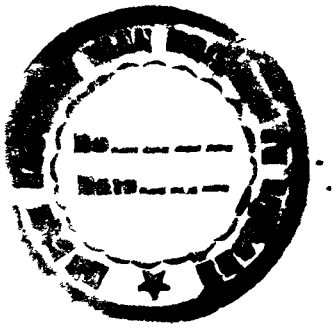
International Trade and Geography in South Asia



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I, Josojit Dey, hereby declare that the subject matter of this thesis is the record of work done by me, that the contents of this thesis did not form basis of the award of my previous degree to me or to the best of my knowledge to anybody else, and that the thesis has not been submitted by me for any research degree in any other University/ Institute.

Master This is being submitted to North-Eastern Hill University for the degree of Doctor of Philosophy in Geography.

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I am also grateful to my brother for his relentless support and other family members as also my friends who supported my endeavour, especially Arati, Debaraj, Soumit and others who have helped me both materially as well as morally.

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Introduction

1.1 Background:

The South Asian region is characterised by uneven economic development. Cutting across national boundaries, there are some pockets of vibrant growth and even excessive urbanisation whereas some other regions are so backward that they may be even called poverty zones. In order to convert the poverty zones into dynamic growth zones, different countries of the region should co-operate among themselves by focusing on the development of such sub-regions, which as a matter of fact could be a triangle or a quadrangle.

The concept of growth triangles/quadrangles has various inherent advantages. Firstly, as the growth zones are outward-oriented the size of the internal market does not act as a limitation. Secondly, the growth zones are able to promote economic development not only within the triangles but also outside the triangle in each participating country since the triangle does not operate as an insulated zone.

The most striking feature of the geography of economic activity in South Asia is concentration. Most of the population of South Asia lives along the coastal belt as well as along the river valleys. Population is further concentrated in a relatively handful of densely populated urban areas, which in turn are highly specialised.

The models of regional growth advanced by writers such as (Perroux 1950,1955), (Myrdal, 1957), and (Kaldor 1970, 1981) predict that regional incomes will tend to diverge, because market forces, if left to their own devices, are spatially dis-equilibrating.

Over the past decade, empirical works by economists on cross-national and cross regional convergence have proliferated (Chatterji, 1992; Barro and Sala-i-Martin 1995; Canova and Marcet, 1995; Galor, 1996; Sala-i-Martin, 1996). Essentially, attention has focused on two concepts or measures of convergence. Firstly, there is a tendency for per capita incomes to equalise across economies, when the regions or countries is so characterised, that the dispersion of their relative per capita income levels tends to decrease over time. But this assumption works in only those countries that are similar in their structural characteristics and that have similar initial conditions to one another. The second concept is a conditional convergence, because convergence is conditional on the different structural characteristics or fundamentals of each economy, such as its societal preferences, technologies, rate of population growth and government policy.

The consequences of trade depend on whether it causes countries to specialise in industries and sectors where there is scope for technology spill-over, or whether it encourages specialisation in labour-intensive, low-technology industries (Krugman, 1995). The emphasis placed upon increasing returns raises the issue of whether and to what extent these returns are geographically based or localised.

Further, by highlighting the 'increasing returns' stemming from different types of investment, the new growth economies imply that institutions and policy may have stronger effects on the growth rate. Two main areas of policy debate have been

stimulated by the new growth theories. The first focus is on the impact of fiscal policies and public infrastructure on national growth and the second, on the scale of resources and incentives available to technologically innovative sectors.

Geographic concentration relies on the interaction of increasing returns, transportation costs and demand. With sufficiently strong economies of scale manufacturers prefer to serve the national market from a single location. Thus, to minimise transportation costs, a manufacturer chooses a location with a large local demand.

Transaction costs across space as well as economies of scale in production play a dominant role in formulating such policy decision. Because of economies of scale, producers have an incentive to concentrate production of each good or service in a limited number of locations. Because of the costs of transacting across distance, the preferred locations for each individual producer are there where demand is large or supply of inputs is particularly convenient. Thus, concentration of industry, once established, tends to be self-sustaining; this applies both to the localisation of individual industries and to grand agglomerations.

Industrial location theory formulated by economists in the early part of the century was most appropriate to an analysis of the location of basic heavy industries as iron and steel, which were vanguard of contemporary industrial progress. Thus, accordingly they postulated theories like Normative Industrial Location Theory, which dealt with the search for the best of optimal location at a particular time. Least-cost Location Theory rests upon the work of (Weber, 1929), who started from the premise that

the best location was the one at which costs are minimised. Considerable emphasis was placed upon the transport costs involved in assembling materials at the manufacturing site and in delivering the finished products to the market.

Similarly, the Behavioural Approach, (Simon, 1957) and (March and Simon 1958) of industrial location emphasised on the neglect of 'economic man' and criticised on the over emphasis on conventional factors such as proximity to raw materials.

The Structural Approach, (Dunford, 1979) evolved a theory in reference with the evolution of the French economy, emphasising on the significance of the methods of production associated with the Industrial Revolution in bring about a fundamental redistribution of population away from the rural areas towards the rapidly growing urban centres.

1.2 Statement of the Problem:

In this study an attempt has been made to find out the relationship between International Trade and Geography in the four countries of Bangladesh, India, Pakistan and Sri Lanka in South Asia. It has been found that Geography at times matters directly for growth (a country with coastal access has a large effect on trade and growth. The fast growing developing countries have based their rapid growth on labour-intensive manufacturing exports. And such activities have expanded in port cities or export zones close to ports.), controlling for economic policies and institutions (a coastal economy may face a high elasticity of output response with respect to trade taxes, while an inland economy does not. This is certainly evident in East Asia, where countries such as Korea,

Malaysia, Taiwan and Thailand opened their economy to trade early in 1960's much before the other developing countries). It has also been found that location and climate have large effects on income levels and income growth through their effects on transport costs (a country's access to coast seems to matter not just in lowering transport costs but also in allowing for some sort of agglomeration economy). It is also found that regions with high population density and rapid population increase, that are located far from coasts and ocean-navigable rivers face large transport costs for International Trade and thus lag behind in the process of economic development. It can be easily identified that the coastal economies generally have higher income than the landlocked economies. It is also found that there is no simple relationship between population density and income level. Densely populated regions can be rich (Western Europe) as well as poor (India and Indonesia) and sparsely populated regions that are both rich (Australia and New Zealand) and poor (the Sahel of Africa).

It has been found that the coastal, temperate and northern hemisphere economies have the highest economic densities in the world. Four of these areas – Western Europe, North-East Asia (Coastal China, Japan and Korea), and the Eastern & Western Seaboards of the United States and Canada – are the core economic zones of the world. Nearly all the landlocked countries in the world are poor, except for a handful in Western Europe that are deeply integrated into the regional European market and connected by low cost trade. In the hinterland the transport costs are extremely high, the division of labour is low and output is most likely to be characterised by decreasing returns to scale in labour. In the coastal economies on the other hand, where transport costs are low and the division

of labour is high, a rising population may be associated with stable or even increasing incomes per capita.

Thus, we see that two broad categories of economies emerge. The hinterland will be characterised by decreasing returns to scale in labour and high rates of population growth. Whereas, the coastline will be characterised by increasing returns to scale and falling rates of population growth as incomes per household rise. The hinterland may therefore show Malthusian dynamics while the coastline shows rising income levels and falling natural population growth rates.

The notion that the coastal access has a large effect on trade and growth is plausible, if we check the growth patterns of the most successful developing countries in the period after 1965. Fast-growing developing countries have based their rapid growth on labour-intensive manufacturing exports. And almost without exception, such activities have expanded in port cities or export zones close to ports. (Radelet and Sachs 1998) have pointed out that almost all countries with macro-economic success in labour-intensive manufacturing exports have populations almost totally within 100 km of the coast.

South Asia, on the other hand, is burdened by a high proportion of the population in the interior; has a very high interior population density and a large proportion of the land area in the tropics. Another important feature is the distribution of population near the rivers rather than near the coast. And in this context of uneven development in this region, we try to identify areas, which are fast growing due to geographical advantages.

The coastal belts of this region with a radius of 100 km within the land are poised to become the vibrant growth zones.

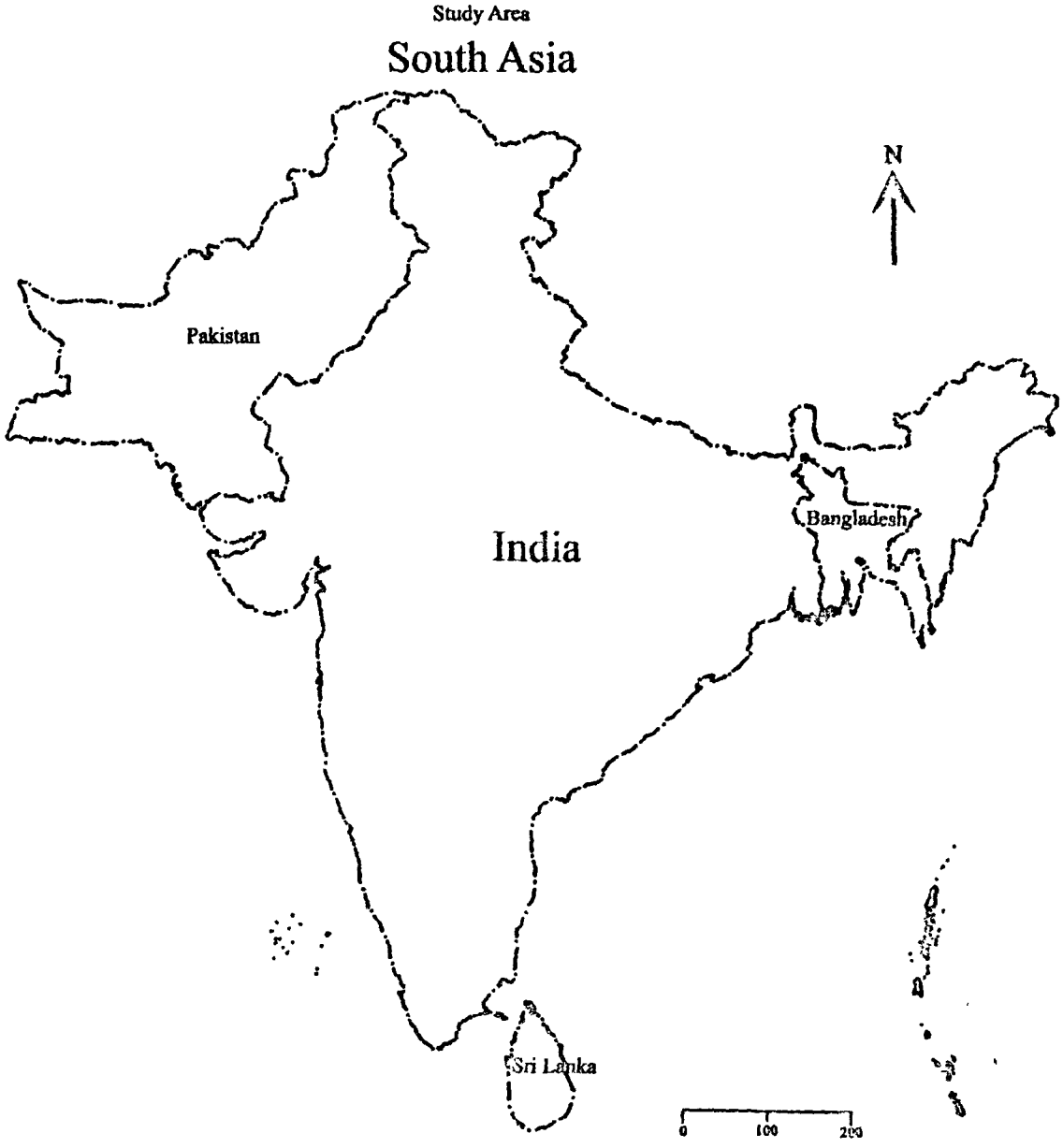


Figure-1: Map of the Study Area.

1.3. The Study Area:

South Asia lies between one-degree south to 37 degree North Latitudes and between 62 degrees east to 97 degrees east longitude. The total area of South Asia is nearly 5 million square kilometres. The distance from west to east is more than 2,100 miles (3,379 km); and from extreme north to south is approximately the same. Most parts of South Asia have continental type of climate. The Eastern and Southern sides have quite a humid and hot climate. The whole area is rich in resources including ores and farmland. South Asia is bounded in the north by China, a narrow arm of Afghanistan separates it from the Central Asia. On the east is Myanmar; while in the south lies the Indian Ocean with the Bay of Bengal on its north-eastern side of the Indian peninsula and Arabian Sea on its north-western side.

