

## Economic Condition of South Asia: A Comparative Analysis

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**Abstract:** *Economy plays an important role in the development of a nation. It has regional importance too. Countries of good economic territory are able to improve themselves fast. South Asia, being the lucrative business area in the world at this century, has importance in economic issues. The study aims to reveal the most attractive countries of this region for investment. Bangladesh, India, Sri Lanka, Nepal and Bhutan were taken for analysis. Six economic indicators, economic growth, per capita GDP, inflation rate, trade balance, foreign reserve, and unemployment rate were considered. Statistics from ADB, WB, and IMF were the primary input. The study finds that India, Bangladesh and Bhutan have a positive growth rate, whereas Sri Lanka and Nepal have a negative growth rate. Sri Lanka pose best in per capita GDP whereas Nepal is in the lowest position. Bangladesh, India and Sri Lanka have done well in decreasing their trade balance, Bhutan and Nepal have failed. The trade balance of India is highest. A stable political condition, well decided policies of the governments make Bangladesh and India most attractive investment destination of South Asia.*

**Keywords:** *South Asian economy, Economic growth, Inflation, Per-capita GDP, Foreign Reserve and Unemployment.*

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### 1. INTRODUCTION

Economic conditions are the economic characteristics that describe the state of an economy. There are a large number of variables or characteristics used to gauge the health of an economy, with four of them usually referred to as the key macroeconomic variables: aggregate output or income, the unemployment rate, the inflation rate, and the interest rate. There are, however, numerous additional measures or variables that are collected and used to understand the behavior of an economy.

Indicators of economic conditions provide important understandings to investors and businesses. Investors use indicators of economic conditions to adjust their views on economic growth and profitability. An enhancement in economic conditions would lead investors to be more expectant about the future and possibly invest more as they expect positive returns. The opposite could be true if economic conditions worsen. Similarly, businesses monitor economic conditions to gain insight into their own sales growth and profitability.

In recent years, South Asia appears to show sustained resilience in the face of turbulent international markets upholding its spot as the fastest-growing area of the world. Growth performance is especially solid in India, which continues to lead among large emerging market economies. However, the overall pace of growth is slower than anticipated and inflation has recently been on the rise (South Asia Economic Focus, 2016). South Asia is well established in a high growth path with strong and improving macroeconomic fundamentals where growth is primary driven by domestic demand. In macroeconomic management, the key areas of concern are inflation and increasing current account deficits (Rajan R and Zingales, 2003)

The Asian market is growing rapidly. China is expected to become the world's largest economy by 2020 and India is expected to rank fourth on the global economic scale of 2025. This growth offers numerous business opportunities, both for organizations wanting to gain a foothold in Asia and for Asian organizations wanting to export to overseas markets. Unsurprisingly, Asia is considered a key strategic growth market in various fields. This is not just because of the region's vast population – more than half the current world population lives in Asia – but also because the area continues to develop, innovate profusely and gain more influence on a global scale.

Economic confidence rebounded in the first quarter of 2017, and is now at its highest level since the second quarter of 2015. The boost has been driven by the US, where investors are hopeful that a combination of fiscal reform and deregulation will provide a boost to economic growth. The biggest concern for companies over the past three months has been increased costs (a problem for 46% of respondents), which is consistent with rising headline inflation rates in many parts of both the developed and developing worlds. The negative impact of foreign-exchange movements, amid continued swings in the value of the dollar, are another big concern (35%). Although driven by the US, the improvement in confidence is widespread. Most countries and regions, including Western Europe, Asia Pacific, Central and Eastern Europe, reported improvements in Quarter 1.

Given the wide range of markets that exist in virtually every asset class in Asia - many with very deep and diverse liquidity pools containing a substantial amount of retail flow - trading, hedging and investment opportunities abound for Western firms who wish to venture into the region. Such diversity is attracting firms from across the spectrum, from buy-side to sell-side, as well as a whole supporting ecosystem of vendors and service providers underpinning those firms' activities. By tapping into this diversity of liquidity and being able to access such a wide variety of counterparties across their chosen markets, firms that trade in Asia – regardless of their investment time horizon - can now transfer risk more efficiently and more cost-effectively than has ever been possible before, which in turn is opening up all kinds of trading opportunities, for every type of market participant.

The study is an attempt to find out economic situation of south Asian countries in last five years, from 2012 to 2016. Five south Asian countries, Bangladesh, India, Sri Lanka, Nepal and Bhutan were taken for comparison. As Asian market is of severe importance, the findings of the study will help corporations to take strategic decisions in global expansion.

