Development Experience in South Asia

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Social Development

One of the major problems in South Asian countries has been the persistence of poverty. In the early days of development policy, it was widely held that the eradication of poverty was dependent on economic growth for which material capital formation was essential and that increasing the share of the poor in total consumption would reduce the capacity of the better-off sections of society to save and thereby affect aggregate saving in these economies which were already faced with allegedly severe savings constraints. But, at the same time, it cannot be maintained that the planning process altogether overlooked the problem of poverty since it was generally believed that the "trickle-down" process would transmit over time the benefits of growth widely through society, including the poorer sections of the population. The main point of early development thinking was that a judicious attempt should be made to reconcile the interests of future generations with that of current ones, it being assumed tacitly that the issue of distribution among the contemporaries would be addressed through institutional reforms.

These views have come in for sharp criticism, at least since the early 1970s. I do not wish to review the debate on this issue here, except to note a few points that are relevant to the discussion in this article. First, the assumption that the "trickle-down" effect would percolate to all segments of the population implies a fairly high degree of homogeneity and mobility among the population, both spatially and socially. This, however, is certainly not the case, at least in the South Asian countries. Second, an increase in physical capital formation by itself cannot ensure rapid economic growth unless it is supplemented by an increase in human capital formation. Human resource development has become all the more important for the South Asian countries which have been experiencing rapid growth in population over the past two to three decades. Third, public policies which increase the consumption of the poor can simultaneously promote equity and growth. Public expenditure on basic education, imparting of skills, nutrition, health and medical facilities provides direct consumption benefits to the poor, but it should be regarded more as an investment in human capital insofar as it enables to improve the productive capacity and thereby contribute to growth. Fourth, poverty and population growth are interrelated to a large extent at least in the South Asian countries. Elements of human resource development such as expansion of health and medical facilities, improvement in literacy rates and educational levels are not only helpful in reducing the incidence of poverty, but also in reducing the growth in population through reduced levels of fertility over a period of time. In fact, all these elements are closely inter-related and improvement in any one area can facilitate improvements in other areas and reinforce the growth process.

While we have highlighted the complementarities that exist between growth and human resource development programs, some development economists even now emphasize the trade-offs between growth and equity objectives of economic development. These two contrary viewpoints have led to considerable debate which has also produced some very useful empirical research. In the course of this debate, some have argued that if developemnt is to be meaningful, then the highest priority has to be accorded to the eradication of poverty and malnutrition for which direct measures are required instead of relying on the growth process which may not transmit the benefits to the poor within a reasonable span of time. Some have even argued that the growth process has completely bypassed the poor, especially the rural poor and, in their viewpoint, there is a need for direct government intervention to provide an equitable share of goods and services to the poor, especially for meeting their basic needs.

Among the South Asian countries, Sri Lanka has often been cited as an outstanding example where direct measures to improve the welfare of the poor have been successfully implemented without sacrificing much in terms of economic growth. It has been argued that large amounts of social development expenditures have made it possible for Sri Lanka to achieve a high standard of living as reflected in terms of long life expectancy, low rate of population growth and a fairly high level of per capita calorie availability. However, since 1977 social development expenditures have been reduced and greater emphasis has been given to the objective of economic growth. While it might be too early to pass judgements on these policy changes in terms of their effect on the economic welfare of Sri Lanka's population, especially the poor, although some adverse trends are discernible, it is useful to review the social development process in Sri Lanka in comparison with the other South Asian countries.

Life expectancy in Sri Lanka increased from 62 years in 1960 to 70 years in 1985, whereas in 1985 it was only 56 years in India and 51 years in both Bangladesh and Pakistan. The infant mortality rate in Sri Lanka declined from 71 (per thousand live births) in 1960 to 36 in 1985 while it was much higher in Bangladesh (123), Pakistan (115), and India (89) in 1985. The child death rate (children between 1 and 4 years) in Sri Lanka was at a low of 2 (per thousand) in 1985 while it was 11 in India, 16 in Pakistan and 18 in Bangladesh. The adult literacy rate among males in Sri Lanka was as high as 91 per cent in

