UNIT 20 TREND ANALYSIS OF VARIOUS SECTORAL PROGRAMMES IN SOUTH ASIA

Structure

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20.0 OBJECTIVES

After going through this unit, you should be able to:

- Examine the trends in growth of sectoral programmes in the countries of South Asia; and
- Analyse the issues in sectoral growth in these countries.

20.1 INTRODUCTION

Economic growth and development in South Asia are less dependent on trade and capital flows than in East Asia or South East Asia. The super performance in East and South East Asia has outclassed the South Asian economies. It is indeed frustrating to see that countries, which a few decades ago were more or less on the same level of economic development as the South Asian states, now have a national product many times high on a national as well as per capita level. Japan, which at the beginning of the 20th century was a poor industrialising state, now has the second highest per capita. Its GDP (Gross Domestic Product) is twice as large as that of all other Asian states put together. India's share in Asia's GDP has fallen in the last thirty years from one fourth to one thirtieth. South Korea's GDP is higher than that of India's. Per capita wise India like its neighbours is one of the poorest countries of the world, while Hong Kong and Singapore have reached a per capita GDP like Great Britain. The South Asian countries with one fifth of the world's population and one third of Asia's contribute just 1 % to the world GDP and 5% to Asia's.

In India, the annual average growth rate of GDP during 1990-99 has been estimated to be 6.1% The decline in growth rate in the latter half of nineties has been due to circumstances in recent years which include the fallout effects of the Asian financial crisis, the sanctions following the nuclear testing at Pokhran, border conflicts with Pakistan at Kargil and a steep increase in international oil prices. Despite these adverse developments, the Indian economy was one of the best performing in Asia in 2000.

In Pakistan, the 1990s witnessed a sharp decline in the economic activity for a variety of reasons, including economic and non-economic ones. The GDP growth decelerated to an average rate of 4.0% in 1990-99 from 6.3% in 1980-90. The deceleration in economic activity is the direct result of stagnation in agriculture and poor performance of manufacturing.

Poverty stricken Bangladesh faces an uphill task in escaping categorisation as least developed country. Natural disasters, internal strife, rapid population growth, resistance to reform, poor public finances, criminal activity and inadequate infrastructure are amongst the major obstacles. During 1990-99, Bangladesh has averaged 4.8% growth in GDP.

Despite a series of ambitious development plans and assistance from international aid agencies, Nepal's economic growth has barely kept pace with its expanding population. In the fiscal year 1998-99,GNP (Gross National Product) per capita was only $220, making Nepal one of the poorest countries in the Asian region. About 42% of its population lives below the poverty line. The growth rate of GDP averaged about 4.8% during 1990-99. The slowdown is mainly attributable to the weaker performing agricultural sector.

Sri Lanka's economy is one of South Asia's more progressive and open economies. Despite one of South Asia's highest per capita GDP rates (US $ 820), Sri Lanka's poverty reduction efforts have been largely ineffective, with 25% of the population remaining below the poverty line. The most critical issue to Sri Lanka's economy is the resolution of the ethnic conflict. A conservative estimate is that annual GDP growth is constrained by at least 25%. Growth in Sri Lanka output has averaged over 5% annually during 1990-99.

In Bhutan, GDP expanded by 6.1% in 2000 with the industry and service sectors acting as the main engines of growth.

In Maldives, the economy decelerated to 4.2% growth in 2000, compared with an annual average growth of 7-9% between 1995 and 1999. The slowdown affected the leading sectors of tourism and fisheries.

20.2 PERFORMANCE OF THE AGRICULTURAL SECTOR

In South Asia, both floods and drought have impaired agricultural production .In India, with one billion people, agriculture accounts for 28%of GDP and employs 70% of the labour force. Growth in agricultural output has averaged 3.8% annually in the nineties. Productivity gains achieved under the Green Revolution have enabled India to become a food exporter. These gains, however, have been concentrated by region. Agriculture holds enormous potential for poverty reduction, yet present growth rates in most states, with the exception of Punjab and Haryana, are significantly below their potential. Growth has, in fact, been held back by misguided policies towards this sector.