## **2. OBJECTIVES**

1. Know the economic growth rate of the south Asian countries
2. Identify the per capita GDP of those countries
3. Analyze the inflation rate of the same
4. Compare trade balance among the countries
5. Find out country having best foreign reserves in the region
6. Understand the employment situation in South Asia

## **3. METHODOLOGY**

The study is quantitative in nature. It is an attempt to investigate properties of several economic indicators and their relation to the improvement of selected countries. This descriptive study considers 5 (five) South Asian countries for analysis, namely Bangladesh, India, Sri Lanka, Nepal and Bhutan. Six economic indicators were used for comparison- economic growth, per capita GDP, inflation rate, trade balance, foreign reserve and unemployment rate. Mainly secondary data were used for preparation of the report. Reports published by Asian Development Bank (ADB), World Bank (WB), International Monetary Fund (IMF) and other reliable sources were used. Although there are a few studies that compares the economic condition of those countries, the study uses statistical data for better understanding of the situation. Several Journals were revised. Websites of relevant economic indicators and phenomena was also reviewed. Besides, experience survey was also undertaken. Some experts in this field were interviewed. Tables and figures were made using MS Excel only.

## **4. LITERATURE REVIEW**

### **4.1. Relevant Studies**

There is a little study on the recent situation of the South Asian countries. The market poses differently than before. Mallik and Chowdhury (2001) examined the short-run and long-run dynamics of the relationship between inflation and economic growth for four South Asian economies: Bangladesh, India, Pakistan, and Sri Lanka. Applying co-integration and error correction models to the annual data retrieved from the International Monetary Fund (IMF) *International Financial Statistics* (IFS), they found two motivating results. First, the relationship between inflation and economic growth is positive and statistically significant for all four countries. Second, the sensitivity

of growth to changes in inflation rates is smaller than that of inflation to changes in growth rates. These results have important policy implications, that is, although moderate inflation promotes economic growth, faster economic growth absorbs into inflation by overheating the economy. Therefore, these four countries are at the turning point of inflation-economic growth relationship.

Islam (2011) depicts that Bangladesh economy has the potential to achieve higher growth than has been achieved in the recent past; and effort needs to be made to attain and sustain such growth. That, in turn, would require serious efforts at removing the constraints on investment – domestic as well as foreign. Mobilization of domestic resources (especially raising revenue/GDP ratio) should be a priority. However, single-minded pursuit of a growth agenda would not be sufficient from the point of view of achieving the ultimate goal of development, viz., reduction (and eventual elimination) of poverty and achievement of other Millennium Development Goals through a wider sharing of the benefits of growth. Higher rate of growth of productive employment, a faster transfer of workers to sectors/activities with higher levels of productivity, reversal of the trend of rising income inequality, and greater attention to the social aspects of development would have to be important elements in a “growth plus” development agenda.

Razeen Kabir (2007) explains several benefits of Foreign Direct Investment (FDI) on a macroeconomic level, particularly for a Third World Nation such as Bangladesh, where inflows of foreign investment can expand economic production and growth. FDI provides capital from sources abroad which the country is unable to supply domestically. The inflows facilitate the growth of a number of economic sectors, including industry, manufacturing, infrastructure, and energy. The expansion leads to a rise in the availability of jobs and a fall in the unemployment rate. Consequently, GDP and per capita income increase which, in a developing country, fosters poverty alleviation. In addition, FDI strengthens ties with developed countries that may yield cost advantages in the form of advanced technology transfers and resulting positive externalities.

In a study of 66 developing countries, Makki and Somwaru (2004) found that FDI stimulated domestic investment, which further advanced economic growth. Other research carried out by Agosin and Mayer (2000) claimed that foreign investment positively influenced domestic investment in Asian countries.

South Asian economies have been unable to gear up market integration either formally or informally, and the sub-region has remained the least integrated, although its geography and comparative advantages hold the potential for a highly integrated trade, investment, and production space (Tewari and Mutascu, 2010).

## 4.2. Operational Definition

### 4.2.1. Gross Domestic Product (GDP) and Economic Growth

GDP, or gross domestic product, is the market value of the final goods and services produced within a country in a given time period. In other words Gross Domestic Product (GDP) is the total market value of all final goods and services produced in a country in a given year, equal to total consumer, investment and government spending, plus the value of exports, minus the value of imports.

The formula for GNP is:  $GDP = C + I + G + (X-M)$

On the other hand economic growth is the increase in the production of goods and services produced by an economy over a period of certain period of time. It's simply the expansion of a countries production possibilities frontier curve. In other words a positive change in the level of production of goods and services of a country over a certain period of time.