1985, whereas it was only 36 per cent in Pakistan, 40 per cent in Bangladesh and 47 per cent in India. The rate of population growth in Sri Lanka declined from 2.4 per cent per annum in the 1960s to 1.4 per cent in the early 1980s, whereas it was at a high level of 3.1 per cent in Pakistan, 2.6 per cent in Bangladesh and 2.2 per cent in India. The crude birth rate in Sri Lanka declined from 36 in 1960 to 25 in 1985 while it was at a high level of 44 in Pakistan, 40 in Bangladesh and 33 in India. The sharp decline in the birth rate in Sri Lanka was due to a reduction in fertility rate which could be attributed to a high level of literacy among females (81 per cent in 1985) and large-scale adoption of family planning methods. The percentage of married women in the child-bearing age group using contraceptives in Sri Lanka increased sharply from 6 per cent in 1970 to 57 per cent in 1985, whereas it was only 35 per cent in India, 25 per cent in Bangladesh and a mere 8 per cent in Pakistan.

Sri Lanka has also been operating a subsidized food distribution program for a long time, the supplies for which come partly from domestic production and partly from imports. As a result of this program, the per capita daily calorie supply in Sri Lanka reached a level of 2,385 in 1985, while it was only 2,189 in India, 2,159 in Pakistan and 1,899 in Bangladesh. A study of the Sri Lanka public food distribution system pointed out that the income redistribution effects of the system have been quite significant in terms of raising the real incomes of the poor and of augmenting human capital apart from indirect effects such as employment generation and returns to labor due to increased domestic rice production.

However, the cost of operation of the food distribution system placed a heavy burden on the Sri Lankan exchequer during the 1970s. With a view to overcome these difficulties, some major policy and institutional changes were introduced in 1978. The measures included a substantial reduction in the commitment to food price subsidization, reduced eligibility for food ration, its substitution by fixed-value food stamps, and increases in official prices.

The question arises as to the impact of these policy changes on the food consumption and nutrition status of the poor in Sri Lanka. This issue has been analyzed recently by a few economists in the course of the debate on the efficacy of direct and indirect approaches for improving the welfare of the poor in Sri Lanka. Shen has argued that Sri Lanka could achieve the social objectives of the development process mainly because a large percentage of the government budget was continuously devoted to food subsidy and other social services over a number of years. He, however, implicitly recognised that there could be a trade-off between social expenditures and growth when he posed the question as to whether the growth rate in Sri Lanka would have been much higher in the absence of social welfare programs, and he concluded that if Sri Lanka's GDP grew at the rate of 2 percent per annum, it would take 152 years to achieve income levels corresponding to its life expectancy level of 69 years in 1975. In other words, Sen's viewpoint is that it would take a long period for developing countries to achieve gains in terms of social welfare if they depend solely on the income growth process, and hence the need to implement direct measures to provide basic needs to the poor.

This view has, however, been recently challenged by Bhalla and Glewwe. In their opinion, Sri Lanka's relatively high performance in the late 1970s in terms of social indicators cannot be solely attributed to the social development policies pursued since 1960 because Sri Lanka enjoyed very favorable initial conditions in terms of high living standards and other social indicators even as early as 1948. They have argued that the conclusion

Table 1: Structure of Gross Domestic Product and Employment in South Asian Countries
(Percentages)

	Gross Domestic Product		Employment	
Country and Sector	1965	1985	1965	1980
Bangladesh				
Agriculture	53	50	84	75
Industry	11	14	5	6
Services	36	36	11	19
India				
Agriculture	47	31	73	70
Industry	22	27	12	13
Services	31	41	15	17
Pakistan				
Agriculture	40	25	60	55
Industry	20	28	18	16
Services	40	47	22	30
Sri Lanka				
Agriculture	28	27	56	53
Industry	21	26	14	14
Services	51	46	30	33

Source: World Bank, World Development Report 1987 (New York: Oxford University Press, 1987).

that Sri Lanka had performed exceedingly well in the mid-1970s due to high level of social welfare expenditures since 1960 is the result of the drawback in the methodology that ignored the initial conditions. Further, they have also argued that while the rate of economic growth in Sri Lanka has been much higher during 1977–1984 (period of post-economic reforms) compared with the period 1960–1977, living standards of the poor have also increased at a much faster rate during 1977–1984. In other words, their argument is that the economic reforms that were introduced in 1978 which curtailed social welfare expenditures and placed greater emphasis on growth have promoted social welfare to a greater extent than the policies pursued earlier that laid emphasis on direct measures.

