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Shamsur Rahman

STRUCTURAL ADJUSTMENT PROGRAMME IN SOUTH ASIAN COUNTRIES: PERFORMANCE OF MACROECONOMIC INDICATORS

INTRODUCTION

Over the last decade, the macroeconomic structures of South Asian countries have undergone significant changes in the policy environment, leading to varying and very often contrasting trends in macroeconomic outcomes. Structural Adjustment Programmme (SAP), initially emerging as a set of short run stabilization policies to eradicate the chronic balance of payment and fiscal disequilibria, was later redefined and branded as "economic reform" under the auspices of World Bank (WB) and International Monetary Fund (IMF) aiming at attaining rapid economic growth and macroeconomic stabilization. Throughout the 1980s, every aspect of economic management of South Asian countries, except for India, became the testing ground for the neo-classical parables and recipes. And at the end of the decade, they have produced some important outcomes bearing significant implications for the development process of these countries.

The design, implementation and effectiveness of SAP in Less Developed Countries (LDCs) have been widely discussed since the

Shamsur Rahman is a Research Fellow at the Bangladesh Institute of International and Strategic Studies (BIISS), Dhaka.

mid- 1980s.[1] In the development literature one may observe mainly two types of studies in this regard. One stream of discussions appraises the underlying rationale of the adjustment policies from theoretical perspective, while the other examines the efficacy of SAP on various micro and macro issues on empirical basis. In South Asian context, bulk of the studies so far have been about theoretical issues and the empirical studies been carried out mainly at individual country level. A joint appraisal by Aghevli, Kim and Neiss (1988) had, of course, studied the performance of key macroeconomic indicators of Bangladesh, India, Pakistan and Sri Lanka for the early adjustment period, but in the present context some of the major inferences appear outdated. Specially, there is no study that brings the South Asian countries together in a unified springboard and explores the changes in the respective macroeconomic structures for the past years, even though they have pursued by and large similar kind of policies under the broad framework of SAP.

Against this backdrop, the current study attempts to provide a review of macroeconomic performances of select economies of South Asian region as reflected in some particular select indicators during the SAP period. Due to nonavailability of data for the relevant variables and information concerning the recent reform measures for the other countries of South Asian region, the present study has been confined to four countries namely, Bangladesh, India, Pakistan and Sri Lanka. The purpose of the present study is not to examine the underlying rationale or optimality of the adjustment policies, but to attempt to explore the nature of the changes in macroeconomic structures of the relevant countries due to changes in the macroeconomic policy environment effected by SAP over the last several years. More importantly, the objective is to observe whether the changes are taking place in the desired direction, i.e in conformity with the objective of attaining economic development of the respective

1. See, for example Balaassa (1982), Khan (1987), JDE (1988), Taylor (1988) and Khan (1990).

countries of the region. It will also be interesting to study the comparative performances among the select countries concerning the macroeconomic target variables as they have pursued qualitatively similar type of policies over the past decade.

The paper has been split into four sections. The first section provides a brief background of SAP in the select South Asian countries. The second section briefly traces the policy design and the extent to which SAP has been implemented in the concerned South Asian countries. The third section studies the performance of the select key macroeconomic indicators of the relevant countries during the SAP period. This section also renders a comparative assessment among the select countries concerning the macroeconomic outcomes. And the final section highlights the major inferences.

I. SAP IN SOUTH ASIA : A BRIEF BACKGROUND

Except for India, the concerned South Asian countries began their adjustment efforts during the early 1970s, although the terminology SAP was not formally coined. Initially, these were a set of short-run demand management policies primarily aimed at countering poor domestic economic performance and deteriorating external position. The initiative came from external sources as both bilateral and multilateral loans from WB and IMF were tied to domestic policy reforms of various adjustment measures. In, July 1975, in an agreement with IDA (WB) and IMF, the Government of Bangladesh (GOB) made a major adjustment programme with a devaluation of exchange rate by 58 percent and agreed to initiate adjustment measures such as liberalization of import, tight control on bank credit, increase of bank rate and other interest rates, abolition of multiple currency system, reduction of bank borrowing, rationalization of the tax system, gradual reduction of subsidy on food grains and agricultural inputs, enhancing efficiency and financial performance of the public enterprises. However, Sri Lanka is the first country that formally inaugurated SAP in South Asia during 1977/78. The initial adjustment measures of Sri Lanka included, reduction of administrative controls, reduction of subsidies on agriculture and consumer goods, introduction of major tax and interest rate reforms and unification of exchange rate at a depreciated level. Pakistan also adopted some stabilization measures in the late 1970s to counter chronic fiscal and external imbalance as well as poor performance of macroeconomic indicators.

However, the subsequent development experiences of the region revealed the fact that the real causes of stagnation and macro disequilibria were deeply embedded in the structure of the economies concerned. There was a growing realization that these bottlenecks could not be ameliorated with the traditional short-run fiscal and monetary policies alone. Due to pervasive structural impediments, South Asian countries plunged into growing economic depression by the early 1980s, inspite of earlier adjustment efforts. The crisis manifested itself in chronic fiscal imbalance, double digit inflation rate, poor balance of payment position, sluggish savings-investment rate and more importantly, poor economic expansion as reflected in sluggish GDP growth rate. It was clear that these macroeconomic imbalances and disequilibria required longer time span to be rectified than was originally envisaged, and adjustment measures should focus on both micro, meso and macro economy simultaneously rather than macroeconomy alone. Concomitantly, the rise and globalization of supply side economics underscored the pivotal role of economic incentives in achieving higher economic growth rate. The incentive structure as faced by the various economic agents must be rearranged in the desired pattern in order to maximize efficient allocation of resources. Therefore, the economy required restructuring of the incentive system, coupled with macroeconomic stabilization policies to attain rapid economic growth with the desired macroeconomic balance. Thus, by the mid-1980s SAP became the dominant development paradigm in the concerned countries, except for India, and covered virtually every aspects of economic policies relating to key sectors of the individual economies of the region.

As to India, a planned development approach, that combined prudent macroeconomic management with an active role of state in key sectors and strict regulation of the economy, was followed until recently. However, activities of the private sector were always important and present in most sectors of the economy. This long-standing development strategy of India produced mixed results. India, by the end of the 1970s, managed to develop a diversified industrial base and a relatively large and sophisticated financial sector. Conservative macroeconomic management held inflation low. Fiscal as well as balance of payment disequilibria seldom occurred. Although India managed to eradicate famine and reduce the incidence of poverty significantly by the end of the 1980s, it registered a sluggish growth rate of GDP at an average rate of 1.4 percent throughout the 1970s. In spite of saving and investing one fifth of GDP, the lackluster growth rate of GDP for some years fell behind the population growth rate. As a result, from the middle of the 1980s, India initiated some important adjustment measures like liberalization of trade, industry and the financial sector, withdrawal of subsidy, moderating the domestic currency to enhance export incentives. By the end of the 1980s, though the GDP growth rate was salvaged to 5 percent, the unaddressed structural problems with political uncertainty and adverse external situation dragged the economy into economic crisis and growing frustration. In 1990, fiscal deficit widened to more than 8 percent of GDP and inflation rate exceeded 15 percent in mid-1991. Debt service soared to about 40 percent of tax reserve, foreign debts increased to about 70 billion U.S dollars and the foreign exchange reserve plummeted to a record low level. Against this backdrop, in June 1991 the new government of India launched a comprehensive adjustment programme and a major transformation of India's development strategy that has earned recognition as "economic reforms" in headlines and in academic circles.

II. DESIGN AND IMPLEMENTATION OF SAP IN SOUTH ASIAN COUNTRIES

The Design of SAP

It has been mentioned earlier that at the beginning of the 1990s SAP has been branded as "economic reform" and it has become the dominant development paradigm of South Asian countries. Inspite of differences in the area of emphasis and policy mix across individual countries, basically SAP encompasses more or less a similar kind of policies with dual objectives of achieving a high and sustainable economic growth and maintaining a desirable macroeconomic balance. The objective of financial and external balance is supposed to be achieved by the monetarist version of demand management policies. These policies often suggest to control and cut the aggregate demand. On the other hand, the attainment of high economic growth would be achieved with the neo-classical price policies. These price policies with heavy reliance on the "magic" of the market forces suggest to transmit distortion free price signals to the economic agents to maximize allocational efficiency of the competing resources of the economy. The correction of macroeconomic bottlenecks itself paves the way for strong economic expansion. In addition, the removal of price distortions changes the incentive structure of the economy and permits high economic growth. Thus, rearrangement of distorted incentive structure through appropriate price policies defines the microeconomic dimension of SAP in South Asian countries.

