CHAPTER VII
SUMMARY AND CONCLUSIONS

The unequal growth rates that exist among and within the developing countries has always been a concern to the developmentalists. In order to gain insight into this aspect of growth, analysts have in the past conducted several studies. Most of them utilized models cast in technical moulds that emphasized the importance of factor productivity in explaining growth differences. Recently, models have also been developed to address particular policy issues and the effect of policy on growth. However, research devoted to policy-making, within a political economy framework, and using this approach to explain growth differences is rare. Therefore, this study was undertaken to broaden our understanding of economic growth differences, using a political economy framework, in six South Asian countries (Bangladesh, India, Malaysia, Nepal, Pakistan and Sri Lanka) within a period of forty years, 1950-1990.

7.1 OBJECTIVES

More specifically, our study examined within a comparative framework why growth rates of output differed within and among the six SACs for selected periods. We have done this by identifying the major policy(s) employed to promote growth and the various circumstances that led policymakers to formulate such policy(s) during the periods selected for analyses. While analyzing the policies designed to promote growth the major emphasis was given to identify the political and other noneconomic
factors that shaped those policies and to use them to explain growth differences. Our basic premise was that these noneconomic factors were different for different countries and they, in turn, accounted for differences in growth rates within and among the SACs.

7.2 RELEVANCE

This particular topic for research was conceived as a result of a number of perceptions. The two most important of them were: First, only very few cross-regional studies exist. Comparative efforts similar to this study to analyze the domestic political and other noneconomic factors that underlie alternate paths to economic development were even more rare. The main reason for this was the dominance of two strands of theoretical thinking; the neoclassical and dependency perspectives which we will briefly explain below. [They were explained at some length in Chapter Two]. The second perception was that during the last decade a number of new realities have surfaced in the global development arena and any development strategy to be effective needs to address them properly. For instance, according to a World Bank Study, global trade and financial links in the future are going to be affected significantly by intra Asian trade and investment flows.¹ It is, therefore, imperative that we gain more insight into the evolution of different aspects of growth in the SACs which form a significant part of Asia.

7.3 THE METHODOLOGY

We have referred earlier about the two strands of thought that dominated theoretical discussions on economic growth and development: one was the neoclassical view and the other dependency perspective. The first emphasized, the role of markets in guiding development. This approach was based on the proposition that markets create competition and competition, in turn, stimulates productivity and growth. Market economies, however, may require intervention not only because of their inherent failures, but also because of the imposition by society of noneconomic goals that even smooth functioning markets cannot satisfy. The dependency perspective, on the other hand, viewed the international economy as dominating the less developed countries through a 'cluster' of multinational corporations. This view in its simplest form held that 'external' factors were responsible for the weaknesses such as the neglect of agriculture, inappropriate production process, and patterns of consumption among other things that characterized the economies of the less developed world.

Both the neoclassical and dependency views were, however, found to be unsuitable to explain the development process in the SACs. For instance, the former assumed that participants in the economic decision-making acted rationally, whereas in practice they faced a set of goals justified only on political rationality. Apparently, for various reasons including regime legitimacy, policymakers often acted on political rationality. The other, dependency view, seemed to be focused only on international
dimensions of policy. Yet, similarly situated states due to domestic political reasons have often pursued different policies in response to external pressures. Therefore, these two approaches were unsuitable for analyzing the growth process and we needed a theory that addressed the incentives facing policymakers who acted on political rationality to explain economic decision-making.

7.3.1 Role of Government

In developing countries, governments have often played an extensive role in promoting economic growth. Therefore, a better understanding of the role of state (government) in promoting growth was necessary. We have attempted to gain this by concentrating on four critical themes; two from the realm of political economy: the theory of state and the association of state, regime and party. The other two came from the area of public choice theory: formulation and implementation of state policies.

In the context of South Asia, the conduct of the state in relation to its economy has been envisioned from the theoretical perspective, as a coalition of dominant social classes in the country. The dominant class exerted pressure on the ‘governing’ elite to receive a large share of the state’s resources for themselves. At any point in time, the conflicts within this dominant coalition specified the degree of autonomy possessed by the state. In all the SACs (except Nepal) the governing elites that inherited power after independence from Britain ‘enjoyed enormous prestige and a sufficiently unified sense of ideological purpose’ to redirect and restructure their economies. However,
the dominant classes have become better mobilized over time, and this constrained the state’s freedom to make allocation of resources. Conflicts among members of the dominant coalition often revolved around the demand for budgetary subsidies. As the members of the dominant coalition vied for ever larger shares of a slowly growing national product, the resources needed for public investments are frited away on current consumption. As a result of the penetration of powerful interests (for example, wealthy farmers, militant trade unions or the Army) the state becomes incapable of implementing long term plans independently. Instead, it was turned into a vast machine of patronage and subsidies and by extension inefficient. It is this loss of efficiency that adversely affects the state’s ability to allocate resources among competing needs to promote optimum growth. The foregoing discussion of the relationship of state to its economy underlies our premise that policies of the state affect economic growth.

In the policy-making environment illustrated above, the elites (who could be officials, bureaucrats or any person wielding executive powers) representing particular regimes often make the policy choices. For instance, whether to follow an import-substitution industrialization strategy or a free market economy, and whether to adopt instruments like devaluation of the national currency or control mechanism to achieve economic goals were all decisions taken by the elites. Their flexibility in making those policy choices were in turn conditioned by two sets of factors: one set focused on the
background characteristics of these elites and the second, on the constraints and opportunities for implementing those choices created by the broader context within which the elites seek to accomplish their goals. The first set relates to elite's personal attributes and goals, ideological perceptions, professional expertise and training, position and power resources, political and institutional commitments and loyalties. The second related to contextual factors that often shape the policy options available to them. These factors were societal pressures and interests, historical experiences, international economic and political relationships and administrative capacity. Postulating that these two sets of factors were different for different SACs, we have premised that the growth differences that existed among and within these countries were due to differences in policies as a result of differences in contextual (noneconomic) factors.

7.3.2 Analytical Framework

The analysis was conducted in three steps.

First, we have identified the periods for which growth differences were examined.

Second, we have identified the macroeconomic policies (fiscal, monetary and trade) that contributed to growth differences.

Third, we identified and examined the contexts in which those policies were made for the relevant periods. In particular, we have examined the reasons why certain macroeconomic policies were actively pursued by some countries, while others
chose to pursue different policies in response to major problems of stabilization and growth.

On the basis of extensive analyses of data for different periods relating to the six SACs, we have established that our premise that growth differences were largely due to differences in contextual (noneconomic factors) is indeed a valid premise.

We have also compared growth rates from the point of view of four episodes, Independence and its Aftermath, First and Second Oil Shocks and Public Sector Investment Boom (PSIB) to know whether they supported our premise that differences in policies due to differences in contextual (noneconomic) factors were responsible for growth differences. These comparisons also yielded strong supporting evidence for our premise.

The aggregate and sectoral growth rates we have examined are given in tables 3-7, 3-8 and 3-9 in Chapter Three.

