

Explaining Growth in South Asia

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Pattern of growth in South Asia

Three distinct phases:

1. An early phase of growth that starts at the middle of the twentieth century and ends with the closing of the 1960s.
2. A middle phase of slow growth during the 1970s, which this paper calls the “dismal decade” of South Asia, and
3. Finally the phase of growth revival from the end of the 1970s up to the present.

Table 1

Phases of Growth in South Asia: 1950-2005

	Phase I	Phase II	Phase III
India	1950/51 – 1966-67	1967/68 – 1980/81	1981/82 – 2004/05
Pakistan	1950/51 – 1970/71	1971/72 – 1976/77	1977/78 - 2004/05
Sri Lanka	1950 – 1970	1971 – 1977	1978 - 2005
Bangladesh	---	1972/73 – 1980/81	1980/81 - 2004/05
Nepal	---	1970/71 – 1980/81	1980/81 - 2004/05

Table 2

Phases of Growth in South Asia: 1950-2005

	Phase I	Phase II	Phase III
India	3.5	3.9	5.7
Pakistan	4.8	4.4	5.4
Sri Lanka	4.0	2.9	4.8
Bangladesh	---	3.8	4.5
Nepal	---	2.2	4.4

Source: Calculated by the author from national and international sources.

Table 2A

Phases of Growth in India: 1951-52 to 2004-05
(Average annual growth rates)

	1952-1967	1968 - 1981	1982 - 2005
Agriculture	1.8	3.3	3.0
Industry	6.3	4.1	6.0
Manufacturing	5.9	4.3	6.1
Services	4.4	4.5	7.2
Total GDP	3.5	3.9	5.7
Population	1.9	2.9	2.0
Per capita GDP growth	1.6	1.6	3.7

Note: GDP is measured at factor cost and in constant prices of 1999-2000.

Source: Author's own estimates based on country data.

Table 2B

Phases of Growth in Pakistan: 1951-52 – 2004-05
(Average annual growth rates)

	1952-1971	1972 - 1977	1978 - 2005
Agriculture	3.1	2.4	3.9
Industry	9.6	4.8	6.7
Manufacturing	8.7	3.3	7.1
Services	5.0	6.5	5.5
Total GDP	4.8	4.4	5.4
Population	3.1	2.7	2.5
Per capita GDP growth	1.7	1.8	2.9

Note: GDP is measured at factor cost and in constant prices of 1999-2000.

Source: Author's own estimates based on country data.

Table 2C

Phases of Growth in Sri Lanka: 1950-51 to 2004-05
(Average annual growth rates)

	1951-1970	1971 - 1977	1978 - 2005
Agriculture	3.0	2.1	2.2
Industry	5.1	0.8	5.7
Manufacturing	4.3	1.0	6.0
Services	4.2	3.7	5.5
Total GDP	4.0	2.9	4.8
Population	2.6	1.6	1.4
Per capita GDP growth	1.4	1.3	3.4

Note: GDP is measured at factor cost and in constant prices of 1996.

Source: Author's own estimates based on country data.

A Popular View:

- The *first phase* of growth was stimulated by planned industrialization based on the strategy of import substitution and widespread protection;

A Popular View:

- The *second phase* of slow growth emerged when the cumulative cost of inefficient import substitution began to take its toll; and

A Popular View:

- The *final phase* of growth revival was unleashed only when (and only to the extent that) there occurred a strategic shift towards a more liberal trade policy.

An Alternative View:

- The focus on trade policy has very limited explanatory power.

An Alternative View:

- Trade policy was very important in the first phase, but not so much in the next two.

An Alternative View:

- Both the retardation of growth in the 'dismal decade' and the subsequent growth spurt were outcomes of a broader range of policies interacting with certain conjunctural factors.

These policies include:

1. State intervention in all aspects of the industrial scene:
 - directly in the form of public ownership,
 - indirectly through a web of administrative control,
2. The conduct of macroeconomic policies affecting aggregate demand,
3. Policies towards agriculture.

Causes of the 'Dismal Decade':

1. The most important policy failure:

- Intensification of state control in all spheres of the economy, of which intensification of trade restrictions was only a part.

Causes of the 'Dismal Decade': (contd.)

2. Effects of a series of unfavourable supply shocks throughout the region.

Causes of the 'Dismal Decade': (contd.)

3. Yet another policy failure:

- Adoption of an excessively contractionary macroeconomic policy in the face of supply shocks (especially in India, and to lesser extent, in Pakistan and Sri Lanka) .

Explaining the Growth Spurt of the Third Phase:

1. The initial escape from the 'dismal decade' was engineered by the Keynesian mechanism of expansionary macroeconomic policy everywhere in the region.

Explaining the Growth Spurt of the Third Phase: (contd.)

1. The initial escape from the 'dismal decade' was engineered by the Keynesian mechanism of expansionary macroeconomic policy everywhere in the region.
 - The precise mechanism and consequences differed across countries, but the common result was a strong expansion of aggregate demand.

Explaining the Growth Spurt of the Third Phase: (contd.)