Although the purpose of the present study is not to provide the taxonomy of SAP, in order to explore the essential changes in the macroeconomic structures of the concerned countries, we shall briefly discuss the design and implementation of SAP in the select South Asian countries. The design of SAP can be trichotomously arranged, for the sake of simplicity, within three broad categories.[2] These are

2. For details see Rahman (1991)

demand management policies, structural policies and institutional policies. A brief outline of these categories is in order.

i) **Demand management policies:** They are essentially aimed at aligning aggregate demand in line with aggregate supply. Tight money and fiscal policy is supposed to reduce aggregate demand and cause domestic price level to fall. The resulting price fall, in turn, effects resource substitution in favour of the tradables. Eventually, the process boosts up the export growth and improves the external balance. The depreciation of exchange rate abets the process and an accompanying rise in interest rate provides a strong impetus for reversing the capital flight. In South Asian context, one can observe various demand management policies in the form of conservative monetary and fiscal policies like controlling the liquidity and bank credit to government as well as private sector, interest rate policy reform, tailoring government expenditures, and reform in tax system.

ii) **Structural policies:** The structural policies had been designed to maximize allocational and productive efficiency of the resources and enhancing the domestic savings and investment potential, hence resulting in expansion of long run productive capacity of the economy. In South Asian context, a number of specific structural policies have been adopted. The first one includes withdrawal of subsidy on output, food and various inputs, introduction of output price support schemes, and rationalization of pricing policies of public enterprises to reflect true social cost. Secondly, financial liberalization along with interest rate reform has been initiated to allow the financial markets to reflect the true opportunity cost of capital. The lending rates, deposit rates and bank rates have been depegged and allowed to vary in conformity with the market forces. Maintenance of higher real positive interest rates and financial discipline have been encouraged to increase domestic savings which is supposed to cause greater productive capacity of the economy in the long run in the form of spurt in investment. Thirdly, as an integral part of SAP, all South Asian countries have initiated comprehensive trade reform measures within hree broad areas. The major areas are: policies related to import liberalization, reforms concerned with exchange rate and exchange system, and measures explicitly advanced to promote export activities.

iii) Institutional policies: Policies related to economic, social and physical institutions and infrastructure fall in the broad category of institutional policies. A broad-based denationalization and privatization programme has been initiated as the centerpiece of institutional policies concerning SAP. Strengthening and restructuring markets, encouraging development and deepening of financial sector specially strengthening rural credit institutions, privatization of distribution system of agricultural inputs and equipments, initiating government public administration reform also constitute major policies related to economic institutions. Reforms related to development and management of infrastructure, utilities and power sector have also been designed within the broad frame of SAP. It is relevant to mention that different strategies and policies concerning SAP cut across broad categories as each of them has been designed to attain multifarious objectives.

Implementation of SAP in South Asian Countries*

a. Demand management policies

Demand management policies as implemented in South Asian countries were mainly targeted to curb the soaring fiscal deficit and fetch the price level at a lower level. Except Sri Lanka, by the mid-1980s all major South Asian countries practised tight fiscal and mone-

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*Data in this section are primarily drawn from the following reports : *Trends in Development Economies, 1995,* World Bank, 1995; *Bangladesh Recent Economic Development and Priority Reform Agenda for Rapid Growth,* Report No. 13875-Bangladesh, World Bank, March 16, 1995; Unpublished interim report : *Schems of Regional Economic Cooperation Aimed at Fostering Economic Growth in South Asia : The Role of Japan, The Pakistan Study,* and *The Sri Lanka Study* byMahmood, Z., (PIDE April, 1995) and by Weerkoon, D. (IPS, September 1995) respectively.

tary policy to curb aggregate demand. India, which up to the late-1980s had maintained a good fiscal balance and good price record, launched a comprehensive demand management stabilization programme in the face of high fiscal deficit and increasing price hike from the early 1990s. Basically, South Asian countries have pursued a two-pronged strategy to eradicate the fiscal disequilibria. One is the expenditure control measures along with tight control of liquidity, repression of credit, withdrawal of subsidy, etc. The second is the revenue augmenting measures, implementing tax reforms related to broadening the tax base, reducing tax exemptions, removing multiple rates, improving tax administration, etc. During the late 1970s, Sri Lanka brought a major restructuring of the tax system, and the progress in reducing the dependence on export taxes was relatively modest. Pakistan also initiated tax reform in the form of introducing Value Added Tax (VAT) and curbing dependence on import duties, although its tax structure is still plagued with numerous exemptions and distortions. India also introduced a special variant of VAT (MODVAT), reduced the multiple rates and deviations and also brought reforms in direct tax structure. In this regard Bangladesh has initiated a major tax reform with the introduction of consumption based protection neutral VAT that replaced the Excise Tax at the domestic manufacturing level and Sales Tax at the import level. Besides, efforts have been continued to expand the coverage, remove the exemptions and improve the effectiveness of the tax administration.

b. Structural policies

The structural policies as implemented during SAP in South Asian countries include a multiple set of policy packages, each aimed at attaining multifarious objectives. These are:

i) Agricultural policies: The set of agricultural policies within the framework of SAP include withdrawal of subsidy from agricultural inputs like seed, irrigation, fertilizer and other equipments, phasing out of consumer subsidies on food, improvement of public procurement operations and effectively maintaining output price support schemes to avoid output price fluctuation. Besides, prohibition on the import of food and agricultural products and inputs had been lifted and the distribution system of the agricultural inputs and equipments been largely privatized.

ii) Financial reform: Within the broad framework of SAP, reforms concerning the financial sector have been initiated in the respective South Asian economies and the process is still under way. The changes mainly concern financial liberalization and interest rate reform. The liberalization of the interest rate policy has been actively pursued to stimulate private financial savings.[3] Key deposit rates at commercial banks were raised in all South Asian countries along with measures like increase in rates of return on debentures and government securities, tax concessions on interest income and widening of financial instruments, etc. Sri Lanka launched a comprehensive financial liberalization programme during the 1980s. Pakistan has also initiated financial reform with the introduction of auction system for government securities, licensing of new banks, strengthening banking regulations and supervision, etc. The current stage of financial sector reform focuses on additional liberalization measures, further development of the capital market and strengthening of financial institutions.

In India, capital and money markets have been liberalized since 1991, prudential regulations that meet international standards been introduced, controls on the expansion of the domestic banks been scaled back, the share of deposits to be invested in the Reserve Bank of India on government debt instruments has been lowered and barriers to private sector entry into the banking system have been removed. In addition, interest rates on deposits and loans have been partially deregulated. Besides, efforts have been taken to recapitalize banks and enable them to meet stringent capital adequacy standards set

3. Except Pakistan which is currently pursuing interest free financial system.

by the new prudential regulations. In September 1994, an agreement was reached between the treasury and the central bank to phase out over three years automatic Reserve Bank financing of budgetary deficit. In October 1994, the minimum lending rate was removed for all loans larger than Rs. 200,000 and non-priority sectoral loans of any amount.

Bangladesh has also initiated financial reform which is not complete as yet. The reform has been aimed at moving towards market determination of interest rate. In order to improve the performance of the sector the government has enacted the Financial Court Act in 1990. Under the Act, twenty seven special courts to facilitate outstanding loan recoveries and a credit information bureau (CIB) in the Bangladesh Bank (BB) have been established. In December 1994, BB has issued a circular introducing its new guidelines for loan classification and provisioning. The government has also carried out some recapitalization exercises to improve the financial health of nationalized commercial banks. Efforts have also begun to strengthen the supervisory capacity and regulatory enforcement to bring financial discipline in the banking sector. To improve the off-site surveillance of banks, BB introduced a bank rating system based on the CAMEL system used in the U.S.A. In addition, credit risk analysis system has been introduced for large loans.

iii) Trade reform: Historically all countries of South Asia have pursued essentially an inward looking protective trade regime. But from the early 1980s, reversing the clock, the countries of South Asia launched a comprehensive trade reform programme within the broad array of SAP. A three-pronged strategy encompassing various set of reform measures has been advanced to promote export and maintain good external balance. Import regime has been extensively liberalized and supported with investment, industrial and financial deregulation measures in order to strengthen market forces and tilt the incentive structure towards export sector. Extensive exchange rate reform has been launched to enhance external competitiveness and achieve favourable balance of payment position. Concomitant with other measures, various fiscal, institutional and promotional measures have been implemented to boost up the export sector.

An important strand of trade reforms in South Asia has been import liberalization. From the late 1970s, Sri Lanka launched a comprehensive import liberalization programme. And it has been further strengthened in 1984, 1989, 1992 and 1995. Over this period, the maximum tariff has been lowered from 500 percent in 1977 to 60 percent in 1995, the average tariff has been reduced to 35 percent and the 17 band of tariff slab has been reduced to a 3 band duty structure of 10, 20 and 35 percent in 1995. Besides, various non-tariff barriers and prohibitive practices have also been dismantled to liberalize the trade regime further. In Pakistan, trade liberalization process is still under way. During the second phase of the reform programme, maximum rate of tariff has been reduced from 92 to 70 percent and is intended to be further lowered to 35 percent by 1997. The average rate of tariff has fallen from 79.2 percent in 1983 to 59.8 percent in 1991 and further to 58.2 percent in 1994. The dispersion of import duty has fallen 49.8 percent in 1983 to 33.9 percent in 1990-91 and further to 24.6 percent in 1994. Besides, total incidence of import duties has fallen from 49 percent in 1991 to 37 percent in 1993 due to withdrawal of 10 percent import surcharge. In addition, licensing requirements for goods on the negative and restricted list have been abolished. By the end of 1990 there were 118 items on the negative list because of religious or internal security grounds. Out of them 14 were removed in 1990-91 and further 9 items were removed in 1991-92. Liberalization has also been made in respect of the procedures governing import of machinery. Moreover, non-tariff barriers are being dismantled except for reasons of security, health, religion and reciprocity.

India, against its long standing protective trade regime, initiated liberalization campaign from the early 1980s but the process reached momentum from the beginning of the 1990s. A first set of trade reform was enacted over July-December 1991, eliminating subsidy schemes for exports. In March-April 1992, all licensing restrictions on import of capital goods and intermediates have been abolished. The maximum import tariff has been reduced from 350 percent in 1990 to 65 percent since March 1994 with substantial decline also for tariffs below the maximum rate. This resulted in reduction of the import weighted average tariff from 87 percent in 1990 to 33 percent in March 1994. However, import tariffs in India continue to be among the highest in the world and consumer goods imports are still restricted.

