

## GROWTH AND STRUCTURAL CHANGE IN SAARC ECONOMIES

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### Abstract

*This paper aims to analyze the growth and structural changes in the SAARC countries in the last two decades. Afghanistan has not been included in the study as it became the member of SAARC only in 2007. In view of the fact that India is emerging as one of the rapidly growing economies, it is important to study the changes, if any, in the economic structure of its neighbouring countries. The structural transformation in these countries can be defined in terms of certain common indicators: a declining share of agriculture in GDP and value added in the economy, rural-to-urban migration that stimulates the process of urbanization; the rise of a modern industrial and service economy; and a demographic transition from high rates of births and deaths to low rates of births and deaths. Certain other economic indicators including saving and capital formation as well as their debt-GDP ratios will be reviewed over a period of last two decades.*

**Key words:** SAARC, Structural Transformation, Growth

**JEL Classification:** O10, O57

### 1. INTRODUCTION

There has been a paradigm shift in the world economic and political order in the last three decades and the world has become increasingly interdependent due to the adoption of globalization across countries of all levels of development. Interestingly “ the process of ‘globalisation’ has been accompanied by the strengthening of economic and financial linkages within geographic regions. Indeed the world economy is simultaneously becoming more ‘regionalized’ and more ‘globalized’.The trend towards regional integration has been supported in many areas by regional policy initiatives, particularly in the field of trade”(Mckay,2005). The regional economic groupings are playing an important role in shaping the future of the countries, notable being the European Union (EU), Asia and Pacific Economic Cooperation (APEC), Organization for Economic Cooperation and Development (OECD), etc. The South Asian countries founded, in December 1985, the South Asian Association for Regional Cooperation (SAARC) with seven member countries namely, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. In April 2007, Afganisthan became its eighth member. The objective of this cooperation is to strengthen the economic, political and cultural ties with each other. It is one of the largest regional organizations with a population of more than 1.5 billion people. The member countries differ vastly not only in terms of their demographic features but also in their economic strength. Since the impact of the changes in the world economic order as also the nature of domestic economies of SAARC nations differs considerably, it is imminent that the economies of these countries have undergone some structural change . The pace and pattern of this change amongst the SAARC nations must be different in terms of their demographic as well as economic parameters.

### **1.1 Objective**

This paper aims to analyze the growth and structural changes in the SAARC countries over the last two decades, i.e., from 1988 to 2008. Afghanistan will not be included in the study as it joined the SAARC only in 2007. The structural transformation in these countries can be defined in terms of certain common indicators: a declining share of agriculture in GDP, rural-to-urban migration that stimulates the process of urbanization; the rise of a modern industrial and service economy; and a demographic transition from high rates of births and deaths to low rates of births and deaths. Certain other economic indicators including saving and capital formation as well as their debt-GDP will be analyzed. The data are mainly taken from two sources, i.e., World Development Indicators (WDI) 2009 of World Bank and Key Indicators for Asia and the Pacific given by Asian Development Bank (ADB) for 2009. The time period of study is not consistent for all the parameters taken into account because of lack of uniformity in the availability of data. The analysis, therefore, brings out broad trends in the changes in the SAARC economies over the last two decades, i.e., from the late 1980s or early 1990s to 2008.

### **2. STRUCTURAL CHANGE AND ECONOMIC GROWTH**

Many economists accept the organic interdependence of structural change and economic growth, and emphasize the necessity of structural change for economic growth. On the basis of seminal work done by S. Kuznets, H. B. Chenery, Colin Clark and Fisher etc, the salient features of structural changes that accompany economic growth are that the process of structural transformation across developed countries is quite similar and follows the pattern described by Kuznets (1966, 1971), Fisher (1935, 1939) and Chenery (1979). According to them as the economy grows, production and employment shift from primary to secondary and then to the tertiary sector. The shift in production occurs earlier and is faster compared to the shift in employment. Comparing the structural transformation processes in developed and developing countries it is seen that except a few, most of the developing countries follow different structural transformation paths that deviate from classical pattern that was followed by developed countries. Among the present developing countries there are heterogeneous and diverging patterns of growth and structural transformation. An examination of the patterns of structural change in developing countries over the past four decades indicates that fast growing East and South-East Asian economies were characterised by dynamic transformations, whereas the economies of sub-Saharan Africa have lagged behind with relatively small structural change. Fast growth in East and South-East Asia has been associated with a rapid decline in the importance of agriculture and strong expansions of both the industrial and service sectors (United Nations, 2006).