7.4 AGGREGATE GROWTH RATES

In this section we will provide summaries of explanations for period-wise aggregate growth differences of India, Nepal, Pakistan and Sri Lanka, comparisons across countries of aggregate growth differences involving five SACs, and aggregate growth differences following the episode, Independence and its Aftermath, to show that political and other noneconomic factors have contributed to those growth differences by shaping policy differences.
7.4.1 Period-Wise Growth Differences

First, we will give explanations for the growth differences of India and Nepal, two countries whose growth rates have gone up over time. India’s growth rate during the years 1960/61 to 1969/70 was only 3.2 percent and this rose to 5.6 percent during the years 1980/81 to 1989/90, an increase of nearly 75 percent (see table 3-7, rows four and seven).

After Nehru’s death in 1964, Lal Bahadur Shastri held reins of power for two years (1964-1966). He did not share the former’s left-wing ideology and trimmed the power of the Planning Commission to encourage the private sector. However, his tenure was short and when Mrs. Gandhi came to power in 1966 the economy was deteriorating sharply: an unusual drought in 1966 has severely curtailed output in the agricultural sector; two wars, one with China in 1962 and another with Pakistan in 1965, have diverted critical funds needed for development expenditure to defense requirements. There was also drastic inflation caused in part by food shortage and partly due to balance of payment crisis. The Congress Party’s majority in Parliament was slender and Mrs. Gandhi lacked the political support necessary to take decisive actions to stem the deteriorating conditions. Therefore, the government’s response to the economic crisis was dictated by purely practical considerations, and it had two elements: one, a drastic reduction in capital expenditures, which was politically easier to axe than current expenditures; and two, the devaluation of the rupee. These two
measures had a negative impact on growth and it averaged only 3.2 percent during 1960/61 to 1969/70.

As a result of the partial liberalization scheme initiated by Mrs. Gandhi (when she returned to power in 1980) and continued under the leadership of Rajive Gandhi, growth resumed and reached a high of 5.6 percent during 1980/81 to 1989/90. Two developments led to the implementation of this partial liberalization measure. One was the feeling among some senior conservative members of the Congress Party, since the mid-1970s, that India's control regime was slowing its growth. The other was, Mrs. Gandhi's presumed desire to enlist the support of the business community for her administration.² These two factors prompted her initially to institute the reforms, the main component of which was the deregulation of industrial licensing and this was later expanded under Rajive. He also depoliticised the exchange rate. These two measures were responsible for the higher growth rate of 5.6 percent during 1980/81 to 1989/90.

Nepal's growth rate was 2.4 percent during the years 1970/71 to 1979/80 and it rose to 4.8 percent (exactly doubled) during 1980/81 to 1989/90 (see table 3-7, rows five and seven). The growth rate was 2.4 percent during the 1970s, mainly because of the inherent weaknesses in its economic growth strategy. No attention was paid to mobilize revenue while current expenditures expanded. For instance, though revenue increased during this period by an average annual growth rate of only

13.5 percent, regular expenditures increased at a faster rate of 18.5 percent. Also, during Nepal’s fourth plan (1970-75) which fell within the years 1970/71 to 1979/80 the rate of increase of regular expenditures exceeded those of development expenditures and these trends slowed growth. There was also no strategy to implement effective macroeconomic policies of any kind that would have enhanced growth in output. Nepal was ruled by a monarch during this period, and what became official economic policy was strongly conditioned by the views originating from the palace. The king had very considerable influence over the direction and content of government policies and they largely reflected the interests of three main interest groups (the sacred elites, viz., the Brahmins, the Military, and the Bureaucracy).

However, during the 1980s because of the deepening crisis of the national economy, and more importantly due to the political response to this crisis among the middle classes, the strategic core of Nepalese policies and policy-making has become open to other influences than the ones exerted by the traditional elites. As a result, the palace secretariat (the main decision-making organ of the state) has shown a renewed willingness to consider a wide range of proposals for economic growth. This openness to a wider spectrum of public opinion led to two main initiatives that contributed to a higher growth rate in Nepal during 1980/81 to 1989/90. One was the emphasis given to the basic needs strategy in the Sixth Plan (1980-85) and the other was the enactment of the Decentralization Act in 1982 that entrusted to local panchayats the
necessary responsibility and authority for district development. These two factors have given development planning a new thrust and this accelerated growth in the years 1980/81 to 1989/90.

We will now provide explanations for the growth differences of Pakistan and Sri Lanka, two countries whose growth rates have gone down over two periods. Pakistan's growth rate during the years 1960/61 to 1969/70 was 7.2 percent and it decreased to 5.7 percent during the years 1970/71 to 1979/80, a drop of 21 percent (see table 3-7, rows four and five). In Pakistan the administration of the 1960s was dominated by General Ayub Khan, who was a pragmatist. Under Khan, the Civil Service of Pakistan (CSP) made all the major economic decisions. The CSP was a completely apolitical body and it laid great emphasis on developing a strong industries sector for that country as it lacked an industrial base after partition (see section 4.1.5 in Chapter Four). This led to a large increase in its manufacturing output which constituted a major share of total output. The CSP also followed a sound fiscal policy; current expenditures were kept around 10 percent of the GDP, while current revenues were around 10 percent. These steps led to a 7.2 percent growth rate for Pakistan during the years 1960/61 to 1969/70.

During most of the years in the 1970s, Bhutto was in power and his policies had a negative impact on growth, and it decreased to 5.7 percent. While many believed that Bhutto would usher in a new era of sound economic planning, he in fact
followed an ad hoc policy that lowered growth from the previous decade. Bhutto lacked formal training in the field of development economics and downplayed the importance of economic analyses. For instance, in 1972 his regime nationalized 32 large manufacturing plants in 10 major industries, reducing private investment in large scale manufacturing by nearly 50 percent between 1970/71 to 1972/73. He also abolished the CSP which was the backbone of economic policy formation and implementation. Several government organizations were also restructured that made policy implementation extremely difficult. These steps along with the reduced private investment (as a result of his nationalization programme) contributed to considerable slowing of growth during 1970/71 to 1979/80.

Sri Lanka’s growth rate during the years 1960/61 to 1969/70 was 6.3 percent and it decreased to 4.6 percent during the years 1970/71 to 1979/80, a decrease of 27 percent (see table 3-7, rows four and five). During the years 1960/61 to 1969/70 Sri Lanka had two governments; one the SLFP headed by Mrs. Bandaranaike (1960-65) and the other of the UNP headed by Mr. Senanayake (1965-70). When it assumed power in 1960, the SLFP government had to face a series of economic challenges. The government took several measures to tackle them. However, it was constrained in taking sound economic policies as the SLFP had to appease the leftists who were supporting the government. One step the SLFP implemented that had a negative impact on growth was the nationalization of foreign owned companies, and the Bank
of Ceylon, the largest domestic Commercial Bank. Nonetheless, the UNP government that came to power during the mid-1960s tried to develop a mixed economy with a high emphasis on the private sector. As a result, between 1966-70, private sector investment was double that of the public sector. Also the generally pro-western stand of the UNP government enabled Sri Lanka to create a more favorable environment for western aid. These factors along with a devaluation of the rupee by 20 percent against the British pound led to a growth rate of 6.3 percent for that country during 1960/61 to 1969/70.

During the years 1970/71 to 1979/80 Sri Lanka was governed by a United Front (UF) Coalition. The SLFP was the dominant partner, though the administration in terms of ideas and initiatives was made by the Marxist Coalition partners, the Lanka Samma Samaj Party (LSSP) and the Communist Party (CP). The LSSP and the CP in general gave a higher priority than SLFP to equity issues and had a stronger commitment to the public sector. Within this environment the government had to redirect a large amount of budgetary resources to its public sector and resort to further nationalization of foreign owned Tea and Rubber Plantations in 1972, lowering output to 4.6 percent.