In Bangladesh, the agenda for trade liberalization has been initiated in three phases during the adjustment period and the process is still under way.[4] During these stages import has been the principal area for reform actions which include rationalization of tariff structure and reduction of tariff as well as nontariff barriers and other supporting liberalization measures. The coverage of quantitative restrictions (QRs) has been reduced from 315 four-digit tariff headings in 1990 to 104 four-digit commodity categories in 1995 with the debarring of five items announced in this year's budget. Of those, only 26 categories are now kept in the control list clearly for trade related reasons. Besides, various non-tariff barriers like import licensing, exemptions, quotas, official reference prices, foreign exchange allocations, import pass book system have been dismantled. Procedures for import of capital and intermediate goods have been substantially simplified. The maximum statutory tariff was reduced from 509 percent in 1991 to 60 percent in 1995, while the higher rate on intermediates and some final goods has come down to 45 percent except for textiles. The unweighted average tariff was reduced from 89 percent to 30 percent and the number of operative tariff slab was reduced from 26 in 1992 to 6 in 1995. Between 1989 and 1994, the tariff rates for consumer goods reduced from 134 percent to 47

4. First Phase=F. Y 1981-86, Second Phase=F.Y 1987-91 & Third Phase=F. Y 1992=onwards.

percent, for capital goods from 73 percent to 17 percent and for intermediate goods from 83 percent to 27 percent. However, between 1991 and 1995 the dispersion of import tariff did not show a decline due to continued use of tariff concessions.

The second aspect of trade reform in South Asia has been the exchange rate policy and exchange system. Exchange rate reform in Sri Lanka has been initiated in November 1977, when it abolished the Foreign Exchange Entitlement Certificate (FEEC) scheme and the exchange rate was unified. In addition, the Convertible Rupee Account scheme which acted as an import entitlement was also abolished. Moreover, measures aimed at maintaining a flexible exchange rate with time to time devaluation were initiated. Substantial progress was made over 1989-93 in liberalizing exchange rate system further. Exchange rate policy reform has been started in Pakistan in 1982 when it switched to a floating exchange rate regime from a fixed exchange rate system. After a sharp appreciation during the first year of the programme Pakistan severed links between the currency and the US dollar during the second year to restore external competitiveness. The second phase of reform program related to exchange control regulations started in February 1992. The efforts are primarily aimed at maintaining a flexible exchange control regime regulated by the market forces and making the currency fully convertible.

India has initiated reforms concerning exchange rate regime in July-December 1991, with a devaluation of the rupee by 22 percent in dollar terms. In March-April 1992, it introduced a dual exchange rate system establishing a foreign exchange market. In February 1993, the government reunified the exchange rate and established full current account convertibility by August 1994. On 1 January 1992, the Government of Bangladesh (GOB) unified the exchange rate abolishing the Secondary Exchange Market system. Also, efforts have been made by removing rest of the excha-nge controls on current account transactions to effect convertibility in most of these transactions. Further in April 1994, GOB has accepted the Article VIII obligations of the IMF related to current account convertibility of the domestic currency. Another step includes the development of an inter-bank foreign exchange market. The GOB has also been managing flexible exchange rate policy to prevent apprecia-tion of the currency and maintaining macroeconomic balance. The real effective exchange rate depreciated by about 10 percent between 1990 and 1993. More recently, following a 5.7 percent appreciation during October 1993 and January 1994 it continued to depreciate by 6.6 percent between February 1994 and November 1994.

The third strand of trade reforms has been the export policy reform. In addition to import liberalization efforts and exchange rate reforms, all the major countries of South Asia during the SAP period initiated a variety of policy measures to promote exports and diversify the export structure. The reform measures include: easy sanctioning procedures, export subsidy, export finance schemes and preferential access in capital market, extensive fiscal incentives, infrastructural facilities, duty draw back schemes, facilities concerned with imported inputs and capital machineries, bonded warehouse facilities, export processing unit schemes, development of EPZs with extended incentives. Moreover, a parallel incentive structure has been orchestrated with various policies to attract foreign direct investment (FDI) in export sector.

c. *Institutional policies*

During the adjustment period, a wide range of institutional policies are in the implementation process encompassing various socio-economic institutions and also physical as well as social infrastructure development of the economies of the region. One of the central themes of SAP is to generate a viable and dynamic industrial sector in South Asian economies within a stipulated time frame. Except India, the current industrial sectors of South Asian countries are characterized by narrow and inflexible base, low productivity, chronic inefficiencies and persistence stagnation. Against this backdrop, major elements of institutional policies are deregulation and privatization programme effected with reforms concerning industrial policy measures. A brief account of the recent trend of changes concerning industrial policy and privatization efforts in South Asia is presented below.

Sri Lanka in the late 1970s launched an early privatization programme. However, the actual implementation began in 1989 with the privatization of a single enterprise and corporatization of some state owned enterprises (SOEs) into public companies. Five SOEs in 1990, 4 in 1991, 13 in 1992 and 7 in 1994 have been privatized. Pakistan also intended to deregulate the industrial policies and maximize privatization efforts throughout the 1980s, but again the implementation process was hampered by escalating political turmoil. However, from the early 1990s, Pakistan initiated fresh attempts to implement privatization agenda. In this direction Pakistan has established a Privatization Commission in 1991. Separate commission/ committees have also been established for deregulating power and telecommunications sectors. In recent years, some 85 industrial units out of a list of 118 industries targeted for privatization have been sold, along with two of the four nationalized commercial banks. The on-going privatization programme focuses on selling or liquidating the remaining industries on the list and privatizing telecommunications and power utilities. The government's plan was to privatize the third nationalized bank by the end of 1995. Measures have been taken to further deregulate the economy, including virtually abolishing investment licensing, opening areas of investment previously closed to private sector in power, banking and transport. The Telegraph and Telephone Department has been converted into an autonomous corporation. In the roads and highways sector, the 339-km long Lahore-Islamabad road is in progress under the auspices of the private sector. In 1994, Pakistan has announced a revised industrial policy to further deregulate the economy and encourage the major role of private sector in industrialization.

Compared to other South Asian countries, India has a sufficiently large and diversified industrial structure and a vibrant private sector, although government has exerted extensive regulations in key sectors in the past. However, due to long borne inward looking protective and regulatory practices the existing industrial sector is impregnated with inefficiencies, distortions and low productivity. In order to salvage the plagued industrial sector during the 1980s government introduced some adjustment measures like relaxation of constraints on capacity utilization, easing restriction on industrial location, liberal access to foreign collaboration, anti-monopoly regulations and reservation policies for small scale industries. In late July 1991, India announced industrial policy intended for drastic liberalization. Further investment liberalization steps include the January 1993 amendment of the Foreign Exchange Regulation Act of 1973 to eliminate discriminatory treatment to enterprises with more than 40 percent foreign equity and decisions to open to domestic and foreign private investors, the power (March 1992), mining (March 1993), coal (March 1994), telecommunications (May 1994) and pharmaceutical (September 1994) sectors. The reforms also eliminated the need for prior government approval of decisions to expand, diversify or merge. In addition, government has been pursuing a three-pronged public enterprise strategy. Reductions in budgetary supports, elimination of barriers to entry and monopoly privileges in sectors traditionally dominated by public enterprises and tariff reductions have created a competitive environment for public firms producing tradables. Secondly, mechanisms have been created to facilitate the exit of state enterprises that cannot withstand domestic or external competition. Legislation has been amended to enable the government to restructure or close down chronically loss making enterprises and a National Renewal Fund been established to mitigate the social cost of retrenchment. Thirdly, over Rs 50 billion of equity holdings in state enterprises have been disinvested in several rounds of offerings.

The denationalization and privatization effort in Bangladesh dates back to 1973. Between 1973-78, ceiling on the size of private investment was removed, regulations on direct foreign investment abolished, 116 SOEs were sold and stock market reopened. In early 1982 government announced the New Industrial Policy (NIP), designed to launch a massive privatization campaign and open the industrial sector with extended incentives. An Investment Assistance Unit (IAU) was set up to facilitate easy processing of projects, and acquisition of lands and arrangement of infrastructural services. The Revised Industrial Policy (RIP) of 1986 aimed at further streamlining measures undertaken in 1982. In 1991, a new industrial policy subsequently revised earlier policies and in 1992 policies further relaxed investment sanctioning regulations, removed the remaining regulatory impediments to foreign investment, restricted the public monopoly in few areas by opening telecommunications, power generation and domestic air transport to private sector. In the power sector, government has recently initiated some efforts aimed at improving the performance and efficiency of the sector and promoting private sector entry. A similar reform effort is also being pursued in the natural gas sector. As part of the privatization programme, government has recently announced a list of 46 SOEs slated for privatization, including SOEs in textile, steel, engineering, sugar, and the others in food and chemical sectors. In March 1993, government has established the Privatization Board (PB) which is responsible for the implementation of the privatization programme. Also, to reduce excess manpower in SOEs 25,000 workers were retrenched from the jute sector between June 1990 and December 1993. Moreover, since 1993 privatization of a total of 18 SOEs has been finalized through February 1995, involving 6 SOEs in chemicals, 7 in textiles, 3 in steel/engineering, and 2 in sugar/food. The remaining 7 are expected to be handed over very soon. Currently, additional 19 enterprises are in various stages of tendering process. For 1996, the PB has a provisional list of additional 41 SOEs to be privatized.