The South Asia region is defined to consist of the following seven countries: India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan, and Maldives. These countries are also members of South Asian Association for Regional Co-operation (SAARC). However, the present study mainly emphasises on Bangladesh, India, Pakistan, and Sri Lanka and an attempt is made to find out the relationship between Geography and International Trade in the region.

South Asia is one of the poorest regions with per capita GNP ($309 in 1993), is lower than any other region in the world. According to World Bank estimates, over 500 million people survive below the absolute poverty line. South Asia contains 22 percent of the world's population; it produces only 1.3 per cent of the world's income.

It is also one of the most illiterate regions in the world. The literacy rate (48 percent) in South Asia is now the lowest in the world. According to a recent UNICEF study, the worst affected region for malnourished children is in South Asia. The people in the region are deprived of basic facilities like health, safe drinking water, sanitation facilities etc. South Asian countries spent a sizeable portion of their meagre education budgets on large subsidies to higher levels of education. Another aspect is the relative emphasis on technical education.

The industries in South Asian countries are primary export-oriented and import-substituting industries. The intra-regional trade in the region is only 13 percent and the effort of these countries in import substituting is inefficient.

1.4 Literature:

The concept of 'International Trade and Geography' owes its origin in the late 1990's. There are very few writers on this subject and as such the base for the survey of literature is limited. However, a few western writers have done the pioneering work in this field. The survey of literature is mainly confined to few sources. These are *Geography and Economic Growth* by John Luke Gallup, Jeffrey Sachs and Andrew D. Mellinger, a paper prepared for the Annual Bank Conference on Development Economics, Washington, D.C., 1998. This paper addresses the complex relationship between geography and macroeconomic growth. It investigates the ways in which Geography may matter directly for growth, controlling for economic policies and institution, as well as the effects of Geography on policy choices and institutions.

The book, *Geography and Trade* (Krugman, 1992) provides a stimulating synthesis of ideas and describes new models for implementing a study of economic geography. He also argues that location of production in space is a key issue both within and between nations.

Ron Martin in his article written in *Economic Geography*, talks about structural characteristics, technological advancement, rate of population growth and government policy, which determines the growth potential of a particular region.

Another important writer, Sala-i-Martin, in *Economic Geography*, wrote about the structural characteristics, technological advancement, rate of population growth and government policy, which determines the growth potential of a particular centre.

Similarly, J. Vernon Henderson, Zmarak Shalizi and Anthony J. Venables in their article 'Geography and Development' published in the journal of *Economic Geography*, talks about economic development and underdevelopment as one aspect of the uneven spatial distribution of economic activity. The issues they discuss are: why does economic activity cluster in centres of activity? How do new centres develop? And what are the consequences of remoteness from existing centres?

Sanjoy Chakravorty in his article, "'How Does Structural Reform Affect Regional Development? Resolving Contradictory Theory with evidence from India', *Economic Geography*," argues that with the new regulatory structure after the post-reform period, investments is expected to favour the coasts, advanced regions and the existing

metropolises; and he further says that these expectations is more true for Foreign Direct Investment than domestic investments.

Ronald Findlay in his book, *International Trade and Development Theory*, writes about the innovative approach to the old question of economic development and its relation to International Trade. He introduces International Trade into the model, developing three different idealisations at a particular type of developing economy.

Michael Michaely, his book *Trade, Income levels and Dependence*, talks about the economic dependence; specially, the dependence of nations on their foreign trade.

Gerald M. Meier, talks about the comparative costs a region enjoys in its relation between production and trade in his book, *International Trade and Development.*

Michael Storper, his article 'The Limits to Globalisation: Technology Districts & International Trade, *Economic Geography*, talks about the increasing export specialisation by countries. These export-oriented absolute advantage industries tend to be found in one or a few sub-national regions of the respective host countries. In this way, the global economy may be thought of as consisting, in important part, of a series of "technology districts".

Weber, in *Industrial Location, Principles and Policies*, wrote that the best location is the one at which costs are the minimum. He gave a considerable emphasis upon the transport costs involved in assembling the materials at the manufacturing site and in delivering the finished product to the market.

Another book referred is *The World Trade System* by R. J. Johnston. In this book he identifies the pattern of international trade in the spatial context using modern data-handling techniques.

1.5 Objectives:

The objectives of the study is to:

1. To identify the areas where geographical factors have helped in the development and growth in the region and thus facilitated International Trade.
2. To find out the sectoral composition to the G.D.P. of the four countries, i.e. Bangladesh, India, Pakistan and Sri Lanka.
3. To find out the areas where major industries are coming – post 1980.
4. To make a comparative analysis of the advantages of geographical locations.

1.6. Data Base:

The present study is based primarily on secondary data. The data are mainly derived from the website – http://www.adb.org/, journals such as Asian Development Outlook, I.M.F., Direction of Trade Statistics, UNIDO, Industry & Development, Global Report, Central Statistical Organisation, Department of Statistics, Centre for Monitoring Indian Economy, etc.

1.7. Methodology:

The study mainly focuses on analysis and description of the various variables. Identification of the growth areas, which has the potential for International trade, has been done by finding out the GNP density, which is derived by dividing GDP per capita

with population density. And accordingly such areas have been demarcated with the help of cartographic representation. In the analysis of sectoral growth of the economy, simple methods of finding out the average growth of the various countries are derived. Another method used to determine the growth of the economy is the use of Specialisation Index. The specialisation index indicates the extent of specialisation of the manufacturing industry in a country and is equal to 100 if the country specialises in only one industry and would be equal to zero if the shares of all branches of industry are equal. Thus higher the value of the specialisation, lower would be the extent of diversification of industrial structure of a country and vice versa. The flow of Foreign Direct Investment in the region is also identified. The inflows both in sector wise as well as region wise are determined. The amount of investment a particular region receives reflects the potentiality of the region vis-à-vis another region.

1.8. Organisation of Chapters:

The chapters have been organised into the following:

I. Introduction:

This chapter deals with the proposed research design, which includes the statement of the problem, broad objectives, database and methodology, research questions, description of the study area and a brief review of literature.

II. General Economic Development in the last 50 years:

This chapter focuses on the general economic development in this region over the last fifty years.

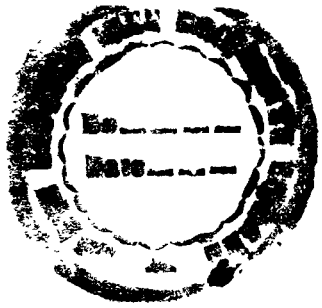
III. Location Changes in New Economic Developments:

This chapter tries to identify the areas where new industries are coming up in this region.

IV. Comparative Advantage of Geographical Location:

This chapter attempts to find out the comparative advantage of geographical location in the development of the region.

V. Conclusion



Chapter-2

General Economic Development in the Region in last 50 years

Agriculture has been a major occupation of the people of South Asia. After independence, every country of South Asia tried its best to develop its agriculture but without changing their methods of agriculture. However, since 1960, agriculture in South Asia started changing. The irrigation system began to take a new turn in agricultural development by providing reliable and controlled water supplies to the lands. Introduction of new technologies and scientific methods added much more to the development of agriculture.

The agricultural growth rate increased and is progressing towards the objective of self-sufficiency in food grains. High yielding varieties of wheat, for example, Maxi Pak were brought from Mexico and were introduced in the irrigated areas of Pakistan with great success. Other crops like Rice, Cotton, Sugarcane, and Tobacco were extensively grown in the country. Similar advancements were also made in India with the help of improved use of high yielding varieties of seeds, water management and plant protection through the use of fertilisers, pesticides and cropping practices. In Bangladesh, the production of jute increased many-fold along with sugarcane, tea and tobacco.

When Pakistan was created in 1947, it was almost entirely an agricultural economy, with the east as the world's largest producer of raw jute and the west a major exporter of raw cotton and between them practically self-sufficient in food. In the industrial sector, due to the poor political conditions during the first 30 years of

Pakistan's independence no prominent development was seen especially since the 1950's. There were only 34 factories in the whole of Pakistan with a total employment of about 26,000 persons. Three years after the independence, West Pakistan had only three textile mills and the East still producing about 75 percent of the total world output of jute, had virtually no capacity to produce any jute manufacturers. Industrial growth started in Pakistan with the opening of the Pakistan Industrial Credit and Investment Corporation and Industrial Development Bank. Many corporations such as National Fertiliser Corporation, Pakistan Cement Corporation, Pakistan Small Industrial Corporation were also set up. There were just a few plants for sugar refining, tea processing, and manufacture of cement.

After independence, India made rapid strides in its economic development with governmental as well as private entrepreneurship. One of the basic characteristics of India is its deeply laid duality. Industries were mostly set up which had easy access to iron ore and fuel. India divided its industries into three categories, which are both for private as well as public sectors. And the third category is for private sectors.

During the period, when Bangladesh was part of Pakistan (East Pakistan), its economy stagnated. The economic policy pursued by the Central government of Pakistan forced Bangladesh to remain economically backward. Over the entire period of two decades, 1949-50 to 1969-70, the per capita income of Bangladesh increased at an annual rate of 0.7 percent. In fact, during the fifties the per capita income of Bangladesh declined at an annual rate of 0.3 percent and the per capita income of Bangladesh was Rs. 339 only. The structure of Bangladesh economy remained backward with agriculture

dominating the share in G.D.P. at 58 percent. The share of industrial sector comprising manufacturing and construction was only 12 percent in Bangladesh and its share in G.D.P. was only 7 percent. The industrial development in Bangladesh was badly affected by political unrest in the country. Now, Bangladesh has shown some progress in a number of industries and has started exporting some of the products of its industries. India is the largest customer of Bangladesh's two major export commodities, viz., raw jute and fish.

Sri Lanka lacked industries due to absence of energy and mineral resources. Small scale and cottage industries are predominant but gradually is replaced with modern industries.

Bangladesh:

Before 1947, the country was an economic tributary of Calcutta and had a few cotton textile mills, a cement works and factories processing its raw agricultural produce for export. Jute mills developed at Dacca-Narayanganj, Khulna and Chittagong, which had 22,000 looms in 35 factories producing 636,000 tons of goods in 1967-70, mostly sacking and with 80 percent for export. Cotton textile mills with 750,000 spindles and 7000 looms depend on imported raw cotton or yarn, and weave to serve the huge home market. A steel rolling mill of 254,000 tons capacity and an oil refinery to process 1.52 million tons per year were set up at Chittagong. A paper mill at Chandraghona on the Karnaphnuli River using bamboo cut in the Chittagong Hills. At Kulna, softwood from the Sundarbans forest is used to make newsprint and hardboard, at Pabna, high quality

paper is made from the fibrous residue of sugar cane processing. Another paper mill was being established at Chhatak near Sylhet. At Narayanganj, Barisal and Khulna, boat building is carried on to serve the river transportation and fishing industries.

Bangladesh achieved a G.D.P. growth rate of 3.2 percent during 1950-1970 and it was 4.3 percent between 1975 to1993. Within the post-independence period, changes in the rate of growth between consecutive sub-periods were insignificant: it was 4.2 percent during the second half of the 1970's (between 1975 & 1980), 4.4 percent during much of the 1980's and early 1990's (between 1988 and 1995).

Table-1: Sectoral composition of G.D.P. (percentage shares at constant 1984/85 prices)

	1975/76	1994/95	Change
Agricultural	49.3	32.8	-16.5
crops	(38.5)	(24.3)	-14.2
Manufacturing	10.2	11.3	1.1
Large scale	(4.4)	(7.4)	3.0
Small scale	(5.5)	(4.0)	-1.8
Construction	2.5	6.3	3.8
Transport, communication & storage	10.6	12.2	1.6
Housing service	8.4	7.5	-0.9
Public Administration & Defence	2.4	5.1	2.7
Other (mainly services)	16.6	24.9	8.3

Source: BBS, 1993 & 1996

Throughout the 1970's and mid 1980's, the growth of the Bangladesh economy has been significantly slower than the growth of the rest of the South Asia. The contribution of agriculture in the proportion of G.D.P. declined by 16.5 percent, which was largely matched by a corresponding increase in the contribution of construction,

public administration and services. The proportion of G.D.P. contributed by manufacturing industries changed very little, although there was some rise in the share of large-scale industries.

Table-1 shows that between 1975/76 & 1990/91, the share of manufacturing in G.D.P. actually fell from 10.2 percent to 9.8 percent (the share of large scale manufacturing rose to 5.7 percent, while the share of small-scale manufacturing fell to 4.1 percent). The rate of investment in Bangladesh is low and the main constraint on the rate of investment is the availability of savings. The dependence of investment on capital inflow declined dramatically in recent years. The rate of investment has been limited by the lack of effective demand for investment rather than the supply of savings (domestic and foreign). The rate of investment in 1980-81 was 16 percent, but fell to 13 percent during the mid-1980's. Private investment as a proportion of total investment has increased from about 50 percent in the mid-1980's to about 55 percent in the early 1990's.

