

## **Appendix 1 - South Asia as a Region : A profile**

### Economic Indicators

In 1999, South Asia was the second most populated region, behind only East Asia. With the least land area it is the most densely populated region with 278 people per sq. km. in 1999, more than twice the second most densely populated region of East Asia with 115 per sq. km. On the other hand, its per capita GNP of US \$ 440 in 1999 was by far the lowest among all the regional groups including Sub-Saharan Africa. The position is slightly better for South Asia in purchasing power parity (PPP) terms which is obtained after adjusting for price differences in comparable goods not traded amongst countries. Even so, its per capita GNP of US \$ 2,030 in PPP terms was higher than only the Sub-Saharan Africa region of US \$ 1,450.

Second, the performance of South Asia in terms of growth was lacklustre till about twenty years ago, but became impressive since the 1980s. From recording the slowest growth in GDP in the world during 1965-80, since the mid 'seventies it has been the second fastest growing region, behind East Asia. Its GNP growth of 4.0 percent during 1975-95 and 5.5 percent during 1990-98, was outperformed only by East Asia with growth rates of over 8.0 percent. Consequently, the per capita GNP growth accelerated and by the 'nineties was behind East Asia only.

Third, the higher growth rate since the 1980s was, however, achieved with one of the lowest savings and investment rates. The savings rate remained less than 20.0 percent since the 'eighties so far, higher than only the Sub-Saharan Africa. Similarly, the investment rates of about 21.0 to 23.0 percent have been somewhat unfavourable, particularly when set against about 35.0 percent in East Asia. The average for Low and Middle Income countries was also higher than South Asia at about 25.0 percent. The Latin America and Caribbean and Sub-Saharan regions have marginally lower investment rate than South Asia.

Fourth, as in most parts of the world, export growth outpaced economic growth since the 'eighties but the region's export growth rate of 6.5 percent during 1980-90 and 9.6 percent during 1990-99, was impressive and only behind the East Asian performance of 11.1 percent and 12.6 percent during the corresponding periods. Reflecting the low base, exports and imports of goods and services as percent of GDP in the 'nineties was the lowest among all the groups. In 1998, this percentage for the second lowest region viz., Latin America and Caribbean (36.2 percent), was much higher as against about 28.0 percent in the region.

Fifth, although the external debt to GDP ratio rose from 15.5 percent in 1985 to 26.2 percent in 1998, South Asia remained as one of the least indebted region behind East Asia (24.8 percent). Yet, debt service as a ratio to exports of goods and services at 18.9 percent in 1998, was lower than that of Latin America and Caribbean region only.

Sixth, the region continued to be typified by the worst fiscal deficit of government despite the decline from 8.40 percent of GDP during the 'eighties to 7.70

percent during the first half of the 'nineties. The Eastern European and CIS countries displayed worse record of fiscal management in the latter period.

Seventh, in terms of inflation, South Asia recorded the lowest rate among all the groups of developing countries since the 'eighties. The simple annual average for the region declined from 8.83 percent during 1982-91 to 7.43 percent during 1992-99, which was better than average for Asia of 9.7 percent and 8.95 percent during the corresponding periods. Other regional groups, particularly, Latin America and Caribbean (166.9 percent and 81.3 percent) recorded far higher rate of inflation.

Eighth, barring East Asia, official development assistance as percentage of GNP was the lowest, and as an universal developing country phenomenon, declined during the 'nineties. Net portfolio investment flows which jumped from US \$ 252 million in 1992 to US \$ 4,536 million in 1998 was behind all the major regions, except the Sub-Saharan Africa. The increase in the inflow of long-term private capital in South Asia by less than two fold from US \$ 3 billion to US \$ 5 billion during 1980-89 to 1990-96 was also far lower than the three fold increase in the inflow to developing countries from US \$ 40 billion to US \$ 134 billion. The region's share in the total inflow to developing countries fell from 8.0 percent to 4.0 percent, and both in volume and share terms was better than Sub-Saharan Africa and the Arab States only.