7.4.2 Comparison of Aggregate Growth Rates Across Countries

In this section we will compare the growth rates of Bangladesh with two countries: Malaysia, and Pakistan and India’s rate with Sri Lanka (the reasons for selecting these rates are given in section 3.2, Chapter Three).
7.4.2.1 Bangladesh and Malaysian Growth Rates

The aggregate growth difference between Bangladesh’s 3.8 percent and Malaysia’s 7.0 percent for the years 1980/81 to 1989/90 (see table 3-7, row seven) has been explained in Chapter Four in terms of policy initiatives undertaken by these two countries with respect to allocation of government funds to their public sector enterprises and the manner in which they pursued their monetary policies. Bangladesh continued to transfer large amounts of public funds to its loss-making State Owned Enterprises (SOEs) mostly in public utilities, infrastructure, and manufacturing (which amounted to 13 percent of its GDP during the 1980s) and the negative impact of this transfer slowed aggregate growth in Bangladesh. Lt. Ershad encouraged the private sector more than his predecessor Lt. Zia, but the transfer of funds continued to grow even under the former’s regime, because funds committed earlier in infrastructure and public utilities could not be stopped without completing the long-term projects undertaken in these sectors. The second factor that led to Bangladesh’s poor growth performance, compared to Malaysia was the former’s pursuance of a restrictive monetary policy that kept interest rate high. This made investment costly for private manufacturers and lowered investment by them that in turn reduced growth.

Malaysia, on the other hand, allocated only much smaller amount (7 percent of the GDP) to its Public Sector Enterprises (PSEs). This promoted private sector activities.³ Besides, the government of Mahathir pursued an easy money policy to help

maintain a higher level of domestic demand. This step also made available funds to the private sector manufacturers. The cumulative effect of these two steps was a higher rate of growth of output for Malaysia during the years 1980/81 to 1989/90 (see table 3-7, row seven).

7.4.2.2 Bangladesh and Pakistani Growth Rates

The differences in growth rates between Pakistan 7.4 percent and Bangladesh 3.8 percent during the years 1980/81 to 1989/90 (see table 3-7, row seven) have been explained in Chapter Four in terms of differences in their policies towards each country's public sector enterprises and their monetary policies. The Zia regime in Pakistan was very pragmatic and had a pro-market tilt. His regime adopted several measures to reduce the government's role in the economy and to make its Public Sector Enterprises (PSEs) more efficient. They included returning some of the nationalized firms back to its former owners and clearly defining private and public sector areas for manufacturing activities. This measure made possible for the government to allocate more of its resources into building infrastructure which indirectly promoted growth. Zia's government also took several measures in the monetary sector to restore confidence of the private sector, such as reducing public borrowing and thereby making available more demand and time deposits to the private sector. Whereas, as mentioned earlier in this section, Bangladesh under Ershad was allocating a higher proportion of its government funds to the public sector. Ershad's regime also made less money available to private sector manufacturers by maintaining
a higher rate of interest compared to Malaysia. This reduced private investment and higher allocation of budgetary resources to loss-making SOEs have resulted in a lower rate of output growth for Bangladesh during the years 1980/81 to 1989/90.

7.4.2.3 Indian and Sri Lankan Growth Rates

The differences in growth rates between India 3.2 percent and Sri Lanka 6.3 percent during the years 1960/61 to 1969/70 have also been explained in Chapter Four (see table 3-7, row four) in terms of initiatives the two countries adopted in their fiscal and trade policies. India was following a rather restrictive fiscal policy during most of the 1960s for two main reasons: one was the fear of inflation due to shortfall in agricultural production caused by severe droughts in 1965 and 1966 and the other a substantial decline in the aid flows after the war with Pakistan in 1965. The fiscal restrictions led to a reduction in capital expenditures moderating growth. The devaluation of the rupee in 1966 also did not promote growth by increasing exports as India in 1966/67 was still heavily dependent on agricultural based exports and this base was unusually narrow due to the droughts in 1965 and 1966.

In Sri Lanka, the UNP government that was in power during the later half of the 1960s has adopted a pro-western stand and because of this was able to tap funds from external sources, both in terms of commercial borrowing and increased aid from international donors. This favorable environment regarding the availability of increased external resources raised private investment and also enabled the
government to follow an expansionary fiscal policy that in turn led to a higher rate of output growth for Sri Lanka during 1960/61 to 1969/70.

7.4.2.4 Independence and its Aftermath

In this section we will given explanations for growth differences among three countries for a period after their independence (the first episode).

After independence in the late forties India, Pakistan and Sri Lanka faced different problems in their economic front. For India, independence and the partition that preceeded it resulted in the loss of a major external market (the area that became the newly created state of Pakistan). Pakistan lost almost all of its manufacturing capacity, while Sri Lanka an important source of external finance. How policymakers in the three countries reacted to these developments has explained the differences in growth rates in those countries.

To understand the policy responses of the three countries we considered briefly the policy-making contexts in them during 1950-55. Then the differences in growth rates that existed during 1955-60 have been examined and explained. In the Indian context two factors were important in promoting growth. One was the early building up of the state institutions like the Planning Commission to purposefully plan and implement an effective growth strategy to achieve the goal of economic self-sufficiency. The overall direction to the bureaucracy’s efforts was given by a strong political leadership under Prime Minister Nehru. The second factor was the conservative attitude of the bureaucracy that kept inflation under very low levels and
private consumption at high levels. These two factors promoted a growth rate of 3.0 percent during 1955-60 (see table 3-7, row three). Whereas in Pakistan, though they had an equally well-trained bureaucracy as India, the country lacked a sense of uniformed political direction as to what the nation’s economic goals ought to be because of its fractured political leadership. In the absence of a strong political direction, the CSP based its responses to most economic matters on practical considerations. This prevented them from embarking on an ambitious programme of comprehensive economic growth in the early 1950s and reduced its growth rate to 2.9 percent during 1955-60 (see table 3-7, row three).

In Sri Lanka three strands of economic policy were responsible for the higher growth rate of 4.0 percent (see table 3-7, row three). One was the essentially open market economy free of all constraints and restrictions the government tried to keep during 1950-55. After independence, the UNP government (ideologically a free market oriented government) eliminated most regulations on imports and encouraged the private sector in the domestic arena. Secondly, the government gave major emphasis to promote agricultural growth to make the country less dependent on food imports in view of the reduced availability of external funds. The third factor, the increased public expenditures relating to an expanded welfare programme was also instrumental in maintaining a higher rate of consumption that in turn enhanced growth.
To sum up, we may attribute the post-independence growth differences among India (3.0 percent), Pakistan (2.9 percent) and Sri Lanka (4.0 percent) to differences in their policy responses, when faced with the task of building an overall development strategy for them. India adopted economic self-sufficiency as one of her early development goals after centuries of colonial rule (a historical factor) and sought to foster a balanced growth giving attention to all the major sectors. As a result, India achieved a higher rate of growth than Pakistan's. The latter adopted a rather narrow approach to its overall development effort giving importance only to its manufacturing base and this in turn reduced its total output. Sri Lanka's rate was higher than the other two countries and she achieved this by adopting an open market economy with less controls and encouraging the private sector economic activities.