Table-2: Composition of Exports (% of Total Value) Bangladesh.

	Average for 1975-80	Average for 1990-93
Raw jute	23.9	4.3
Jute manufacturers	48.9	14.7
Leather products	9.8	6.6
Shrimps	4.7	7.8
Tea	6.6	2.0
Ready made garments	-	54.3
Others	6.1	10.3

Source: BBS, 1993 & 1996

The principal change is the phenomenal rise in the export of ready-made garments, from an insignificant level in the second half of the 1970's to well over half the

merchandise exports in the early 1990's. Other notable changes consist of a fairly rapid rise in the export of shrimps and an absolute fall in the value of traditional exports like jute, jute manufacturers and tea.

The growth of the industry sector was 5.7 percent in 1996, down from 8.4 percent in 1995. This sector was badly hit by the political unrest during the first quarter of 1996, when urban economic activities almost ground to a halt. The service sector expanded by 6.2 percent, slightly lower than the 6.9 percent growth in 1995 and with a lower increase in transport, communications and finance. The low investment and savings rate in Bangladesh are critical factors constraining economic growth. Low levels of investment have resulted in severe infrastructure bottlenecks, hampering productivity improvements. In 1996, gross domestic investment rose marginally to 16.4 percent of G.N.P. from 16 percent in the previous year. The average monthly income of urban poor households is only $57, and less than 14 percent of households have members employed in the formal sector.

India:

The economic reforms initiated in the wake of the macro-economic crisis of 1991 have begun to yield considerable gains. However, the economic growth has been constrained by high domestic real interest rates and supply bottlenecks. Slower expansion in exports has been offset by a decline in import growth. G.D.P. growth is estimated at 6.8 percent in 1996, somewhat lower than in the early 1990's. The share of agriculture in G.D.P. continues to decline as industrialisation proceeds, but still accounts for more than

a quarter of G.D.P. The industrial sector continued to grow with manufacturing sector leading the way. The expansion in the power generation and petroleum production declined considerably. However, the service sector continued to grow at around 7 percent. The informal sector continues to account for the dominant share of total employment (about 90 percent) and has grown faster than the formal sector, particularly in manufacturing and construction. India's trade performance is expected to improve in response to a rise in international economic activity, trade deepening and further integration of the country into the global economy. Exports are projected to grow by about 19.5 percent on average, while imports are likely to rise by a little over 17 percent a year.

Pakistan:

Pakistan recorded strong economic growth in the late 1990's. The agricultural sectors expanded considerably and can be attributed to several factors, including improvement in the distribution of virus-resistant varieties of cotton, favourable weather conditions, higher use of fertilisers and irrigation water. Industrial performance also improved with growth of 6.0 percent in 1996 compared with 3.6 percent in 1995. The textile industry was boosted by the large cotton crop production. The mining and quarrying, construction, electricity and gas distribution posted moderate growth rates. The service sectors also recorded higher growth at 5.9 percent in 1996.

Sri Lanka:

A fundamental characteristic of the economic structure of Sri Lanka is the existence of a typical dual economy. The traditional (subsistence agriculture) and modern sectors (plantation) that constitute the dual economy have co-existed for more than 100 years in virtual isolation.

Economic development is heavily weighted towards modernising the traditional sector and a considerable progress was made in the 1960's in industrialisation. This was achieved by restrictions applied on imports of manufactured goods, when the balance of payments situation in the early 1960's was acute.

After independence in 1948, the Government made a plan for the establishment of a number of manufacturing industries. The object was to initiate a policy of import substitution and to provide additional employment for the increasing population. Six government factories to produce cement, steel, caustic soda, textiles, paper and hydrogenated coconut oil were to be established but in actual practice the government was able to establish only one new factory, the cement factory at Kankesanturai. Of the factories in existence only the plywood and shoe factories were reorganised at a total cost of $0.3 million. Considerable interest was shown in developing the fishing industry with the object of reducing imports. In power, transport and communications, the most significant achievement was the successful completion of Stage-1 of the Laxapana hydroelectric scheme, with an installed capacity of 25,000 KW. The process of modernisation of railways and ports were also carried out during the post-independent

period up to 1955. After 1955, a policy declaration was made that the government would give high priority to industrial development and the control of basic industrial development while giving private enterprise every encouragement to participate in economic development. Agriculture contributed 54 percent to the national output in 1953. Sri Lanka has an open economy where exports occupy a dominant place in the determination of national income. The prices of exports and imports are determined by external conditions and are subject to wide and unpredictable fluctuations that affect the levels of income, savings and of government revenues.

Sri Lanka lacks the vital ingredients for industrialisation such as coal, oil, tin, copper and aluminium and high-grade iron-ore. One of the aspects of industrial growth in Sri Lanka has been the increasing dependence on imported raw materials. In food preparation the percentage of local raw materials used was 53 percent while imported raw materials was 47 percent. Foreign inputs for the beer and stout industry amounted to 100 percent. In the spinning, weaving and finishing of textiles, 85 percent of the raw materials were imported; in the footwear and leather products industry 47 percent; in the rubber products 54 percent; and in the metal products 93 percent of the raw materials was imported. The quality of final products of local industries has been poor. And the need to maintain high quality has not arisen because the Sri Lankan market was a protected market, before the liberalisation process started. Another associated problem was the high cost of manufacturing products.

The industry sector, which accounts for one third of G.D.P. grew by only 6.2 percent because of the slow growth of the manufacturing sub-sector, which suffered from

prolonged power cuts. The services sector grew only by 4.2 percent in 1996. Gross domestic investment was 23.7 percent of G.N.P. in 1996 compared with 25.6 percent in 1995. Exports grew by 12.0 percent in 1996, despite a poor performance by the manufacturing sub-sector. Export volumes of tea, rubber and coconut remained constant, whereas, textiles and garments grew only moderately. Imports recorded a slow growth as a result of weak demand for consumer goods and capital goods.

2.1 Nature of growth in G.D.P. and Per Capita Income:

The growth rate of GDP among the various countries shows the changes in the nature of the economy. The average G.D.P. growth over the post-reforms period was 5.5 percent in India. The eighties saw growth rates exceeding 5 percent when the economy had grown by only 3.4 per year in the previous thirty years. When the reform process started, real G.D.P. declined to less than 1 percent in 1991-92 from an average growth rate of about 5.5 percent in 1980's. During the period 1996 the GDP growth rate was around 6.8 percent and in the year 1998 it was 7.0 percent.

Table-3: Growth Indicators (Bangladesh, 1996 & 1998).

	1996	1998
G.D.P.	4.7	6.0
Agriculture	1.9	2.2
Industries	5.7	9.5
Service	6.2	6.6
Gross Domestic Investment	16.4	20.9
Gross National Saving	15.4	15.3

Source: Asian Development Outlook, 1997 & 1998.

Figure-2: Chart showing the growth indicators of Bangladesh, 1996 & 1998.

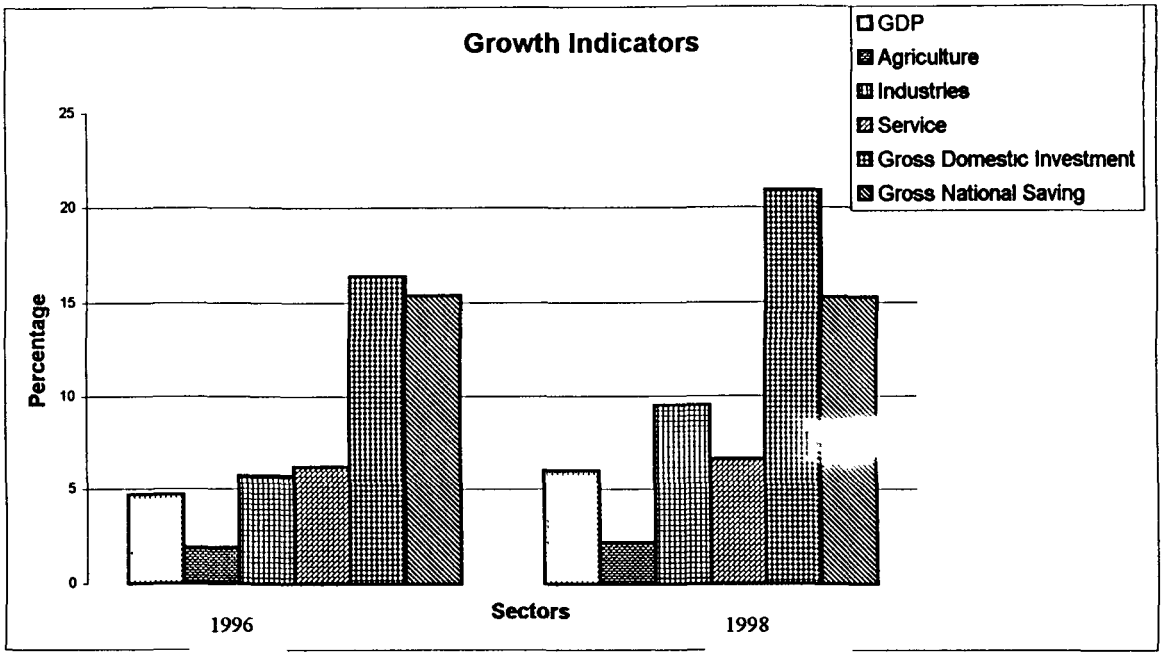


Table-4: Growth Indicators (India, 1996 & 1998).

	1996	1998
G.D.P.	6.8	7.0
Agriculture	3.7	2.4
Industries	8.7	11.5
Service	7.4	6.3
Gross Domestic Investment	28.8	29.9
Gross National Saving	27.1	27.7

Source: Asian Development Outlook, 1997 & 1998.

Figure-3: Chart showing the growth indicators of India, 1996 & 1998.

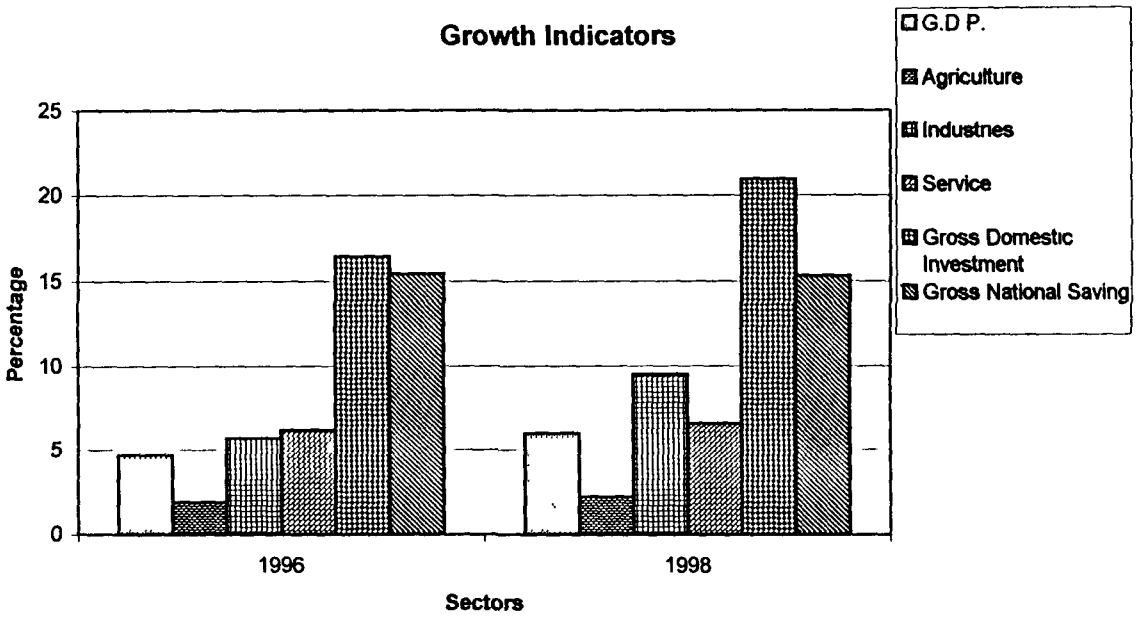


Table-5: Growth Indicators (Pakistan, 1996 & 1998)

	1996	1998
G.D.P.	6.1	6.5
Agriculture	6.7	5.7
Industries	6.0	7.3
Service	5.9	6.4
Gross Domestic Investment	19.4	21.8
Gross National Saving	12.5	14.9

Source: Asian Development Outlook, 1997 & 1998.

Figure-4: Chart showing the growth indicators of Pakistan, 1996 & 1998.