The thrust of agricultural policy in India after independence was to maintain low food prices for consumers and to achieve self-sufficiency in food production by providing subsidised inputs to farmers. These objectives resulted in a complex web of trade and price regulations and a pervasive subsidy regime. While export restrictions and price regulations of many crops have been eased since 1991, an array of restrictive regulations remains in place for the major crops.

Rice, wheat, sugar and oilseeds are subjected to trade and procurement controls and agro-processing industries remain tightly regulated. A further significant constraint to growth has been the lack of investment in infrastructure. Fiscally burdensome subsidies to users of power, water and fertilisers have squeezed out public investment in infrastructure. Lower investment has resulted in declining productivity. Many studies have shown that the present universal subsidy regime is fiscally burdensome, leads to inefficient input use, and fails to achieve any redistributive objectives, with the larger farmers and intermediary agencies benefiting the most from the subsidies. Lack of access to credit by small-scale farmers is an additional constraining factor. Small-scale farmers generally only have access to the local moneylender who is able to charge extremely high interest rates.

In Pakistan, agricultural sector showed growth of mere 4.3% in 1990-99, which further plummeted to a negative growth of 2.6 % by 2000-01.Agriculture is the single major contributor to GDP where over 52% people are directly involved in farming while remaining are dependent on this sector in one way or the another. Almost all the leading industries and trading businesses are dependent upon farm output to produce finished products for exports or local consumption.

During 1990-99, the industrial growth also remained just 4.9%, the obvious reason being dependence of large scale manufacturing upon agricultural production. Officials hold drought as a single factor responsible for the declining farm production, which is not true. The troubled farming sector is the result of negligence and laxity on the part of authorities coupled with the government's various anti-farming policies. Repeated and continuous increase in price of diesel and fertilisers is the prime factor behind sluggish agricultural growth. Besides, higher electricity tariffs and prices of fertilisers and pesticides proved harmful for the growers. Damaging marketing network of farm produce by the government was another blow to the agricultural sector during the past couple of years. The government decided to curtail the responsibilities of the government sector procurement agencies and leave it to the market forces to fix the prices of wheat and paddy. Also, the ineffective policies for the major crops such as, cotton, rice, wheat and sugarcane have further added to the problems.

Agriculture and garment making industry are the two dominant sectors of the Bangladesh economy. Agricultural sector in Bangladesh contributes 28% of GDP and employs an estimated 62% of labour. Rice, jute, wheat and tea are the major products of the agriculture sector. Most Bangladeshis earn their living from agriculture. While rice and jute are the primary crops, wheat is assuming greater importance and tea is grown in the northeast. Because of Bangladesh's fertile soil and normally ample water supply, rice can be grown and harvested three times a year in many areas. However, Bangladesh is subject to a wide range of natural disasters such as, floods, cyclones, tidal waves and tornados, which regularly disrupt the agricultural output. Severe flooding affected agricultural output in both 1998 and 2000.

Due to a number of factors, Bangladesh's labour intensive agriculture has achieved steady increase in food grain production despite the often-unfavourable weather conditions. These include better flood control and irrigation system, efficient use of fertilisers and the establishment of better distribution networks. Population pressure continues to place a severe burden on agriculture output, which sometimes create food deficit, especially of wheat. Foreign assistance and commercial imports fill the gap.

Unemployment remains a serious problem and a growing concern for Bangladesh's agricultural sector with its inability to absorb additional manpower. Finding alternative sources of employment is a daunting problem, particularly for the increasing number of landless peasants who already account for about half the rural labour force.

Agriculture is the main economic sector in Nepal. It accounts for 41% of its GDP but performance in this sector is dominated by weather conditions and constrained by structural weaknesses. Structural constraints include the difficult terrain, dispersed population, insufficient transport and limited irrigation facilities. Government involvement in the agricultural sector started in 1987 with the establishment of the Agricultural Council. Since then several steps have been taken for the development of agriculture in the country. Departments and corporations in the field of input and credit have been set up. Additionally, the government has invested a substantial amount in the development of irrigation. The government spends between 15% to 20% of its total resources on agriculture and irrigation.