7.5 SECTORAL GROWTH RATES: AGRICULTURE

In this section we will provide summaries of explanations for period-wise agricultural growth differences of Pakistan and Malaysia, comparisons across countries of agricultural growth differences involving five SACs and growth differences following the episode second oil shock. Analyses of these instances of growth differences, both among and within the SACs are considered sufficient to confirm our premise that political and other noneconomic factor have contributed to those differences by shaping policy differences.
7.5.1 Period-Wise Growth Differences

In this section we will provide explanations for period-wise growth differences in the Agricultural Sector of Pakistan and Malaysia. For Pakistan, the average growth rate in this sector was only 4.9 percent during the years 1960/61 to 1969/70 and it rose to 7 percent during 1970/71 to 1979/80 (see table 3-8, rows three and four). The modest growth rate of 4.9 percent was largely due the neglect of its agricultural sector by the Civil Service of Pakistan (CSP) during that period as it was preoccupied with building a strong industrial base. During 1970/71 to 1979/80 growth resumed as this was the period of the Green Revolution. The government took a number of steps to increase agricultural production, and as a result growth rates for wheat and cotton increased by 11.0 percent, and 17.0 percent respectively. The total cropped area, area under irrigation and fertilizer use all have gone up from the decade of the 1960s to 1970s (see table 5-5 in Chapter Five). During the later decade the government implemented a policy package that set procurement prices for the main crops wheat, cotton, and sugar cane and prices of imports like fertilizer and irrigation water. The government also assumed a greater role in trading of wheat, rice and cotton and made substantial investments in providing the socioeconomic infrastructure such as construction and maintenance of dams, canals, electricity generation and rural networking. The cumulative effects of all these measures was to raise agricultural output to 7.0 percent during the years 1970/71 to 1979/80.
In Malaysia, for the years 1970/71 to 1979/80 the average growth rate in the agricultural sector was only 3.9 percent and it rose only slightly to 4.0 percent during the years 1980/81 to 1989/90 (see table 3-8, rows four and six). From the decade of the 1970s to the 1980s only rice production increased (by 66.7 percent, see table 5-3). The production of rubber and palm oil decreased by 35.7 percent and 2.8 percent respectively in response to changes in prices in the international market. Agricultural output grew, nonetheless slowly during 1980/81 to 1989/90 because the yield of rice and rubber has increased modestly and this was in turn due to measures taken by the government of Malaysia for improving the productivity of small holders in those two crops. The small holders in rice, one of the poorest groups in the country was targeted first to receive the benefits extended under the NEP measures. In addition to raising the income of small holders, increasing rice production was a top priority for policymakers since there was a shortage of rice to meet the domestic consumption requirements. Small holders in rubber cultivation also received several forms of assistance to replant rubber under the NEP. Nonetheless, due to falling rubber prices the share of small holders in total acreage replanted with rubber and its production declined, keeping total output rather constant over time.

7.5.2 Comparison of Agricultural Growth Rates Across Countries

In the agricultural sector the growth differences we will compare across countries are for the same countries and periods for which we examined the aggregate growth rates in sections 7.4.2.1, 7.4.2.2 and 7.4.2.3 above.
7.5.2.1 Bangladesh and Malaysian Growth Rates

The growth difference between Bangladesh 2.6 percent and Malaysia 4.0 percent during the years 1980/81 to 1989/90 (see table 3-8, row six) can be explained as follows: In Bangladesh while it was a top priority to increase the output of rice and wheat during this period, the agricultural sector remained mostly stagnant with the output of rice actually growing at a lower rate than during 1970/71 to 1979/80. Two factors were largely responsible for this poor showing: one was a severe shortage of funds and second a weak institutional support base for the delivery of critical inputs. Whereas, Malaysia was able to register a higher rate of growth in its agricultural sector as a result of several policy initiatives the country adopted under its New Economic Policy (NEP). This policy was, as mentioned earlier, intended among other things to reduce and eventually eradicate poverty and restructure the Malaysian society. As part of this plan, the policymakers sought to raise the incomes of small holder cultivators in rice and rubber who constituted a majority of the population by providing them with irrigation facilities and other forms of assistance. These measures tended to raise output in the agricultural sector. In brief, the higher Malaysian growth was due chiefly to the strong emphasis policymakers laid on improving the economic status of small holders as they were a large and politically important group the government felt necessary to support on political considerations. On the other hand, Bangladesh growth rate was lower compared to Malaysia's largely because of a general shortage of funds (owing to reduced volume of external aid which was not a constraint for
Malaysia) and a weak institutional support base, both of which tended to slow growth in agricultural output.

7.5.2.2 Indian and Sri Lankan Growth Rates

India had a growth rate of 1.9 percent in the agricultural sector during the years 1960/61 to 1969/70 and Sri Lanka's rate was 2.6 percent for the same period (see Table 3-8, row three).

India’s growth rate was exceedingly low because of three main factors: (1) a critical shortage of funds due to increased defense expenditures, (2) an absence of productivity growth during the first half of the sixties due to several institutional factors like the small farm size and the insecurity associated with the tenure system prevalent during this time, and (3) the continued dependence of crop production on rainfall. These factors were the result of a lack of coherent policy towards the agricultural sector (which in India was the responsibility of the state governments to formulate and implement) and this impacted negatively on agricultural production during the years 1960/61 to 1969/70.

Sri Lanka’s growth rate of 2.6 percent in the agricultural sector during the years 1960/61 to 1969/70 was largely the result of an increase in the production of rubber which came from an increase in acreage under rubber cultivation. This was mainly due to the implementation of the Agricultural Policy of 1966, the import of which was felt only in the late 1960s. The major thrust of this policy implemented by
the UNP was to raise agricultural production by making available agricultural inputs to farmers and effect organizational reforms that promoted higher agricultural growth.

7.5.2.3 Bangladesh and Pakistani Growth Rates

Bangladesh had 2.6 percent and Pakistan 7.3 percent growth rates in their agricultural sector during the years 1980/81 to 1989/90 (see table 3-8, row six). The overriding objective of the agricultural policy of Bangladesh, as we have mentioned above, was to raise the output of food crops (particularly rice and wheat) as the country was dependent on imports for domestic consumption requirements. However, output in this sector remained stagnant due to a shortage of funds needed to make critical investments in its agricultural sector, and due to a weak institutional support base. Whereas, the higher average growth rate in Pakistan was due to a series of initiatives implemented as part of its New Agricultural Policy (NAP). The major focus of this policy was to introduce market forces into the agricultural sector and thus make it easy for the private sector to participate in agricultural production (see section 5.1.5 in Chapter Five). In addition to these measures contained in the NAP, Pakistan's agricultural growth was further enhanced as a result of its Three Year Public Sector Development Programme (1982-84) which expanded infrastructure and other facilities for agricultural growth. Funds were also made available to finance the projects under these two broad policy initiatives.

From the cross-country comparisons of agricultural growth rates of five SACs given above, it is abundantly clear that specific policies in the agricultural sector have
affected growth rates in that sector. This is clear from the case of Malaysia’s policies
designed to increase the income of its small holders and the UNP government’s policy
of increasing food production in Sri Lanka. Also, India’s policy of less support to its
agricultural sector as a result of its wars with China and Pakistan had resulted in lower
growth, lending added support to our premise that differences in sectoral policies can
lead to differences in sectoral growth rates. Our findings also confirm that
noneconomic factors that shaped the sectoral policies were often different for different
countries and periods and they in turn contributed to differences in output in the
agricultural sector.