Ninth, in the flow of foreign direct investment (FDI), reflecting a distinct world trend, inflows to South Asia increased from US \$ 351 million to US \$ 2,873 million and outflows increased from US \$ 20 million to US \$ 99 million during 1987-92 to 1993-98. The inflows to the region were far short of other regions. During the corresponding periods, the FDI inflow as a ratio to gross fixed capital formation among the South Asian countries ranged from 0.0 to 3.3 percent and 0.78 to 6.32 percent, significantly lower than average of all the regions, except the Arab States. The developing countries' average range from 3.90 percent to 8.08 percent. In respect of outflows, the corresponding ratios for the South Asian countries ranged from 0.0 to 0.01 percent and 0.0 to 0.2 percent, even lower than the average of Arab States, as against the developing countries' average which were 1.0 percent and 3.60 percent. Thus, the FDI stock as a ratio to GDP of the region ranged from 0.0 to 8.5 percent in 1985 and 1.0 to 12.7 percent in 1997, and was by far the lowest among all regions.

Tenth, the ratio of domestic credit provided by banking sector, the dominant sector of financial intermediaries in a modern economy, as a ratio to GDP, reflecting the degree of banking presence in an economy, was the lowest in the region in 1990 with 48.3 percent. In 1999, the ratio was 44.1 percent, as against the average of 72.2 percent for the developing countries and 113.0 percent of East Asian region; but it was higher than the Latin America and Caribbean and the Sub-Saharan regions.

### Infrastructure Indicators

A well developed infrastructure is a *sine qua non* of economic development which in the recent times has another dimension in the form of access to information flows as a major driving force of economic integration, together assuming immense importance in

terms of reaping benefits from globalisation. Where South Asia stands in the global context in this regard is set out below.

First, the per capita power consumption in South Asia, which was the lowest in 1980 at 173 kwh could only improve to 479 kwh in 1997 to be only marginally higher than Sub-Saharan Africa, while East Asia and Latin America and Caribbean regions were far ahead at 1105 kwh and 1749 kwh, respectively. On the other hand, the transmission and distribution (T&D) losses of 18.0 percent in the 'nineties, as against 8.0 percent in East Asia and the average of about 11.0 percent for Low and Middle Income countries, was the highest.

Second, the percentage of paved roads to total roads which increased from 37.5 percent in 1990 to 57.0 percent in 1997-98, however, was higher than most of the regions, except the Eastern Europe and the CIS countries among the developing country regions on the latter date.

Third, Sub-Saharan Africa was the only group faring worse than South Asia with regard to information flows. During 1996-98, 69 televisions per 1000 people in the South Asia region was higher than 50 in Sub-Saharan Africa, while East Asia (275), Latin America and Caribbean (252) and Low and Middle Income countries (162) were far ahead. Similarly, 24 telephones per 1000 people was markedly lower than 85 for East Asia and 118 for Latin America and Caribbean region. Mobile phones of 2 per 1000 people during the same period was the lowest of all the regions. Only 3 PCs were available per 1000 people in South Asia in 1998, while even the next lowest Sub-Saharan Africa had about three times more. Further, internet hosts with 0.01 hosts per 1000 people in 1998 was totally at the margin against the next lowest Arab States with 0.13, while other regions were far ahead.

### Social Indicators

Besides infrastructure, it is the quality of the populace, determined by their health, education and nutrition, that is utmost for economic development and its sustenance. South Asia's situation in this area seems to be not very rosy.

First, adult literacy of 54.3 percent in 1998 was the lowest among all the regions, lower than 59.6 percent in Sub-Saharan Africa while the average of 72.7 percent for Low and Middle Income countries, and of over 83.0 percent in East Asia and Latin America and Caribbean were far ahead. Similar was the case with youth literacy rate of 68.9 percent in 1998, which was also lower than all the regions. Further, South Asia spent a lower percentage of its GDP on education in the 'nineties than all other regions, except East Asia. Scientists and engineers per one million South Asians were only 137 during 1987-97 as against 492 in East Asia. It may not be surprising that in 1998, 4.0 percent of South Asian exports was hightech exports as against 28.0 percent for East Asia and the average of 17.0 percent for the Low and Middle Income countries.

Second, during 1982-85, only 52.0 percent of South Asians had access to safe water while in Latin America and Caribbean region, it was 72.0 percent. However, the

position improved to 82.0 percent during 1990-98 and was higher than most regions, but it compares unfavourably against East Asia excluding China (92.0 percent). In sanitation, only 7.0 percent of South Asians had access to it during 1982-85, while the position was 46.0 percent in Latin America and Caribbean region. During 1990-98, the same percentage rose to 35.0 percent but was still the lowest of all groups.