In general, the terms “Economic Growth” and “Economic Development” are used to express the same idea i. e., “Economic Advancement”. Growth means persistent increase in per capita income. “Economic growth is a steady process by which the productive capacity of the economy is increased over time to bring about rising levels of national output and income”. (Micheal P. Todaro). “Economic growth may be defined as a long term process wherein the substantial and sustained rise in real national income, total population and real per capita income takes place”. (Simon Kuznets)

#### 4.2.2. Per Capita GDP

Per capita means per person. It is a Latin term that translates to "by the head." It's commonly used in statistics, economics and business to report an average per person. For example, it's used to compare the economic indicators of countries with different population sizes. The most commonly measured indicators are gross domestic product and income.

Per capita GDP is a measure of the total output of a country that takes gross domestic product (GDP) and divides it by the number of people in the country that makes it the best measurement of a country's standard of living. It tells you how prosperous a country falls to each of its citizens. The per capita GDP is especially useful when comparing one country to another, because it shows the relative performance of the countries.

#### 4.2.3. Foreign Reserve

Foreign exchange reserves are the foreign currencies held by a country's central bank and its member banks. They are also referred to as foreign currency reserves or foreign reserves or international reserve. The country's exporters deposit foreign currencies into their local banks who then transfer them to the central bank. Exporters are paid by their trading partners in U.S. dollars, euros, or other currencies. The exporters exchange them for the local currency they can use to pay their workers and local suppliers. The banks prefer to use the cash to purchase sovereign debt because it pays a small interest rate. The most popular are Treasury bills since most foreign trade is done in dollars thanks to its status as the world's currency. Banks are increasing their holdings of euro-denominated assets, such as high-quality corporate bonds. That has continued despite the Eurozone crisis. In addition, they'll hold gold, special drawing rights (SDR), and any reserve balances they've deposited with the International Monetary Fund (IMF). (Source: COFER Table, IMF).

#### 4.2.4. Inflation

Inflation occur when president rise in the general price level. According to *Webster's New Universal Unabridged Dictionary* published in 1983 the second definition of "inflation" after "the act of inflating or the condition of being inflated" is: "An increase in the amount of currency in circulation, resulting in a relatively sharp and sudden fall in its value and rise in prices: it may be caused by an increase in the volume of paper money issued or of gold mined, or a relative increase in expenditures as when the supply of goods fails to meet the demand. *The American Heritage Dictionary of the English Language* published by Houghton Mifflin Company says: *A persistent increase in the level of consumer prices or a persistent decline in the purchasing power of money, caused by an increase in available currency and credit beyond the proportion of available goods and services.*

#### 4.2.5. Inflation Rate

The inflation rate is the percentage of annual increase in general price level. The inflation rate is generally measured on a percentage basis in annual terms. In other words, the percentage increases of prices over the previous year. So if something cost \$1.00 a year ago and costs \$1.10 now there has been 10% inflation.

#### 4.2.6. Unemployment

Unemployment is a great concern not only in the Bangladesh but also in the south Asia. Every year hundreds of thousands student are coming out from college and university. Though it is one of the major responsibilities of the Government to provide job to those young generation but the Government is failed to meet the job demand among the large population. Only a tiny fraction of total jobless is managed by different government offices and private organization but a majority remain unemployed.

Unemployment Rate = Number of Unemployed / Total Labor Force

Unemployment means that scarce human resources are not being used to produce goods and services to meet people's needs and wants. The unemployed are people able, available and willing to work at the going wage rate but cannot find a job despite an active search for work. People are counted as unemployed in an official sense if they are in the labor force and not employed. More precisely, unemployed workers are people who are able to work, have actively looked for work in the past four

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weeks, but have not found or taken a job or been recalled to a previous job. The unemployment rate measures the percentages of employable people in a country's workforce who are over the age of 16 and who have either lost their jobs or have unsuccessfully sought jobs in the last month and are still actively seeking work.