7.5.2.4 Second Oil Shock (1979-82)

After the second oil shock the following growth rates were recorded in the
agricultural sectors of the six SACs for the years 1983-85. Bangladesh (1.3 percent),
India (0.7 percent), Malaysia (2.7 percent), Nepal (6.0 percent), Pakistan (6.1
percent), and Sri Lanka (2.9 percent) [see table 3-8, row seven]. India and
Bangladesh had the lowest growth rates. India’s rate was the lowest because of the
severe drought of 1979/80. Bangladesh’s rate was also lower compared to other
countries and this was due partly to a paucity of funds that the country could invest in
its agricultural sector and partly due to her weak institutional support base. Malaysia
and Sri Lanka had more or less similar growth rates. Malaysia’s rate after the second
shock was lower than what it had after the first shock because of the severe shortage
of funds the country experienced due to the world recession of 1980-82. On the other
hand, Sri Lanka's rate was somewhat similar to her rate after the first oil shock and it was mainly due to the UNP government's policies designed to raise agricultural output during this period. Pakistan and Nepal had the highest growth rates among all the SACs. The former achieved its growth rate as a result of several policy measures she introduced to raise the agricultural output under the New Agricultural Policy (NAP), whereas Nepal's growth was aided by the availability of sufficient funds to invest in her agricultural sector made possible by the generous assistance she received from the international community during this period.

From the above findings no clear evidence has emerged that shows policymakers has learned from the experience of the first shock, how to manage an unexpected external shock to their economies and adjust their sectoral policy in the light of that experience. For instance, Nepal's funding for its agricultural programmes was provided by external assistance. Bangladesh could not raise funds to finance her needed investments in this sector, by curtailing the consumption of gasoline, and thus save scarce resources. Even the Malaysian rate was indeed moderate (2.7 percent) in spite of the fact the country possessed gasoline. The world recession impacted on her economy negatively and policymakers seem to have taken no steps to prevent this from happening. Thus there is no hard evidence to advance the claim of 'learning experience' from the first shock.
7.6 SECTORAL GROWTH RATES: INDUSTRY

In this section we will provide summaries of explanations for period-wise growth differences in the industries sectors of Pakistan and Sri Lanka, comparisons across country of industrial growth differences involving five SACs and growth differences following the episode Public Sector Investment Boom (PSIB). They are sufficient to confirm our premise regarding industrial growth differences in the SACs.

7.6.1 Period-Wise Growth Differences

In Pakistan the average growth rate in the industries sector was 18.3 percent during the years 1950/51 to 1959/60 and this dropped to 7.0 percent during the years 1970/71 to 1979/80, a more than double drop (see table 3-9, rows one and four). The higher growth rate during the earlier period was undoubtedly due to the policy of import-substitution industrialization pursued by the government of Pakistan. The reason for pursuing this policy has been explained earlier (see section 6.1.4 in Chapter Six). Cut off from its traditional source of industrial commodities Pakistan was compelled to develop a substantial industries sector. Three major factors determined the course of industrial growth during this period: (1) the partition of the subcontinent, (2) the decision of the government of Pakistan not to devalue the rupee in 1949 or 1952 but to rely on exchange controls and quantitative restrictions to reduce imports, and (3) the size of the market. The determined effort of the CSP led to a substantially higher rate of manufacturing output (18.3 percent) during 1950/51 to 1959/60.
Nonetheless, as a result of the economic and political developments of the 1970s growth in the industries sector began to fall during this period. Three main developments contributed to this fall. First, there were the political conditions which contributed to the Indo-Pak war and the creation of Bangladesh in 1971. Second was the nationalization of private industry by Bhutto between 1972-74, and third the increased cost of investment brought about by the massive devaluation of the Pakistan rupee in May 1972. These factors acted to moderate growth in the industries sector during 1970/71 to 1979/80.

In Sri Lanka the growth rate in the industries sector during the years 1950/51 to 1959/60 was only 0.7 percent and it rose to 9.9 percent during the years 1960/61 to 1969/70 (see table 3-9, rows one and three). The extremely low average growth rate of 0.7 percent was due mainly to two reasons. One was the small size of this sector in Sri Lanka immediately after independence. It may be recalled that the Sri Lankan economy was based on an export oriented plantation sector and not much manufacturing was undertaken prior to 1960. The second and more important reason was the threat of nationalization of the plantation sector by the Bandaranaike government (1956-60) which reduced the availability of raw materials to a few processing units that made up the bulk of Sri Lanka’s manufacturing sector. The threat of nationalization by the government (to appease the left) prevented plantation owners from making the necessary investments to increase production in that sector.
and this in turn cut off supplies to manufacturing units reducing growth in output in the industries sector.

7.6.2 Comparison of Growth Rates in the Industries Sector Across Countries

In this section we will compare across countries the growth rates in the industries sector for the same countries and periods for which we examined the aggregate and agricultural sector growth rates in the various sections above.

7.6.2.1 Bangladesh and Malaysian Growth Rates

During the years 1980/81 to 1989/90 Bangladesh had a growth rate of 4.9 percent and Malaysia 7.0 percent in their industries sectors (see table 3-9, row six). In Bangladesh the growth rate of 4.9 percent was the result of a substantial fall in Gross Fixed Investment (GFI) and stagnation in the public sector. The fall in GFI was the result of certain policy initiatives implemented during Lt. Ershad’s regime, the most relevant of which was the high interest rate then prevalent that made investment costly. Other factors such as domination by the inefficient SOEs, higher protection levels and ad hoc policy-making have also contributed to lower rate of growth in the industries sector.

In Malaysia, the growth in its industries sector during the years 1980/81 to 1989/90 was largely the result of the government’s decision to expand its public sector’s share in industrial activities. This was, in turn, due to the desire of its middle class to participate in the business management in order to enhance their economic well-being. In comparing the two growth rates across countries we may note, in brief,
that the lower rate of Bangladesh was due to a substantial fall in its GFI, and its largely ad hoc policy-making while the Malaysian rate was higher because of the relative efficiency of its expanded Public Sector Enterprises (PSEs).

7.6.2.2 Bangladesh and Pakistani Growth Rates

During the years 1980/81 to 1989/90 Bangladesh had an average annual growth rate of 4.9 percent and Pakistan 7.3 percent (see table 3-9, row six). The reasons for the smaller rate of output growth for Bangladesh has been explained in the previous section. Pakistan, on the other hand, had initiated several measures that sought to encourage the private sector and this raised the output in the industries sector. In particular, the Protection of Rights in Industries Act of 1979 alleviated the fears of private manufacturers regarding nationalization of their plants and expanded their participation in industrial activities.

