

Socio-Economic Development in South Asia: The Last Fifty Years

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Initial Conditions

- ❖ Common legacy of British colonial rule, but there were many differences as well.
 - Geographical: Bangladesh and Sri Lanka relatively fertile; Pakistan less so but benefiting from Indus Basin Irrigation project; Nepal and Bhutan seriously handicapped by geography.
 - Political: Sri Lanka on a healthy democratic path; Pakistan and Bangladesh under autocratic rule; Nepal and Bhutan under traditional monarchy.
 - Cultural: Religious diversity. Pakistan and Bangladesh predominantly Muslim, but much more conservative in Pakistan; a very conservative brand of Hinduism in Nepal, with severe caste divisions; Sri Lanka mainly Buddhist but with undercurrent of tension with Hindu minority; Bhutan a more homogenous and peaceful Buddhist society.

Initial Conditions

1. The region was poorer than most developing regions in the world but not in comparison with the rest of Asia. Sri Lanka was by far the most prosperous and Nepal the poorest.
 - ❖ Negligible manufacturing base in Bhutan, Nepal and Bangladesh. Pakistan and Sri Lanka slightly better.
 - ❖ Bangladesh and Pakistan were the most populous countries of the region, accounting for some 85 per cent of the total population of the region. Bhutan was by far the tiniest.
 - ❖ With a life expectancy of 59 years and 94 per cent enrolment at the primary level, Sri Lanka was way ahead of the rest of the region as well as most other developing regions in terms of health and education. Bhutan and Nepal lagged behind the most, with Pakistan and Bangladesh occupying a position somewhere in between.

Structural Transformation

- ❖ The growth experience: GDP growth accelerated in the second half of the period, except in Pakistan. (Bhutan is a special case, with a very low base).
- ❖ Bangladesh is the best performer, followed by Nepal and Sri Lanka, in that order.

Table 1
Growth of GDP: 1966-2015
 (percent per annum)

	Per capita GDP growth		GDP growth		Population growth	
	1961-1990	1991-2015	1961-1990	1991-2015	1961-1990	1991-2015
Bangladesh	0.1	3.6	2.7	5.4	2.6	1.7
Bhutan	7.1	5.0	10.1	6.6	3.0	1.6
Nepal	1.1	2.7	3.3	4.4	2.2	1.8
Pakistan	2.7	1.8	5.8	4.1	3.1	2.3
Sri Lanka	2.8	4.5	4.6	5.4	1.8	0.9

Structural Transformation

- ❖ The extent of transformation in the sense of modernization of the economy has been relatively modest.
- ❖ The share of manufacturing in GDP is currently less than 20 per cent, compared to 30 per cent in East Asia and Pacific.

Table 2
Sectoral Contribution to GDP: 1966-70 and 2011-15
(percent)

	Agriculture		Industry		Manufacturing	
	1966-70	2011-15	1966-70	2011-15	1966-70	2011-15
Bangladesh	54.7	16.5	9.1	27.3	5.9	17.2
Bhutan	na	17.3	na	43.6	na	8.8
Nepal	68.2	35.3	10.3	15.5	3.6	6.5
Pakistan	38.0	25.1	20.8	21.1	15.3	14.1
Sri Lanka	29.7	8.6	21.8	30.8	16.1	19.2

Structural Transformation

- ❖ Overall, huge improvement in investment rate and trade orientation from the initial condition (1966-70).
- ❖ Pakistan is the exception, where investment rate has actually declined and trade orientation has gone up only modestly.

Table 3
Investment and Trade: 1966-70 and 2011-15
(percent of GDP)

	Investment rate		Trade ratio	
	1966-70	2011-15	1966-70	2011-15
Bangladesh	11.5	28.3	21.1	45.7
Bhutan	na	57.4	na	101.0
Nepal	5.3	38.0	14.6	47.8
Pakistan	16.2	14.9	24.0	31.5
Sri Lanka	16.7	33.3	46.7	51.1

Structural Transformation

- ❖ Drastic reduction in the dependence on foreign aid.
- ❖ Nepal and Bhutan still remain quite dependent – on India, mainly – owing to their geographical location.
- ❖ Pakistan too, to some extent, due to geo-political reasons.