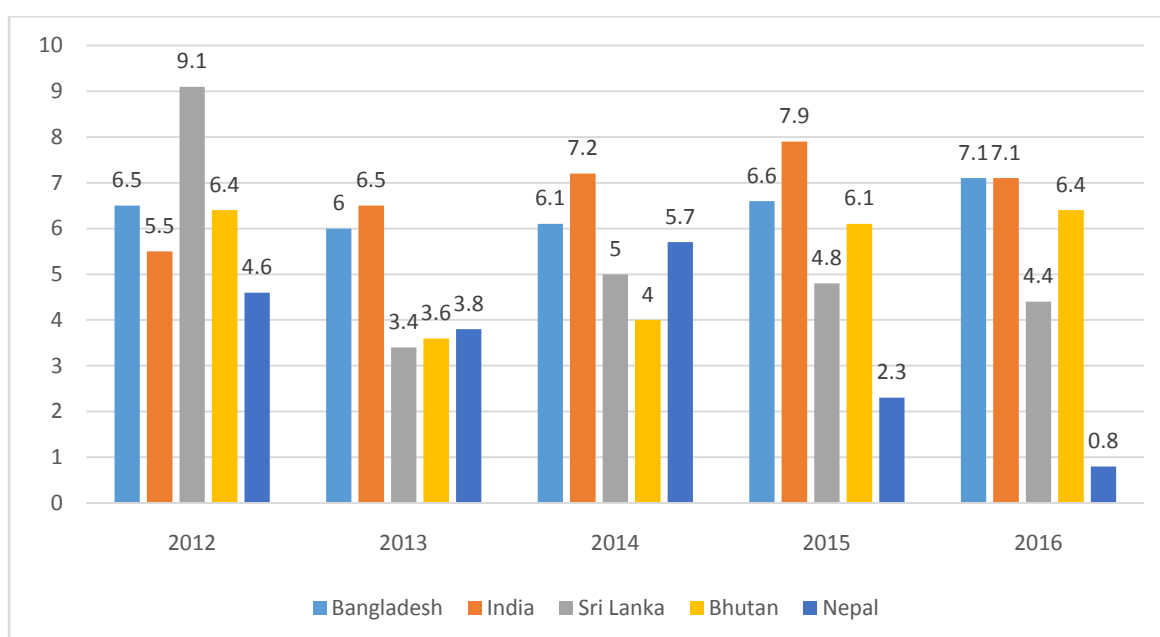
### 5. FINDINGS

#### 5.1. Economic Growth (% per Year)

**Table1.** *Economic Growth of South Asian Countries*

Serial	Country	2012	2013	2014	2015	2016
1	Bangladesh	6.5	6.0	6.1	6.6	7.1
2	India	5.5	6.5	7.2	7.9	7.1
3	Sri Lanka	9.1	3.4	5.0	4.8	4.4
4	Bhutan	6.4	3.6	4.0	6.1	6.4
5	Nepal	4.6	3.8	5.7	2.3	0.8

Source: ADB Outlook, 2017



**Figure1.** *Economic Growth of South Asian Countries in percentage*

Economic growth in south Asia is almost similar except Nepal. Most of the countries show steady or increasing rate in GDP. In recent years Bangladesh has shown much improvement, whereas Sri Lanka has varied GDP growth. Due to natural disaster that happened in Nepal on 2015, their GDP has fallen sharply. Bhutan also has a wave like growth in this aspect. At the beginning their GDP was high. In last few years it was downward. Recently it is in rise. The diagram shows that in 2012 the GDP of Bangladesh, India, Sri Lanka, Bhutan and Nepal was 6.5%, 5.5%, 9.1%, 6.4% and 4.6% respectively. In the year 2016 the growth rate became 7.1%, 7.1%, 4.4%, 6.4% and 0.8% respectively. It means that only Sri Lanka and Nepal has a negative growth rate in their GDP.

#### 5.2. Per Capita GDP in USD

**Table2.** *Per capita GDP in USD*

Serial	Country	2012	2013	2014	2015	2016
1	Bangladesh	916.0	1,030.0	1,162.7	1,290.0	1,404.0
2	India	1,471.4	1,479.5	1,600.9	1,603.6	1,718.7
3	Sri Lanka	2,874.3	3,234.0	3,573.9	3,849.2	3,869.8
4	Bhutan	2,445.2	2,451.8	2,387.9	2,590.7	2,635.1
5	Nepal	685.5	692.3	709.7	747.8	733.7

Source: Statistics from IMF.