Table 3: Trends in Relative Sectoral Productivity in Selected Countries, 1960-1980

	Agriculture			Industry		
Country	1960	1970	1980	1960	1970	1980
Bangladesh	0.76	0.72	0.62	2.33 (3.1)	2.32 (3.2)	3.25 (5.2)
India	0.65	0.58	0.59	1.93 (3.0)	2.22 (3.8)	1.62 (2.7)
Pakistan	0.68	0.63	0.58	1.12 (1.6)	1.27 (2.0)	1.39 (2.4)
Sri Lanka	0.62	0.56	0.54	1.90 (3.1)	2.16 (3.9)	2.00 (3.7)
Republic of Korea	0.46	0.46	0.41	2.39 (5.2)	1.57 (3.4)	0.91 (2.2)

Notes: Relative sectoral productivity is measured as the ratio of the share of sectoral labor force.
Figures in parenthesis are ratios of relative productivity in industry to that in agriculture.
Source: Economic and Social Commission for Asia and the Pacific, Economic and Social Survey of Asia and the Pacific, 1982 (Bangkok).

What does the above analysis signify in terms of development experience? It is useful to remember in this context that the South Asian countries had to initiate three crucial transitions more or less simultaneously. These transitions can be listed as the demographic transition, the agrarian transition and the transition towards an industrial society. Differences in terms of initial conditions relating to the above aspects among the South Asian countries are likely to influence the pace of these transitions and also the pattern of economic growth.

Since Sri Lanka had enjoyed favorable initial conditions in terms of social indicators, it could achieve a rapid reduction in the rate of growth of its population within a short span of time. But this, however, has not led to structural changes either in the labor force or even in output. Even then, the living standards of the people could be continuously improved not only because of the growth in social welfare expenditures alone but also because of certain special features of the Sri Lankan agriculture sector. However, it is not clear whether these conditions can persist for a long time without bringing about the two other transitions.

To illustrate, the Sri Lankan agricultural economy is dominated by three plantation crops, viz., tea, rubber and coconuts. Tea and rubber are mostly in the organized sector. Labor welfare measures such as health, medical and educational facilities have continued for quite long in the organized plantation crops sector, irrespective of ownership either in the private or public sector. Further, labour organisations in the plantation crops sector have also ensured that there was no erosion in their real wages in spite of fluctuations in the export earnings of these crops. In addition, growth in rice production in Sri Lanka, especially during the 1950s and 1960s, as noted earlier, took place mainly through new colonization schemes under which landless peasants were allotted government land, particularly land under new irrigation schemes, apart from the provision of cheap credit and subsidized inputs. Because of these factors, Sri Lanka could continue to maintain the living standards of the population without any great pressure as yet to carry out the much needed agrarian or industrial transition as typified in the "normal" development process.

On the other hand, the demographic transition in Bangladesh, India and Pakistan is delayed not only because of their rapid rates of growth in population but also because of constraints due to the lack of a full-fledged agrarian transition. These countries have promoted agricultural growth more or less on a sustained basis through the adoption of new cereal technology coupled with the substitution of traditional by modern inputs. Undoubtedly, this process has helped in achieving substantial increases in land productivity, given the land resource constraints experienced by these countries. Yet this process of agricultural growth cannot be totally relied upon for transmitting the full benefits of the new technology to the rural poor, especially to small landowners and agricultural labor, because of the presence of strong structural obstacles such as a skewed pattern of landholdings, fragmentation of land

and adverse forms of tenancy relationships. In view of these factors, the new technology tends to have a distributive bias in favor of those having larger landholdings. The central concern of future policymaking for promoting agricultural growth in the South Asian countries should be to give greater emphasis to agrarian reforms which would help in turning the distributive bias in favor of the rural poor. If, however, political regimes in the South Asian countries are either unwilling or unable to carry out full-fledged agrarian reforms, then the only other alternative to absorb the surplus agricultural labor is to design appropriate strategies for speedy industrialization.