III. PERFORMANCE OF MACROECONOMIC INDICATORS

In this section an attempt has been made to evaluate the performance of macroeconomic variables of the select South Asian countries during the SAP period. This section also attempts to present a comparative scenario concerning the major macroeconomic areas among the select countries for the same time period. For this purpose, the study has selected a set of macroeconomic indicators which constitute the broad macroeconomic structure of an economy. These are: annual growth rate of real GDP, changes in sectoral composition along with sectoral growth pattern, performance of savings and investment, trends of fiscal variables as reflected through changes in revenue, expenditure and fiscal balance, rate of inflation, development in external sector as reflected in changes of export, import and balance of payment, changes in reserve level and trends of external debt situation. Besides, in order to capture the impact of SAP at different watersheds and junctures, the study divides the concerned period into three phases as, i) 1980-1985; ii) 1985-1990; and iii) 1990-1994. Moreover, to explore recent changes of the select variables in detail, annual data for each year from 1990 have been presented.

a. Economic Growth Performance

i) GDP growth performance:

As regards the GDP growth rate, it is evident from Table-I that inspite of launching a comprehensive adjustment measures over the past decade, not a single select South Asian country has experienced a consistently robust economic growth throughout the different phases of the SAP period. The major macroeconomic weakness of the South Asian countries could be identified as the failure to generate a sustainable high economic growth which is the precondition for attaining the objective of economic development within foreseeable future. This reflects the prevalence of still unaddressed structural impediments and inadequacies of the traditional adjustment measures in South Asian context. Comparing the GDP growth rate in different phases, one can observe that during the early SAP period (1980-85), all the select South Asian countries, except Bangladesh, have experienced an impressive GDP growth rate. During 1985-90, GDP growth rate of Bangladesh experienced a moderate decline to 3.8 percent from 4.1 percent of the earlier phase. During this time growth rate of Sri Lanka went down sharply from 5.6 percent to 2.9 percent. This could be attributable to the bloody civil conflict of the country which dragged the economy into a fragile position. During the same period India and Pakistan continued their earlier impressive trend with India performing moderately better (from 5.3 percent to 6.6 percent). During 1990-94 growth rate of Bangladesh has marginally improved to 4.2 percent, but the growth rate of India and Pakistan declined significantly to 3.6 percent and 4.7 percent respectively. Moreover, for the recent years the growth trend of these two countries exhibits a fluctuating pattern. However, against the grim scenarios in the neighbouring countries, Sri Lanka's growth rate has rebounded to a steady higher expansion path (from 2.9 percent to 5.3 percent).

At the individual country level, it seems that the growth of Bangladesh economy has been arrested at around 4 percent level over the past years. Although the adjustment measures in India got momentum from the early 1990s, it seems that the supply side of the economy is not showing any instantaneous response. For Pakistan, though it has experienced a favourable GDP growth rate throughout the 1980s, for the recent years the performance is far below the target rate and worst compared to other neighbours. Embarking on the path of SAP during 1977/78 though Sri Lanka's initial impressive GDP growth rate has been seriously impeded during 1985-90 due to the civil war, its subsequent disaster coping capability has pushed the economy to a higher growth path. Since the central premise of SAP has been to attain a sustainable high economic growth within a stipulated time, South Asian countries have not yet been able to make any significant headway in this direction.

ii) *Sectoral Growth Pattern*

As regards the sectoral growth pattern one can observe from Table-I that except India, agriculture sector of all South Asian countries registered an average 4 percent growth rate during 1980-85. Specially during this time, Bangladesh has experienced a more than 50 percent increase in rice productivity due to rapid expansion of H.Y.V. technology. However, during 1985-90, agriculture sector of Bangladesh forced a drastic decline to 1.5 percent and growth of agriculrure in Sri Lank experienced a serious set back (only an average 0.4 percent). In case of the former, the decline can be attributed mainly to the adverse natural parameters and for the latter, it is mainly again due to the civil war. However, during the same time, India's agriculture sector recorded an upward shift from 3.3 percent to 4.7 percent, while Pakistan's agriculture sector exhibits a marginal improvement. In general terms, agriculture growth of the South Asian countries in the 1990s depicts a dismal picture. Although the growth rate of agriculture in Sri Lanka has been salvaged quite significantly, the existing rate is inadequate and the rate in India and Pakistan recorded a dramatic decline; for Bangladesh, it seems to have been trapped at a lower level equilibrium. Moreover, for India and Pakistan the recent growth trend of this sector exhibits a volatile pattern. This falling and erratic trend raises serious doubt about the efficacy of the neoclassical price policies and distribution systems concerning the agriculture sector in the South Asian context. Needless to say that this would exert far reaching pervasive impact on the development precess of these countries of the region.

In regard to the industry sector, India and Pakistan registered an impressive growth record throughout the 1980s. They have recorded more than 6 percent industrial growth rate during 1980-90. Meanwhile, industrial growth rate of Bangladesh and Sri Lanka has improved moderately during the same period, but the performance is considerably below than India's and Pakistan's. This inter-country performance difference reflects the weak industrial capability of Bangladesh and Sri Lanka compared to the big neighbours. However, industrial growth in India registered drastic decline during 1990-94 from average 8.1 percent during 1985-90 to a lower average of 2.9

percent during 1990-94, although it is showing some inconsistent improvement in recent years. The growth of industry in Pakistan has recorded a moderate decline to average 6.5 percent during 1990-94 and seems to has been resting slightly at above 5 percent for the recent years. For Bangladesh and Sri Lanka, the poor performance of agriculture sector has been partly compensated by a steady growth of industrial sector over the entire time span. Specially, in recent years, both the countries have experienced on an average more than 7 percent growth rate in this sector. The same line of comments can be advanced with regard to the growth of manufacturing of South Asian countries over the past years. At the individual country level, one can observe a steady growth of manufacturing in Bangladesh over the different phases of the SAP period. Another important observation is the sharp decline of this sector in India during 1990-94 (from average 8.5 percent during 1985-90 to 2.3 percent during 1990-94). For Sri Lanka, growth rate of this sector declined to 3 percent in 1994 compared to 9 percent in 1992 and 10.3 in 1993.

In case of the service sector, all select South Asian countries have experienced robust expansion during 1980-85. Specially in Bangladesh and Pakistan the growth rate has been modest compared to other neighbours and, more importantly, the sector has grown rapidly compared to other sectors of the individual economy. However, during 1985-90 growth rate of this sector exhibits a significant decline with Sri Lanka performing the worst (3.1 percent). During the later phase all select South Asian countries recorded on an average 5 percent growth rate in this sector. However, for Pakistan one can observe a decline of this sector from 1993.

It is important to note that the sectoral growth pattern of the South Asian countries depicts a delinked growth pattern. For attaining sustainable economic growth it is expected that growth of industrial sector would stimulate the growth of the other sectors, specially the agriculture sector. But the prevailing delinked industrial growth pattern in South Asian countries reflects the feeble linkage effect between industry and agriculture and raises suspicion concerning the sustainability of such industrial expansion. Another importantant observation is the inconsistent growth of any particular sector over the past decade in all the select South Asian countries. This, in turn, resulted in unsustainable economic growth in the respective economies. More importantly, this reflects the failure of the present policies to develop a consistently growing supply side.

iii) *Sectoral Composition*

In regard to sectoral composition the most striking feature in the South Asian context one can observe from Table-II is the disproportionate high share of service sector in GDP composition. Another important observation is, except Bangladesh, there had been no qualitative transformation in overall GDP composition in South Asian countries during the SAP period. Specially, inspite of launching comprehensive reform measures in the industry sector, the share of industry sector fails to reveal any significant increase during the SAP period in all select South Asian countries. At the individual country level, in Bangladesh, there had been a continuous decline of agriculture sector and a concomitant increase of service sector over the different phases of SAP. Also the share of agriculture sector in Pakistan has undergone a moderately steady decline over the successive junctures with a parallel increase in the share of service sector. The same observation is also valid for Sri Lanka. Moreover, its share of industry and manufacturing in GDP has experienced a moderate decline during the recent years compared to the early adjustment period. Share of manufacturing in Bangladesh's GDP also suffered a moderate decline from 1990s compared to 1980, even though the overall industrial share is indicating a marginal improvement in recent years.

b. Savings and Investment Performance

Performance of savings and investment during the SAP in South Asian countries in general does not depict a positive picture. Defying all the neoclassical prescriptions and the WB-IMF predictions the lukewarm growth of savings and investment establishes the fact that promotion of investment and savings in South Asian countries is something beyond the facet of macroeconomic management of the economy. Rather, the menace is deeply embodied within the structure of the respective economies, which are still unaddressed warranting proper diagnosis and implementation of appropriate policy measures.