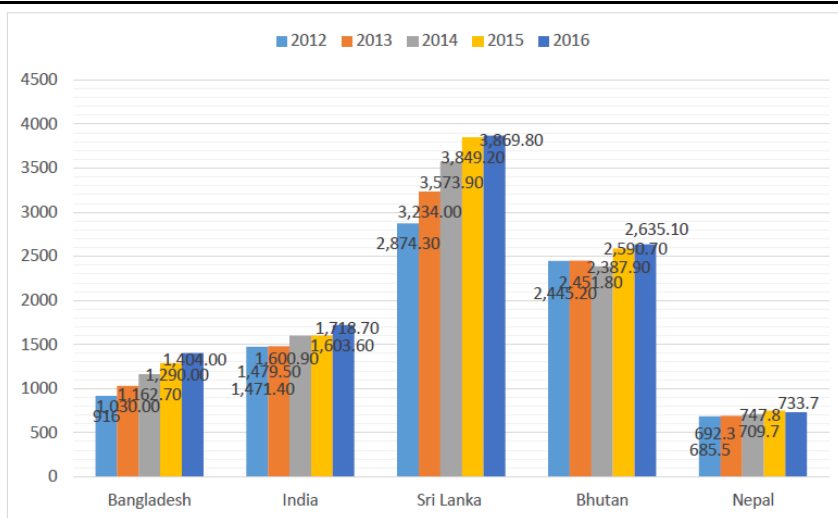


Figure 2. Per capita GDP of South Asian Countries in the years 2012 to 2016

The per capita GDP of the south Asian countries is increasing. All the countries have improved their per capita GDP significantly. Sri Lanka has the highest rate of growth whereas Nepal has the lowest. Bangladesh and India has similar type of per capita GDP. From 2012 to 2015, Bangladesh has been able to increase their per capita GDP by almost 500 USD whereas India increased about 300 USD. Both the countries have similar per capita GDP. Bhutan is doing well here. They have maintained a constant number here. From 2012 to 2016 their per capita GDP increased only 200 USD. If we compare all the South Asian countries, we see that Bangladesh, India, Sri Lanka, Bhutan and Nepal had a per capita GDP of 916, 1471, 2874, 2445, 685 in the years 2012, 2013, 2014, 2015 and 2016 respectively. Thus Sri Lanka is doing very good in this aspect.

### 5.3. Inflation (% , per Year))

Table 3. Inflation rate of the selected countries

Serial	Country	2012	2013	2014	2015	2016
1	Bangladesh	8.7	6.8	7.3	6.4	5.4
2	India	9.9	9.4	6.0	4.9	4.7
3	Sri Lanka	7.5	3.3	3.8	3.8	4.0
4	Bhutan	10.2	8.8	9.6	6.6	3.3
5	Nepal	8.2	9.9	9.1	7.2	9.9

Source: ADB Outlook, 2017

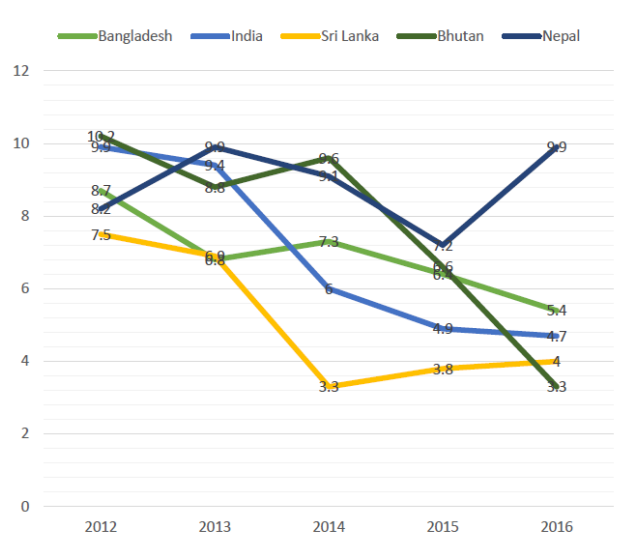


Figure 3. Inflation rate in percentage of the countries

Inflation is a natural phenomenon in the economic system of a country. Although a certain amount of inflation is positive for a country, a large amount in inflation indicates poor economic condition of a

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country. In general, the cause of inflation in developed countries is broadly identified as growth of money supply. In developing countries, in contrast, inflation is not a purely monetary phenomenon. Beside, factors typically related to fiscal imbalances such as higher money growth and exchange rate depreciation arising from a balance of payments crisis dominate the inflation process in developing countries, as discussed by Sergent & Wallace. It is seen that all the countries of South Asia have declined inflation except Nepal. It had an inflation rate of 8.2 in 2012 and 9.9 in 2016 indicating a slight rise. Bhutan has done well in minimizing the rate. Their inflation in 2012 was 10.2% and 3.3% in 2015. Bangladesh has decreased the rate by 3% during the period, whereas India decreased almost 5% inflation rate. Sri Lanka also has a declining inflation rate from 7.5 to 4.0 during 2012 and 2016. So a decreasing rate of inflation shows a green signal for these South Asian countries investors and peoples to lead a healthier economic life.