Table 4
Role of Foreign Aid: 1981-85 and 2011-15
(percent)

	Percent of GNI		Percent of Investment	
	1981-85	2011-15	1981-85	2011-15
Bangladesh	5.9	1.3	35.8	5.1
Bhutan	11.7	7.7	24.1	12.6
Nepal	8.0	4.6	42.6	12.3
Pakistan	2.4	1.2	14.1	8.6
Sri Lanka	8.4	0.7	30.4	2.0

Structural Transformation

- ❖ Except for Bhutan, all countries are significantly reliant on workers' remittances – exceptionally high for Nepal.

Table 5
Role of Remittances: 1981-85 and 2011-15
(percent of GDP)

	1981-85	2011-15
Bangladesh	2.7	9.1
Bhutan	na	0.8
Nepal	1.3	27.5
Pakistan	8.5	6.5
Sri Lanka	5.4	8.6

Growth Transition

- ❖ Soon after *Asian Drama* was written, growth prospects dimmed further in South Asia before it got better.
- ❖ The 1970s was a dismal decade for South Asia. (Bhutan is a special case, as proper national accounts are available only after 1980).

Table 6
The Dismal Decade and the Transition
(Growth of GDP per annum; per cent)

	1966-1970	1971-1980	1981-2015
Bangladesh	3.4	1.0	5.0
Bhutan	na	na	7.6
Nepal	2.6	2.1	4.5
Pakistan	7.1	4.7	4.7
Sri Lanka	5.8	4.4	5.1

Growth Transition

- ❖ It is common to blame Import-substituting Industrialization (ISI) strategy for the growth reversal of the 1970s.
- ❖ But other factors were more important.
- ❖ The most important factor was the intensification of state intervention in all spheres of the economy; the contexts were different in different countries, but the general strategy was the same.
- ❖ In addition, there were different kinds of conjunctural factors.

Growth Transition

- ❖ Growth recovery began from the late 1970s and early 1980s.
- ❖ The general strategies adopted to revive growth were very similar in all the countries.
- ❖ The initial revival came through expansionary macroeconomic policies rather than through structural reforms.
- ❖ In view of the excess capacity that emerged in the slump of the 1970s, it made good sense to resort initially to expansion of aggregate demand to revive the economies.
- ❖ But in all cases, expansionary policies pursued in the 1980s were taken to the extreme – leading to serious fiscal and trade imbalances and thus further aggravating the underlying structural problems.

Growth Transition

- ❖ Structural reforms were initiated in the late 1980s and early 1990s.
 - Softening of state interventions and greater reliance on market forces.
 - Trade liberalization.
- ❖ While the nature of reforms were on the whole similar in all countries, the outcomes were not uniform due partly to differential implementation and partly to some contextual factors – mainly of political nature.

Growth Transition

- ❖ Pakistan went through several rounds of boom-and-bust cycles, caused mainly by political instability – military regimes alternating with democratic ones; five different regimes in the 1990s.
 - Instability has severely dented investor's confidence; while generous flow of foreign aid has helped maintain public investment, private investment has lagged behind.
 - Infrastructure and energy sectors are in bad shape.
 - The long-term growth rate has actually fallen in the 2000s compared to the preceding decades.

Growth Transition

- ❖ Nepal faced a bloody and prolonged Marxist insurgency starting in the 1990s – fuelled by manifest inequities of the past.
 - The result was not only the derailment of democratic experiments but also dampening of growth prospects.
 - Insurgency has ended, monarchy has been reigned in, and democracy has recently been restored, but it's too early to assess whether the peace dividend will help achieve the long-awaited growth acceleration.