### **3. SOUTH ASIAN ASSOCIATION FOR REGIONAL COOPERATION**

The countries forming the regional cooperation, SAARC, are extremely diverse in their natural resource endowment, size, population, economy, as well as many other characteristics. India is the largest country in all respects and Pakistan is the second largest in terms of size. India occupies over 70 per cent of the landmass of the region and its territorial and maritime boundary touches all SAARC countries except Afghanistan. Bhutan and Nepal are land-locked whereas Maldives and Sri Lanka are island states. Pakistan shares its boundary with Afghanistan (Chowdury, 2004).

Normally the countries forming an economic or political regional integration share a fair degree of interdependence and cordiality, but SAARC countries despite having formed a regional cooperation, have some or the other tension amongst them – varying from territorial dispute to

water sharing to certain more serious problems like ethnic or religious issues. All the SAARC countries have a colonial past and are not very stable politically, even though India is one of the largest democracies of the world. All these countries have economic problems like poverty, unemployment, income inequality, regional imbalances and all are dependent on external aid/assistance. These countries may be termed as underdeveloped or developing economies. Except Maldives, in all the SAARC economies more than 10% of the population lives on less than US\$1.25 a day and have no access to improved sanitation. (Asian Development Bank, 2009). Most of these countries, except Afghanistan, are moving towards a path to economic growth within the limits imposed by their social and political systems. Therefore, the growth process is bound to be accompanied by some structural changes in these economies.

### 3.1 Demographic Indicators

The demographic indicators of a country reflect the demographic transition as the countries develop from pre-industrial to industrial societies and undergo structural transformation. Certain demographic indicators are tabulated below.

**Table 1a: Demographic Indicators (figures in brackets are percent of total)**

Country	Mid-Year Population (Millions)			Population growth rate (percent)	Population growth rate (percent)	Crude birth rate (per 1000 people)		Crude death rate (per 1000 people)	
	1990	2000	2008	1990-2000	2002-08	1990	2007	1990	2007
<b>Bangladesh</b>	108.7 (9.75)	128.1 (9.66)	160.0 (10.55)	1.66	1.5	34.9	24.8	11.9	7.5
<b>Bhutan</b>	0.5 (.04)	0.6 (0.04)	0.69 (0.04)	1.84	2.3	37.6	18.5	13.6	7.2
<b>India</b>	835.0 (74.86)	1016.0 (76.63)	1140.0 (75.19)	1.98	1.4	30.2	23.5	9.7	7.5
<b>Maldives</b>	0.2 (0.001)	0.3 (0.02)	0.31 (0.02)	4.14	1.4	38.7	23.4	9.3	5.7
<b>Nepal</b>	18.1 (1.62)	22.6 (1.70)	28.8 (1.90)	2.25	2.0	38.4	28.1	12.8	7.7
<b>Pakistan</b>	136.6 (12.25)	139.8 (10.54)	166.1 (10.95)	2.4	2.3	41.2	27.2	10.6	7.1
<b>Sri Lanka</b>	16.3 (1.46)	18.5 (1.39)	20.2 (1.33)	1.27	1.1	20.8	19.0	6.5	5.8

**Source:** adapted from World Development Indicators, 2009 and Key Indicators of Asia and Pacific, 2009

Table 1a shows that India accounts for more than 75 percent of the population of SAARC countries; nearly 96 percent is concentrated in the three countries that once formed India before partition in 1947, i.e., India, Pakistan and Bangladesh. Bhutan and Maldives have negligible population of the total population in the SAARC countries. The rate of growth of population in all the economies has declined over the last twenty years except Bhutan where it has increased during 2002-2008 as compared with 1990-2000. Both the birth and death rates in all the countries has fallen, which shows that the SAARC nations are in the third stage of demographic transition.