At the aggregate level, Table-III shows the changes in the savings and investment scenario in South Asian countries during the SAP period. Moreover, from the table one can also draw a comparative picture concerning the growth potential of the individual South Asian countries for the immediate future. During the initial adjustment period, there had been a marked difference concerning the domestic savings effort among South Asian countries. Savings share in GDP had been highest in India (11.2 percent), while the same share had been 6.9 percent in Pakistan and lowest in Bangladesh (2.1 percent). However, during the subsequent years there had been a marked improvement of savings effort in Pakistan (17.2 percent in 1991) and Bangladesh, though for the latter the prevailing rate is still lowest among the other regional neighbours. Also for India and Sri Lanka, the share has increased moderately over the SAP period. However, except for India the existing saving effort of South Asian countries is insufficient to generate a sustainable spurt of the investment. From the table, it is also evident that except for India there had been a high savings-investment gap in all South Asian countries, reflecting the heavy dependence of the expansion of productive capacity of the concerned economies on the availability of external assistance. During the subsequent years, the gap has been moderately reduced, but the dependence still remains critical. Moreover, there is a high degree of disparity concerning the investment share in GDP among South Asian countries. In addition, the investment growth path is highly erratic in South Asian countries, implying inconsistent expansion of productive capacity in the relavant economies during the past. This also clusters uncertainty concerning the expassion of the productive capacity in the long run and diminishes the future growth potential.

At the individual country level, there is little dispute regarding the fact that the stagnation of the Bangladesh economy is mainly due to the inadequate growth of investment that originates from the dearth of savings capacity of the country. Although the share of savings in GDP has increased from a historical average of 2 percent to more than 7 percent in recent years, the ratio is lowest among the South Asian neighbours and the difference is considerably higher (Table-III). Concomitantly, the share of investment in GDP is resting at 12 to 13 percent level and it is indeed insufficient to generate a desirable momentum for attaining rapid economic growth within medium term. Perhaps, the lackluster growth of investment defines the limits of growth potential of the economy in near future.

India since its independence has all along maintained a very high savings/GDP ratio compared to other LDCs as well as its South Asian partners. For almost every year the ratio amounted to one fifth of GDP. Moreover, the ratio shows a moderately increasing trend in recent years. Inspite of this high savings ratio, investment response has not been very positive during the past. Table-III shows that the share of investment in GDP has ranged between 18 to 20 percent during the past fifteen years. Moreover, the investment growth rate has suffered a drastic decline from 8.3 percent during 1985-90 to average 0.4 percent during 1990-94. Besides, the high fluctuation of investment growth rate between 1990-94 reflects uncertainly regarding the future growth potential.

Savings ratio in Pakistan has significantly increased from about 7 percent during 1980-85 to more than 15 percent in recent years. Concomitantly, the share of investment moderately increased from 18 percent during the 1980s to 20 percent in recent years. However, investment growth rate exhibits fluctuating pattern and is inadequate to stimulate the desired momentum. Savings ratio in Sri Lanka has almost continuously increased and it is about 16 percent of GDP in recent years. However, share of investment declined from 33.8 percent in 1980 to 21.9 percent in 1990 and has rebounced again on the upswing in recent years (25.3 percent in 1993). Surprisingly, the investment growth rate has experienced a great spurt at an average rate of 10.5 percent during 1990-94 as against 0.1 percent during 1980-85 and 1.3 percent during 1985-90. Thanks to its concomitant war against the economic underdevelopment, the economy has once again come back to the expansion path.

c. Fiscal Performance and Inflation Rate

One of the primary concerns of SAP has been to maintain a good fiscal balance and minimize the fiscal disequilibria. At the same time, policies have been designed to maintain a stable price level and bring down the inflation rate at a lower level. Our analysis concerning fiscal performance and the inflation rate during SAP period in major South Asian countries exhibits a mixed result. Although there had been some improvement concerning fiscal revenue mobilization in South Asian countries, the objective of fiscal balance has not yet been achieved by all. Besides, the trend reflects a volatile path. For the relatively good performers, the success is not consistent over the different junctures. This confirms the hypothesis that inspite of initiating a comprehensive stabilization efforts under SAP, South Asian countries have not yet been able to eradicate the pervasive fiscal disequilibria.

Individual country analysis shows that Bangladesh has been able to reduce the fiscal deficit significantly during the recent years compared to the early adjustment period. Table-IV shows that the deficit has been reduced from more than 8 percent during the 1980s to around 5.5 percent in recent years. This has been due to a significant improvement in budgetary resource mobilization and better control of current expenditures. Due to the former, the revenue-GDP ratio has increased from 9.2 percent in 1980 to 12 percent in recent years.

However, the fiscal balance has been maintained at the expense of capital expenditures in some years and it has not been matched with the upward trend in revenue mobilization in recent years. Besides, the revenue-GDP ratio is considerably lower compared to successful SAARC neighbors. It is also suspected that revenue mobilization is approaching the limit as the potential base for VAT is very limited and import duties would be further lowered. India also seems to have succeeded in reducing the central budget deficit in recent years. Compared to 8.6 in 1985 the deficit has gone down to 4.7 in 1993. However, much of this gain has been lost in 1994 due to both revenue short fall and expenditure over runs.

In Pakistan, fiscal performance has been the weakest link in the government's economic reform programme. Although revenue-GDP ratio moderately increased compared to the 1980s, rise in expenditure between the period has outpaced the marginal gain of revenue mobilization. In case of Sri Lanka, fiscal revenue has increased in absolute amount, but the revenue share in GDP has experienced a continuous decline. Compared to 24.1 percent in 1980 the revenue share has gone down to 22.9 percent in 1990 and 21 percent in 1993. Although there had been a marked decline in total expenditure, from 42.4 percent in 1980 to 27.4 percent in 1993, still it is inadequate to curb the expenditure-revenue gap. Due to this gap, despite a reduction of fiscal deficit from 18.3 percent in 1980 to 6.2 percent in 1993, the existing deficit leaves adequate room and urgency for further improvement in this regard.

Like all other major macroeconomic areas, with regard to the inflation rate, one can observe an uneven performance record among South Asian countries during SAP period. Also, as Table-V reveals, except Bangladesh, there is no stable price record in all South Asian countries over the SAP period. At the individual country level, due to tight control of liquidity and contractionary policy measures, inflation rate has continuously declined during the SAP period in Bangladesh.

FIGURE-I GDP GROWTH IN SOUTH ASIA

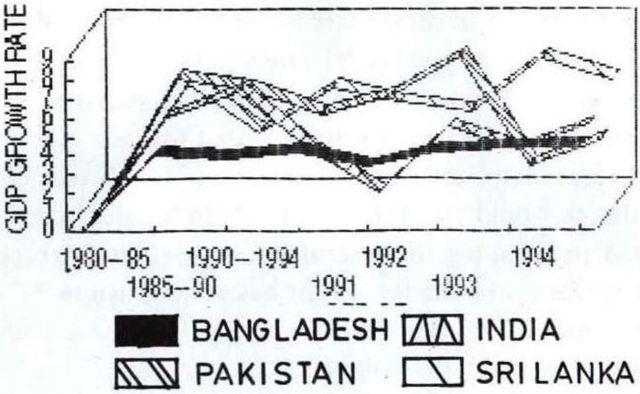


FIGURE-II SHARE OF SAVINGS IN GDP

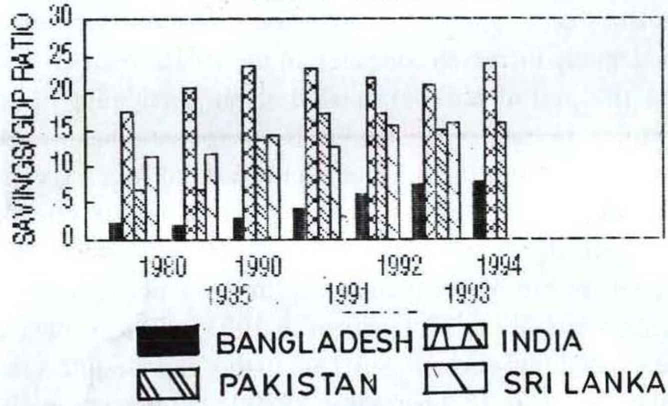
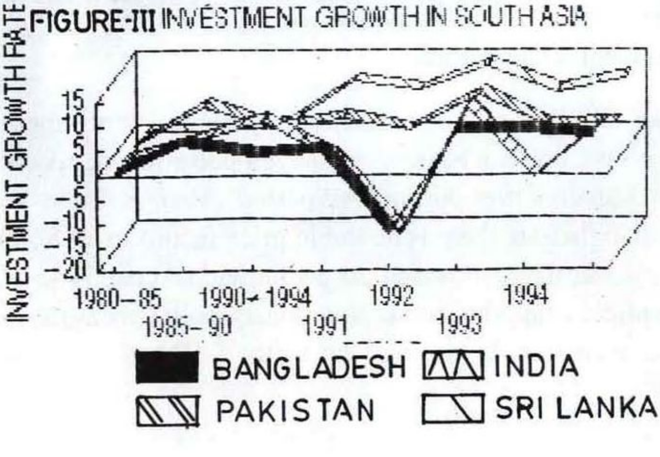


FIGURE-III INVESTMENT GROWTH IN SOUTH ASIA



However, due to crop failure and supply side short fall, price level has gone up in 1994 and this is likely to further deteriorate in 1995. For the rest of the SAARC countries one interesting observation that comes out from Table V is that, compared to 1980, inflation rate has registered a marked decline in 1985 in India, Pakistan and Sri Lanka, but the rate has gone up from that juncture and indicates no significant improvement till recent years. Particularly for Pakistan and Sri Lanka, the prevailing two-digit inflation rate indicates the ineffectiveness of the present policies and the prevalence of structural imbalances.

d. Performance of Trade Sector and External Balance

One of the central theses of the SAP has been to create a dynamic external sector, to be effected with buoyant growth of export and enhanced import demand responding to growing economic expansion, and maintain a good external balance. Against these performance criteria, Table-VI facilitates comparison among South Asian countries concerning the development of trade sector during the SAP period. Some general observations in this regard may be made.