Growth Transition

- ❖ Sri Lanka entered into a prolonged civil conflict soon after the economic reforms were adopted.
 - As in the case of Nepal, both democracy and growth suffered.
 - The conflict ended in the 2000s, and democracy has also become stronger, but the peace dividend has yet to materialize.
 - As a backlash of prolonged economic frustrations, the attitude towards market-oriented economic reforms has changed – the current regime has reverted to inward-looking economic policies.
 - Growth has been buoyant in recent years, based mainly on domestic demand, stimulated by inward-looking investment and redistributive policies. But there are signs of the emergence of serious balance of payments constraints.

Growth Transition

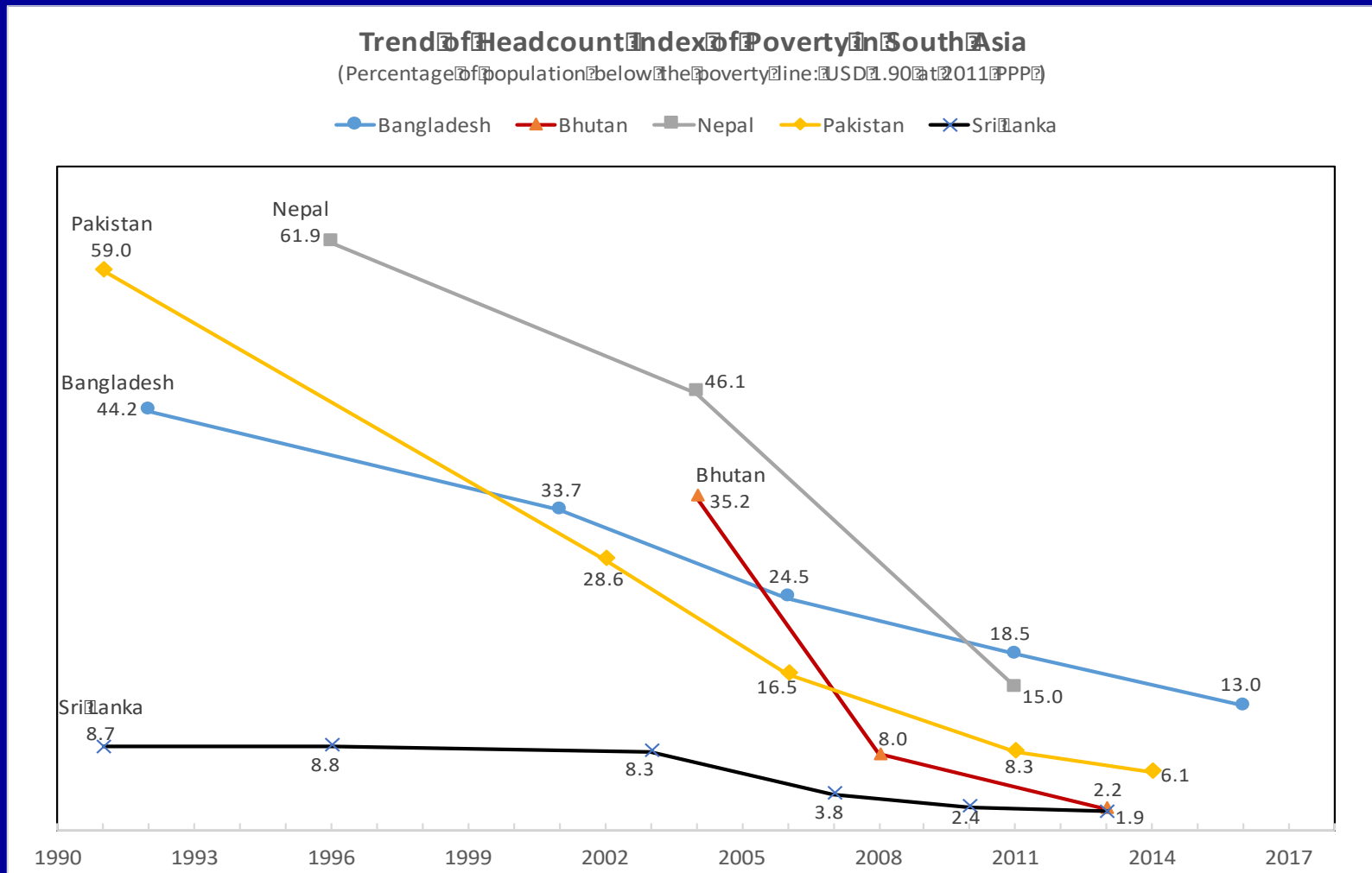
- ❖ In Bangladesh, in contrast to the other countries, sustained economic reforms since the 1990s have gone in hand in hand with a sustained transition to democracy, which despite its many flaws has at least made for relative political stability.
 - Not surprisingly, Bangladesh's growth performance has also been the best during the last three decades.
 - International factors have also helped the growth of its leading manufacturing sector – garments.
 - Increased flow of workers' remittances has also helped.
 - Performance would have been even better but for weak governance and poor infrastructure.

