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Issues and Prospects

APAC Report • November 2025

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Executive Summary

South Asia has made significant economic progress, particularly since the 1980s. Economic reforms and a commitment to globalization have fueled growth across individual South Asian countries. Alongside government initiatives, the private sector has played a critical role in the region's economic transformation. South Asia offers a vast market of 1.5 billion people, creating immense opportunities for trade and investment both within and beyond the region. Regional forums such as SAARC and BIMSTEC have further opened avenues for trade and investment. However, challenges such as inadequate transit infrastructure, non-tariff barriers, and limited intra-regional investment continue to hinder private-sector-led growth (ADB/FICCI, 2010).

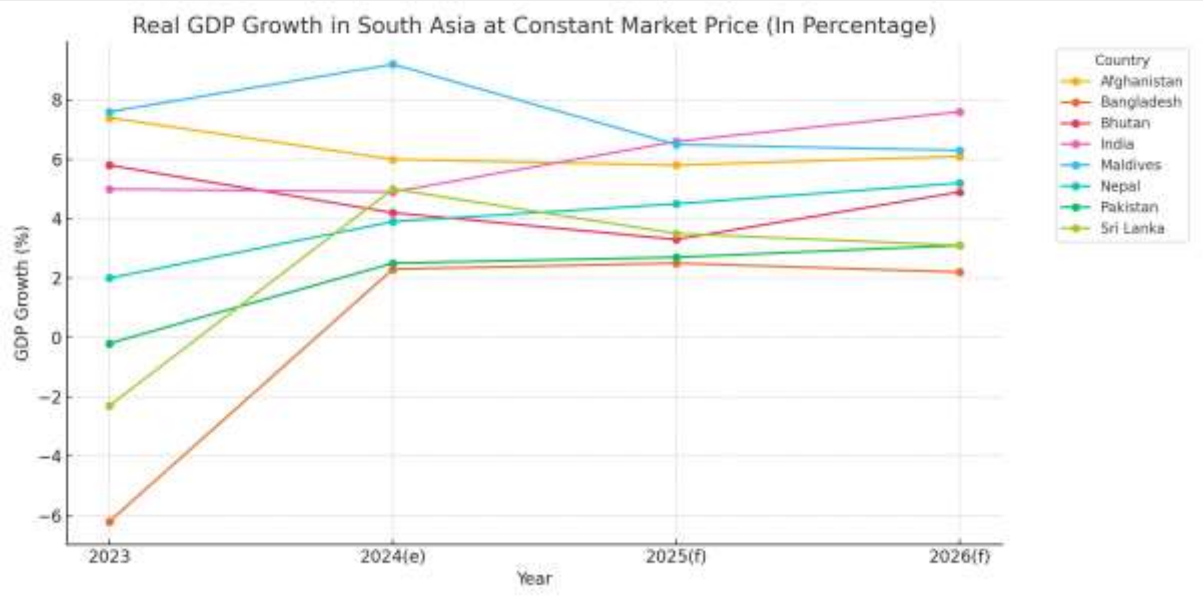
The South Asian region comprises eight countries with diverse economies, cultures, ethnicities, and political systems: Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka (Shahid & Ahmed, 2021). It also boasts the world's largest working-age population and a quarter of the global middle-class consumer base, concentrated primarily in urban areas (Dutta, 2023). This socio-economic diversity presents significant opportunities for trade, investment, and economic cooperation. South Asia, particularly India, as its largest economy, is playing an increasingly prominent role in the global economy (De, 2014).

Keywords: South Asia, FDI, Foreign Trade, and Development

South Asian Economy and Business Environment

South Asia is one of the most populous regions in the world, with India leading in population (1.4 billion), followed by Pakistan (274 million) and Bangladesh (178 million). Other South Asian countries, such as Afghanistan, Nepal, Sri Lanka, Bhutan, and the Maldives, have smaller populations. While countries like India, Maldives, Bhutan, and Sri Lanka have successfully reduced poverty levels through liberal economic policies, others—such as Afghanistan, Pakistan, and Bangladesh—continue to face high poverty rates (see Table 1).

In 2024, South Asia achieved a GDP growth rate of 6.0%, though this is projected to decline slightly to 5.8% in 2025 (Annex Table 2). India recorded the highest GDP growth, followed by Bhutan, the Maldives, Sri Lanka, and Bangladesh. However, countries like Afghanistan and Pakistan have struggled to sustain growth, and GDP levels across the region are expected to decline in 2025. Inflation remains a significant issue, with Pakistan and Afghanistan experiencing the highest levels, followed by Bhutan, Nepal, and India.