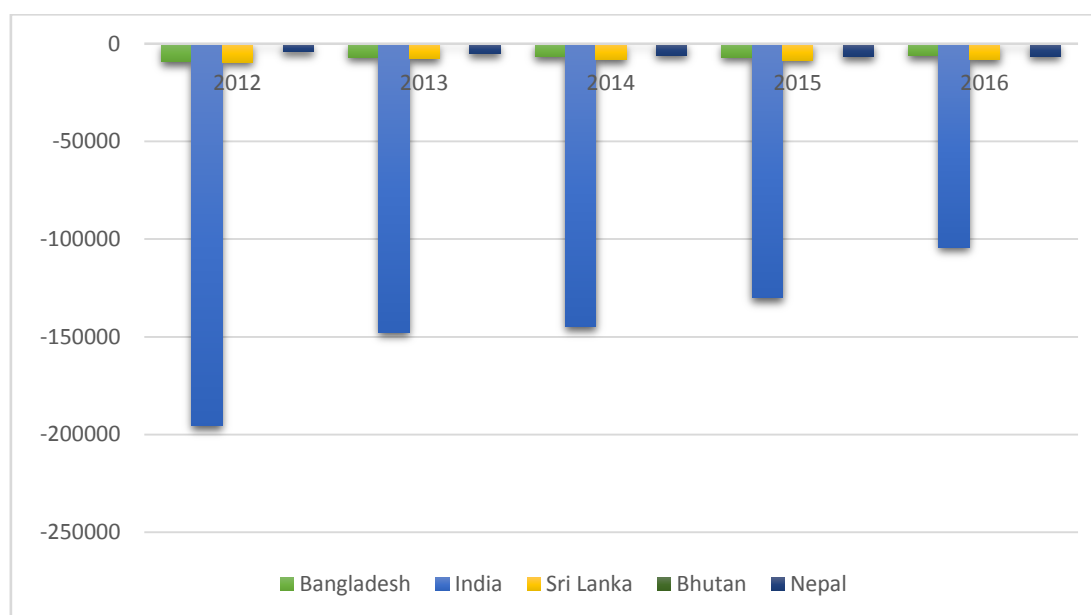
### 5.4. Trade balance (USD Million)

**Table4.** Trade balance of the selected south Asian countries in million USD

Serial	Country	2012	2013	2014	2015	2016
1	Bangladesh	-9,320	-7,009	-6,794	-6,965	-6,274
2	India	-195,656	-147,609	-144,940	-130,079	-104,155
3	Sri Lanka	-9,416	-7,609	-8,287	-8,430	-8,306
4	Bhutan	-395	-377	-393	-430	-540
5	Nepal	-4,623	-5,263	-6,079	-6,689	-6,427

Source: ADB Outlook, 2017

Trade balance of the south Asian countries are all negative. It means they have more imports than exports. Although Bangladesh, India and Sri Lanka have done well in decreasing their trade balance, Bhutan and Nepal have failed. India is doing great in this aspect. Their trade deficit in 2012 was 195,656 million USD whereas in 2016 it became 104,155 million USD. So in just five years they have become able to reduce the deficit by 90,000 million USD which is significant. Bangladesh also did well in these years. Their trade deficit was 9320 million USD in 2012 and 6274 million USD in 2016 indicating an improvement of almost 3000 million USD. Sri Lanka also reduced their deficit by almost 1000 million USD.



**Figure4.** Trade balance in million USD

### 5.5. Foreign reserve (USD Million)

**Table5.** Foreign reserve in million USD

Serial	Country	2012	2013	2014	2015	2016
1	Bangladesh	10,364	15,315	21,508	25,025	30,168
2	India	292,046	304,223	330,213	346,788	364,109
3	Sri Lanka	6,877	7,495	8,208	7,304	6,019
4	Bhutan	674	917	998	958	1,119
5	Nepal	4,960	5,614	6,939	8,148	9,737

Source: ADB Outlook, 2017

Foreign reserve increases the confidence in the monetary and exchange rate policies of the government. As it enhances the capacity of the central bank of the country to intervene in the foreign exchange market and control any adverse movement and stabilize the foreign exchange rates to provide a more favorable economic environment for the progress of the country, India holds a strong position among the South Asian countries. Bangladesh is next to India in maintaining a good foreign reserve. India had 292,046 million USD in 2012 and 364,109 in 2016. Bangladesh had 10,364 million USD in 2012 and 30,168 in 2016. Nepal and Bhutan are also doing well. In the year 2012 the foreign reserve of Nepal and Bhutan was 4960 and 674 million USD respectively. The number rose to 9737 and 1119 million USD in 2012 to 2016 for the countries respectively.