Despite the substantial amount of money spent on this sector for a long period of time, the performance of the agricultural sector remains grim. Several projects were implemented, but failed to have a long-term effect, as they could not be sustained for long. The performance of the irrigation sector has been low. The quality of the dams is very poor. Despite the increase in the irrigated area the simultaneous increase in productivity is not seen.

In Bhutan, the growth in the agricultural sector is estimated to have slowed to 2.4% in 2000 from 3.0% in 1999. Its share in GDP has declined from over half in the early 1980s to roughly a third today. Given that an estimated 85% of the population live in rural areas, agriculture remains by far the largest source of employment engaging around 75% of the employed labour force.

From the above, one can deduce that agriculture remains the driving force and major employer in the many South Asian countries. This is despite the fact that the share of agriculture in GDP has declined steadily from 30% in 1990 to 28% in 1999. More than 65% of the region's inhabitants still live in rural areas and agriculture employs more than half of the economically active population.

Food and Agriculture Organisation (FAO) estimates the uncropped cultivable areas in South Asia will be halved in 20 years, which goes to show that the region has the least potential for cultivated area expansion than any other region in the world except East and North Africa. The limited cultivable area for expansion and the continuing conversion of fertile agriculture land to non-agriculture uses means that production has to come mainly from yield increases. Yield increases will be difficult to accomplish, given the quickening pace of land degradation and water scarcity.

In general, these countries have made considerable progress in expanding food production and improving aggregate food supplies. Nevertheless, in India, the strong pace of domestic food production has allowed expansion of food imports to supply changing food demands and a growing population while the food import dependency ratio remains unchanged.

20.3 PERFORMANCE OF THE INDUSTRIAL SECTOR

20.3.1 Drivers of Industrial Performance

Industrial performance reflects the complex interaction of many factors including institutions, skills, technologies, infrastructure networking, and political and social stability. We will discuss these briefly.

Skills

Better skills enhance industrial production. Among developing nations, South Asia's performance is better because of high tertiary enrolments in India but its share of global and developing country enrolments fell between 1987-1995.

Technology

Technological effort is a crucial driver of industrial development. Research and Development (R & D), becomes more significant as a country's industrial structure develops and firms use more advanced technological frontiers. The shares of all developing regions (except East Asia) decreased in R & D particularly in South Asia between 1985-1998.

Inward Foreign Direct Investment (FDI)

FDI is an important way of transmitting skills. Knowledge and technology to developing countries is an important driver of industrial performance. Per capita flows are lowest in South Asia, which was $2 in 1993-97, which is less than half in sub Saharan Africa (excluding South Africa) and only 3% of that in East Asia and Latin America and the Caribbean. Although South Asia's shares have increased (it has the fastest growth in flows) it has a long way to go before it catches up with the other regions. In India and Pakistan, export oriented FDI is lower than the average for the developing world.

Modern Infrastructure

The distribution of modern infrastructure-telephones, mobile telephones, personal computers and Internet- depict South Asia quite poorly. This reflects on the industrial performance of these countries.

20.3.2 Industrial Performance

The global economic slow down has lowered manufacturing and production performance. The new industrial activity is changing the nature and pattern of global industrial activity. Economies are exploiting the opportunities from new technology, freer trade and more mobile productive resources. As a result, there have been big variations in industrial performance particularly in developing countries.

Manufacturing activity remains heavily concentrated in industrialised countries though developing countries are increasing their share. South Asia has attained decent manufacturing growth but performs poorly in production percentage and exports. Its export structure is weak and stagnant. It lags in skills creation, technological effort and physical infrastructure and is relatively isolated from inflows of technology. The region's two largest economies, India and Pakistan, have not attracted much FDI to export activity during the last 10 years or so.