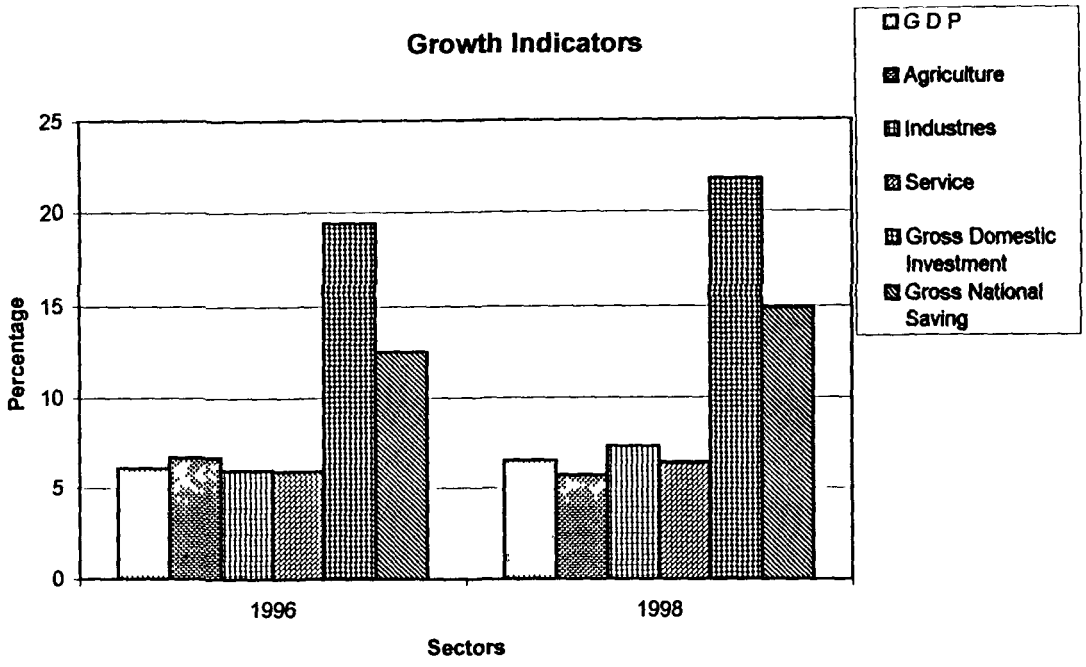
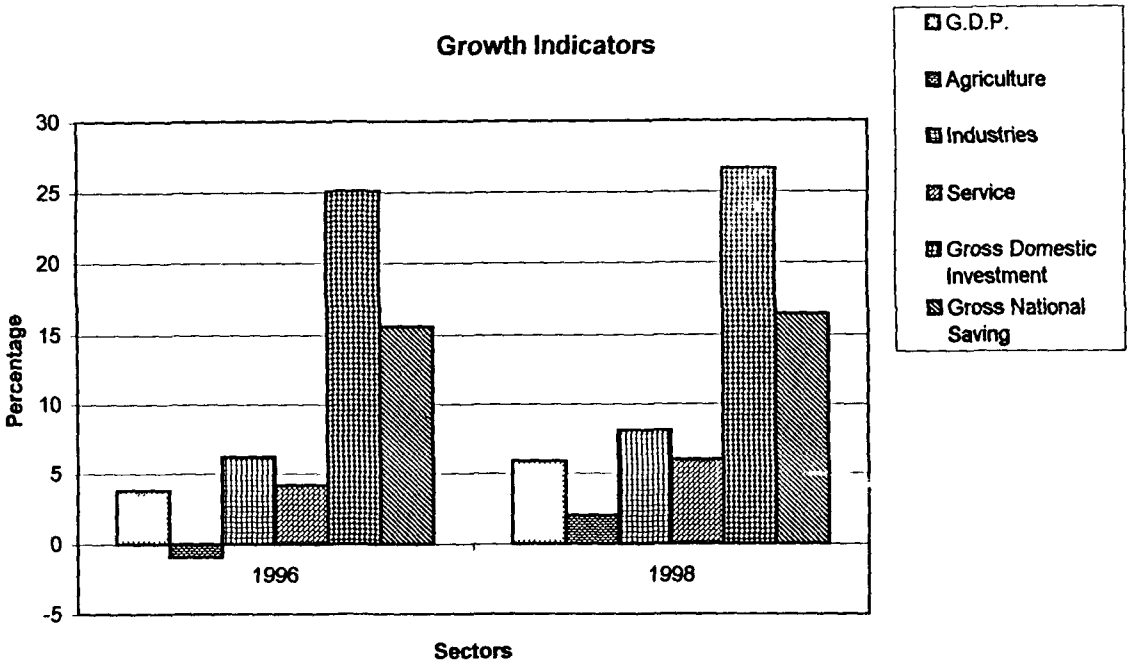


Table-6: Growth Indicators (Sri Lanka, 1996 & 1998).

	1996	1998
G.D.P.	3.8	5.9
Agriculture	-0.9	2.0
Industries	6.2	8.1
Service	4.2	6.0
Gross Domestic Investment	25.1	26.6
Gross National Saving	15.6	16.4

Source: Asian Development Outlook, 1997 & 1998.

Figure-5: Chart showing the growth indicators of Sri Lanka, 1996 & 1998.



The G.D.P. growth rate has been the highest in India, followed by Pakistan, Sri Lanka and Bangladesh, respectfully. However, the growth rate of agriculture has been the highest in Pakistan, followed by India, Bangladesh and Sri Lanka. The growth of industries has been the highest in India followed by Bangladesh, Sri Lanka and Pakistan. The service sector has recorded highest growth in Bangladesh in the year 1998, followed by Pakistan, India and Sri Lanka.

Table-7: Per Capita GDP and GNP in $US

Country		1982	1985	1988	1990	1995	1999
Bangladesh	Per Capita GDP	57.13	84.06	115.43	186.46	256.96	346.12
	Per Capita GNP	58.40	85.83	119.39	190.34	264.81	358.15
India	Per Capita GDP	55.58	76.61	108.40	140.79	281.44	398.85
	Per Capita GNP	55.38	76.20	107.17	138.79	278.22	395.17
Pakistan	Per Capita GDP	71.82	96.30	127.31	153.39	297.81	419.36
	Per Capita GNP	77.44	104.12	132.79	160.01	300.00	415.70
Sri Lanka	Per Capita GDP	89.47	138.79	183.65	260.74	509.64	728.26
	Per Capita GNP	87.68	135.75	179.23	255.26	504.18	715.21

Source: http://www.adb.org/

Figure-6: Chart showing the GDP Per Capita of the selected countries.

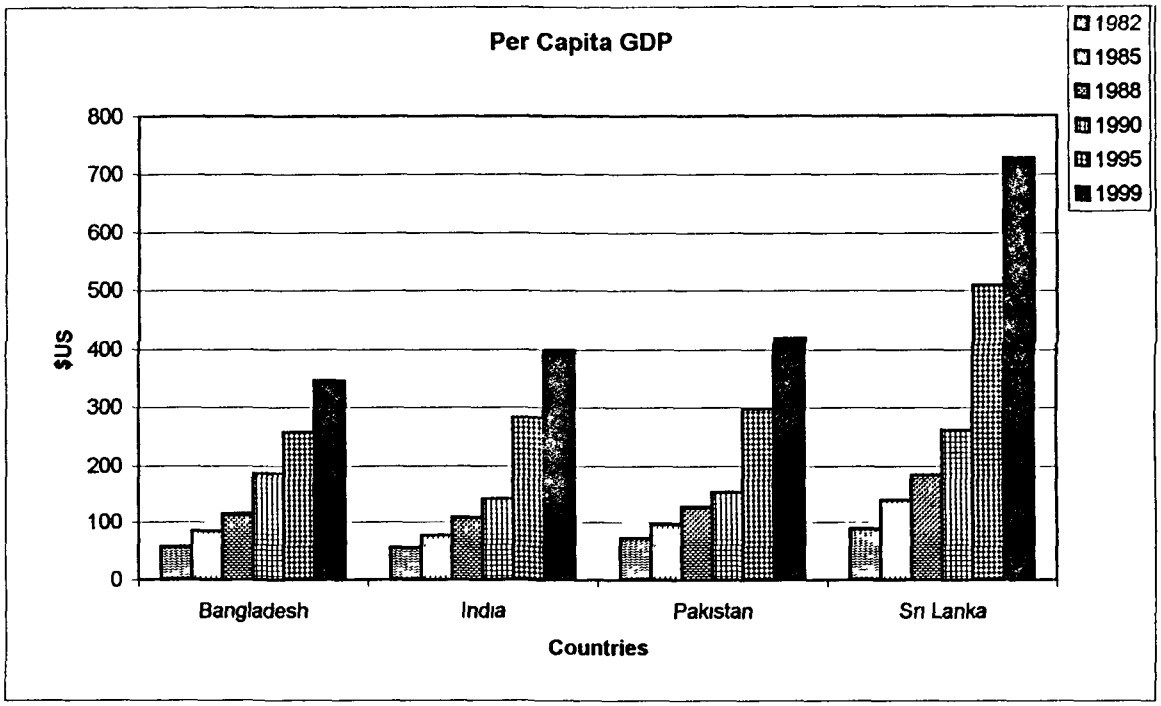
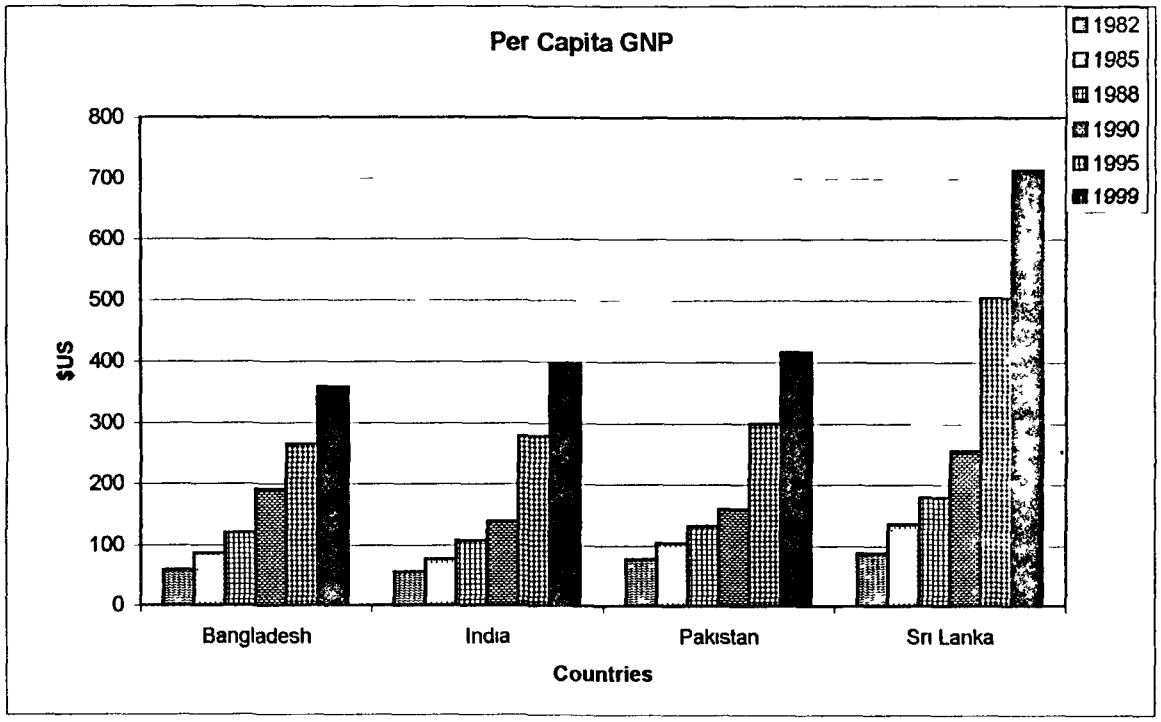


Figure-7: Chart showing the GNP Per Capita of the selected countries.



The Per Capita GDP and Per Capita GNP in South Asia is highest in Sri Lanka. Since the early 1980's Sri Lanka has been maintaining a growth rate which is higher from the other three countries viz., Bangladesh, India and Pakistan. The Per Capita GDP was 89.47 US$ and the Per Capita GNP of 87.68 US$ in 1982. In 1990, the Per Capita GDP was 260.74 US$ and the Per Capita GNP was 255.26 US$, whereas in 1999 the Per Capita GDP was 728.26 US$ and Per Capita GNP was 715.21 US$. After Sri Lanka, Pakistan occupies the second position. Its Per Capita GDP was 71.82 $US and the Per Capita GNP was 77.44 US$ in 1982. In 1990 its Per Capita GDP was 153.39 and its Per Capita GNP was 160.01 US$. In 1999 it was 419.36 US$ and 415.70 US$, respectively. Till 1995 Bangladesh had a higher per capita GDP and per capita GNP growth rate than India. However, since 1995 India's per capita GDP and per capita GNP growth rate increased at a faster rate than Bangladesh. This can be attributed to the general political instability and industrial lockouts in Bangladesh since the mid-1995.