Infant mortality rate of 72 per 1000 was the highest, barring 106 in Sub-Saharan Africa, as against 37 in East Asia and 32 in Latin America and Caribbean. Life expectancy in South Asia improved from 50 years during 1970-75 to 63 years during 1995-2000, but only an average Sub-Saharan African was expected to have a shorter life span during the corresponding period.

Availability of doctors per one lakh South Asians during 1992-95 was 44, only higher than 32 in Sub-Saharan Africa while East Asia and Latin America and Caribbean were far ahead with 115 and 132, respectively. And in terms of nurses per lakh people of 24 during 1992-95, it was highly unfavorable even against the second lowest East Asia with 94 nurses per lakh people.

Reflecting the above, the region spent less than 1.0 percent of GDP on health related expenditure being the lowest among all the regions while Latin America and Caribbean spent 3.1 percent of GDP and Eastern Europe and CIS spent 4.5 percent during the 'nineties. The world average was 5.6 percent during 1996-98.

Third, in 1970, daily per capita supply of calories of 2,103 in the region was above that of 2,050 calories in East Asia alone in the regional groups. But by 1997, East Asia with 2,906 calories had far surpassed the level of 2,467 calories in South Asia. Sub-Saharan Africa's daily per capita supply which was better than Asia at 2,271 in 1970 had declined to 2,237 in 1997, to be the only region falling behind South Asia. In the daily per capita supply of protein also, 59 grams in South Asia in 1997 was below all groups, except Sub-Saharan Africa due to decline by 4.1 percent between 1970 and 1997. Similarly, the daily supply of fat of 45 grams in South Asia in 1997 was the lowest among all the regions, though the region recorded the second fastest increase after East Asia between 1970 and 1997.

Environmental issues have assumed greater importance in the recent years. In 1996, the region emitted 1,393 metric tons of carbon dioxide into the atmosphere accounting for 5.8 percent of the total emissions in the world. This proportion of emission was larger than many of the regions, but East Asia had a much higher level of emission.

### Institutional Factors

Besides the above economic, infrastructure and social factors, institutional framework would need to be reckoned for progress and also for meeting competitive pressures from the increasing pace of globalisation. In fact, as economic transactions and social provisions are made under a given institutional set up, the set up must facilitate them. However, evaluation of institutional factors is complex and methodologies are still in their infancy. Further, apart from measurable indicators through specific numbers,

there are others which assess quality of performance, efficiency, competition and all these do reflect dynamism of an economy. There is no single source of information on these factors, and where they are available even in a scattered fashion, the rankings are primarily done for individual countries thereby making group comparison extremely difficult. But, it is still worthwhile to see how South Asian countries perform, to the extent one or more form part of the assessments made.

On corruption, Transparency International and Gottingen University's ranking of 54 countries in 1996, which is based on the perception of business people on the transparency of the politicians and public officials of a country, ranked three South Asian country of Pakistan, Bangladesh and India respectively at 53<sup>rd</sup>, 51<sup>st</sup>, and 46<sup>th</sup> or as the 2<sup>nd</sup>, the 4<sup>th</sup> and the 9<sup>th</sup> most negatively perceived.

The World Bank captures the quality of governance by five broad indicators. They are: a) government effectiveness and stability, which include institutional and government stability and general public's satisfaction with the government policies; b) role of law and business environment, based on corruption/kickbacks, law and order, legal rights, etc.; c) general public administration judged by quality of bureaucracy, its strength and exposure to political interference and accountability; d) public finance, which among others, includes quality of budget, efficiency and equity of expenditure and receipts and management of public finances; and e) outcomes, which are shown by poverty, mortality, literacy, etc. For 1995, the available information on the position of India and the rest of the South Asian countries, separately, against groups of developing countries, selected large countries (China, Mexico, South Africa, Brazil and Poland), South-East Asia (represented by Indonesia and Thailand), and industrial countries (represented by the U.K. and the U.S. ) are as follows:

- With regard to the role of law and business environment, the South Asian countries lagged behind all the groups with the exception that India within this group is relatively better at about the level of South-East Asia and the developing countries.
- Except against the developing countries, the standard of general public administration in South Asian countries other than India is lower than all groups of countries. Indian standard in this regard is only behind that of industrial countries.
- The position of public finance in India is behind the group of selected large countries and the industrial countries only, but its neighboring countries (i.e., South Asia excluding India) have the worst public finance among all the groups.
- Expectedly, in UNDP's 'Human Development Index', a composite measure of basic human development derived from income, longevity and educational attainment, except for two in the ranks of medium level, all South Asian countries were ranked low in 1998, ranging between 138 to 155 out of the total 174 countries.
- In the various socio-economic indices referred below, except for that of risk ratings, all the rankings are on individual countries, and India is the only South Asian country covered in the surveys. Therefore, a comparison is possible only between

select countries from different regional groupings representing that group and India qualifying for South Asia.

- ‘Economic Creativity Index’ is one of the indices derived from the involvement in technological improvement and the business start-ups environment and, gets reflected in the growth performance of a country. In the World Economic Forum (WEF) survey in 2000, of the 59 countries, India, was ranked 38<sup>th</sup>, which was higher than that of Asian countries like Indonesia, Thailand and China.

Thus, with regard to factors underpinning current economic performance captured by ‘Current Competitiveness Index’, India, out of 58 countries in 2000 ranked 37<sup>th</sup>, and was also placed higher than South-East Asian countries and China.

In ‘Growth Competitiveness Index’ that measures the factors contributing to future growth of per capita income, India ranked 49<sup>th</sup> among the 59 countries in 2000. The South-East Asian countries and selected large countries were all placed higher than India.

In the ‘Microeconomic Competitiveness Index’ measuring the operating practices and strategies of firms and the environment in which these firms compete, the ranking of 58 countries in 1999 placed India at the 42<sup>nd</sup> position.

Similarly, in ‘Environment Regulatory Regime Index’ in 2000, and ‘Financial Market Sophistication Index’ in 1999, India, ranked 43<sup>rd</sup> and 39<sup>th</sup> out of 53 and 59 countries, respectively. These ranks were comparable, if not worse, to other Asian countries included in the surveys but distinctly lower than many large countries from other continents.

Inflow of investment fund is so essential in the process of globalisation. But these are also conditioned upon the risk ratings of the country/region. In the composite International Country Risk Guide (ICRG), risk rating, which is an overall index of investment risk in a country, as of March 2000, South Asia had a rating of 61.3 which was lower than all the regional groups, except the Sub-Saharan Africa. Similarly, in the institutional investor credit rating, which indicates the probability of a country’s default, the rating of 26.1 was also higher than the Sub-Saharan Africa only.

But in ‘Recessionary Expectation Index’ which indicates the extent of confidence that a country will not go into slump, India, the only South Asian country in the group, was placed quite high in 2000.

## **Appendix 2 – South Asian Countries : A Profile**

First, real GNP growth has been above 4.0 percent in all the countries during 1975-95, and picked up in each of the countries in the 'nineties, barring Pakistan. Thus, the per capita GNP also picked up during the corresponding period in most of the countries.

Second, inflation rate on an average between 1982 and 1999 ranged between 5.0 and 10.0 percent among these countries, with Sri Lanka being the only country crossing double digit. These rates were highly favourable in the developing countries context, and particularly against Latin America.

Third, though there are no large differences in growth performance, the savings and investment rates during the 'eighties and the 'nineties differed significantly among these countries. On the one hand, Bangladesh recorded a low savings rate of less than 10.0 percent or a high consumption rate of over 90.0 percent of GDP during the 'nineties, while on the other, the consumption rate in Bhutan was much lower at less than two-third or the saving rate was over one-third. These two countries were also at the extreme end in the investment rate during the 'nineties, about 15.0 percent in Bangladesh and about 46.0 percent in Bhutan.

Fourth, the average merchandise export growths during 1981-99 were above 7.0 percent in all the seven countries, though in four of them growth rate in the 'nineties declined from that of the 'eighties. On the other hand, merchandise imports growth increased in all, but for Maldives, during the latter period. Trade to GDP ratio increased in all, barring Pakistan, and in 1998 ranged from 24.8 percent (India) to over three-fourth for the smaller economies like Bhutan and Sri Lanka. All the countries recorded current account deficit, ranging from 1.13 percent of GDP (India) to 15.0 percent (Bhutan) during the 'nineties. Between 1985 and 1998, external debt to GDP ratio increased in the region, except Maldives, and for the smaller South Asian economies, the ratios were higher than the average of developing countries. However, debt service ratio declined in most, and ranged between 6.3 percent (Bhutan) and 23.6 percent (Pakistan) in 1998.