Global Manufacturing Value Added (MVA) grew about 7% a year during 1985-1998. South Asia has reasonable growth percentage but remains the least industrialised region after Sub-Saharan Africa (excluding South Africa). India is the only country from South Asia to figure among the developing economy leaders in MVA.

Indian industry has traditionally been dominated by heavy industry. In the post-independence scenario there was a great emphasis on building up India's capital goods and heavy industry. Uncompetitive and inefficient industries often were able to survive behind high tariff barriers and lack of private sector participation. Many of them now, however, face greater competition due to deregulation and lower tariff. Competition has resulted in declining prices and profit margins. Industrial growth averaged 6.7% in1990-99. However, industrial development is held back by the limited reform measures undertaken so far. It continues to be hampered by high input costs, infrastructure constraints and an array of restrictive labour, land and small-scale policies. The recent domestic slump, partly caused by overcapacity in many industrial sectors, falling international commodity prices and greater competition from Asian countries, has particularly hurt cement, steel, vehicles and capital goods.

Manufacturing growth has fallen from 14% in 1995-96 to 6% in 1997-98. The slump is forcing many industries to restructure. Up until liberalisation in 1991, businesses had grown by diversifying, resulting in the creation of sprawling family owned conglomerates. With rising competitive pressure, these businesses are, however, in the process of restructuring their operations, with an emphasis on strengthening their core competence and divesting the less profitable lines of operation. Indian industry is, in fact, witnessing unprecedented consolidations, takeovers and mergers.

While the heavy capital goods industries are in difficulty, software, pharmaceuticals and consumer goods industries have been flourishing. In 1997, the software industry earned almost $ 2 billion in export revenues. The resilient consumer demand has kept consumer industries thriving and appears not to have been affected by the current slump. The consumer industry is likely to grow further with an estimated increase in middle class households and a projected increase in power spending in the rural areas. The pharmaceutical sector has been performing strongly. The establishment of product patents is expected to bring a surge in foreign investment in the pharmaceutical industry.

In Pakistan, the performance of large scale manufacturing during 1990-99 has been rather disappointing, growing at an average rate of 4.9% as compared to 7.3% in 1980-90. More so, the growth in this sector has been slowed down to average of 1.6% per annum during the last four years. A number of economic and non-economic factors have been responsible for the decline of growth in this sector. Prominent among those are political instability, worsening law and order situation in the major growth poles of the economy, setback to cotton crop and consequential increase in cotton prices which adversely affected the textile and ancillary industries, inadequate power along with frequent breakdown of power units around industrial areas, emergence of significant infrastructure bottlenecks in power, transport and other sectors and insufficient industrial investment. All these caused virtual stagnation in large-scale manufacturing. Besides these, the rising cost of production as a result of economic mismanagement over the past four years has further worsened the performance of large-scale manufacturing. In particular, senseless taxation for fiscal consolidation created enormous anomalies and frequent downward adjustment of currency raised the cost of imported inputs. Higher cost of energy and higher interest cost have affected the morale of the business community.

Handicraft and cottage industry have been in Nepal since ancient times, but industrial development is still in its infancy. The total contribution of the industrial sector to the economy during 1999 was 22%. No significant achievements were made to create a congenial industrial climate and infrastructure in the country. Analysis of the industrial structure that developed during the past several years shows that entrepreneurs have thus far opted for industries that can utilise domestic raw material and labour. Despite the various facilities provided for industrial development, employment generating and export promoting industries could not develop in the country. As a result, balanced growth could not be brought about in industrial development.

In Bhutan, sectoral shift away from agriculture towards industry and services reflects the rise of hydropower in the country in the late 1980s. However, growth in industrial sector slowed to 10.3 % in 2000. The August flooding forced several major industries to suspend their operations for several months resulting in slowing of manufacturing. Growth in the services accelerated to 5.6% in 2000 from 4.5% in the previous year.

