

Impact of Asian Financial Crisis in South Asia

QUESTION

How is the financial crisis affecting the countries of South Asia and how is this situation having an impact on Canadian interests?

SUGGESTED REPLY

- So far, the countries of South Asia have been relatively unaffected by the currency crisis in Southeast Asia.
- A cautious approach to trade and investment liberalization has shielded these countries from large fluctuations in their currencies.
- The economic fundamentals in the South Asian countries such as India have also been sound. For example, India's current account deficit is less than 2%, it has foreign exchange reserves of over \$30 billion and very little speculative foreign investment. The banking system is solid. India has allowed its overvalued currency to devalue by 10% over the past six months.
- Given the strong fundamentals, the countries of South Asia should be in good shape to face uncertainties caused by the crisis in the years ahead. Sectors that compete head-to-head against competitors in Southeast Asia, such as textiles, may come under increasing pressure. In addition, anticipated investment from Southeast Asia will be reduced.
- The "1996 Team Canada" mission to the region laid the groundwork for increases in Canadian exports and investment in the region. Canadian companies are counting on continued trade and investment liberalization as they increase their activities in the region. Canadian companies' primary interest in South Asia is infrastructure development.
- Infrastructure modernization and expansion are major objectives for countries in the region. Plans for the opening of these sectors to foreign participation remain unchanged. This is despite pressure on these countries to adopt a "go slow" approach to liberalization because of the currency crisis.