On the surface, the growth rate of export has been quite impressive in South Asian countries, specially since the early 1990s. However, signs of an export-led growth are still nonexistent. In all select South Asian countries import has grown bit slowly and inconsistently, reflecting the weak and unstable expansion of the productive activities. In general, there had been some improvement in the balance of payment situation during the recent years but the gains might appear short lived due to uncertainty of future export potential and inconsistency of the other relevant parameters. More importantly, there had been no significant improvement of the long run external competitiveness in the concerned countries during the past years.

At the individual country level, Table-VI shows that there had been an impressive expansion of Bangladesh's export earnings during the recent years, amounting 2534 million U.S dollars in 1994 as opposed to 740.4 million U.S dollars in 1980. As a result, the share of export earnings in GDP has increased from 6.6 percent in 1980 to 8.5 percent in 1990 and 12.7 percent in 1994, although the share compares unfavourably with Sri Lanka and Pakistan. In any case, the growth of export in Bangladesh can be explained by the spectacular export of ready made garments (RMG) from the late 1980s. RMG with some other nontraditional items has brought in a structural change in the export sector in favor of nontraditional and nonprimary items. However, in the face of recent price hike of intermediate inputs, acute external competition and the country's escalating political turmoil the growth of export earning has suddenly undergone a drastic decline from a level of 20.6 percent in 1993 to 4.1 percent in 1994. Moreover, the heavy dependence of export earnings on RMG that has been currently enjoying preferential access in developed markets indicates uncertainty regarding future expansion at the face of liberalization measures adopted in the recent round of GATT negotiation. More importantly, it has been envisaged that as a response to the economic reforms, the country's incentive structure would stimulate the allocation of resources to the export sector which, in turn, would create dynamic base for export-led growth of the economy. The failure to diversify the export base reflects the sluggish response of allocation of resources to the changing incentives and economic reform measures. In contrast to robust export growth, the country's import growth has been less satisfactory inspite of significant progress in import liberalization. This has been mainly due to the country's sluggish economic growth and investment performance which determine the import demand function. As a result of augmented export earnings, sluggish import demand and a concomitant increase of remittance earnings, Bangladesh external balance position has significantly improved during the SAP period. Table-VII shows that with a secular decline over the years, the current account balance improved from —11.1 percent in 1980 to —1.4 percent in 1994. Inspite of a decline in foreign aid in recent years, the long term capital inflow has increased from 682.8 million US dollars in 1980 to 1001 million in 1994. Foreign reserves also significantly increased from $299.6 million in 1980 to $629 million in 1990 and $3139 million in 1994.

Like other SAARC neighbours, India has also experienced a very encouraging export performance from the mid-1980s. The growth rate of export has increased from 3.7 percent during 1980-85 to 9.6 percent during 1985-90 and further improved to 11.1 percent during 1990-94. Although there had been a sudden decline of export growth in fiscal year 1993-94, it has quickly rebounced during 1994-95. The export share in GDP has increased from 6.5 percent in 1980 to 7.9 percent in 1990 and 11.9 percent in 1994, but this is far below Sri Lanka's and Pakistan's. Besides, import growth rate has been relatively sluggish and erratic in recent years, although growth rate is higher compared to the 1980s. In recent years, the improvement in external balance position has exceeded any optimistic forecasts as the country has experienced an improvement of current account balance from —3.7 percent in 1990 to —0.7 percent in 1994. Due to recent boom in foreign direct investment, the long term capital inflow in India has increased from $1982 million to $9029 million in 1994. Foreign reserve also has substantially increased amounting $19698 million in 1994 compared to a record low of $1521 million in 1990.

Pakistan's strong growth performance has been supported by a favourable export performance which has travelled through an expansion path of 7.3 percent during 1980-85, 8.9 percent during 1985-90 and 10.7 percent during 1990-94. However, the growth rate has experienced a sharp decline at 1.3 percent in 1993 as opposed to 13.9 percent in 1992 and further decreased to 0.3 percent in 1994. The export share in GDP has also increased from 12.5 percent in 1980 to 15.8 percent in 1994. Like the export growth rate, this share is also exhibiting a fluctuating trend in recent years. Contrary to its strong performance of economic growth and export, import growth is relatively sluggish and fluctuating, particularly in recent years. The long term capital inflow experienced a declining trend throughout the

1980s, but has grown rapidly from the early 1990s amounting to $1212 million in 1994. This has been due to a significant increase of FDI in recent years. Foreign reserve of the country also indicates a healthy sign. However, from Table-VII one can observe that the country's external balance position appears to be somewhat fragile as it reflects an erratic trend. The current account balance has deteriorated from – 4.8 percent in 1980 to – 5.4 percent in 1990, and after an improvement during subsequent years has again reached – 7.1 percent in 1993.

Compared to other South Asian countries, Sri Lanka's economy is more integrated to the trade sector as one can see a very high degree of openness of the country from Table-VI. The share of export in GDP is also considerably higher in Sri Lanka compared to other SAARC neighbors. During the SAP period, the export growth rate declined from 3.2 percent during 1980-85 to 2.9 percent during 1985-90, but it has strongly boosted up in recent years averaging a growth rate of 10.7 percent during 1990-94. At the same time, import growth has also responded positively at the rate of 12.6 percent during 1990-94. Amidst political crisis, the FDI inflow has also significantly increased in recent years. Foreign reserve has continuously accumulated throughout the entire SAP period amounting $2046 million in 1994.

e. External Debt Scenario

The development efforts of South Asian countries have always remained critically dependent on the availability of external debt due to the prevalence of pervasive savings-investment and export-import gap. It has been anticipated that with the rapid expansion of the economy the dependence would gradually recede.

Table-VIII shows that total debt/GDP ratio in Bangladesh has increased from 42.3 percent in 1985 to 57.4 percent in 1994, but the debt/export ratio has moderately declined during this period. Debt

FIGURE-IV CURRENT ACCOUNT BALANCE SCENARIO

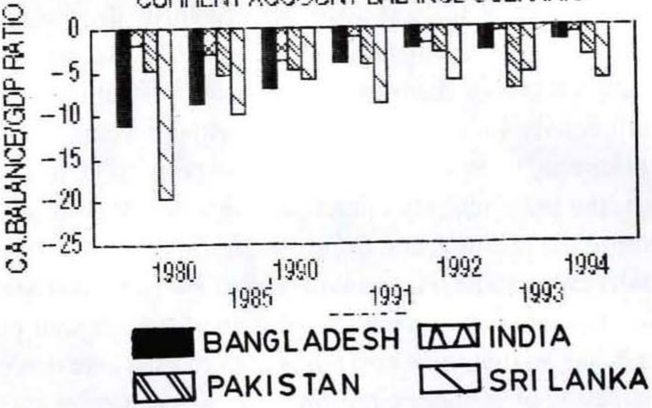


FIGURE-V EXPORT GROWTH TREND

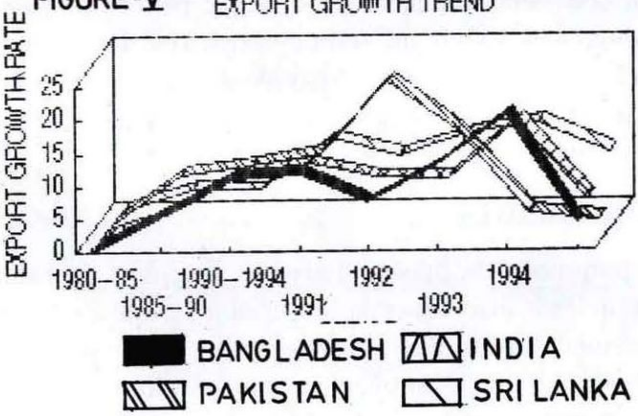
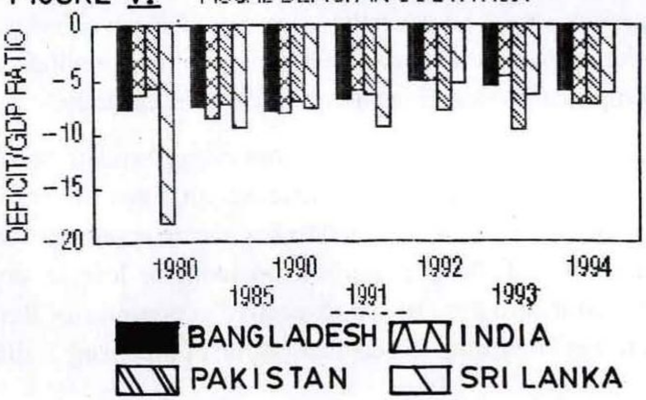


FIGURE-VI FISCAL DEFICIT IN SOUTH ASIA



service to export ratio has also significantly decreased due to impressive export performance. It is also evident that since the early 1990s there has been a sharp upsurge of debt/GDP ratio in India and it has continuously increased during subsequent years. In terms of debt/export ratio, interest payment/GDP and proportion of debt service in export, the table reveals a deteriorating external debt situation in India during the recent years. Compared to the early 1980s, the same line of inference can be advanced in case of Pakistani and Sri Lankan economy. However, the recent growth rate of the relevant indicators do not indicate an imminent crisis. It is important to note that inspite of implementation of economic reforms, South Asian economies as yet have not been able to generate a dynamic pattern of development which would reduce their vulnerability to external debt. Although they have not been plunged into any crisis like Latin American economies, there is also no room for complacency in this regard.