In my opinion, the outward-looking industrialization strategy of the East Asian countries may not be easily replicable in the case of the smaller South Asian countries for various reasons. First, the East Asian countries had already carried out major land reforms in the early 1950s which released surplus agricultural labor at highly flexible wage rates that facilitated their rapid industrialization since the 1960s. Second, they benefited from large amounts of foreign credit on easy terms, initially as aid from the United States and latterly through trade links with Japan. Third, they had laid sufficient emphasis on education, skill formation and material capital accumulation. Above all, there was a strong combination of conjunctural and cultural factors along with a mixture of institutional motive forces, including a powerful blend of state directives along with operation of market forces in the areas of trade and industry. All these factors enabled the East Asian countries to move rapidly towards an industrial society. But the South Asian countries do not display these characteristics to any notable extent.

The incresingly protectionist policies pursued by the industrialized countries as well as the slowdown in the rate of growth in their imports of laborintensive manufactures have diminished the export prospects for the future. This makes it all the more difficult for the South Asian countries to adopt an outwardoriented industrialization strategy even if it is granted that these countries are capable of producing a range of manufactured products at competitive prices.

The South Asian countries have to evole an industrialization strategy that suits their resource endowments. The strategy should lay greater emphasis on the rapid development of basic consumer goods industries such as food products, textiles, leather products and other agro-based industries. This would also provide scope for exporting simple consumer goods and semi-processed raw materials. On the other hand, the process of industrialization based on the development of consumer durable goods industries would only aggravate the existing disparities in living standards since the domestic demand for these products could only be expanded through policies favoring income concentration.

Savings

Growth in domestic savings is a basic prerequisite for rapid economic development. Among the South Asian countries, India's performance stands out in mobilizing and increasing domestic savings. The saving rate in India had increased from about 14 per cent of GDP in 1965 to 21 per cent in 1985, while the rate of domestic investment had increased from 18 per cent to 25 per cent during the same period. On the other hand, the rate of domestic saving had declined from 8 per cent to 3 per cent of GDP in Bangladesh between 1965 and 1985 while it declined from 13 per cent to 5 per cent in Pakistan during this period. The rate of domestic saving has been stagnating at around the low level of 13 per cent in Sri Lanka over the last two decades.

However, Bangladesh, Pakistan and Sri Lanka have been able to maintain high levels of domestic investment in spite of their low levels of domestic savings. This is largely due to the inflow of foreign savings in the form of aid, loans and more recently remittances from nationals working abroad.

Remittances from nationals working abroad have been an important source of foreign exchange of the South Asian countries since the late 1970s, which enabled them to partly cover their trade deficts. In Bangladesh remittances amounted to 15 per cent of the trade deficit in 1978 which increased to over 22 per cent in 1982. In the case of Pakistan, it covered as much as 70 per cent of the trade deficit between 1978 and 1982. While remittances have helped India to cover the trade deficit, this by itself has not been a major factor in achieving higher levels of domestic investment because the rate of domestic saving in India has been rising over the last three decades.

The increased dependence on foreign loans has increased the debt-service burden of some South Asian countries. The ratio of debt to GNP increased from 16.4 per cent in 1970 to 47.6 per cent in 1985 for Sri Lanka while it increased from 9.5 per cent to 37.1 per cent for Bangladesh during the same period. Both these countries have been kept out of danger so far since much of their debt has been on concessional terms. But given the trends in the growth in foreign debt in these countries, there is always a potential danger of serious debt-service problems at some later stage that would constrain their growth.

The basic point in the case of India is that the marginal propensity to save of the private sector, especially households, has continued to be high, irrespective of the changes in income distribution that might have taken place over the last two or three decades. Further, at least until recently, the marginal propensity to save of the public sector was also fairly high. The growth in savings of the household sector in India has further been assisted by the process of financial deepening, diversification of saving instruments, maintenance of positive real interest rates, especially in recent years, and changes in the saving habits of the population.