In Bangladesh, the growth in the industrial sector increased to 8.1% in 1997-98 from 3.5% in 1996-97.Growth of large-scale manufacturing output increased significantly by 10.1% in 1997-98 compared to only 3.4% in1996-97. Much of the growth was concentrated in export oriented industries particularly readymade garments and hosiery. Production of domestic industries also increased mainly because of strong domestic demand for construction related materials.

20.3.3 Performance in Exports

In the field of exports, there has been a change in all South Asian countries. Traditional agricultural exports lost their importance with textiles and handicrafts, tourism and home remittance taking over as main foreign exchange earners.

India always had a wider range of export products, including industrial manufactures. Presently, jewellery and handicrafts are the largest single items for gross export earnings. However, the net value is much less as most of the trade means working on imported gems. Textiles are also gaining grounds. In India, despite a slowing economy and rising inflation, the export sector has witnessed an impressive growth in 1990-99. The government does not provide direct subsidies to exporters. They are given indirect subsidies through duty and tax concessions, export finance, export insurance and guarantees and export promotion and marketing assistance. However, the actual effectiveness of this complex structure in enhancing exports is unclear. Though some efforts have been made since 1991 to reduce administrative problems and delays in implementing the various export incentives, the sharp growth of exports during 1993-1995 cannot be attributed to changes in incentives. Rupee devaluation, removal of industrial licensing and other controls over industry and the opening up of imports of intermediate and capital goods were more proximate causes. The government plans to phase out income tax exemptions for exports by 2004, as well as expand the use of import duty exemptions.

The most dramatic change took place in Bangladesh, which was earlier depending on the exports of raw jute and jute products. Ready-made textiles have taken over, although the raw materials that is, raw cotton yarn or cloth have to be imported.

Pakistan is not a major trading player in the international trade. It accounts on average only 0.15% of world exports. Cotton group always accounted for half of the export earnings. Pakistan's exports are highly concentrated on few items, viz., cotton, leather, rice and synthetic textiles. Eight categories of exports account for 85%-90% of the earnings. Cotton group alone accounts for about 57% of total export earnings. All the cotton group earnings originate from textiles and clothing. These two items are the backbone of Pakistan's export sector. The high degree of concentration of exports in few items has led to severe instability in export earnings. A poor cotton crop seriously affects total export earnings, as it has been experienced during 1992-93 and 1993-94.

Garment and textiles are Sri Lanka's dominant export, exceeding US$ 2.5 billion annually, contributing over 50% of annual revenues. Sri Lankan agricultural exports has fallen below 20% of total export trade value by 1997 with tea contributing 75 to 80% of the sector's export value. Sri Lankan economy is being adversely affected by the recovery of the economies of South Asia, which has heightened competition in the garment industry and elevated tea prices. Coconuts and rubber are Sri Lanka's other leading exports although the latter has been in deep decline for the past few years due to depressed prices. Sri Lanka possesses a wealth of precious and semi-precious gemstones but this industry is negatively impacted by the soft Japanese economy. Sri Lanka exchange rate policy focuses on the competitiveness of its export-oriented industries.

In Nepal, there has been an increasing export orientation towards manufacturing goods from the primary products. Manufacturing goods accounted for 90% of total exports in recent years. Nepal's manufacturing exports witnessed substantial growth during early 1990s following widespread policy reforms in the export sector. The manufacturing export growth has been greatly assisted by improved trade and exchange rate policies. Growth of manufacturing exports in recent years is largely due to the much-improved access of Nepalese exports to the Indian market provided by 1996 Trade Treaty.

If we include tourism and labour, South Asia opened much earlier than the current opening of the economies. Tourism, however, has been more or less restricted to the citizens of third world countries travelling to South Asia. Travelling from a South Asian country to the neighbouring countries is difficult owing to the legal and financial reasons. Likewise, migrant labour has been welcome only in one direction that is out of the region. In-migrating labour has been un-welcomed everywhere in South Asia irrespective of the country of origin. Tourism is the only major export earner in the Maldives and of utmost importance in Sri Lanka, Nepal and to some extent in Bhutan.