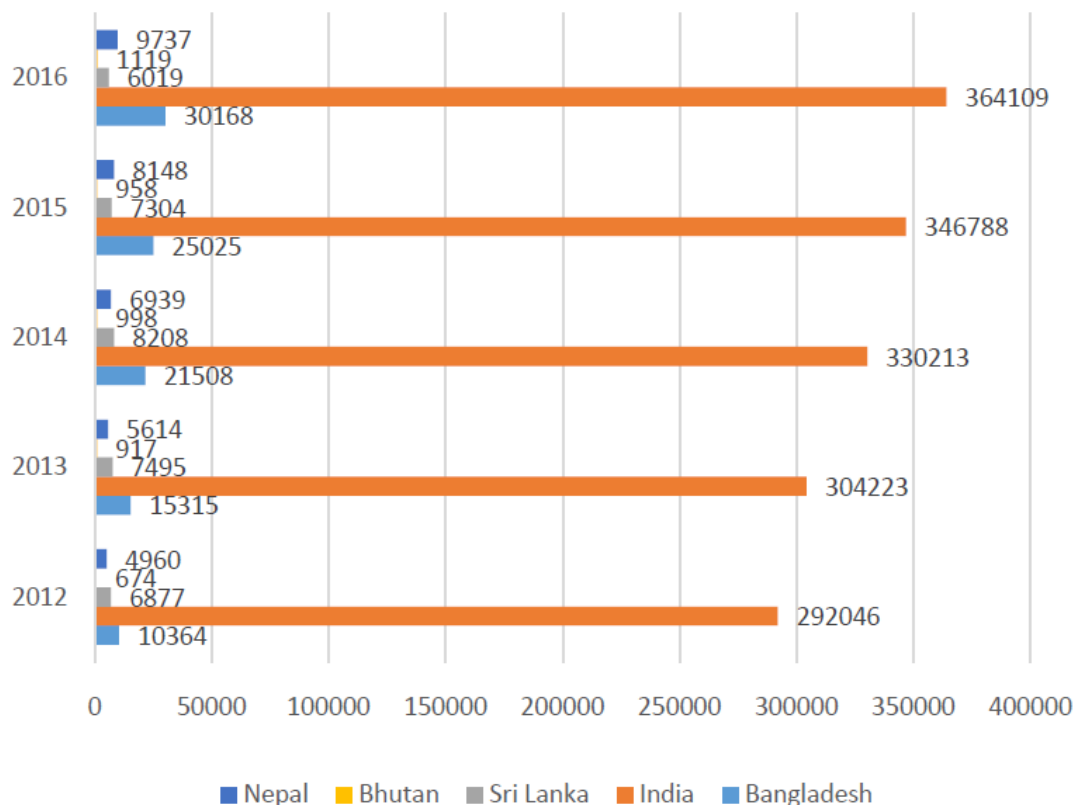


Figure 5. Foreign reserve in million USD

### 5.6. Unemployment Rate (% Of Total Labor Force)

Table 6. Unemployment rate as percentage of total workforce

Serial	Country	2012	2013	2014	2015	2016
1	Bangladesh	4.47	4.26	4.24	4.12	4.07
2	India	3.62	3.57	3.53	3.49	3.46
3	Sri Lanka	4.00	4.41	4.40	4.66	4.98
4	Bhutan	2.05	2.87	2.63	2.45	2.38
5	Nepal	2.45	3.30	3.00	3.03	3.21

Source: World development Indicators (WDI)

According to a web portal, Focus economics, the unemployment rate provide insights into the economy’s spare capacity and unused resources. Unemployment tends to be cyclical and decreases when the economy expands as companies’ contract more workers to meet growing demand. Unemployment usually increases as economic activity slows. It is seen that, except India and Bangladesh, all other South Asian countries have been increasing unemployment rate. For Sri Lanka the rate was 4.00 in 2012 and 4.98 in 2016. In Bhutan the rate was 2.05 in 2012 and 2.38 in 2016. Nepal had 2.45% unemployed in 2012 and 3.21 % in 2016. All these countries show an increasing unemployment rate. Bangladesh has done great in this aspect. They have decreased almost 0.40% unemployment rate during the period. However, India reduced 0.16% unemployment rate from 2012 to 2016.