2.2 Nature of Changes in Industrial Economy

Most of the South Asian countries have been traditionally dominated by agricultural sector. They have pursued development strategy emphasising industrial development with greater reliance on import substitution. However, in the 1980's and the early 1990's serious attempts have been made by the countries of the region to move away from the orthodox import-substitution industrialisation strategies and to liberalise internal policies to integrate domestic economies with global economy.

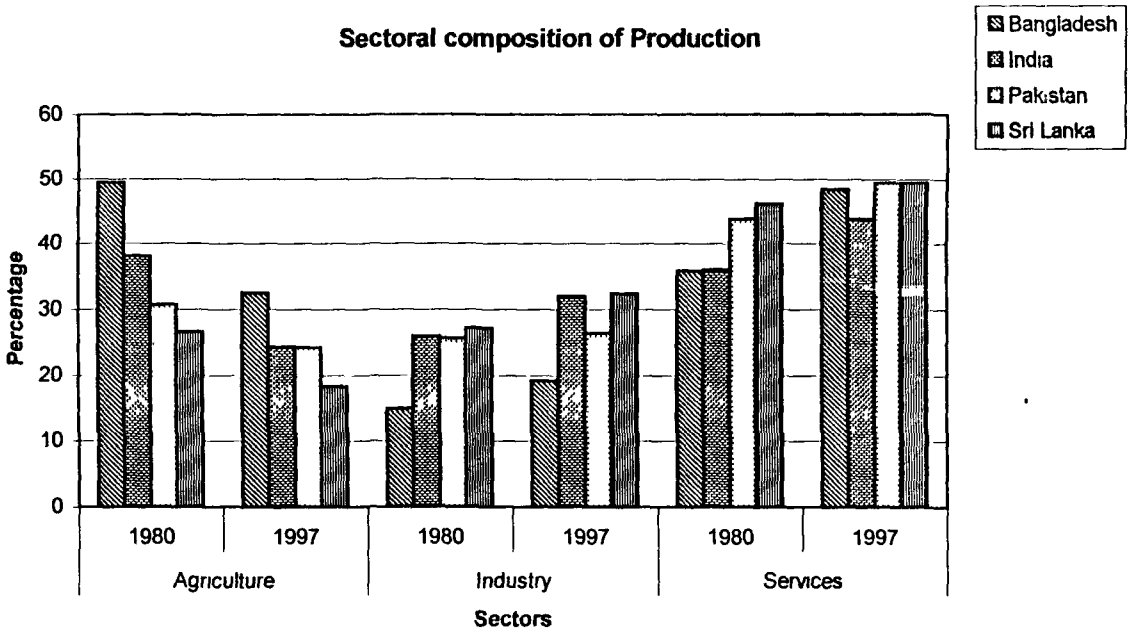
During the last two decades, contribution of agricultural sector to G.D.P. has declined steadily, while sectoral shares of industry and services have increased significantly in these four countries of the region. Despite the fall in its relative importance over the years, agriculture still contributes about a quarter of output in South Asia. The industrial sector has witnessed a moderate rise over the past one and a half decades. On the other hand, the contribution of services sector has grown rapidly during this period.

Table-8: Sectoral composition of production (as % of G.D.P.).

Country	Agriculture		Industry		Services	
	1980	1997	1980	1997	1980	1997
Bangladesh	49.4	32.4	14.8	19.2	35.8	48.4
India	38.1	24.3	25.9	31.9	36.0	43.8
Pakistan	30.6	24.2	25.6	26.4	43.8	49.4
Sri Lanka	26.6	18.3	27.2	32.3	46.2	49.4

Source: Asian Development Outlook, 1997 & 1998.

Figure-8: Chart showing the Sectoral Production of the selected countries.



The contribution of agriculture in G.D.P. was the lowest in Sri Lanka. In India and Pakistan, the contribution of the sector to G.D.P. was 24.3 percent and 24.2 percent respectively in 1997. In Bangladesh the share of agriculture recorded a sizeable decline between 1980-1997. The share of industry in G.D.P. was the highest in Sri Lanka (32.3%). Its share in Bangladesh, India and Pakistan were 19.2, 31.9 and 26.4 percent respectively. An interesting feature of the sectoral composition is the growing importance of the services sector in the whole region. The sector accounted for nearly 50 percent of G.D.P. in Bangladesh, Pakistan and Sri Lanka in 1997. The share of the service sector in G.D.P. was 43.8 percent in India.

Table-9: Growth performance of Agricultural Sector (percent per annum).

Country	Average 1981-90	Average 1991-97	1994	1995	1996	1997	1998	1999
Bangladesh	0.9	2.9	0.3	-1.0	3.7	6.0	3.2	3.4
India	2.5	2.1	4.6	-3.0	7.9	-2.0	4.5	3.0
Pakistan	3.4	3.9	5.2	6.6	5.3	0.7	5.0	3.0
Sri Lanka	2.2	1.8	3.3	3.3	-4.6	5.4	3.0	3.0

Source: Asian Development Outlook, 2000.

Bangladesh had an average annual growth rate of 2.9 percent during 1991-97, compared to 0.9 percent during the 1980's. Following negative growth rate in 1995, the agricultural sector in Bangladesh recovered from sectoral depression by registering a growth rate of 3.7 percent in 1996. Projections indicate that agriculture may grow at the rate of 3.2 percent in 1998 and 3.4 percent in 1999. Growth rate of agriculture in India averaged 2.1 percent a year during 1991-97, compared to 2.5 percent during the 1980's. This sector recorded a growth rate of 7.9 percent in 1996 and the projections for 1998 and 1999 are 4.5 and 3 percent respectively. Average annual growth rate of agricultural sector

of Pakistan in the early 1990's has been higher than that of the 1980's due to surging levels of production of food and cash crops. While the sector grew at the average rate of 3.4 percent per annum during the period 1981-90, it increased further to 3.9 percent per annum during the period 1991-97. The agriculture-G.D.P. ratio of Sri Lanka is the lowest among all the countries in the region. The share of agriculture to G.D.P. was as low as 18.3 percent. The Sri Lankan economy is dominated by three plantation crops namely tea, rubber and coconut. The plantation sector contributes about 50 percent of export earnings.

Table-10: Growth performance of Industrial Sector (percent per annum).

Country	Average 1981-90	Average 1991-97	1994	1995	1996	1997	1998	1999
Bangladesh	7.1	6.4	7.8	8.4	5.3	3.6	8.1	8.0
India	5.4	6.6	9.4	14.1	7.2	6.0	7.0	9.0
Pakistan	5.9	5.2	4.5	4.8	3.6	3.3	4.5	6.5
Sri Lanka	7.4	7.2	8.1	7.8	5.6	7.9	7.5	8.5

Source: Asian Development Outlook, 2000.

The average rate of industrial sector of Bangladesh was 7.1 percent per annum during 1981-1990 and 6.4 percent during 1991-97. In 1995, the sector recorded growth rate of 8.4 percent but declined in the next couple of years owing to political unrest and natural disasters. In 1998, the growth rate of industrial output is expected to recover to 8.1 percent. Jute processing continues to be the major industry of the country. Other upcoming industries are ready-made garments, chemicals, leather, food-processing and basic metals. The industrial sector in India expanded at the rate of 6.6 percent per annum during the period 1991-97. During the period 1993-97, manufacturing sector was the driving force behind the growth of the economy. The increase in the growth rate of the

Indian manufacturing sector was due to the increase in the production of capital goods and consumer-durable. The slow down of the growth rate of industrial production witnessed in 1996 is attributed to steep fall in the production of crude oil and electricity generation in the domestic economies. However, the sector is expected to expand at the rate of 7.0 percent and 9.0 percent in 1998 and 1999 respectively. In Pakistan, average annual growth rate of industry has declined from 5.9 percent during 1980's to 5.2 percent during the 1990's. Sri Lanka registered an average industrial growth rate of 7.4 percent during the 1980's and marginally lower rate of 7.2 percent during the 1991-97. Sri Lanka's manufacturing sector contributes about 20 percent of the industrial output, and is mostly dominated by agro-based industries, such as food processing beverages, tobacco and textiles. Among the resource-based industries, production has been rising steadily in non-metallic mineral products, especially precious gems. The industrial base is becoming more diversified with the establishment of a steel plant, an oil refinery and a number of garment units in the free trade zone. Leather and rubber products are also emerging as important items for export in recent years.

Table-11: Growth Performance of Service Sector (% per annum).

Country	Average 1981-90	Average 1991-97	1994	1995	1996	1997	1998	1999
Bangladesh	5.3	5.7	5.8	6.9	6.5	6.2	7.1	7.2
India	5.9	7.3	7.5	9.8	7.3	9.1	7.9	8.1
Pakistan	4.9	4.9	4.2	4.8	4.7	4.1	5.5	6.2
Sri Lanka	5.6	5.6	5.1	4.9	6.0	5.6	3.3	5.4

Source: Asian Development Outlook, 2000.

In Bangladesh, the average growth rate of the sector during the period 1991-97 was 5.7 percent per annum, compared to 5.3 recorded in the last decade. The average

annual growth rate of the sector in India was 5.9 percent during 1981-90 and 7.3 percent during the period 1991-97. The services sector has witnessed a consistent rise over the years. The service sector in Pakistan performed poorly than the average of other countries in the region. The average growth rate of the sector was 4.9 percent per annum during the period 1981-97. In Sri Lanka, the growth rate of the service sector has been at a moderate level during the 1980's and the 1990's. Even though the country has large potentials in the service sector, particularly in the tourism industry, the ethnic crisis has been the most important factor for the slow growth performance of the sector.

Table-12: Direction of Trade: Exports (million US$).

Country	Year	Dev.	Europe	USA	Japan	Developing.	Asia
Bangladesh	1990	71.4	33.5	30.5	3.9	28.1	10.1
	1996	85.4	47.3	32.1	3.5	14.3	7.2
India	1990	55.6	29.1	15.1	9.3	39.8	12.1
	1996	55.1	28.1	17.0	7.3	40.9	24.4
Pakistan	1990	60.9	37.2	12.4	8.2	39.1	20.9
	1996	57.1	30.6	16.7	6.5	42.5	23.4
Sri Lanka	1990	61.5	27.3	25.9	5.4	24.6	9.7
	1996	73.5	30.8	34.1	6.2	24.1	8.6

Source: IMF, Direction of Trade Statistics Yearbook, 1991 & 1997.

Table-13: Direction of Trade: Exports (million US$).

Country	Year	SAARC	Africa	L. America	Others
Bangladesh	1990	3.59	3.3	0.5	18.2
	1996	2.48	1.6	0.4	7.9
India	1990	2.73	1.8	0.4	32.2
	1996	4.58	4.5	0.7	18.0
Pakistan	1990	3.99	4.0	0.3	17.0
	1996	2.58	4.0	1.7	17.1
Sri Lanka	1990	3.64	1.2	2.1	28.4
	1996	2.66	0.8	1.4	18.1

Source: IMF, Direction of Trade Statistics Yearbook, 1991 & 1997.

If we look at Table-15 and Table-16 we find a common direction of exports for all the four countries of the region i.e., the developed countries of Europe and North

America. Bangladesh exports maximum of its products to the developed countries of the world. Europe alone accounts for 47.3 million US$ in 1996. USA accounted for 32.1 million US$. Similarly, India's export direction is mainly confined to the developed countries (55.1 million US$), which is followed by the developing countries (40.9 million US$). Pakistan too had a high trade with the developed countries (57.1 million US$), which is followed by developing countries. Sri Lanka's main export is directed towards the developed countries (73.5 million US$), which is followed by USA (34.1 million US$) and Europe (30.8 million US$). A distinguishing feature of all these countries is that they had a very low trade among themselves.

Table-14: Direction of Trade: Imports (million US$).

Country	Year	Dev.	Europe	USA	Japan	Developing.	Asia
Bangladesh	1990	42.9	19.5	5.1	13.2	43.3	34.0
	1996	27.2	12.3	3.2	8.5	60.7	54.0
India	1990	56.9	33.7	11.0	7.5	42.5	11.2
	1996	51.3	32.2	9.1	6.6	43.1	18.9
Pakistan	1990	55.2	26.9	12.8	11.9	44.8	19.3
	1996	49.3	25.7	10.6	10.2	50.7	20.8
Sri Lanka	1990	40.2	16.5	7.9	12.3	59.7	40.4
	1996	37.5	19.7	3.9	9.9	62.3	49.8

Source: IMF, Direction of Trade Statistics Yearbook, 1991 & 1997.

Table-15: Direction of Trade: Imports (million US$).