India is by far Bhutan's largest trading partner accounting for 94.4% of Bhutan's exports and 75.11% of its imports in 2000.

20.4 MEASURES FOR PROMOTING GROWTH IN THESE SECTORS

The region's ability to expand agriculture production and trade in the future will largely depend on its ability to sustain economic growth while responding to the natural resource and environmental constraints. It is crucial for the region to continue the process of economic adjustments aimed at improving resource efficiency and encouraging investment in agriculture. Competitive and self-sustaining rural credit institutions need to emerge. Higher capital expenditure will be central to boosting growth in the agriculture sector and can only be achieved by scaling down the subsidies. Frequent increases in agricultural taxes, water cess and land revenue must be avoided and marketing and procurement of farm produce must be ensured.

These countries must initiate strategies to deal with the issues pertaining to land degradation and water scarcity to sustain agricultural and food production growth. A significant proportion of South Asia's land in crop production is fragile. This includes arid and rain-fed semi-arid areas, areas with steep slopes and/or poor soils. It is in these areas where environmental degradation and rural poverty tend to be most severe.

In the industrial sector, there is an urgent need for a comprehensive reform strategy to increase the productivity of the industrial sector by improving the operation of state owned enterprises, the financial sector and the labour market and by removing the impediments to private investment, especially in the areas of energy and transport.

20.5 ACTIVITY

1. Indicate the main problems facing agriculture and industrial growth in your country.
2. Which measures can be undertaken to tackle the problems in the agriculture sector of your country? Discuss with examples.
3. Highlight the factors that can lead to industrial growth in your country?

20.6 CONCLUSION

The trend in the agricultural and industrial sectors of the South Asian countries is not encouraging. Agricultural development in these countries have to look into the proper management of the natural resources, especially water and agricultural land, which will help these countries to utilise the scarce resources optimally. Likewise, emphasis on agricultural modernisation with proper planning of farm holdings, provision of agricultural mechanisation and irrigation facilities will lead to increased output. Similarly, agricultural diversification should be followed, which will lead to lessening of the burden on the limited cultivable land. The average annual % growth and structure of output value added as % of GDP in major South Asian economies are mentioned in Tables 20.1 and 20.2.

Instilling a competitive environment and generating greater interaction between the government and the industry can achieve industrial development. Focus should be on the development of backward areas, FDI, small-scale industries, public undertakings, trade policy, labour policy, and adopting new managerial techniques.

20.7 REFERENCES AND FURTHER READINGS

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Appendix

Table 1: AVERAGE ANNUAL % GROWTH

Economy	GDP		Agriculture Value Added		Industry Value Added		Services Value Added		Exports of Goods and Services	
	1981 -90	1990 -91	1980-90	1990-99	1980 -90	1990 -99	1980-90	1990-99	1980-90	1990-99
Bangladesh	4.3	4.8	2.7	2.3	4.9	3.9	5.7	6.3	7.7	13.2
India	5.8	6.1	3.1	3.8	7.0	6.7	6.9	7.7	5.9	11.3
Nepal	4.6	4.8	4.0	2.3	8.7	7.0	3.9	6.0	3.9	14.3
Sri Lanka	4.0	5.3	2.2	1.5	4.6	7.4	4.7	5.6	4.9	8.4
South Asia	5.7	5.7	3.2	3.7	6.8	6.3	6.6	7.0	6.5	9.6

Source: World Development Report, 2000

Table 2: STRUCTURE OF OUTPUT

	VALUE ADDED AS % OF GDP					
	Agriculture		Industry		Services	
	1990	1999	1990	1999	1990	1999
Bangladesh	28	21	24	27	48	52
India	31	28	27	25	42	46
Nepal	52	41	16	22	32	37
Pakistan	26	26	25	25	49	49
Sri Lanka	26	21	26	28	15	17
South Asia	30	28	26	25	44	47

Source: World Development Report, 2000