IV. CONCLUSION

The purpose of the present study was to explore the nature of the changes in key macroeconomic variables which constitute the macroeconomic structure of an economy due to changes in the policy environment as brought in by the economic reforms in major South Asian countries over the past years. Also, it was intended to present a comparative scenario concerning the performance of the major macroeconomic areas between the select South Asian countries. Some major inferences may be drawn on the basis of the previous analysis and the empirical evidences as found by the present study.

The study reveals that although economic reforms in South Asian countries have resulted in significant changes in the policy environment, the objectives related to key macro economic indicators largely remain unfulfilled, resulting in more or less an unaltered macroeconomic structure of the respective economies of the region. Moreover, it is interesting to note that inspite of practising a similar set of policies under the broad framework of SAP, the payoff matrix is uneven and dissimilar among the countries of the region. While the economic growth performance of the major South Asian countries during the adjustment period is not frustrating, the lack of consistency and the delinked pattern of development among various sectors erode the potential for attaining sustainable economic development in the region. The failure to mobilize savings and sufficient investment reflects the ineffectiveness of the existing policies and limits the potential expansion of the productive capacities for the foreseeable future. There has been a moderate improvement in domestic revenue mobilization in South Asian countries during recent years, but still the revenue/GDP ratio lies far below compared to other successful LDCs. More importantly, the low level of income, and sluggish and inconsistent expansion of the economic activities limit the potential revenue base at a sub-optimal level for the coming years.

It is important to note that contractionary demand management policies to curb fiscal deficit and inflation rate have not proven to be very effective in the South Asian context. Specially in a region of deficient demand, such policies might produce pervasive results. From the early 1990s, most of the South Asian countries have experienced a robust export performance. However, current export pattern has not been developed in conformity with the long term comparative advantage. As a result, the dynamic linkages between this growth and other sectors of the economy are very limited. More importantly, the healthy trend might appear short-lived contrary to the expectation.

Inspite of massive liberalization and generous incentive packages export bases are still very narrow and undesirably concentrated. No doubt that devaluation has abated in the improvement of balance of payment, but it largely remains ineffective in augmenting long term external competitiveness. On the other hand, import response has been less satisfactory, specially import of capital goods did not show any significant improvement. This reflects the sluggish expansion of productive activities particularly in investment. As a result of a host of factors like export growth, sluggish import, increased remittance earnings, increased long-term inflow and devaluation of the currency, the balance of payment position has improved in South Asian countries, but due to uncertainty of the export earnings and other relevant parameters the gains might disappear at any moment. Moreover, positive impacts of the balance of payment improvement on the incentive structure of the respective economies are yet to be experienced. External debt situation also has not significantly improved defying the basic objective function.

So it is evident that the economic reforms in major South Asian countries initiated within the frame work of SAP did not yet produce the desired result concerning the macroeconomic structures of the region. This could be due to both lack of proper implementation of the reform measures and inadequacies of the current reform measures. Although this exercise is beyond the purview of the current study, it calls for rigorous studies in this regard. In the South Asian context, the prevailing widespread absolute poverty is the binding structural constraint and reform measures must be directed at rapid poverty alleviation. The development experience of South Asian countries poses the most serious challenge for the policy planners and development practitioners to develop a comprehensive conceptual apparatus which integrates concerns of macroeconomic stabilization policies with the deeper structural, institutional and social concerns of the region. Moreover, the uneven pay-off matrix among the select countries calls for designing country specific adjustment packages catering to the individual development needs of the respective countries. At the same time, it will be indeed a gigantic task to undertake the proper implementation of such policy measures within shortest possible time span. Otherwise, the reform measures would end up in frustration and eventually would perpetuate the vicious circle of underdevelopment in the region.

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Table 1 : GDP & Sectoral Growth Scenario in South Asian Countries during SAP

Country/Period	1980-85	1985-90	1990-1994	1991	1992	1993	1994
Average Annual Growth Rate of GDP (in %)							
Bangladesh	4.1	3.8	4.2	3.4	4.2	4.4	4.5
India	5.3	6.6	3.6	1.2	4.8	3.5	4.9
Pakistan	6.6	6	4.7	5.6	7.8	1.9	3.3
Sri Lanka	5.6	2.9	5.3	4.5	4.1	6.9	5.7
Average Annual Grwth Rate of Agriculture (in %)							
Bangladesh	4	1.5	1.9	1.6	2.2	1.8	1.8
India	3.3	4.7	2.6	—3.4	5.3	2.9	3.4
Pakistan	4	4.3	2.6	4.9	9.5	—5.3	2.6
Sri Lanka	4	0.4	2	1.9	—1.6	4.9	3.3
Average Annual Growth Rate of Industry (in %)							
Bangladesh	4.1	5.6	7.1	4.3	7.1	8	8.5
India	6.5	8.1	2.9	1	3.5	3.5	4.9
Pakistan	6.4	7.6	6.5	5.9	7.8	5.6	5.4
Sri Lanka	3.5	5.3	7.5	4.1	7.1	9.8	8.1
Average AnnualGrowth Rate of Service (in %)							
Bangladesh	7.4	5.3	5	4.5	4.8	5.3	5.3
India	6	7	5.4	6.7	4.9	5.9	5.7
Pakistan	8.1	5.4	5.2	6.1	6.8	4.5	3.9
Sri Lanka	6.7	3.1	5.7	6.2	5.3	6.2	5.2
Average Annual Growth Rate of Manufacturing (in %)							
Bangladesh	1	4	7.2	2.4	7.3	9.1	9.3
India	7.2	8.5	2.3	—1.5	3.1	3.6	5
Pakistan	8	7	6.4	6.2	8.1	5.5	5.6
Sri Lanka	5.5	6.3	7.7	6.8	9	10.3	3

Source : Compiled from various World Bank documents

Table II : Sectoral Composition of GDP in South Asian Countries during SAP

Country/Period	1980	1985	1990	1991	1992	1993	1994
Share of Agriculture in GDP (in %)							
Bangladesh	52.4	41.8	36.8	35	34.5	30.5	30.4
India	38.1	33	31.1	31.9	30.8	30.3	30.9
Pakistan	29.5	28.5	26	26.2	26.2	24.8	25
Sri Lanka	27.6	27.7	26.3	26.8	25.9	24.6	N.A
Share of Industry in GDP (in %)							
Bangladesh	16.8	16	15.8	16	16.6	17.5	17.7
India	25.9	28.1	29.1	27.8	28.2	28.2	27.4
Pakistan	24.9	22.5	25.2	25.2	25.4	25.3	25.1
Sri Lanka	29.6	26.2	26	25	25.6	25.6	N.A
Share of services in GDP (in %)							
Bangladesh	36.3	42.3	47.4	45.2	49	52	51.8
India	36	38:8	39.7	40.3	41	41.5	41.7
Pakistan	45.6	49	48.8	48.4	48.4	49.9	49.9
Sri Lanka	42.8	46.1	47.7	48.3	48.5	49.8	N.A
Share of Manufacturing in GDP (in %)							
Bangladesh	11.6	9.9	8.7	9	9.1	9.7	9.9
India	17.7	17.9	18.7	17.5	17.7	17.3	17.3
Pakistan	15.9	15.9	17.4	17.3	17.3	17.3	17.3
Sri Lanka	17.7	14.7	14.8	14.8	15.3	15.2	N.A.

Source : Compiled from various World Bank douments

Table III : Savings & Investment Scenario in South Asian Countries during SAP

Country/Period	1980	1985	1990	1991	1992	1993	1994
Gross Domestic Investment to GDP ratio (in %)							
Bangladesh	14.9	12.9	12.8	11.5	12.1	13.8	14
India	20.9	23.9	26.6	24	23.3	21.3	24.8
Pakistan	18.5	18.3	18.9	18.7	20.2	20.7	20.1
Sri Lanka	33.8	23.4	21.9	22.6	24.6	25.3	N.A
Gross Domestic Savings to GDP (in %)							
Bangladesh	2.1	2	2.9	4.1	6.2	7.5	7.9
India	17.4	20.8	23.7	23.4	22	21.1	24.1
Pakistan	6.9	6.7	13.5	17.2	17	14.8	15.7
Sri Lanka	11.2	11.7	14.1	12.6	15.5	15.8	N.A

Country/Period	1980-85	1985-90	1990-1994	1991	1992	1993	1994
Average Annual Growth Rate of Investment (in %)							
Bangladesh	6.2	3.9	4.7	—12.6	8.7	8.8	7.7
India	3.9	8.3	0.4	—15.6	11.3	—3.9	7.5
Pakistan	8.2	3.6	5.8	3	10.6	4	4.5
Sri Lanka	0.1	1.3	10.5	8.5	13.8	8.2	11.3

Source : Compiled from vorious World Bank documents

Table IV : Fiscal Performance in South Asian Counties during SAP

Country/Period	1980	1985	1990	1991	1992	1993	1994
Total Revenue as % of GDP							
Bangladesh	9.2	8.8	9.3	9.6	10.9	12	11.9
India	12.7	14	13.7	14.9	14.5	14.4	N.A
Pakistan	17	16.8	19.4	17.7	18.5	19	N.A
Sri Lanka	24	24	22.9	22.4	21.8	21	N.A
Total Expenditure as % of GDP							
Bangladesh	18.4	16.2	17.1	16.4	15.9	17.6	17.9
India	18.7	22.4	21.9	20.8	20.4	20	N.A
Pakistan	22.7	23.9	26.5	24	26.4	26.4	N.A
Sri Lanka	42.4	33.5	30.6	31.9	27.1	27.4	N.A
Fiscal Deficit/Surplus as % of GDP							
Bangladesh	−7.8	−7.4	−7.9	−6.8	−5	−5.5	−5.9
India	−6.5	−8.5	−8.2	−5.9	−5.2	−4.7	−7.3
Pakistan	−5.7	−7.2	−7.1	−6.3	−7.9	−9.6	−7.3
Sri Lanka	−18.3	−9.5	−7.7	−9.5	−5.3	−6.3	−6.2