India's economic success can be attributed to factors such as increased physical capital per capita, human capital development, and deeper financial integration. South Asia's large population base, particularly in India, Pakistan, and Bangladesh, represents a growing consumer market. As the region's poverty levels decline, consumption capacity has increased, driving demand for consumer goods. South Asia's business environment is multifaceted, with vibrant economies and globally successful multinational companies like Samsung, Tata, and Alibaba operating in the region (Suder & Tsai, 2021).

According to the World Bank's *Doing Business* rankings, India is the highest-ranked economy in South Asia (63rd), followed by Bhutan (89th) and Nepal (94th). Other countries, such as Bangladesh (168th) and Afghanistan (173rd), rank much lower. Sri Lanka, Pakistan, and the Maldives occupy intermediate positions at 99th, 108th, and 147th, respectively (Annex Table 3).

The rankings measure business conditions for local firms, highlighting the region’s diverse business environments (Ani, 2015).

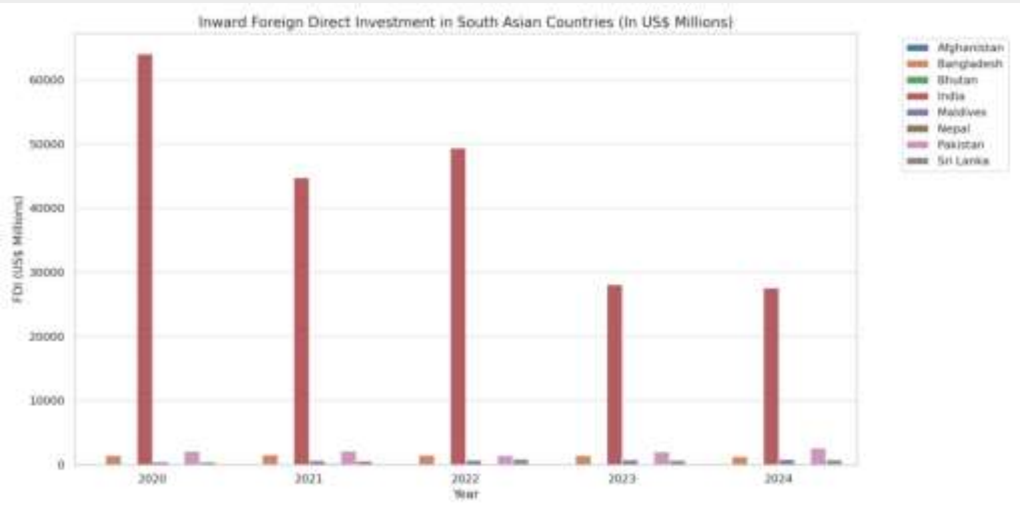
A World Bank study emphasizes that economies do not need to be wealthy to create a favorable business environment. Countries like Georgia, the Kyrgyz Republic, and Nepal have demonstrated strong operational efficiency, while Cambodia, Rwanda, and Togo have excelled in regulatory frameworks (World Bank Group, 2024). For example, Nepal ranks 37th globally in access to credit information due to the expansion of its Credit Information Bureau (CIB) and 60th in cross-border trade (Ghimire, 2019).

However, limited access to finance remains a significant constraint for businesses in low- and middle-income countries, including South Asia (Haider, 2018). Many South Asian entrepreneurs, particularly women and youth, struggle to secure capital to sustain their businesses. A study on Pakistan’s small and medium enterprises (SMEs) found that while banks play a positive role in SME growth, most rely on informal financing sources such as moneylenders (Khan, 2015).

Corruption is another major barrier to business in South Asia. The region is poorly governed, with a weak rule of law and low rankings across business environment indicators. Challenges include inadequate infrastructure, unreliable electricity access, high tax burdens, weak contract enforcement, and insufficient investor protections (Kanungo, 2017). Political instability, ethnic conflicts, and religious riots in certain countries further discourage investment (Singh, 2025).

Inward FDI in South Asia

Foreign direct investment (FDI) is a critical driver of economic growth in developing countries, addressing financial deficiencies, transferring technology, and creating jobs (Afzali, 2019). South and Southeast Asia have attracted significant FDI due to their large consumer base, competitive labor costs, and relatively favorable investment climates. However, disparities in income distribution, institutional quality, and human capital development persist (Chizema, 2025).



In 2020, South Asia hosted $69.95 billion in FDI, with India accounting for the largest share ($64.07 billion), followed by Pakistan ($2.06 billion), Bangladesh ($1.46 billion), Sri Lanka ($434 million), and the Maldives ($440.7 million) (see Table 4). However, FDI inflows declined sharply after the COVID-19 pandemic. By 2024, India's FDI had dropped to $27.56 billion, while Pakistan and Bangladesh also experienced declines. Afghanistan's FDI inflows ceased entirely after the Taliban's return to power in 2022.