Country	Year	SAARC	Africa	L. America	Others
Bangladesh	1990	8.94	0.2	1.5	26.5
	1996	16.27	0.4	2.1	19.5
India	1990	0.40	2.8	2.2	19.5
	1996	0.49	4.2	0.4	28.6
Pakistan	1990	1.64	2.5	1.0	25.6
	1996	2.65	2.7	1.7	28.3
Sri Lanka	1990	6.98	4.4	1.2	17.3
	1996	12.87	1.3	1.4	14.0

Source: IMF, Direction of Trade Statistics Yearbook, 1991 & 1997.

The import structures of these countries are not similar. Bangladesh imported most of its products from the developing countries, which accounted to about 60.7 million US$, which is followed by the developed countries (27.2 million US$). Bangladesh had a considerable amount of imports from the SAARC countries especially India. India on the other hand imported mostly from the developed countries (51.3 million US$), whereas developing countries accounted for 43.1 million US$. India however had a very poor import structure with the SAARC countries (0.49 million US$.) Pakistan's share of import was previously directed towards the developed countries. But now developing countries are exporting more than the developed countries. Sri Lanka too imports mostly from developing countries, which is followed by developed countries. Sri Lanka imports a considerable amount from the SAARC countries.

2.2.1 Changing composition of manufacturing output:

Another aspect of structural transformation of developing economies is the diversification and broad basing of their industrial structure from one predominated by relatively simpler industries to one covering relatively more advanced and more knowledge intensive industries. The specialisation index indicates the extent of specialisation of the manufacturing industry in a country and is equal to 100 if the country specialises in only one industry and would be equal to zero if the shares of all branches of industry are equal. Thus higher the value of the specialisation, lower would be the extent of diversification of industrial structure of a country and vice versa.

Table-16: Degree of Specialisation of Manufacturing Sector.

Country	1985	1990	1995
Bangladesh	25.3	24.9	24.8
India	16.9	15.3	13.7
Pakistan	23.5	23.4	20.0
Sri Lanka	30.0	23.5	20.0

Source: UNIDO, *Industry & Development, Global Report*, 1997.

The most impressive movement towards diversification of the industrial structure has been recorded by Sri Lanka from an index of 30 to 20. India recorded a 23.3 percent decline in the levels of specialisation, while Pakistan at 17.5 percent. The progress towards diversification in the case of Bangladesh has been rather slow with only a 2 percent increase over a decade. Another feature that is evident from the table is that India has the most diversified and Bangladesh least, manufacturing industry in the region.

2.3 Post 1980 – Location of major industries: Both National and Multinationals

The locations of iron and steel centres have distinct geographical peculiarities in India. These are mainly located in the river valleys – at Burnpur near Asansol in the Damador Valley, at Jamshedpur in the Subarnarekha valley, and at Bhadravati in the valley of the river Bhadra. Besides Bhillai, Rourkella and Durgapur are situated in the Mahanadi, Brahmani and Damodar Valley. The ship building industry is located in Vishakhapatnam. Others are in Cochin, Mazagaon, Kandla, and Trombay. The automobile industry located in India are at Hindustan Motors Ltd. Calcutta, Premier Automobiles Ltd. Bombay, Standard Motor Products of India, Madras, Ashok Leyland Ltd, Madras, Tata Engineering and Locomotive Co. Ltd., Mahindra and Mahindra Ltd. Bombay. The Chemical industry is mainly concentrated in West Bengal, Baroda,

Bombay, Madras and Mysore. The Textile industries are mainly located in Gujarat, Maharashtra, Kerala, Madras and West Bengal.

Since 1980 many new industries have come up through out the countries. These include Feroze Gandhi Unchahar and GVK power plant at Jegurupada in Andhra Pradesh along with Kakrapur Atomic power station in Gujarat. The heavy water plants are located in Kota, Tuticorin, Baroda and some new plants are commissioned at Manerguru (Andhra Pradesh), Thal (Maharashtra) and Hazira (Gujarat) to name a few.

India has more than 1 million bbl/d of new refining capacity in various stages of development. The largest project, the Reliance Industries refinery at Jamnagar, came partially on stream in 1999, and will have a final capacity of 540,000 bbl/d. Most of this capacity is scheduled for completion by 2002. Petronet India, a company created in early 1998 as part of an agreement among India's three government-owned refineries (IOC, Hindustan Petroleum, and Bharat Petroleum) is building product pipelines that will add about 500,000 bbl/d to current pipeline capacity of about 325,000 bbl/d (all operated by IOC).

The construction of adequate refining capacity to keep up with growing oil demand is of great economic importance to South Asia. Each South Asian country is proceeding with refinery construction plans. For instance, in July 1998, Mobil Oil and Jamuna Oil Company of Bangladesh signed two joint venture contracts for construction of a liquefied petroleum gas (LPG) import facility and a lubricant oil blending plant at

Chittagong port. The project is to cost $25 million, with Phase I (the LPG import terminal) expected to come on stream by late 1999.

Since the early 1980s production of ready-made garments for the US market has grown rapidly. Bangladesh is the fifth largest supplier of cotton apparel to the United States, and it has begun exporting to West European markets. Bangladesh also has established an export-processing zone (EPZ) in Chittagong and plans to create additional zones. The ready-made garment industry employed more than 200,000 people. According to some estimates, about 80 percent were women, never previously employed in the industrial work force. A good example of import substitution manufacturing was the pharmaceutical industry, a field that attracted both foreign and domestic investment in the first decade of independence, based on the large potential domestic market.

The 100,000 bbl/d "Pak-Arab" refinery is currently under construction in Pakistan. Similar other refineries are coming up especially in the province of Sind. Most of the foreign firms active in Pakistan in the oil exploration and production sector are small independent firms. The two most significant foreign oil firms in Pakistan are BP Amoco and British independent Lasmo Oil. State owned Oil and Gas Development Corporation (OGDC) also is a major player. Malaysia's Petronas has acquired a stake in an exploration block in Sindh province, in co-operation with Lasmo Oil. In November 2000, the Pakistani government awarded two exploration blocks: the onshore Mehran Block 2467-4 to a team including Union Texas Pakistan, a subsidiary of BP Amoco, and Occidental Petroleum, and an offshore block to Ocean Energy.

Chapter-3

Location Changes in New Economic Developments

Sri Lanka:

In Sri Lanka, trade contributed the largest share in the G.D.P. in 1999. Whereas, in 1982, agriculture was the largest contributor to the G.D.P. and trade occupied the second position. In 1990, too agriculture was the highest contributor to the G.D.P. This trend changed in 1992, when trade overtook agriculture to be the main contributor to the G.D.P. This trend shows the growing importance of International Trade for Sri Lanka in the growth of its economy.

Sri Lanka's economy is dominated by three plantation crops namely tea, rubber and coconut. The plantation sector contributes about 50 percent of export earnings. Tea is the main item of export for Sri Lanka, followed by Rubber. However, in the year 1999, desiccated coconut took the second position overtaking rubber. The trade balance of the country was for the first time in favour in 1999, after continuous years of imbalance.

Bangladesh:

In Bangladesh the share of agriculture recorded a sizeable decline between 1980-1997. The industrial share in Bangladesh was 19.2 percent. The share of the service sector in G.D.P. was 50 percent. The average rate of industrial sector of Bangladesh was 7.1 percent per annum during 1981-1990 and 6.4 percent during 1991-97. In 1995, the

sector recorded growth rate of 8.4 percent but declined in the next couple of years owing to political unrest and natural disasters. In 1998, the growth rate of industrial output is expected to recover to 8.1 percent. Jute processing continues to be the major industry of the country. Other upcoming industries are ready-made garments, chemicals, leather, food processing and basic metals. In Bangladesh, the average growth rate of the sector during the period 1991-97 was 5.7 percent per annum, compared to 5.3 recorded in the last decade.

India:

Growth rate of agriculture in India averaged 2.1 percent a year during 1991-97, compared to 2.5 percent during the 1980's. This sector recorded a growth rate of 7.9 percent in 1996 and the projections for 1998 and 1999 were 4.5 and 3 percent respectively. The industrial sector in India expanded at the rate of 6.6 percent per annum during the period 1991-97. During the period 1993-97, manufacturing sector was the driving force behind the growth of the economy. The increase in the growth rate of the Indian manufacturing sector was due to the increase in the production of capital goods and consumer durables. The slow down of the growth rate of industrial production witnessed in 1996 is attributed to steep fall in the production of crude oil and electricity generation in the domestic economies. However, the sector expanded at the rate of 7.0 percent and 9.0 percent in 1998 and 1999 respectively. The average annual growth rate of the service sector in India was 5.9 percent during 1981-90 and 7.3 percent during the

period 1991-97. The services sector has witnessed a consistent rise over the years. It is providing more than 50 percent to the national income.

Pakistan:

In Pakistan, the average annual growth rate of agriculture was 5.9 percent in 1995. It was around 4.5 percent during the period 1975-84 and 3.8 percent during 1985-95. This shows that the growth rate of agriculture has been decreasing over the years. Agriculture also occupied the second largest sector in the workforce structure of the country. The average annual growth rate of industry has declined from 5.9 percent during 1980's to 5.2 percent during the 1990's. The service sector in Pakistan performed poorly than the average of other countries in the region. The average growth rate of the sector was 4.9 percent per annum during the period 1981-97.

Table-17: Foreign Direct Investment inflows, 1980-91 (million US $).

Countries	1980-85	1986	1987	1988	1989	1990	1991
Bangladesh	-0.1	2	3	2		3	1
India	62	118	212	91	252	162	155
Pakistan	75	105	129	186	210	244	257
Sri Lanka	42	30	60	46	20	43	48

Source: UNCTAD, World Investment Report, 1998.

Table-18: Foreign Direct Investment inflows, 1992-97(million US $).

Countries	1992	1993	1994	1995	1996	1997
Bangladesh	18	10	8	2	14	145
India	233	574	973	1964	2382	3264
Pakistan	335	347	419	719	770	800
Sri Lanka	123	195	166	56	120	140

Source: UNCTAD, World Investment Report, 1998.

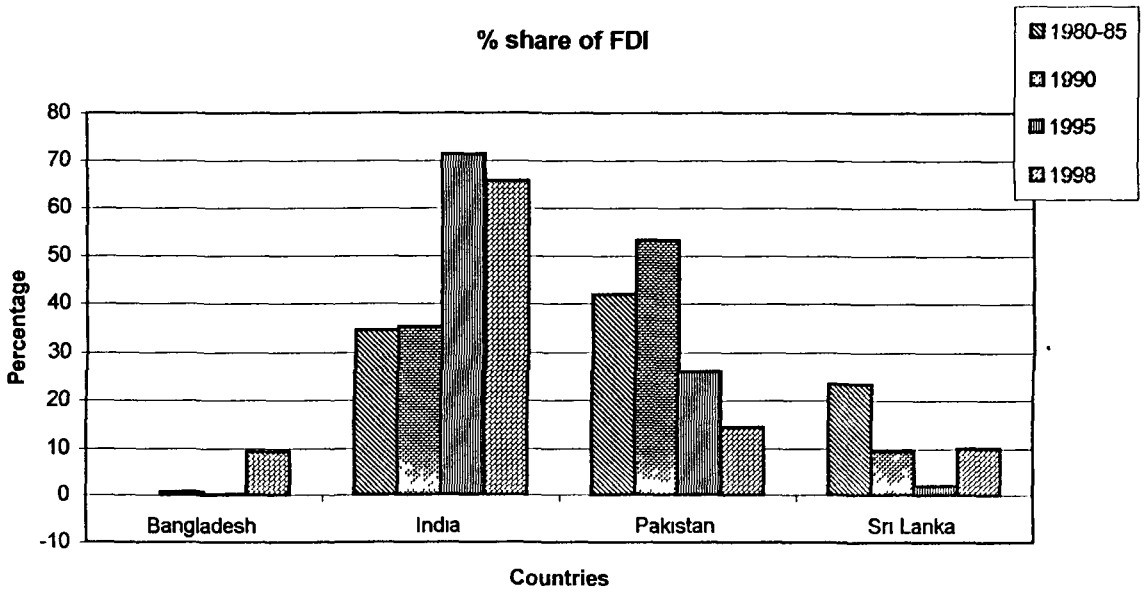
India has received a steadily increasing magnitude of FDI since 1992. In 1997 India emerged as one of the top ten most attractive recipients of FDI among developing countries with an inflow of $ 3.2 billion. Pakistan is another significant host of FDI in the region with US $ 800 million of inflows in 1997. Sri Lanka had steadily improved her attractiveness for FDI inflows during 1991-93. Between 1993-1996, however, FDI inflows to the country gradually dried up, presumably due to continuing ethnic strife. Bangladesh received very modest FDI inflows until 1996. In 1997, however FDI inflows to Bangladesh jumped to $ 145 million representing a tenfold rise over the 1996 levels.