Source : Compiled from vorious World Bank documents

Table V : Changes in Price Level in South Asian Countries during SAP

Country/Period	1980	1985	1990	1991	1992	1993	1994
Percent Change in Consumer Price Index							
Bangladesh	18.5	10.7	8.1	8.9	4.3	0	N.A
India	11.4	5.6	9	13.9	11.8	6.4	10.5
Pakistan	11.9	5.6	9.1	11.8	9.5	9.4	12.5
Sri Lanka	26.1	1.5	21.5	12.2	11.4	11.7	8.4
Percent Change in GDP Deflator							
Bangladesh	16.6	11.1	4.9	9.5	4.3	0.2	4.5
India	11.5	7.6	11	14.6	8.9	8.1	8.1
Pakistan	8.9	4.6	6.4	12.8	10.1	8.7	12.7
Sri Lanka	20.1	2.8	19.9	10.5	10.2	9.5	10

Source : Compiled from various World Bank documents

Table-VI : Foreign Trade Scenario in South Asian Countries during SAP

Country/period	1980	1985	1990	1991	1992	1993	1994
Bangladesh (million US $)							
Total Exports (fob)	740.4	940.4	1524	1717.6	1993.1	2534	2535
Total Imports (cif)	1975.5	2647	3759	3470	3526	4071	4135
Manufactures	509.7	506	940	1281	1366	1532	1844
Export share in GDP	6.6%	7.4%	8.5%	9.0%	10.4%	11.6%	12.7%
Openness of economy	28	26	27	27	27	30	29
India (million US $)							
Total Exports (fob)	8316	9463	18477	18223	18789	22560	25605
Total Imports (cif)	15862	17298	27914	20347	22895	25249	28431
Manufactures	5106	5639	13781	13773	14333	17550	18636
Export share in GDP	6.5%	6.0%	7.9%	9.3%	10.1%	11.4%	11.9%
Openness of economy	17	15	19	19	21	23	25
Pakistan (million US $)							
Total Exports (fob)	2342	2457	4926	5902	6763	6782	6795
Total Imports (cif)	5563	6531	8055	9094	9732	10929	9333
Manufactures	N.A	N.A	N.A	N.A	N.A	N.A	N.A
Export share in GDP	12.5%	11.2%	14.8%	16.9%	17.3%	16.2%	15.8%
Openness of economy	37	34	35	35	38	38	36
Sri Lanka (million US $)							
Total Exports (fob)	1064	1333	1984	2040	2461	2859	3186
Total Imports (cif)	2053	1948	2689	3061	3182	4005	4688
Manufactures	352	233	408	422	536	668	N.A
Export share in GDP	32.2%	25.6%	29.8%	28.4%	31.3%	33.4%	32.4%
Opennes of economy	87	63	67	67	72	76	75

Country/Period	1980-85	1985-90	1990-94	1991	1992	1993	1994
Average Annual Growth Rate of Export (in %)							
Bangladesh	5.4	10.9	11.7	7.3	13	20.6	4.1
India	3.7	9.6	11.1	9	8.8	17.6	5.6
Pakistan	7.3	8.9	10.7	21.7	13.9	1.3	0.3
Sri Lanka	3.2	2.9	10.7	8.2	11.4	13.1	8.4
AverageAnnual Growth Rate of Import (in %)							
Bangladesh	N.A	4.9	2.2	N.A	2.8	13.9	0.9
India	5.2	5.2	6.6	—13.3	16.8	6.7	14.9
Pakistan	2.2	1.1	10.5	0.4	30.8	13.6	—1.7
Sri Lanka	4	—1.9	12.6	13.7	10.7	14.5	11.6

Source : Compiled from various World Bank documents

Table-VII : Balance of Payments Scenario in South Asian Countries during SAP

Country/Period	1980	1985	1990	1991	1992	1993	1994
Bangladesh (million US $)							
Exports of Goods & nfs	884.9	1162	1903	2112.5	2466.7	2906	3045
Imports of Goods & nfs	2544.8	2863.6	4124	3788.2	3869.3	4433	4635
Resource Balance	—1659.9	—1701.6	—2221	—1675.7	—1402.6	—1527	—1590
*Current Account Balance	—1435.6	—1314.4	—1541	—932.1	—516.4	—535	—369
**Current Account Balance	—843.5	—613.4	-775	—100.6	300.8	243	341
Long term Capital Inflow	682.8	550	833	901.1	498	687	1001
Current Account Balance/GDP	—11.1%	—8.4%	—6.9%	—4.0%	—2.2%	—2.6%	—1.4%
Reserves Excluding Gold	299.6	336.5	629	1278.2	1824.6	2411	3139
Official Exchange Rate	15.5	26	32.9	35.7	38.1	39.1	39.6
India (million US $)							
Exports of Goods & nfs	11265	12773	23606	23425	24478	28659	32137
Imports of Goods & nfs	17378	19442	32063	24873	27618	29167	34093
Resource Balance	—6113	6649	—8457	—1448	—3140	—508	—1956
*Current Account Balance	—2897	5995	—10861	—2890	—4085	—685	—2058
**Current Account Balance	—2254	—5636	—10400	—2464	—3729	—315	—1558
Long term Capital Inflow	1982	2280	4521	3461	3049	8004	9029
Current Account Balance/GDP	—1.7%	—2.8%	—3.7%	—1.2%	—1.7%	—0.3%	—0.7%
Researves Excluding Gold	6857	6657	1521	3627	5757	10199	19698
Official Exchange Rate	7.9	12.2	17.9	24.5	28.9	31.4	31.4
Pakistan (million Us $)							
Exports of Good & nfs	2958	3247	6217	7450	8273	8339	8417
Imports of Good & nfs	5709	7113	9351	10563	11468	12856	11079
Resource Balance	—2751	—3867	—3134	—3113	—3195	—4517	—2662

*Current Account Balance	—1137	—1685	—1890	—1981	—1347	—3688	—1834
**Current Account Balance	—868	—1282	—1352	—1368	—897	—3327	—1520
Long term Capital Inflow	823	274	587	881	1144	1106	1212
Current Account Balance/GDP	—4.8%	—5.4%	—4.7%	—4.3%	—2.8%	—7.1%	—3.5%
Reserves Excluding Gold	496	807	296	527	850	1197	2929
Official Exchange Rate	9.9	15.2	21.4	22.4	24.8	25.9	30.1
Sri Lanka (million US $)							
Exports of Goods & nfs	1293	1561	2293	2587	3083	3494	3866
Imports of Goods & nfs	2197	2296	2965	3345	3964	4481	5079
Resource Balance	—904	—735	—672	—758	—881	—987	—1213
**Current Account Balance	—793	—596	—476	—534	—597	—545	—739
**Current Account Balance	—655	—418	—298	—331	—414	—385	—579
Long term Capital Inflow	209	345	406	575	410	554	541
Current Account Balance/GDP	—19.7%	—9.8%	—5.9%	—8.8%	—6.1%	—5.2%	—6.2%
Reserves Excluding Gold	246	451	423	685	927	1629	2046
Official Exchange Rate	16.5	27.2	40.1	41.4	43.8	48.3	49.4

* = before official transfer ** = after official transfer nfs = non factor service

Source : Compiled from various World Bank documents

Table-VIII : Debt Situation in South Asian Countries during SAP

Country/Period	1980	1985	1990	1991	1992	1993	1994
Bangladesh (in %)							
Total debt/GDP	N.A	42.3	0	N.A	55.6	57.9	57.4
Total debt/Export	N.A	418	447.9	N.A	387.8	352.1	348.1
Interest Payment/GDP	N.A	0.6	0.7	N.A	0.6	0.6	0.7
Total debt service/Export	N.A	21.7	28.5	N.A	16	13.5	13.2
India (in %)							
Total debt /GDP	11.9	19.1	27.6	28.5	37.2	36.6	34.2
Total debt/Export	136	263.6	314.7	274.3	329.1	287.8	268.2
Interest Payment/GDP	0.3	0.6	1.3	1.3	1.6	1.6	1.4
Total debt service/Export	9.3	22.7	30.7	28.9	28.2	28	26.2
Pakistan (in %)							
Total debt/GDP	41.9	42.9	51.4	50.5	49.3	50.3	54.2
Total debt/Export	208.8	228.2	248.8	245.7	245.6	261.2	281.3
Interest Payment/GDP	1	1	1.3	1.3	1.3	1.3	1.7
Total debt service/Export	17.9	24.2	23.2	21.1	24	24.7	34.4
Sri Lanka (in %)							
Total debt/GDP	45.8	58.2	71.8	71.9	64.9	64.8	63
Total debt/Export	123.4	182.8	209.7	212.3	173	160	162.2
Interest Payment/GDP	0.8	1.9	1.5	1.4	1.4	1.3	1.3
Total debt service/Export	12	16.5	14	14	13	9.9	10.3

Source : Compiled from various World Bank documents