Growth Transition

- ❖ Bhutan is a special case. Modernisation began only since the 1980s.
 - The economic system has been characterised by almost exclusive reliance on hydropower on the one hand and India's support on the other.
 - Socio-economic policies have been guided by the philosophy of Gross National Happiness (GNH), which attaches relatively more weight on equity, cultural preservation and environment than on material prosperity.
 - Despite the non-materialist stance of the GNH approach, economic growth has been rapid (albeit from a low base), supported by hydropower and India.
 - Tensions are emerging, however, because of the (a) uni-dimensional nature of the economy, and (b) trade-offs between growth and non-materialist stance of GNH.

Poverty, Inequality and Human Development

- ❖ Impressive reduction of poverty across the region, since 1990.

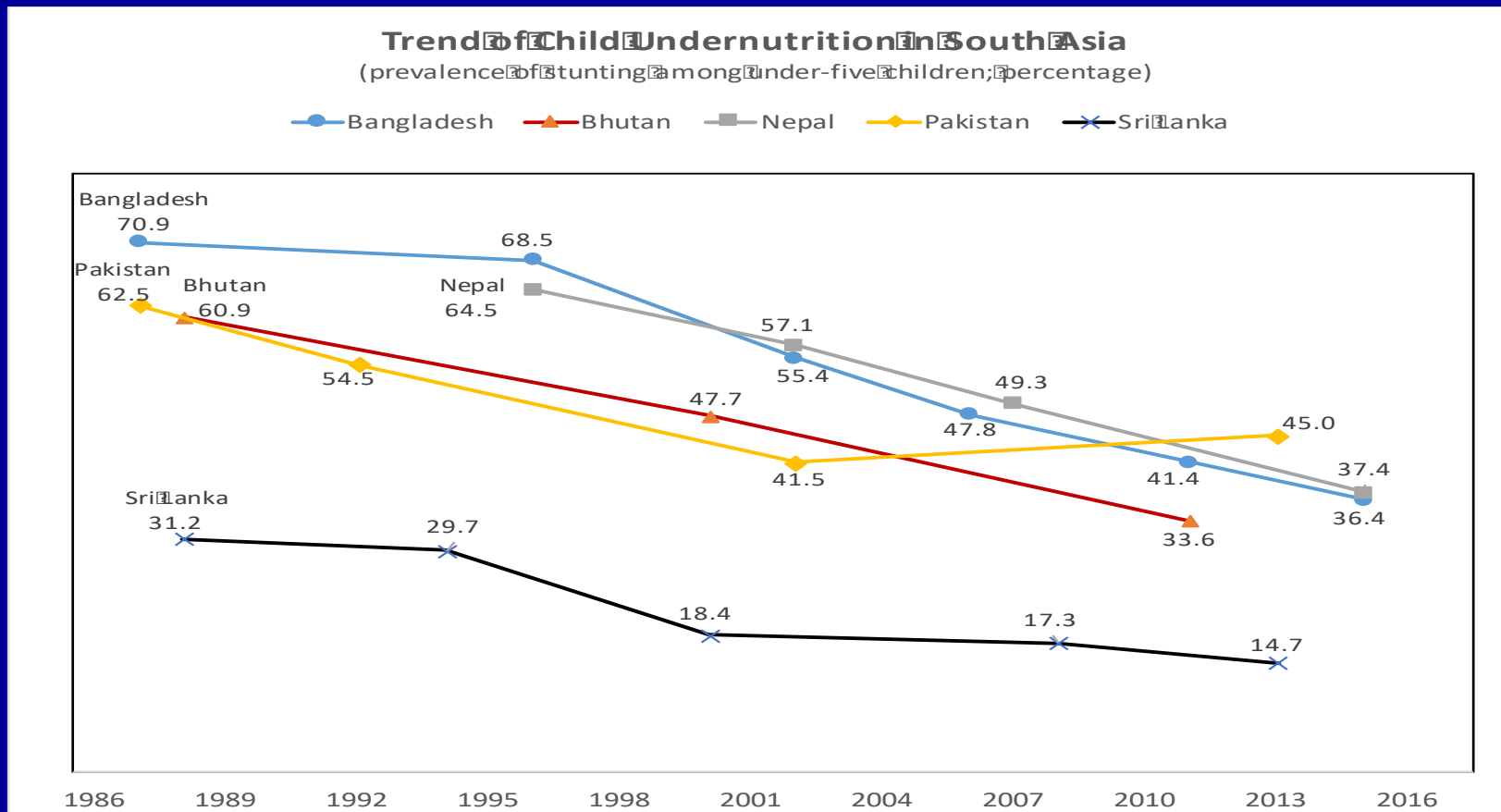


Poverty, Inequality and Human Development

- ❖ Growth and structural transformation helped by creating opportunities for gainful employment for many.
- ❖ But other factors were also at work:
 - Bangladesh: Microcredit revolution and NGO activism in general.
 - Nepal and Pakistan: Huge inflow of workers' remittances.
 - Sri Lanka: The egalitarian policies pursued by the Government since the middle of the 2000s has helped render the growth process distinctly pro-poor.
 - Bhutan: Egalitarian policies pursued in line with the GNH approach.