In comparing the two growth rates across countries we may safely conclude that Pakistan’s growth rate was substantially higher because of the cumulative effects of various policy measures undertaken by the government of Major Zia, especially the measures under the Protection of Rights in Industries Act of 1979. The enactment of this act together with the adoption of a flexible exchange rate raised output in the industries sector for Pakistan. Whereas in Bangladesh average growth rate was lower as a result of its higher interest rate (which lowered fixed investment in the industries sector) and a rather misguided regulatory mechanism that tended to reduce investment and therefore industrial growth.
7.6.2.3 Indian and Sri Lankan Growth Rates

India’s growth rate in the industries sector during the years 1960/61 to 1969/70 was only 4.8 percent while Sri Lanka had an exceptionally high rate of growth of 9.9 percent, which is more than double the Indian growth rate (see table 3-9, row three). India’s growth rate in the industries sector was lower mainly because of its extensive regulatory framework that was in place during this period. This framework slowed growth by reducing internal competition, and raising production costs (see section 6.1.2 in Chapter Six). Whereas, in Sri Lanka the industries sector received a boost during the same period as a result of its policy of implementing import-substitution industrialization programme. This programme generated a protected market for Sri Lanka to which private manufacturers responded favorably by setting up several new units raising the output in the industries sector for the years 1960/61 to 1969/70. In comparing the two growth rates across countries we may note that India’s rate was lower because of her extensive regulatory framework that reduced output in the industries sector. On the other hand, Sri Lanka’s growth rate was much higher due to the implementation of import-substitution industrialization programme (with lesser controls compared to India) that created a protected and profitable home market for that country.4

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4 For a clarification of the differential impact of import-substitution industrialization programme in Sri Lanka and India; see, footnote 32 in Chapter Six.
7.6.2.4 Public Sector Investment Boom (PSIB)

We have also examined the effects of Public Sector Investment Boom (PSIB) on the growth of output in the industries sector for three countries: Malaysia, Pakistan and Sri Lanka. Pakistan had the highest growth rate 9.3 percent (see table 3-9, row eight) during 1983-86 a period after the PSIB (the fourth episode). A major reason for this was the maturing of public sector investment made in the previous years. Malaysia’s growth rate at 5.4 percent (table 3-9, row eight) was in large measure due to the expansion of its public sector projects undertaken as a result of the desire of Malay middle class to participate in the country’s industrial activities (see section 6.1.3 in Chapter Six). Sri Lanka’s rate was the lowest at 2.3 percent (table 3-9, row eight) during 1983-85. This was mainly because of her efforts to concentrate its entire public sector investment on one single project to the exclusion of other manufacturing activities that may have raised output in the industries sector. Growth slowed also because of its worsened terms of trade during 1979-82 that aggravated the already poor performance of Sri Lanka’s plantation sector. This led to lower growth in the industries sector as the plantation sector was the major source of raw materials for the former. In brief, the differences in growth rates in the industries sector across the three countries may be explained in terms of the priority policymakers assigned to this sector. Volume of investment made (large for Pakistan) and the way in which

5 See, “Growth, Investment, Structural Change in Pakistan’s Industrial Development,” p. 201. (Cited in Chapter Six).
public sector manufacturing units were run, (with several restrictive measures imposed to justify the New Economic Policy goals for Malaysia) and the type of investments made (single project in Sri Lanka).

7.7 GROWTH DIFFERENCES WITH EMPHASIS ON NONECONOMIC FACTORS

In this section we will provide brief summaries of explanations for selected growth differences in terms of policy differences, highlighting the various contextual (noneconomic) factors that shaped those policy responses. First, we will explain aggregate growth differences emphasizing noneconomic factors for three categories of growth differences: (1) period-wise, for India and Sri Lanka, (2) cross-country for Bangladesh, Pakistan, India and Sri Lanka, and (3) those differences associated with one episode, Independence and its Aftermath. Explanations for these three categories of growth differences are considered sufficient to confirm our premise that growth differences can be explained in terms of policy differences and contextual factors often contribute to those policy differences. Next, we will give explanations highlighting noneconomic factors for sectoral growth rates (Agriculture and Industry) for the same countries and for the same episode.

India's growth rate during the years 1950/51 to 1959/60 was 4.1 percent and it decreased to 3.2 percent during the years 1960/61 to 1969/70 (see table 3-7, rows two and four). Three main factors contributed to this modest growth of 4.1 during 1950/51 to 1959/60. One was the strong political support and direction given by Prime Minister Nehru and other Senior leaders to economic development efforts (a
political factor). Second, was the inheritance of a competent bureaucracy from the colonial regime (a historical factor) that contributed to growth by adopting a prudent fiscal policy that kept inflation low. The bureaucracy also contributed to growth by building up state institutions like Planning Commission early to devise and implement a comprehensive development strategy. The third factor that facilitated growth was the availability of sterling funds with Britain (a historical factor) to finance India’s import requirements and to follow a reasonably expansionary fiscal policy. Nonetheless, during the 1960s growth began to stagnate and it was reduced to 3.2 percent partly due to a critical shortage of funds as a result of the reduced aid (a consequence of its war with Pakistan in 1965, a noneconomic factor) and partly due to supply factors like the droughts in 1965 and 1966.

Sri Lanka’s growth rate during the years 1960/61 to 1969/70 was 6.3 percent and this decreased to 4.6 percent during 1970/71 to 1979/80 (see table 3-7, rows four and five). The higher Sri Lankan growth rate of 6.3 percent was mainly due to the expansionary fiscal policy of the United Nationalist Party (UNP) and Sri Lankan Freedom Party (SLFP) governments in the 1960s. The UNP sought, after being out of power for a brief period, to solidify its position by enlarging the rice subsidies which was clearly a political move. This subsidy system was later continued under the SLFP government. To finance this expansionary programme the UNP government was able to obtain large amounts of concessionary funds because of its pro-western stand (a
The UNP government also gave an increased emphasis to its private sector (due to its ideological disposition) which was another reason for the higher aggregate growth in Sri Lanka. Growth, however, slowed during the years 1970/71 to 1979/80 as a result of the United Front (UF) government's restrictive fiscal policy during this period. The UF government, of which the SLFP was the dominant partner, followed a restrictive fiscal policy as it was not able to mobilize resources in sufficient amounts to finance an expansionary fiscal policy. Because of its radical policies (noneconomic factor) the government was not able to obtain external assistance as well. The Marxists, a coalition partner, also gave equity issues a higher priority than the SLFP and had a stronger commitment to the public sector. Both these factors tended to reduce growth during the 1970s.

While comparing the growth experience of the two countries, we must recognize that both, India and Sri Lanka had higher growth rates while following expansionary fiscal policies and these policies were, in turn, shaped largely by noneconomic factors. For example, India's availability of sterling funds with Britain (a historical factor) enabled it to finance her development needs during the years immediately following its independence. For Sri Lanka, the availability of concessionary finance due to its pro-western stand (a political factor) made it possible to finance many welfare schemes, including rice subsidies, and this facilitated growth.

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6 It must be noted that when the UF government later adopted an anti-western stand, by nationalizing foreign owned companies, funds were cut off and as a result Sri Lankan growth rate began to incline.
during 1960/61 to 1969/70. In both countries growth slowed as a result of restrictive fiscal policies pursued by them. In India, the war with Pakistan (a noneconomic factor) and in Sri Lanka, the radical economic policies of its UF government (a political factor) led those countries to confront a shortage of funds with which to finance their expansionary fiscal policies and this in turn, slowed their growth.

We will now give the explanations for aggregate growth differences across-countries for Bangladesh, India, Pakistan and Sri Lanka highlighting the noneconomic factors. First, we will compare the growth differences between Bangladesh (3.8 percent) and Pakistan (7.4 percent) for the years 1980/81 to 1989/90 (see table 3-7, row seven). In Bangladesh, Lt. Ershad was allocating a higher proportion of the budgetary resources to its loss-making state owned enterprises (SOEs) partly to establish legitimacy for his military regime (a noneconomic factor) that led to slow growth. Whereas, Pakistan under General Zia (because of his ideological disposition) encouraged the private sector and undertook measures to improve the performance of its Public Sector Enterprises (PSEs). Both these measures contributed to a higher growth rate for Pakistan compared to Bangladesh during the years 1980/81 to 1989/90.