There has also been a growth of urbanization in all the countries except Sri Lanka as shown in table 1b.

**Table 1b: Growth of Urbanization**

Country	Urban population (as percent of total population)			
	1980	1990	2000	2008
<b>Bangladesh</b>	14.4	19.3	23.4 (2001)	25.4
<b>Bhutan</b>	3.9	5.2	21.0	30.9 (2005)
<b>India</b>	23.1	25.5	27.7	29.4
<b>Maldives</b>	22.3	25.9	27.0	35.0 (2006)
<b>Nepal</b>	6.5	8.9	13.4	16.8 (2007)
<b>Pakistan</b>	28.1	31.9	33.0	35.3
<b>Sri Lanka</b>	21.6	21.3	15.7	15.1 (2006)

Source: same as table 1a

### 3.2 Growth and Structural Change

The average annual growth rates of GDP and per capita GDP are indicators of economic growth of a country. The table below gives the data on these two indicators for all the SAARC nations.

**Table 2: Average Annual Growth Rate (percent)**

Country	GDP		GDP per capita	
	1988-98	1998-08	1988-98	1998-08
<b>Bangladesh</b>	4.6	5.7	2.5	4.0
<b>Bhutan</b>	4.9	8.3	5.4	5.4
<b>India</b>	5.5	7.2	3.5	5.6
<b>Maldives</b>	-	6.5	-	5.0
<b>Nepal</b>	5.0	3.7	2.4	1.5
<b>Pakistan</b>	4.2	5.0	1.7	2.6
<b>Sri Lanka</b>	5.2	5.0	4.1	4.0

Source: World Development Indicators, 2009

The table shows that there has been an increase in the rate of growth of both GDP and per capita GDP for Bangladesh, India and Pakistan, whereas the growth rate of GDP in Bhutan has increased significantly but the growth rate of per capita GDP has remained the same. In the case of Nepal and Sri Lanka both the rates of growth have declined, thereby pointing towards a slowdown in these economies.

As already mentioned, the process of economic growth is accompanied by structural transformation. The following tables bring out the changes in the sectoral distribution of Gross Domestic Product (GDP) in the SAARC countries over the last two decades.

**Table 3: Contribution to GDP by Sectors**

Country	Agriculture (% of GDP)			Industry (% of GDP)			Services (% of GDP)		
	1988	1998	2008	1988	1998	2008	1988	1998	2008
Bangladesh	31.1	25.4	19.0	21.2	25.8	28.5	47.8	48.7	52.5
Bhutan	38.0	31.6	18.7	24.3	32.7	46.1	37.7	35.7	35.2
II India	30.5	26.0	17.5	26.2	26.1	28.8	43.4	47.9	53.7
Maldives	-	-	6.2	-	-	17.7	-	-	76.1
Nepal	50.9	39.9	33.7	16.2	22.5	16.7	32.9	37.6	49.6
Pakistan	26.0	27.3	20.4	24.4	23.8	26.9	49.6	48.9	52.7
Sri Lanka	26.3	21.1	13.4	26.7	27.5	29.4	47.0	51.4	57.3

Source: WDI, 2009

The data show that for all the economies, the share of agriculture sector has declined and that of the services sector has grown over the last two decades except Bhutan where the share of secondary sector has grown over the years and that of the other two sectors has declined. This shows a major structural change in the economies of SAARC.

In Bangladesh the agriculture sector contributed nearly 31 percent to GDP in 1988, which fell to only 19 percent in 2008. This decline in the share of agriculture sector was absorbed by an increase in the share of both the industrial as well as services sectors. There has been a greater increase in the share of the industrial sector over the period from 21.2 percent to 28.5 percent than the tertiary sector, which was from 47.8 to 52.4 percent. The share of agriculture sector in Bhutan almost halved during the period from 38 percent to 18.7 percent, whereas there has been a significant increase in the share of the industrial sector from 24.3 to 46.1 percent between 1988 and 2008. Interestingly the share of services sector in Bhutan has gone down from 37.7 to 35.2 percent. In the case of Indian economy there has been a major change in the structure of contribution to GDP with the share of agriculture falling from 30.5 to 17.5 percent that of industry increasing marginally from 26.2 to 28.8 percent. There has been a considerable increase in the share of services sector from 43.4 to 53.7 percent. The economies of Nepal and Sri Lanka have also witnessed a similar structural change, showing a major structural shift away from agriculture towards the tertiary sector. The share of each sector in GDP in the economy of Pakistan has also witnessed a change but it is not as high as in other economies.