1. The initial escape from the 'dismal decade' was engineered by the Keynesian mechanism of expansionary macroeconomic policy everywhere in the region.
 - This led to a growth spurt based on elimination of the excess capacity that had built up during the preceding phase of retardation.

Explaining the Growth Spurt of the Third Phase: (contd.)

1. The initial escape from the 'dismal decade' was engineered by the Keynesian mechanism of expansionary macroeconomic policy everywhere in the region.
 - Such artificial resuscitation could not be sustained for long, however, as stresses emerged in the form of external payments crisis and mounting debt burden.

Explaining the Growth Spurt of the Third Phase: (contd.)

2. As crisis loomed, the region was rescued by wide-ranging liberalising reforms that all countries of the region had adopted, with varying degrees of intensity, trying to make a decisive break with the statist past.

Explaining the Growth Spurt of the Third Phase: (contd.)

2. As crisis loomed, the region was rescued by wide-ranging liberalising reforms that all countries of the region had adopted, with varying degrees of intensity, trying to make a decisive break with the statist past.
 - Trade liberalisation was an important part of this reform process,
 - But no less important was internal liberalization – in the arenas of industrial regulation, financial system, distribution, power generation, and so on.

Explaining the Growth Spurt of the Third Phase: (contd.)

3. Rapid growth of agriculture also contributed significantly to economic recovery.
 - Already in the 1970s, Green Revolution in agriculture had laid the foundation of transition to a higher growth path (especially in India and, to a lesser extent, in Pakistan).

Table 2A

Phases of Growth in India: 1951-52 to 2004-05
(Average annual growth rates)

	1952-1967	1968 - 1981	1982 - 2005
Agriculture	1.8	3.3	3.0
Industry	6.3	4.1	6.0
Manufacturing	5.9	4.3	6.1
Services	4.4	4.5	7.2
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Source: Author's own estimates based on country data.

Explaining the Growth Spurt of the Third Phase: (contd.)

3. Rapid growth of agriculture also contributed significantly to economic recovery.

- One could reasonably argue that it was agriculture that was the true liberator of India from its 'Hindu' rate of growth.

Explaining the Growth Spurt of the Third Phase: (contd.)

4. At the same time a number of favourable exogenous shocks also helped:

- Phenomenal growth of workers' remittances
- The Multi-Fibre Agreement (except for India)
- Generous Western aid, especially for Pakistan and Sri Lanka.

Emerging Constraints to Growth:

1. Declining public investment
2. Struggling agriculture

Emerging Constraints to Growth:

1. Declining public investment

In all countries, except Bangladesh, the share of public investment in GDP has been declining since the 1980s.

Table 3**Investment Rates in South Asia: 1981 - 2005**
(Period averages; percentage of GDP)

	1981-1990	1991-2000	2001-2005
Bangladesh			
Gross investment	16.7	19.7	23.6
Public	5.5	6.7	6.4
Private	11.2	13.0	17.2
India			
Gross investment	21.2	24.6	26.3
Public	10.0	7.8	6.7
Private	12.1	15.2	18.4
Nepal			
Gross investment	19.9	23.3	21.3
Public	7.7	7.0	3.2
Private	9.8	12.9	15.8
Pakistan			
Gross investment	18.8	18.4	17.2
Public	9.2	7.5	4.5
Private	7.8	9.1	11.2
Sri Lanka			
Gross investment	25.1	25.5	23.4
Public	5.1	3.5	2.8
Private	20.0	22.0	20.6

Source: Calculated by the author from national and international sources.

Emerging Constraints to Growth: (contd.)

1. Declining public investment

In all countries, except Bangladesh, the share of public investment in GDP has been declining since the 1980s.

- Partly because of poor revenue generation
- Mainly because of rising interest burden – a legacy of the fiscal profligacy of the 1980s.

Table 4

Interest Payment as % of GDP
(Period averages)

	1981-90	1991-00	2001-05
Bangladesh	0.5	1.0	1.7
India	3.0	5.0	6.3
Nepal	n.a.	1.5	1.3
Pakistan	3.8	6.8	4.7
Sri Lanka	n.a.	6.0	6.4

Source: Calculated by the author from national and international sources.

Table 5

Interest Payment as % of Government Revenue
(Period averages)

	1981-1990	1991-2000	2001-2005
Bangladesh	7.8	11.2	16.8
India	15.9	28.8	33.8
Nepal	n.a.	14.4	10.4
Pakistan	22.0	39.8	33.1
Sri Lanka	n.a.	31.4	40.0

Source: Calculated by the author from national and international sources.

Emerging Constraints to Growth: (contd.)

2. Struggling agriculture

Agricultural growth has been decelerating almost everywhere in the region.

Table 6

Struggling Agriculture
(Average annual growth rates)

	19881- 1990	1991- 2000	2001- 2005
Bangladesh	2.53	3.22	2.86
India	4.41	3.24	1.76
Nepal	4.65	2.45	3.41
Pakistan	4.07	4.54	2.20
Sri Lanka	2.90	1.89	0.47

Source: Author's own estimates based on country data.

Emerging Constraints to Growth: (contd.)

2. Struggling agriculture

Agricultural growth has been decelerating almost everywhere in the region.

- Potentially adverse consequences for growth, equity and poverty reduction.