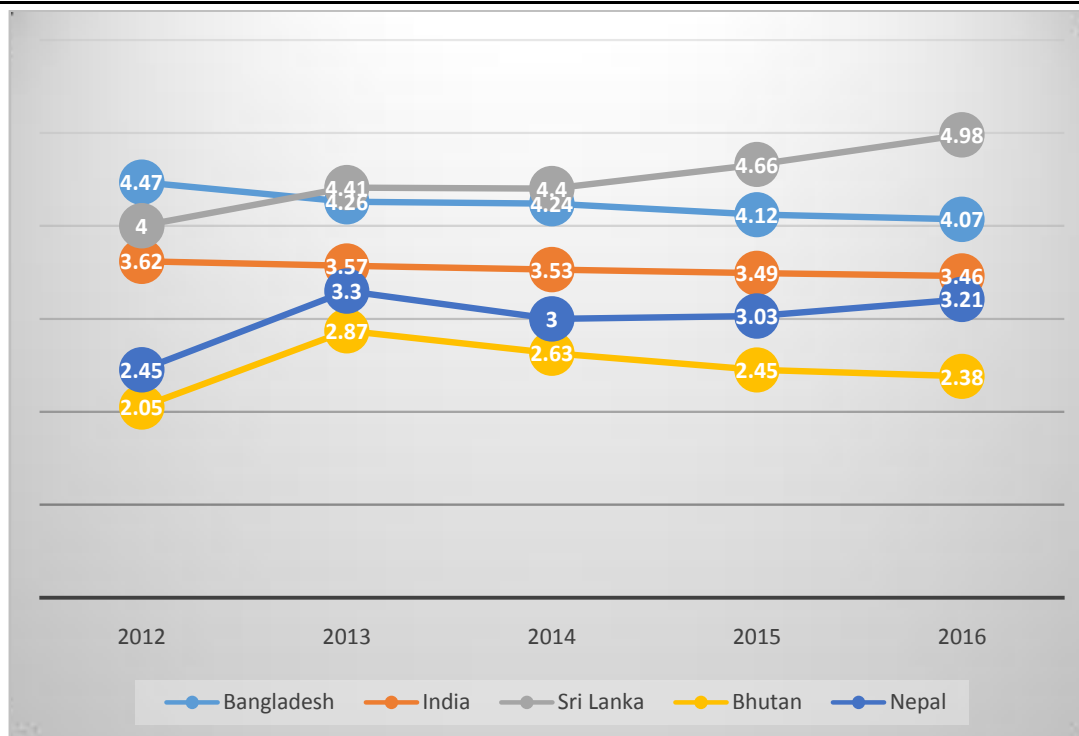


Figure6. Unemployment rate as percentage of total workforce

## 6. SUMMARY OF FINDINGS

1. From the year 2012 to 2016, India, Bangladesh and Bhutan have a positive growth rate, whereas Sri Lanka and Nepal have a negative growth rate in their GDP.
2. All the countries have improved their per capita GDP significantly. Sri Lanka has the highest rate of growth, whereas Nepal has the lowest
3. All the countries of South Asia have declined, inflation rate except Nepal. It had an inflation rate of 8.2 in 2012 and 9.9 in 2016 indicating a slight rise.
4. Bangladesh, India and Sri Lanka have done well in decreasing their trade balance, Bhutan and Nepal have failed. India is doing great in this aspect followed by Bangladesh.
5. India holds a strong position among the South Asian countries in term of foreign reserve. Bangladesh is next to India in maintaining a good foreign reserve. India had 292,046 million USD in 2012 and 364,109 in 2016. Bangladesh had 10,364 million used in 2012 and 30,168 in 2016.
6. It is seen that except India and Bangladesh, all other south Asian countries have increasing unemployment rate. For Sri Lanka the rate was 4.00 in 2012 and 4.98 in 2016. In Bhutan the rate was 2.05 in 2012 and 2.38 in 2016.

## 7. CONCLUSION

It is understood that the economic condition of south Asia poses diversified scenario. India tops the position in most of the indicators. Although Bangladesh has a good prospect, it faces several problems. Sri Lanka, Nepal and Bhutan have vast variations in their economic indicators. There are several reasons for this situation. Socio cultural factors, the policy of the government, political condition, infrastructural facilities, absence of corruption, awareness of the citizens etc. all play important roles in the economic development of a country. Regional cooperation can help the countries improve their condition. All the countries have some comparative advantage. If they engage in regional cooperation agreements, they will be benefitted most. Although there are several agreements between those countries, true implication of those are yet to be done. It is urgent for the South Asian countries to engage more in mutual beneficial agreements and increase their trade, investment, business thus improving their economic condition.

## ACKNOWLEDGEMENT

The authors would like to thank their departmental colleagues for valuable suggestions. Experts who attended the interview are given credit for their support. Finally, family members of the researchers deserve special credit for their affectionate support all the times.

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