**Table 4: Average annual growth of different sectors**

Country	Agriculture		Industry		Services	
	1988-98	1998-08	1988-98	1998-08	1988-98	1998-08
<b>Bangladesh</b>	2.7	3.5	7.2	7.5	4.1	5.9
<b>Bhutan</b>	1.8	2.4	5.3	11.1	7.7	9.2
<b>India</b>	3.1	2.7	6.1	7.6	7.0	8.9
<b>Maldives</b>	2.4	3.1	9.5	8.3	8.9	6.5
<b>Nepal</b>	2.6	3.4	7.8	3.3	6.3	3.9
<b>Pakistan</b>	4.5	3.1	4.7	6.6	4.7	5.7
<b>Sri Lanka</b>	2.0	2.0	7.0	4.8	5.7	5.9

Source: adapted from WDI, 2009 and ADB, 2009

The annual average growth rate (AGR) of the agriculture sector has increased in Bangladesh, Bhutan, Maldives and Nepal over the period 1988-98 to 1998-2008. This rate has declined in India and Pakistan and remained the same in Sri Lanka. The AGR of the industrial sector has doubled in Bhutan, whereas it has declined considerably in Maldives, Nepal and Sri Lanka. The growth rate of industry has increased in Bangladesh, India and Pakistan during the decade 1998-2008 as compared to the previous period. The agricultural sector in all the countries has grown at a slower pace as compared to the non-agricultural sector. The rates of growth of industrial and service sectors show similar trends across countries.

The structural change in an economy can also be judged by the change in the value added in a particular sector of the economy as a percent of total value added. Table 5 shows that there is a strong evidence of the declining contribution of agriculture to total value added in the economy for all the SAARC nations, whereas the value added by the industrial sector has increased in all countries except Nepal where there has been some decline. In the case of services sector, value added has increased in all the economies. This clearly brings out that there has been structural transformation in most of the SAARC nations over a period of time away from agriculture and in favour of the tertiary sector.

**Table 5: Value Added (percent of total value added)**

Sector	Agriculture			Industry			Services		
	1995	1998	2008	1995	1998	2008	1995	1998	2008
<b>Bangladesh</b>	26.4	25.4	19.0	24.6	25.8	28.5	49.1	48.7	52.5
<b>Bhutan</b>	34.0	31.9	19.2 (2007)	34.8	34.0	46.5 (2007)	31.2	34.1	34.3 (2007)
<b>India</b>	26.5	25.0	17.6	27.8	26.1	29.0	45.7	47.9	53.4
<b>Maldives</b>	-	-	-	-	-	-	-	-	-
<b>Nepal</b>	38.9	37.0	33.1	17.7	17.5	15.7	43.4	45.5	51.2
<b>Pakistan</b>	26.1	27.3	20.2	23.8	23.8	26.8	50.1	48.9	53.0
<b>Sri Lanka</b>	19.5	18.9	15.2	29.3	29.1	30.6	51.3	52.0	54.1

Source: Key Indicators for the Asia and the Pacific, 2009

### 3.3 Other economic indicators

In order to delve into the changes in other economic indicators accompanying the structural changes in the SAARC economies, total debt-GDP ratio, interest payments to GDP ratio, gross capital formation to GDP and gross domestic savings to GDP ratio have been studied for 1988, 1998 and 2008.