Table-19: Percentage Share of countries in the Total FDI inflows in South Asia (in per cent)

	Bangladesh	India	Pakistan	Sri Lanka
1980-85	-0.06	34.68	41.95	23.49
1990	0.66	35.37	53.28	9.39
1995	0.07	71.34	26.12	2.03
1998	9.23	65.8	14.5	10.05

Source: Computed from UNCTAD, *World Investment Reports*, various years

Figure-9: Chart showing the percentage share of FDI of the selected countries.



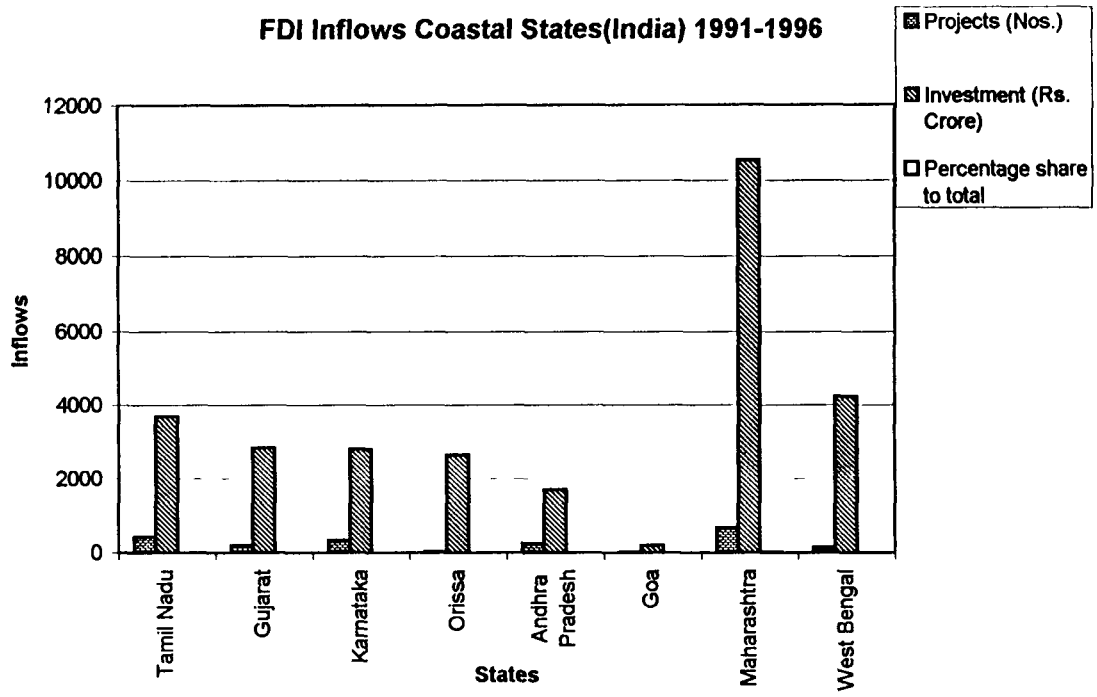
If we examine the FDI inflows to the individual South Asian countries, it reveals that most of the receiving countries have shown increasing but erratic trends. This is more so in case of Bangladesh, Pakistan and to a large extent Sri Lanka. At the same time, we find that India has been consistently taking an overwhelming part of the FDI flows into South Asia. In fact, this has more or less steadily gone up from 34 percent in 1980-85 to 66 percent in 1998. On the other hand, the shares of Pakistan and Sri Lanka have drastically gone down (Table-15).

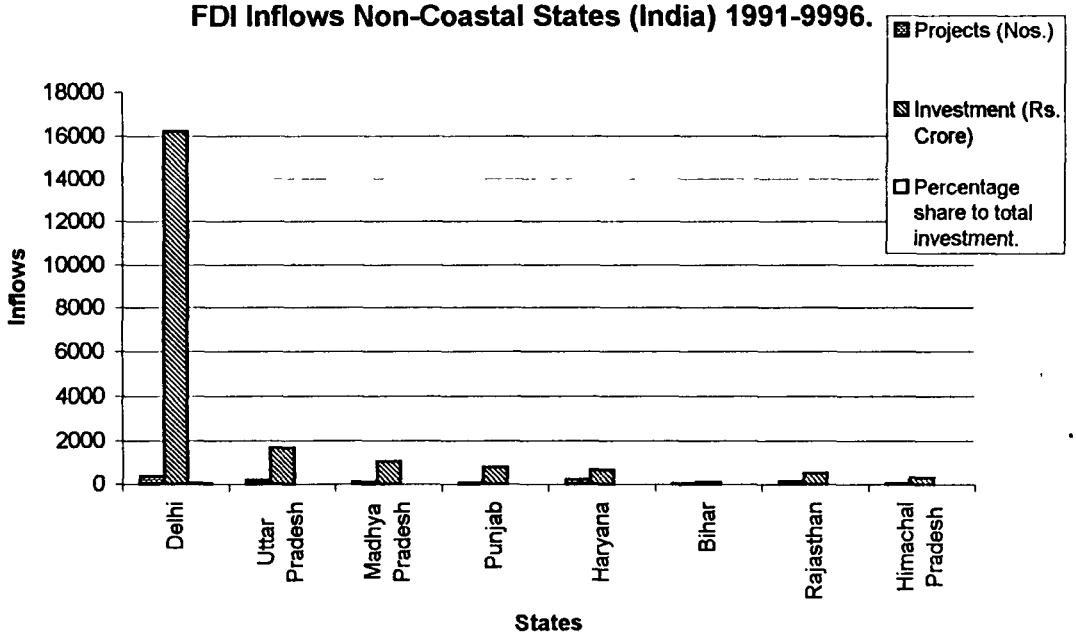
Table-20: Foreign Direct Investment Approved, India (State wise) 1991-1996.

States	Projects (Nos.)	Investment (Rs. Crore)	Percentage share to total investment.
Delhi	362	16,210	22.9
Uttar Pradesh	171	1,665	2.3
Madhya Pradesh	75	1,047	1.5
Punjab	53	779	1.1
Haryana	214	662	0.9
Bihar	20	101	0.1
Rajasthan	112	507	0.7
Himachal Pradesh	19	309	0.4
Tamil Nadu	419	3,698	5.2
Gujarat	199	2,846	4.0
Karnataka	327	2,821	4.0
Orissa	35	2,654	3.7
Andhra Pradesh	239	1,704	2.4
Goa	25	199	0.3
Maharashtra	661	10,522	14.8
West Bengal	137	4,227	6.0
Others	1,561	20,932	29.5
Total	**4,629**	**70,883**	**100.0**

Source: Statistical Outline of India, 1996-97, Tata Services Limited, Department of Economic & Statistics, Mumbai.

Figure-10: Chart showing the FDI Inflows of India.





If we look at the pattern of Foreign Direct Investment (F.D.I.) inflows from 1991-1996 (Table-16), we find that Delhi and Maharashtra are the leading states accounting for 22.9% and 14.8%, respectively, followed by West Bengal (6.0%) & Tamil Nadu (5.2%). However, if we combine all the coastal states together, their total share comes to around 40.4%, which is greater than the non-coastal states (29.9%). Again, so far as the non-coastal states are concerned Delhi has a share of more than two-third of direct F.D.I. This clearly shows the preference for investors to invest in coastal states as well as in metropolises (Delhi).

Table-21: GNP Density of India.

Coastal States	GNP Density	Non-Coastal States	GNP Density
A.P.	19.53	Assam	14.96
Gujarat	27.91	Bihar	5.35
Karnataka	19.56	Haryana	20.18
Kerala	5.6	M.P.	27.17
Maharashtra	28.94	Punjab	20.64
Orissa	15.15	Rajasthan	32.48
T. N.	11.61	U. P.	7.58
W. Bengal	6.09	Delhi	1.74
Goa	27.83	H.P.	52.79
Total	18.02	**Total**	20.32

N.B. (i) Excluding the North-eastern states, Sikkim, J&K, Pondicherry, A&N Islands, Dadra &Nagar Haveli, Lakshwadeep Islands, Chandigarh and Daman and Diu
(ii) Per Capita GDP at 1990-91 price & population density (1991 Census)

