling \$11 billion extended to 41 countries by 2020.

## **KEY UNCERTAINTIES**

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### **Afghanistan Stability**

If a security vacuum emerges in Afghanistan that results in a civil war between the Taliban and its Afghan opponents, expanded freedom of maneuver for regional terrorist networks, or criminals and refugees flowing out of the country, it would have implications across the region. Such an outcome probably would exacerbate political tensions and conflict in western Pakistan and sharpen the India-Pakistan rivalry by strengthening Islamabad and New Delhi’s longstanding concerns about covert warfare.

### **Potential for Miscalculation Leading to War**

India and Pakistan may stumble into a large-scale war neither side wants, especially following a terrorist attack that the Indian Government judges to be significant. The ability of Pakistan-based terrorists to conduct attacks, New Delhi's resolve to punish Islamabad after such an attack, and Islamabad's determination to defend itself are likely to persist and may increase. Miscalculation by both governments could prompt a breakdown in the deterrence that has restricted conflict to levels each side judges it can manage. A full-scale war could inflict damage that would have economic and political consequences for years.

Similarly, India and China may slip into a conflict that neither government intends, especially if military forces escalate a conflict quickly to challenge each other on a critical part of the contested border. In June 2020, a short military exchange that resulted in the deaths of at least 20 Indian soldiers exacerbated the strategic rivalry between Beijing and New Delhi and sharply affected international perceptions of both countries.

### **The Appeal of Chinese Economic Engagement**

China is likely to remain the biggest source of development funding in South Asia, but it is less clear whether it will maintain its lead to the same extent. Factors affecting China's lead include the extent of funding available from other sources such as Japan, the Gulf states, and the West; the level of scrutiny applied to governments when approving non-transparent loans from China; the publicly available information about the potential benefits and risks of major projects; and China's willingness to prioritize investment in South Asia on the scale of the past 5-10 years.

### **Possible Large-Scale Political Violence**

Internal violent unrest in every country in the region except Afghanistan has been decreasing at varying rates during the past decade. However, political polarization, including along sectarian and ethnic lines; authoritarian or illiberal leadership; slower economic growth, and the

undermining of independent political institutions seem likely to revive past drivers and remove some impediments to violence. In addition to the risk of domestic political violence, sharpened competition for diminishing supplies of water and other natural resources in parts of the region probably will continue.