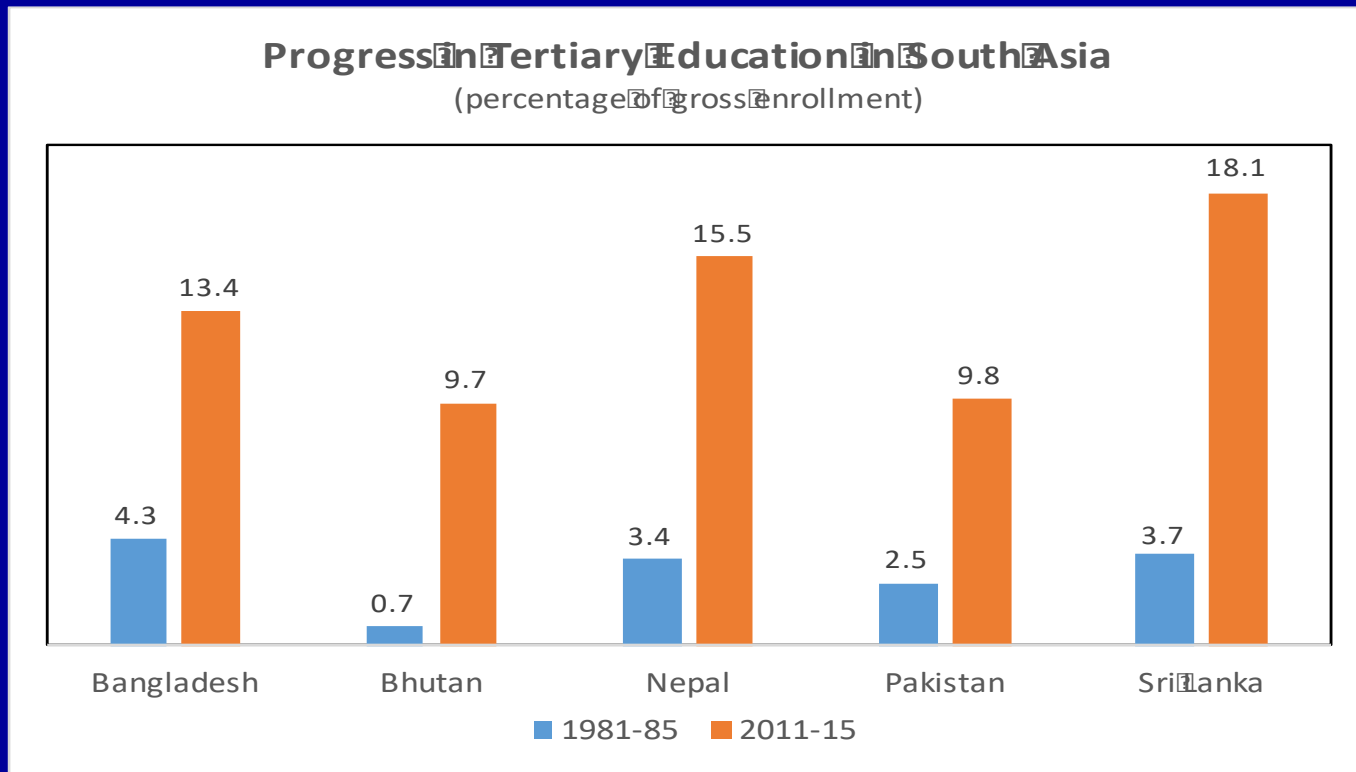
Poverty, Inequality and Human Development

- ❖ Significant improvement on the nutritional front – except for a recent reversal in Pakistan. No longer the ‘Asian enigma.’ Bangladesh is the ‘star performer’ – thanks to NGOs and women’s empowerment.