On the other hand, the marginal propensity to save of the private sector has been much lower in Sri Lanka and very low in Pakistan. For the period 1960-1978, it was 0.24 for India compared with 0.18 for Sri Lanka and 0.11 for Pakistan.

In addition, the share of public savings has also been going down in the South Asian countries. This is partly attributable to the growth in unproductive public expenditure such as interest payments, defense, and consumer and producer subsidies. Part of the reason is also found in the inability of the public enterprises to raise enough resources. While in the case of India at least the fall in public savings has been compensated by the rise in private savings so as to maintain the overall savings at a fairly high level of around 22 per cent to 23 per cent, there has been no such corresponding improvements in the level of private savings in the other South Asian countries.

On the whole, it is clear that it would be very difficult for Bangladesh, Pakistan and Sri Lanka to achieve sustained economic growth unless vigorous efforts are made by them to raise substantially their levels of domestic savings which are quite low by all standards.

Conclusion

The broad objective of this article has been to review the development experience of selected South Asian countries, namely, Bangladesh, India, Pakistan and Sri Lanka, and to indicate the type of development strategies that need to be evolved in the future. For reasons of brevity, it has become necessary to focus on specific areas of development experience in these countries, leaving aside other areas such as foreign trade and external transactions which might also be considered equally important. Indeed, even within the selected areas, an attempt has been made to highlight particular aspects of development experience since, in my opinion, these aspects need to be given greater attention in the future development strategies of these countries. Some of these aspects are common to all the four selected countries while a few others are more country-specific. It would be in order to summarize them here.

The South Asian countries have a large labour force residing in the rural areas and dependent mainly on agriculture. Given the rapid rate of growth of population in Bangaldesh, India and Pakistan, the rural labour force is growing at a faster rate than the rural population. Since there are limitations to the speed at which the surplus labour in the agriculture sector can be more gainfully employed in non-agricultural occupations, even if a labour-insentive industrialization strategy is pursued, it is obvious that the South Asian countries have to carry the burden of surplus agricultural labour for at least a few more decades. In view of the severe land constraints already operating in these countries, it becomes all the more important for them to design agricultural strategies that would be both land-esque and labour-esque. This would at least prevent the fall in labour productivity even if it does not help in increasing it in the near future.

Agricultural development, especially foodgrain production, should be given a high priority in the overall development strategy in these countries. While Bangaldesh and Sri Lanka continue to remain food-deficit countries, India has achieved a considerable measure of success in meeting its food requirements. On the other hand, Pakistan, even though enjoying surplus food production at present, has been having a high rate of population growth and a low rate of growth in foodgrain production in recent years.

The spread of the new agricultural technology has been confined to specific crops and regions and to certain classes of farmers. It is, therefore, necessary to devote more resources to agricultural reserch and extension activities to overcome these imbalances. This would ensure that the benefits of growth flow to more regions and classes of farmers and at the same time impart a degree of stability to agricultural production in the face of uncertainties due to variations in weather at the regional and local levels in these countries.

Despite the scale-neutrality of the new agricultural technology, there has been no perceptible change in the unequal distribution of income or assets. The situation might have actually worsened in some areas. Though this issue is still being debated, it is clear that at least for South Asia, a certain measure of agrarian and institutional reforms, including reforms in the credit and other input delivery systems, is essential even if full-fledged reforms of the entire agrarian structure cannot be currently envisaged.

Countries such as Bangladesh and Sri Lanka are structurally "undiversified" economies in that the performance of their agriculture sector is very much dependent on the export earnings of a few primary products. Their domestic demand for these commodities accounts for only a small proportion of their overall production and; hence, instabilities created in the international markets affect their overall economic growth. Further, it is difficult for them to diversify their exports to any reasonable degree within a short time. Since the interests of South Asian countries are common to some extent in these commodities, it would be desirable for them to evolve some kind of a trade bloc with a view to avert serious losses in their terms of trade.