Countries like Bhutan and the Maldives, however, saw modest increases in FDI between 2020 and 2024. Investment incentives such as tax holidays, profit repatriation, and liberal trade policies have supported FDI growth in the region. Factors influencing FDI inflows include market size, geographic proximity, trade relations, labor availability, and institutional quality (Le & Kim, 2021).

South Asia's performance in attracting FDI remains weak compared to other low- and middle-income regions. Most global FDI flows occur between high-income economies, as foreign investors prioritize institutional stability and governance when making investment decisions (Bewtra, 2022). India and Sri Lanka have relatively strong democratic institutions, but other countries, such as Pakistan, Bangladesh, and Afghanistan, face ongoing political and social instability, which deters investors (Tabash et al., 2024).

Conclusion

South Asia is one of the most populous regions globally, with significant economic potential. Economic reforms, liberalization, and globalization have driven growth, reducing poverty in countries like India, Bhutan, and the Maldives. However, Afghanistan, Pakistan, Nepal, and Bangladesh continue to face high poverty rates and slower economic growth.

The region's growing consumer market and abundant labor force offer immense opportunities for trade and investment. However, challenges remain, including poor governance, limited access to finance, inadequate infrastructure, and political instability. While India leads the region in the *Doing Business* rankings, other countries lag due to weak regulatory frameworks and institutional inefficiencies.

FDI inflows to South Asia have declined in recent years, exacerbated by the COVID-19 pandemic and political instability in some countries. While India remains the largest recipient of FDI, other countries, such as Bhutan and the Maldives, have also shown improvement. To attract more FDI and foster economic growth, South Asian nations must focus on improving governance, reducing corruption, enhancing infrastructure, and implementing policy reforms.

With its vast population, abundant resources, and strategic location, South Asia has the potential to become a global hub for trade and investment. By addressing its structural challenges and committing to economic integration and policy modernization, the region could witness significant growth and attract increased global investment in the coming decade.

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Annex

Table No. 1

Economic Indicators of South Asia – 2024

(Core Indicators)

Countries	Population (Million)	Population Living below Poverty Line	Annual Growth of GDP	Capital Gross National Income (US$)	Inflation Rate
Afganistan	34,20	49.4	2.3	380	-7.7
Bangladesh	178.48	18.7	4.2	2880	2.2
Bhutan	0.78	12.4	5.5	3040	9.7
India	1408.00	12.9	6.4	2540	4.7
Maldives	0.60	5.4	5.5	11070	1.4
Nepal	29.73	20.3	3.9	1430	5.4
Pakistan	274.66	21.9	2.5	1460	23.4
Sri Lanka	21.92	14.3	5.0	3540	1.2

Source: ADB (2025), 2025 – Basic Statistics, Asian Development Bank, Manila,
http://www.adb.org/publications/corrigenda

Table No. 2

Growth in South Asia – 2025

(Real GDP Growth at Constant Market Price)

Year	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
2023	7.4	-6.2	5.8	5	7.6	2	-0.2	-2.3
2024(e)	6	2.3	4.2	4.9	9.2	3.9	2.5	5
2025(f)	5.8	2.5	3.3	6.6	6.5	4.5	2.7	3.5
2026(f)	6.1	2.2	4.9	7.6	6.3	5.2	3.1	3.1

Source: WB (2025), South Asian Development Update, World Bank Group, Washington D.C.; pp. 1-61, www.worldbank.org

Table No. 3

Ranking Data for South Asia: Business Doing – 2020

Countries	Rank (1-190) DB	Ease of Doing Business Score (0-100)
Afganistan	173	44.1
Bangladesh	168	45.0
Bhutan	89	66.0
India	63	71.0
Maldives	147	53.3
Nepal	94	63.2
Pakistan	108	61.0
Sri Lanka	99	61.8

Source: Doing Business Database, 2020, Doing Business Fact Sheet, South Asia

Table No. 4

Inward Foreign Direct Investment in South Asian Countries

(In US$ Million)

Year	AFG	BGD	Bhutan	India	MDV	Nepal	Pakistan	LKA	South Asia
2020	13	1464.6	0.6	64072.2	440.7	126.5	2057	434.1	69950.7
2021	20.6	1572.2	1.1	44762.1	642.8	196	2147	592.3	51359
2022	0	1517.6	15.3	49379.8	731.7	65.1	1462	884.2	55555.7
2023	0	1464.1	14.2	28075.9	766.8	73.9	2048	713	34578.3
2024	0	1270.4	100.4	27556.6	806.2	57	2568	761.1	34568.7

Source: UNCTAD (2025), World Investment Report – 2025, unctad.org/publication/world-investment-report 2025, http://unctad.org.publication