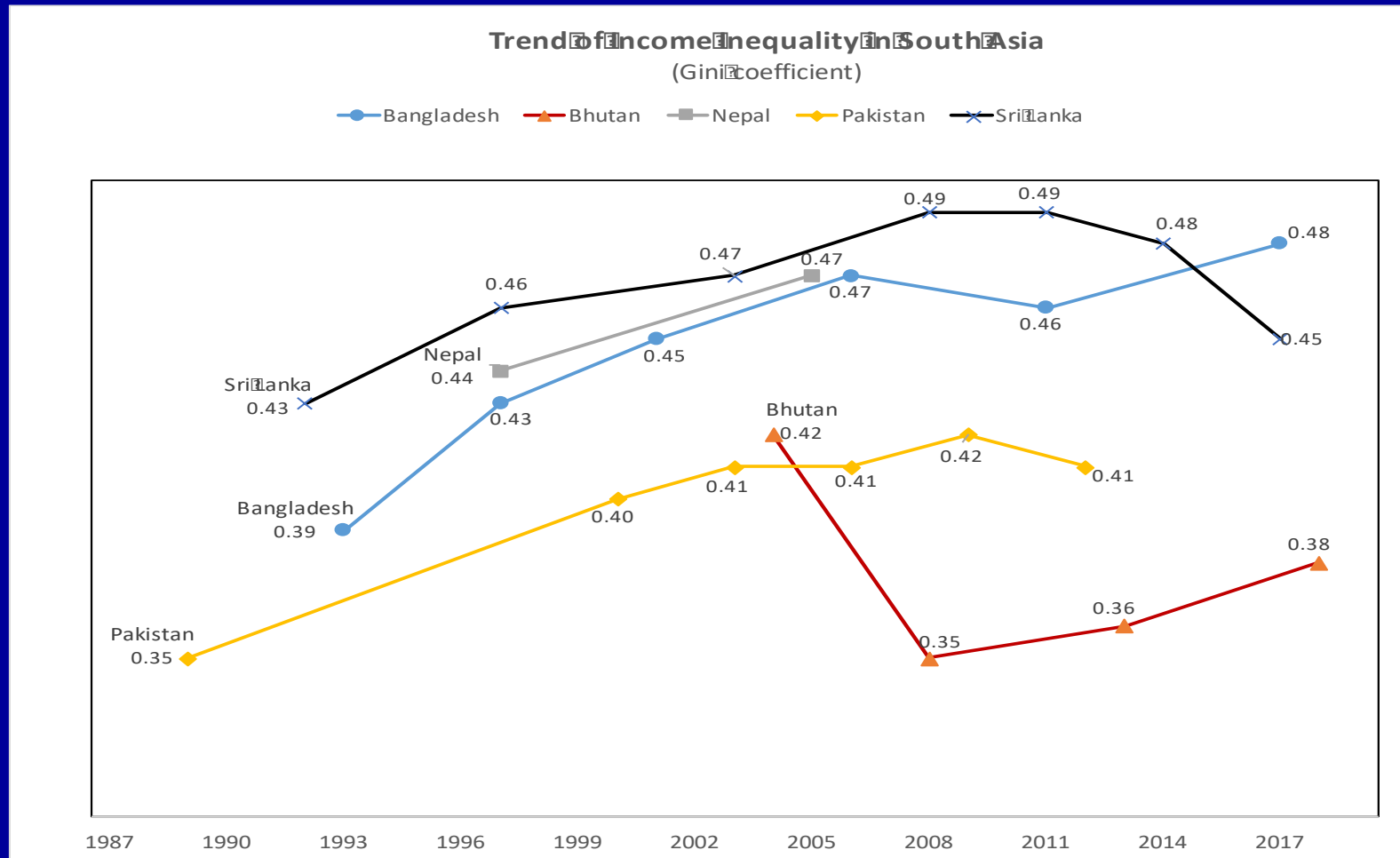
Poverty, Inequality and Human Development

❖ Emerging concerns: Skill constraint



Poverty, Inequality and Human Development

❖ Emerging concerns: Rising inequality



Challenges Lying Ahead

❖ Pakistan: The most difficult case of all.

- Population growth still too high;
- investment stagnating;
- current growth rate is below the long-term trend and less than the rate needed to absorb the bulging youth labour force;
- reversal in undernutrition;
- poverty continues to decline thanks mainly to soaring remittances.

Challenges Lying Ahead

❖ Sri Lanka:

- A matter of concern is the recent political backlash that has tilted the policy regime aggressively towards restrictive and inward-looking economic policies.
- Trade ratio has plummeted from 89 percent of GDP in 2000 to just 48 percent in 2016.
- Future performance will depend crucially on how well the politicians can combine the demands of populism with the needs of economic dynamism.

Challenges Lying Ahead

❖ Nepal and Bhutan:

- Uni-dimensional economies, creating structural distortions.
- Nepal far too dependent on remittances, Bhutan on hydropower.

❖ Bangladesh:

- Governance issues and erosion of democratic norms creating lack of confidence – as manifested in stagnation in private investment.

Challenges Lying Ahead

- ❖ Bangladesh: Perhaps the best placed country to make the transition to a higher growth path. But weak governance and continuing political stability (including weakening of democratic institutions) remain matters of concern – leading to stagnation of private investment in recent years.

- ❖ Common problems facing the region:
 - Skill constraint
 - Rising inequality
 - Urbanization
 - Effects of climate change

- ❖ The future trajectory of socio-economic development of the region would depend to a large extent on precisely how the political regimes respond to these emerging challenges.