For various reasons, the public sector has to continue to play an important role in the development process in the South Asian countries. First, the countries are still very handicapped due to a lack of adequate infrastructural facilities such as power, transport and communications. These are areas from which the private sector shies away even assuming that it can raise the necessary resources for lumpy investments needed for such projects. Second, the countries have started pursuing liberal economic policies in recent years. The argument put forward for the adoption of such policies rests on the assumption that the free

play of market forces would lead to efficient allocation of resources. But given the imperfections in the markets for credit, labour and even technology, it is wishful thinking to assume that the markets in these countries would provide the correct price signals. In fact, state intervention is precisely called for, if only to overcome the distortions imposed by the market imperfection.

The industrial and technological policies in the South Asian countries should take into account their resource endowments and their objectives should be to achieve industrialization through more efficient use of available resources. The importance that is to be given to either import substitution or export promotion depends obviously on various economic considerations of which the size of the domestic market is an important one. While, given its size and heterogeneity, the industrialization process in India may have to rely on selective import-substitution possibilities, the remaining small-sized countries in South Asia have to purse an industrial development strategy that is more oriented towards export promotion. It might prove too costly for the small countries to venture into heavy industries even if foreign investment is forthcoming because these countries lack trained technical and managerial manpower; further, the technologies in the capital goods industries in the industrialized nations themselves are undergoing rapid changes which would prove to be bottlenecks for the small countries. Even for India, the continued emphasis on import substitution and upgrading of technology should be considered as a transistional phase for ultimately developing competitiveness in export markets.

An important aspect of the future industrial development strategy in the South Asian countires should be to provide greater emphasis on the growth of agro-based industries producing mass consumption goods such as textiles, food-processing, sugar and edible oils. A faster growth of these industries would strengthen both production and consumption linkages between the agriculture and industrial sectors and this would, in turn, provide more benefits in employment, income and improvements in the standards of living. It has been observed in recent years that the growth of industries such as consumer durables has been quite rapid in many South Asian countries. On the one hand, these industries serve mainly the needs of the middle and upper classes of the population and, on the other hand, their import intensity in terms of raw materials and components is also quite high. The growth of these industries has to be contained.

In this context, it should be emphasized that the South Asian countries, given their resource constraints and high population densities, cannot afford to imitate the type of industrialization and urbanization process of the industrialized countires which involved the intensive use of energy, mineral, forestry and other natural resources to satisfy the needs of an over-consumptive society and which have also created a variety of ecological problems. The South Asian countries have, therefore, to evolve an industrialization pattern suited to their resource endownments such that the ecological balance is maintained to permit sustained growth. It is now well accepted even in industrialized countries that an unregulated market mechanism does not fulfill this requirement. The South Asian countries have to bear this aspect in mind in formulating their industrialization policies for the future.

The South Asian countries, excepting Sri Lanka, have not given sufficent attention to social development activities, at least until recent years. Human resource development should form an important component of their overall development strategies. This would, in the short term, prevent the accentuation of problems of labour redundancy in backward regions and lagging sectors while, in the long term, it would facilitate the process of structural transformation.

A crucial problem of development in Bangladesh, Pakistan and Sri Lanka has been their savings constraint. Hitherto, access to foreign exchange resources rather than domestic savings has been the crucial determinant of their economic growth. On the one hand, their export earnings have been inadequate to meet their needs of critical imports. On the other hand, their rates of domestic saving have not shown improvement over a longer period to meet the rise in investment on which they depend for their continued growth. This has increased the burden of external debt and servicing charges.

The long-term debt service as a proportion of GNP reached 3.2 per cent in Pakistan and 4.1 per cent in Sri Lanka by 1985. The continuous inflow of foreign capital in these countries is likely to cause serious problems. Some consider that it would dampen domestic savings while others argue that it would stimulate domestic savings. But unless the pattern of investment results either in import savings or export earnings, the increased inflow of foreign capital cannot bring about self-sustaining growth. In fact, increased capital inflows can lead to a state of permanent dependence which may be inconsistent with other national goals. It is, therefore, very necessary that public policies in Bangladesh, Pakistan and Sri Lanka focus on the mobilization of domestic savings. This requires a considerable measure of rise in productivity, restraints on consumption, especially of the richer sections of the population, strengthening of financial infrastructure, and the pursuit of appropriate fisical and monetary policies. In particular, expansion of the domestic market for essential consumption goods and services should play a much greater role in the future development process in these countries.