India’s growth rate of 3.2 percent during the years 1960/61 to 1969/70 may be compared with Sri Lanka’s growth rate of 6.3 percent for the same period (see table 3-7, row four). Indian growth rate was lower compared to Sri Lanka for two main
reasons: one was the restrictive fiscal policy India adopted because of the shortage of funds she experienced due to her war with Pakistan in 1965 (a noneconomic factor), and the other, the supply conditions arising out of droughts in 1965 and 1966.

Whereas, Sri Lanka’s growth was higher during this period because of the expansionary fiscal policy first pursued by the UNP government in 1960, and later by the UF government for a brief period. It was a political necessity for both the governments to spend large sums of money on welfare schemes (mostly health, education and welfare subsidies) that had an expansionary effect on growth. Thus the above findings that came out of cross-country comparisons of aggregate growth rates also confirms our premise that noneconomic factors do shape policies and differences in those factors can be used to explain growth differences among countries.

The growth differences among India (3.0 percent), Pakistan (2.9 percent) and Sri Lanka (4.0 percent) after the first episode, Independence and its Aftermath (see table 3-7, row three) may be explained as follows: In response to the critical loss of major portions of its territory (market) to Pakistan (a historical factor), India adopted economic self-sufficiency as one of her early development goals. This approach led her to encourage all its major sectors and gave special attention to both agriculture and industry, resulting in a 3.0 percent growth rate for that country. On the other hand, stressing the need to create a strong manufacturing base which Pakistan was lacking (because of partition, a historical factor) its civil service adopted an import-
substitution industrialization policy that neglected the agricultural sector. This led to a slightly lower growth rate of 2.9 percent for Pakistan. Sri Lanka’s growth rate was the highest, because it had an open market economy with a foreign trade regime free of all controls and restrictions, largely due to the ideology of its UNP government that was in power during the early 1950s.

We will now explain the three categories of growth differences in the agricultural sector for the same countries and for the same periods. India’s growth rate in the agricultural sector during 1950/51 to 1959/60 was 3.2 percent and it dropped to 1.9 percent during 1960/61 to 1969/70 (see table 3-8, rows one and three). The major reason for this drop in growth rate (besides the drought induced supply shortage) was the paucity of funds India experienced as a result of its two wars, one with China in 1962 and a second with Pakistan in 1965 (a noneconomic factor). As a result of these wars, investment in agriculture were pared down and more resources were allocated to defense needs, slowing agricultural production. Whereas, Sri Lanka’s growth in the agricultural sector was only 2.6 percent during the years 1960/61 to 1969/70 and it rose to 3.8 percent during the years 1970/71 to 1979/80 (see table 3-8, rows three and four). The higher growth rate of 3.8 percent was mainly due to the UNP government’s efforts directed towards raising output in this sector. The UNP (because of its ideological commitment to attaining food self-sufficiency) has always given a higher priority to raise agricultural output.
Let us now turn to the comparison of agricultural growth rates across country for Bangladesh, Pakistan, India and Sri Lanka, highlighting the noneconomic factors that contributed to growth differences across these countries. First, we will explain the growth difference between Bangladesh (2.6 percent) and Pakistan (7.3 percent) for the years 1980/81 to 1989/90 (see table 3-8, row six). Two major reasons for the slower agricultural growth of Bangladesh were a shortage of funds due to reduced external assistance and due to a weak institutional base that resulted in poor coordination and implementation of its irrigation management programmes (IMP). The weak institutional base that contributed to the poor performance of her agricultural support programmes was a factor unique to Bangladesh compared to Pakistan and this lowered the agricultural production in the latter. Whereas, in Pakistan, its higher average growth rate was the result of a series of initiatives undertaken as part of its National Agricultural Policy (NAP) that reflected a free market approach (in the sense of eliminating subsidies and adjusting the prices of key inputs and outputs to reflect the real resource costs). This free market approach to its agricultural sector was the result of an ideological shift in favour of the private sector by Major Zia.

India’s growth rate of 1.9 percent during 1960/61 to 1969/70 may be compared with Sri Lanka’s 2.6 percent for the same period (see table 3-8, row three). India’s growth rate was lower compared to Sri Lanka because the former’s limited
resources were diverted to defense expenditures during this period (a noneconomic factor). Whereas, in Sri Lanka, its UNP government formulated and implemented a comprehensive Five-Year Agricultural Policy in 1966 (as a result of its ideological commitment) designed to increase efficiency in both subsistence agriculture and plantation sectors that raised her agricultural output.

With respect to the differences in growth rates among India (9.6 percent), Pakistan (0.7 percent) and Sri Lanka (2.6 percent) after the first episode, Independence and its Aftermath (see table 3-8, row two), we may recognize that India adopted food self-sufficiency as a basic goal of the nation’s economic development and gave special attention to both agricultural and industries sectors. This led to the highest growth rate of 9.6 percent for India. On the other hand, Pakistan’s growth rate was the lowest where the agricultural sector received only minimal attention during this period as the Civil Service of Pakistan (CSP) was busily engaged in developing an industrial base it was lacking (due to partition, a historical factor). Sri Lanka’s growth lay in the middle at 2.6 percent because its plantation sector (mainly rubber) did not register growth due to the fall in international prices (dependence on export, a contextual factor) unique to Sri Lanka.

We will now explain the growth differences in all three categories in the industries sector for the same periods and countries. India’s growth rate in the industries sector during the years 1950/51 to 1959/60 was 6.6 percent, and it
decreased to 4.8 percent during 1960/61 to 1969/70 (see table 3-9, rows one and three). The main reason for this drop in growth rate was the rigorous regulatory framework that was in place in India by the early 1960s. India's was following an import-substitution industrialization policy to achieve self-sufficiency, and several features of this regulatory framework put in place to enforce that policy slowed growth, by reducing internal competition and raising production costs. Whereas, Sri Lanka's growth in the industries sector was 9.9 percent during the years 1960/61 to 1969/70 and it dropped to 4.9 percent during the years 1970/71 to 1979/80 (see table 3-8, rows three and four). The lower growth rate of 4.9 percent in the industries sector was largely due to the policies of the coalition (UF) government of Mrs. Bandaranaike which included the communists. This government sought to implement a new industrial policy with multiple objectives (including social and political objectives) and some of them had the opposite effect of reducing growth in this sector.

Let us now take up for comparison differences in growth rates in the industries sector across country for Bangladesh, Pakistan, India and Sri Lanka, with emphasis on noneconomic factors that contributed to those growth differences between them. We will first explain the growth difference between Bangladesh (4.9 percent) and Pakistan (7.3 percent) for the years 1980/81 to 1989/90 (see table 3-9, row six). The lower growth rate of 4.9 percent for Bangladesh was largely due to a fall in Gross Fixed Investment (GFI) and to ad hoc policy-making in that country. The fall in GFI was
mainly due to a decrease in private investment as private sector investors were apprehensive of Ershad encouraging the public sector by allocating large amounts of budgetary resources to Bangladesh's loss-making state owned enterprises (SOEs). He encouraged the public sector to provide a certain degree of legitimacy to his military regime (a noneconomic factor). This negative factor was further compounded by ad hoc policy-making that created high levels of protection for domestic manufacturers that led to increased production costs and lower outputs. Pakistan had a substantially higher growth rate (7.3 percent) in its industries sector mainly because of the cumulative effects of various policy measures implemented by the Zia regime, which was ideologically more inclined towards the private sector compared to the Ershad's regime that tilted in favour of the public sector. In particular, several provisions of the Protection of Rights in Industries Act of 1979 by encouraging the private sector led to higher growth in Pakistan during the years 1980/81 to 1989/90.