**Table 6a: Key Economic Indicators**

Country	Total debt/GDP			Interest payments/GDP		
	1988	1998	2008	1988	1998	2008
<b>Bangladesh</b>	40.8	35.6	29.7	0.7	0.4	0.3
<b>Bhutan</b>	25.6	48.1	54.0	0.3	0.6	3.0
<b>India</b>	21.0	23.7	19.9	1.0	1.2	0.6
<b>Maldives</b>	42.3	35.8	78.2	1.7	0.8	1.7
<b>Nepal</b>	33.4	55.0	29.2	0.7	0.6	0.3
<b>Pakistan</b>	44.4	51.9	30.0	1.8	1.4	0.6
<b>Sri Lanka</b>	74.6	57.3	37.4	2.4	1.2	0.8

Source: WDI, 2009

**Table 6b: Key Economic Indicators**

Country	Gross capital formation/GDP			Gross national savings/GDP		
	1988	1998	2008	1988	1998	2008
<b>Bangladesh</b>	16.3	21.6	24.2	14.7	24.2	35.7
<b>Bhutan</b>	41.7	36.8	46.6	-	38.4	60.1
<b>India</b>	23.6	22.6	39.7	22.0	22.6	37.6
<b>Maldives</b>	-	30.1	-	-	39.6	-
<b>Nepal</b>	22.3	24.8	31.8	15.2	23.0	29.5
<b>Pakistan</b>	18.0	17.7	22.0	21.5	21.3	20.0
<b>Sri Lanka</b>	22.8	25.1	27.1	17.2	23.7	14.8

Source: WDI, 2009

Table 6a shows that the debt-GDP ratio for Bangladesh and Sri Lanka has fallen consistently over the years, but in case of Bhutan and Maldives it has increased and for India, Nepal and Pakistan it increased in the late 1990s as compared to the 1980s but has come down in the recent past. Interest payment to GDP ratio has followed the same trend for all the countries. Table 6b shows that the gross national saving to GDP ratio has increased in all the countries except Pakistan and Sri Lanka. The gross capital formation to GDP ratio has increased in all the countries including

Pakistan and Sri Lanka where savings have come down, though only marginally. This analysis shows that there is a tendency in most of the SAARC nations towards lesser reliance on debt and an emphasis on domestic savings and capital formation. These trends could augur well for these growing economies.

#### **4. CONCLUSION**

South Asian Association for Regional Cooperation, is unique in that these countries have a lot of similarities but are diverse in several characteristics. They differ significantly in size, population and economic development with India being the largest and Maldives the smallest. They are also divergent in terms of their social and political set ups. The SAARC nations have regular summits and meetings, yet there is lack of cohesion and cordiality among most of these countries and the region is afflicted with terrorism. Despite all these facts, most economies of SAARC have shown resilience in the face of recent global meltdown. India is the star amongst all these nations in terms of its economic strength. As a region, the South Asia's growth momentum was led by the services sector, but industry sector growth accelerated in regional big economies India, Pakistan, Bangladesh and Sri Lanka, reinforcing the sustainability of high growth rates into the future (Central Bank of Sri Lanka, 2008).

The study of the growth and structural transformation of the SAARC economies does not strictly conform to the stylized facts about the phenomenon. The pattern of structural transformation for SAARC countries, in general, is different from the path followed by developed countries. Second there is a lot of heterogeneity in the structural transformation processes followed by these countries (Bah, 2007). Most of these countries like India have not matured as industrial economies before reaching a stage of services driven growth. This is quite unlike the developed countries. The share of services sector in GDP in SAARC economies is the highest as is the average annual growth rate and the value added as a percent of total value added in the economy the highest in the tertiary sector.

All countries of this region have adopted globalization, liberalization and macro economic reforms to invigorate their economies and have a lot of potential to grow. The governments of these countries can play a meaningful role in facilitating structural change and help the private sector to sustain it over time. All SAARC nations need to improve governance as well as strengthen the institutions that help promote growth and development. They must build capacity to foster economic growth not only within each country but also in the entire region. They need closer and effective cooperation amongst them, especially to promote trade under the WTO regime. SAARC nations face the biggest challenge of conflict amongst themselves as well as the threat of terrorism which is a major impediment to the growth of the region. Peace and harmonious relations amongst all the SAARC nations must become a reality if they have to meet the economic and political obligations of globalization.

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