Fifth, despite the general decline from the 'eighties, the government deficits, barring Bhutan, were uniformly large in all the countries during the 'nineties, ranging from 5.39 percent of GDP (Bangladesh) to 13.08 percent in Maldives.

Sixth, there was marked decline in the official development assistance as percent of GDP during the 'nineties in all the countries. However, barring India and Pakistan, the levels were higher from the average of developing countries in 1998. Net portfolio investment has been almost wholly accounted for by India. FDI inflows increased during 1987-92 to 1993-98, but was mainly accounted by India, Pakistan and Sri Lanka. The inflows form significant level of gross fixed capital formation only in Pakistan and Sri Lanka, while outflows have been insignificant in all the countries. FDI stocks form some significant proportion of GDP only in Maldives, Pakistan and Sri Lanka.

Seventh, the ratio of domestic credit provided by banking sector as a ratio to GDP ranged from 31.9 percent (Sri Lanka) to 47.0 percent (Pakistan), uniformly lower than the developing countries average.

Eighth, per capita power consumption between 1980 and 1997 multiplied manifold in all the countries. However, there were large disparities ranging from 57 kwh in Nepal to 482 kwh in India, all of which were markedly lower than the level of consumption in other parts of the world. On the other hand, transmission and distribution (T & D) losses were uniformly very high, ranging from 17.0 percent in Sri Lanka to 28.0 percent in Nepal during 1996-97.

Despite being one of the regions with the least access to information flows, there were again large disparities between these countries. Television per thousand in 1996-98 ranged from 4 in Nepal to 92 in Sri Lanka, while for telephone, the range was from 3 in Bangladesh to 71 in Maldives. During the same period, mobile phones per thousand ranged between 0 to 1, except 6 in Maldives and 9 in Sri Lanka, while the similar ratio for PCs were more even ranging between 3 and 4. In terms of internet host, barring Maldives with 0.38 hosts per thousand, the positions were far lower than elsewhere, ranging from 0.0 in Bangladesh to 0.06 in Bhutan.

Ninth, adult and youth literacy in 1998 were over 91.0 percent in Maldives and Sri Lanka. But, in the rest of the countries characterized by low human development, adult literacy ranged from 39.2 percent (Nepal) to 55.7 percent (India), and youth literacy ranged from 49.6 percent (Bangladesh) to 70.9 percent (India). Expenditure on education as percentage of GDP increased during the 'nineties, except in India, and ranged from 2.2 percent (Bangladesh) to 6.4 percent (Maldives). Scientists and engineers in R&D per million people during 1987-97 ranged from 52 in Bangladesh to 191 in Sri Lanka. Hightech exports in 1998 was almost non-existent, except a meagre 5.0 percent of the total exports in India.

Tenth, access to safe water of the population increased substantially in all countries during 1982-85 to 1990-96, but still diverged from 44.0 percent in Nepal to 84.0 percent in Bangladesh. Similar access to sanitation during the corresponding period also increased, and this ranged from 6.0 percent in Nepal to 52.0 percent in Sri Lanka. In 1998, infant mortality ranged from a low of 17 per thousand in Sri Lanka to a high of 95 in Pakistan and health related expenditure to GDP ratio varied from 0.6 percent in India to 5.1 percent in Maldives. Availability of doctors per one lakh population during 1992-95 was from 5 in Nepal to 52 in Pakistan, while for nurses the range was from 5 in Nepal to 112 in Sri Lanka.

Eleventh, except for Bangladesh, daily per capita supply of calories between 1970 and 1997 increased in all, with an average Bangladeshi receiving the least with 2,085 calories per day, and an average Indian receiving the highest of 2,496 calories in 1997. Showing a similar change between 1970 and 1997, the per capita supply of protein ranged from 45 grams in Bangladesh to 88 grams in Maldives, while per capita supply of fat was also the least in Bangladesh with 22 grams as against the highest of 65 grams in Pakistan.