India's growth rate of 4.8 percent during the years 1960/61 to 1969/70 may be compared to Sri Lanka's 9.9 percent for the same period (see table 3-9, row three). India's growth rate was lower compared to Sri Lanka's, mainly because of the former's extensive regulatory framework, which was the result of its interventionist ideology that was in place during this period. Several features of this regulatory framework contributed to slow growth by reducing internal competition and raising production costs. Whereas, Sri Lanka had a higher growth rate in its industries sector chiefly
because of its import-substitution industrialization policy that created a protected and profitable domestic market for that country to which private manufacturers responded favorably. This move raised output in Sri Lanka’s industries sector during the years 1960/61 to 1969/70.

With regard to the differences in growth rates among India (7.9 percent), Pakistan (4.7 percent) and Sri Lanka (1.7 percent) after the first episode, Independence and its Aftermath (see table 3-9, row two), India’s rate was the highest because of the greater emphasis policymakers paid to this sector during the Second Five-Year Plan. This emphasis for industries was taken by a desire, among other things, to develop the basic and heavy industries in the public sector that could support India’s defense needs. Whereas, in Pakistan, after the initial spectacular increase in its industrial output in the early 1950s, as a result of its import-substitution industrialization strategy, growth began to slow because of stagnation in other sectors. In particular, stagnation in the agricultural sector reduced the raw materials available to industry and this was the main reason for reduced output in its industries sector.

Industrial policy-making in Sri Lanka had a negative effect on its industrial growth as the UF government (which was supported by the communists) resorted to the socialist rhetoric that promised to nationalize all foreign owned plantations. This threat prevented plantation owners from making the necessary investments to promote productivity and growth in the plantation sector which was supplying the critical raw
materials required for Sri Lanka's small processing units. This reduced supply of raw materials to the processing units, which made up the bulk of Sri Lanka's industries sector, reduced output in it during this period.

7.8 A SUMMING UP

A basic objective of this study was to broaden our understanding of economic growth among and within the six South Asian countries for selected periods spanning forty years: 1950-1990. We were interested in knowing whether growth rates in output differed across and within countries over time, and if so what were the reasons for such differences in growth rates. Since it was determined that a more orthodox model of the technical genre will not be able to capture important political and noneconomic factors that go into policy-making and thus shape growth, we used a comparative approach built on concepts adopted from the realm of political economy. This approach has enabled us to take into account the role of political and other noneconomic factors more explicitly into policy-making, and thus explain the differences in growth rates in terms of differences in those political and other noneconomic factors.

Specifically, the objectives were: (1) to examine the growth rates of output of the six South Asian countries for selected periods, (2) to identify the major policies employed to promote growth and the various circumstances that led policymakers to formulate such policies during those periods, and (3) to investigate if and how various
macroeconomic policy initiatives adopted during the selected periods have resulted in
differing growth performances using political and other noneconomic factors.

From an extensive analyses of data relating to different categories of growth
differences among the six SACs, period-wise, cross-country, and those associated with
four different episodes, both at the aggregate and sectoral levels, we were able to
confirm, conclusively, our basic premise that policy differences were shaped by
differences in political and other noneconomic factors and differences in policies, in
turn, have contributed to differences in growth rates among and within those
countries. For instance, at the aggregate level we have arrived at three major
conclusions all supporting our basic premise:

One, that there was a clear link between policy and growth and, therefore,
differences in growth rates can be explained in terms of differences in policies. Sri
Lanka’s growth rate during the 1960s and 1970s provided a good example, among
others, that supported this conclusion. During the 1960s, the United Nationalist Party
(UNP) government achieved a higher aggregate growth rate because it was following
an expansionary fiscal policy financed largely from concessionary funds from abroad,
which the government was able to get as a result of its pro-western stand. However,
during the 1970s because of the UF government’s (which was supported by the
leftists) radical policies, including nationalization of foreign owned businesses, external
assistance was not forthcoming, and therefore she had to follow a restrictive fiscal policy reducing aggregate growth in output.

Two, contextual (noneconomic) factors have shaped macroeconomic policies of the SACs. This was evident from Pakistan’s policy-making experience during the 1950s in which contextual factor(s) have clearly played an important role in policy-making. A historical factor, viz., the partition of the subcontinent left Pakistan with no manufacturing base and this persuaded its policymakers, the Civil Service of Pakistan (CSP) to concentrate on building a strong industrial base for this country to the neglect of other important sectors of the economy, such as agriculture.

Three, in most periods selected for comparison contextual (noneconomic) factors were indeed different, both within and among the SACs lending crucial support to our premise that these differences could be used to explain differences in aggregate growth rates. As examples, we can list specific contextual factors that influenced policy-making in India over time, and across Bangladesh and Malaysia. During the years 1950/51 to 1959/60, India’s higher aggregate growth rate was due mainly due to her expansionary fiscal policy that was made possible by the availability, after independence, of ample resources from the sterling funds kept in Britain, which was a historical factor pertaining to that period. However, during the 1960s growth slowed because of India’s restrictive fiscal policy adopted as a result of a severe scarcity of funds due to aid cut off (following her war with Pakistan in 1965), clearly a political
factor. (The reduced Indian growth rate was also the result of supply factors like shortage of agricultural output due to the droughts in 1965 and 1966). Bangladesh, during the 1980s was following an expansionary fiscal policy financed less with foreign assistance (Bangladesh was dependent on foreign assistance, a contextual factor) and more out of internal borrowing, creating the crowding out effect. This tended to slow aggregate growth in that country. Besides, Bangladesh was also transferring large amounts of scarce budgetary resources to its loss-making state owned enterprises (SOEs), thereby reducing aggregate growth compared to Malaysia. This budgetary transfer was, in turn, necessitated partly by the desire of Lt. Ershad to gain political legitimacy for his military regime, and partly because of his inability to stop financing long term projects undertaken by the previous administration of Major Zia without incurring huge financial losses. Whereas, Malaysia followed a mildly restrictive fiscal policy during the 1980s, and allocated less resources to its Non-Financial Public Sector Enterprises (NFPEs). As she was able to finance her public sector projects from the sale of petroleum products to other countries there was no crowding out in Malaysia and this led to a higher growth for that country (Malaysia was less dependent on foreign aid). On the other hand, Bangladesh’s dependence on foreign aid made her economy vulnerable to external pressures when the aid flow was substantially curtailed during the 1980s (because of Ershad’s perceived socialist stance) and the country was compelled to mobilize resources internally which she could not do. This led to a
slower rate of aggregate output for that country compared to Malaysia's during the 1980s.

The findings based on the analyses of growth differences of all three categories at the sectoral levels (agriculture and industry) have also provided additional evidence (besides those based on aggregate level) that supported our basic thesis, that growth differences among and within the SACs can be explained in terms of policy differences, and policy differences were very often the result of differences in contextual (noneconomic) factors that underlie those policy differences.