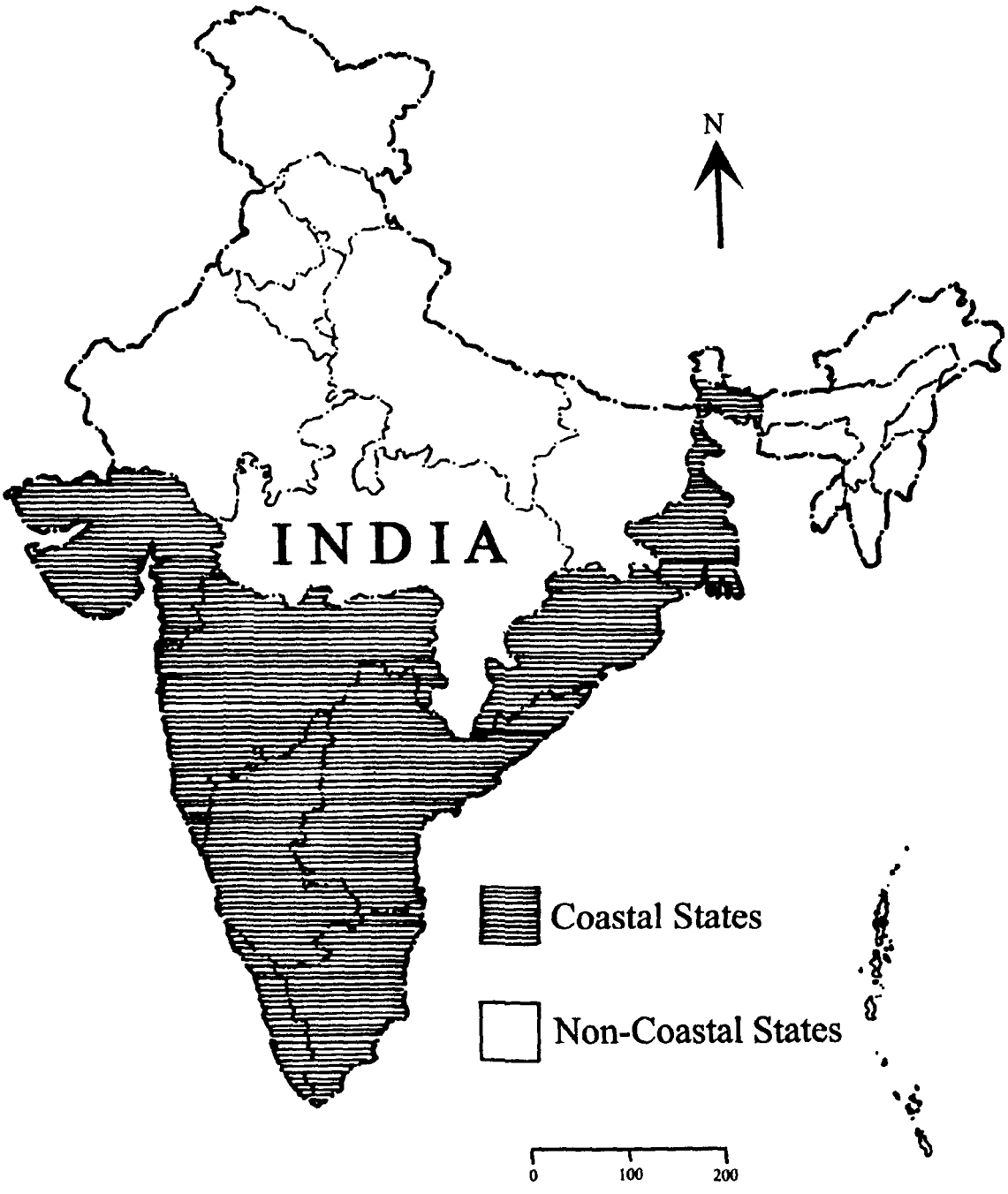


Figure-11: Map showing the coastal & non-coastal states of India

Figure-12: Chart showing the GNP Density of India

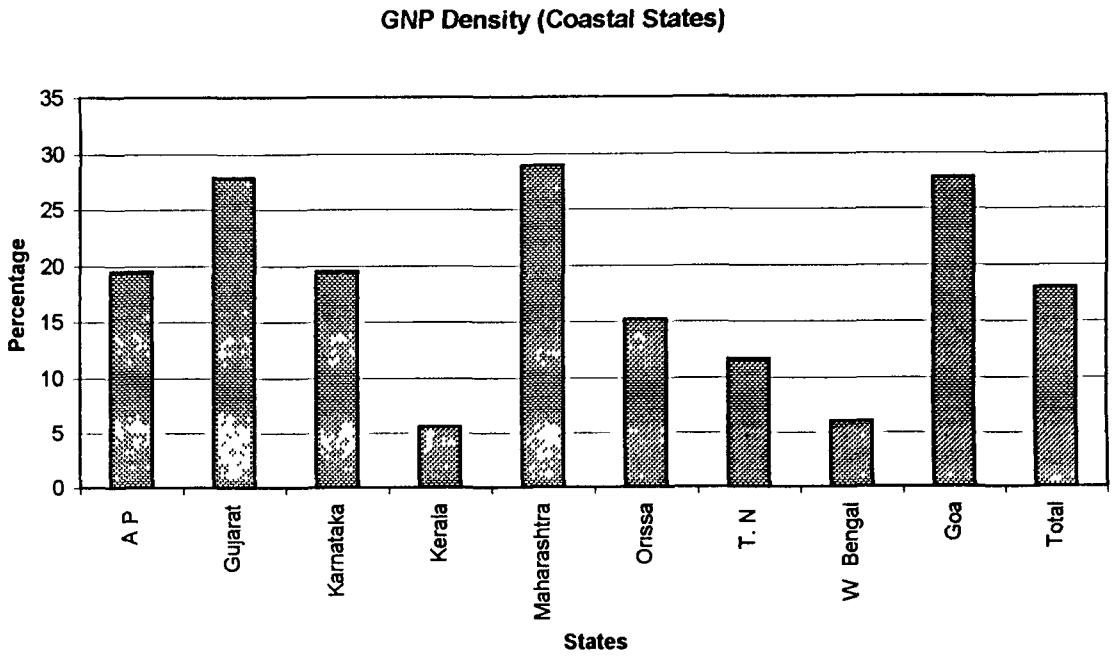
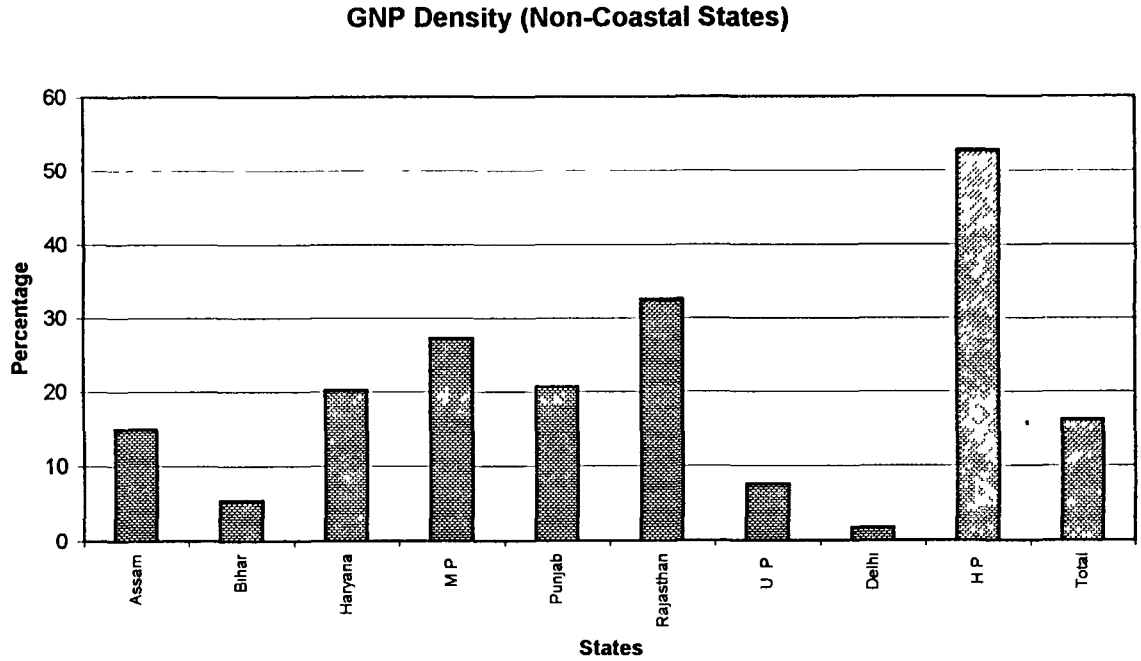


Figure-13: Chart showing the GNP Density of India.



If we observe both the figures and the table we find that coastal states like Gujarat, Goa and Maharashtra have a very high GNP density. Whereas, at the other hand certain non-coastal states like Rajasthan and Himachal Pradesh also have a very high GNP density, which truly does not reflect the level of development. And we follow this methodology, then we find that the non-coastal states have a greater average density of 20.32 than the coastal states (18.02). However, if we exclude Himachal Pradesh from the list of non-coastal states then we find that it comes down to 16.26 percent.

Table-22: Industrial Investment Proposals, India (State-Wise) 1991-1999

States	Total Proposals (IEM+ LOI)	%	Industrial Entrepreneur Memoranda (IEMs) Numbers Field	%	Proposed Investment	%	Proposed employment Number	%
Maharashtra	8098	19.53	7605	19.96	175852	22.48	1345095	20.52
Gujarat	5596	13.50	5193	13.63	136361	17.43	850916	12.98
Tamil Nadu	3991	9.62	3400	8.92	50835	6.50	547568	8.35
Andhra Pradesh	2826	6.82	2459	6.45	57039	7.29	412935	6.30
Madhya Pradesh	2299	5.54	2152	5.65	60579	7.74	455586	6.95
West Bengal	1750	4.22	1668	4.38	27695	3.54	272695	4.16
Karnataka	1585	3.82	1387	3.64	35876	4.59	230431	3.52
Delhi	471	1.14	454	1.19	6398	0.82	46467	0.71
Bihar	373	0.90	331	0.87	7645	0.98	52854	0.81
Assam	99	0.24	88	0.23	3015	0.39	14390	0.22

Source: Department of Industrial Policy and Promotion and Department of IndustrialDevelopment; Ministry of Commerce & Industry; Government of India.

Table-16 shows a marked departure as far as Foreign Direct Investment received by the states is concerned. In Table-15 we found that Delhi was the leading state as far as FDI is concerned but in table-16, we find that Maharashtra (22.48%) is the leading state followed by Gujarat (17.43%), Tamil Nadu (6.50%), Andhra Pradesh (7.32%), West Bengal (3.54%) and Karnataka (4.59%), all being coastal states. Whereas, Delhi received

only 8.2% of the total Foreign Direct Investment during the period 1991-1999, it has to be borne in mind that till the year 1996, Delhi was the leading state as far as attracting F.D.I. is concerned (Table-15). But after 1998, Maharashtra and Gujarat has overtaken Delhi and is presently the two leading states, which is attracting the majority of F.D.I. (39.91%) in the country (Table-16). The average of the coastal states is around 61.83% whereas the share of the non-coastal states is 9.93%. Similarly, the percentage of employment generated as a result of F.D.I. is very high in coastal states (55.83%) as compared to non-coastal states (12.21%).

Table-23: Actual FDI inflows: industry-wise (US $ m) India.

Industries	1992-93	1993-94	1994-95	1995-96
Chemical &	47.0	37.5	141.2	126.7
allied products	(16.8)	(10.2)	(16.2)	(8.9)
Engineering	69.8	32.9	131.6	251.9
	(24.9)	(8.9)	(15.1)	(17.8)
Domestic	15.8	2.4	108.3	0.5
appliances	(5.6)	(0.7)	(12.4)	(0.0)
Finance	3.7	42.2	97.7	270.0
	(1.3)	(11.4)	(11.2)	(19.0)
Services	2.4	20.2	93.4	100.5
	(0.8)	(5.5)	(10.7)	(7.1)
Electronics &	32.8	57.1	56.4	129.6
electrical equip.	(11.7)	(15.5)	(6.5)	(9.1)
Food & Dairy	27.9	43.5	60.9	85.0
products	(9.9)	(11.8)	(6.9)	(6.0)
Computers	8.3	7.6	10.2	52.1
	(2.9)	(2.1)	(1.2)	(3.7)
Pharmaceuticals	3.1	49.5	10.1	54.8
	(1.1)	(13.4)	(1.2)	(3.9)
Others	69.2	76.1	162.2	346.9
	(24.7)	(20.6)	(18.6)	(24.5)
Total	280	369	872	1418
	(100)	(100)	(100)	(100)

Source: RBI Annual Report, 1995.

Note: bracketed figures are percentages of column totals.

In the beginning of the 90's, the largest amount of FDI went to the Engineering sector followed by the chemical & allied products, which was followed by electronics and electrical equipment sector. However, in the mid-90's finance sector was the largest recipient of FDI followed by Engineering sector. In the late 90's Engineering sector again overtook the first position followed by chemical and allied products and the services sector.

Table-24: Foreign Direct Investment Inflow: Origin (Rs crore)

Countries	1994-1995	1998-1999
Mauritius	617.7	2482.2
United States of America	636.9	1904.9
Japan	298.1	989.0
Netherlands	140.2	224.2
Germany	108.5	477.7

Source: Statistical Outline of India, 1999-2000.

FDI inflows declined from US $ 3557 million in 1997-98 to US $ 2462 million in 1998-99. The declining trend continued in 1999-2000. In 1998-99, Mauritius continued to be the largest source of FDI inflows followed by the USA. Inflows from Mauritius were 617.7 crores in 1994-95, which increased to 2482.2 crores in 1998-99. Inflows from USA also increased from 636.9 crores in 1994-95 to 1904.9 crores in 1998-99. Other countries like Germany, Netherlands and South Korea accounted for an increase in 1998-99 compared to 1994-95.

Out of the total FDI of $232.3 million that Pakistan received during July-March. 2000-2001, Transport, Storage & Communications sector attracted maximum FDI of $60.9 million. Mining & Quarrying - Oil Exploration and Food, Beverages & Tobacco remained second and third in the race attracting $60.3 million and $44.4 million of FDI respectively. Other notable sectors attracting FDI inflow (during the period under review)

include Power - $21.8 million, chemicals, pharmaceuticals & fertiliser - $21.3 million, Cement/Sugar $15.2 million, Trade - $10.4 million, Construction - $6.5 million, Petrochemicals & Refining - $7.8 million, Textile - $4.0 million, Electrical Machinery - $1.3 million, Machinery other than Electrical - $0.2 million, Metal Products - $0.1million and others - $13.2 million. The United Kingdom topped the list with $77.5 million of FDI during first nine months of the current fiscal. The United States and Saudi Arabia followed the top contributor (UK) of FDI inflows in the country with$55.5million and $40.2 million, respectively during the same period. The other notable FDI inflows during the period under review included $11.8 million from Germany, $8.0 million from Japan, $3.7 million from Korea, $3.7 million from UAE, $2.9 million from The Netherlands, $2.7 million from Hong Kong, $1.3 million front Italy, $0.7 million from France, $0.1million from Canada and $24.2 million from others.

In Bangladesh, the energy sector is the principal recipient of the FDI inflow at present. And if the current trend continues, foreign investment in tel communications, manufacturing and services could overtake the energy sector by 2006. Trade and exchange liberalisation, current account convertibility and liberalisation of the investment regime have helped in bringing in increased FDI in the last few years.

Chapter-4

Geographical Comparative Advantage and the New Economy

Sri Lanka:

Sri Lanka has a greater (locational) comparative advantage over the other three countries, as it is an island economy (proximity to sea). Moreover, it has attained a remarkable social progress during the past decades. It ranks the highest among South Asian countries in human development indicators, and in the middle in socio-economic indicators. Sri Lanka registered an average industrial growth rate of 7.4 percent during the 1980's and marginally lower rate of 7.2 percent during the 1991-97. Sri Lanka's manufacturing sector contributes about 20 percent of the industrial output, and is mostly dominated by agro-based industries, such as food processing, beverages, tobacco and textiles. Among the resource-based industries, production has been rising steadily in non-metallic mineral products, especially precious gems. The industrial base is becoming more diversified with the establishment of a steel plant, an oil refinery and a number of garment units in the free trade zone. Leather and rubber products are also emerging as important items for export in recent years. The Sri Lanka's government at present is providing a number of incentives for industrial export. A 100 percent rebate of customs duty is permitted on imported raw materials used for the production of export commodities. At present, almost 80 percent of the industries in the private sector are located in the western province. Colombo is the largest centre with a population of 615,000 persons. Other important centres are Moratuwa and Mt. Lavinia, both of which

are port cities. Attention is now being directed to developing non-traditional agricultural exports and new agricultural pursuits such as dairy farming and the livestock industry. Even though the country has large potentials in the service sector, particularly in the tourism industry, the ethnic crisis has been the most important factor for the slow growth performance of the sector.

Bangladesh:

Bangladesh has limited natural resources, a population density of 813 persons per square kilometre – about three times that of India and seven times that of China and is highly vulnerable to devastating cyclones and floods. Despite these adverse factors, Bangladesh has made impressive strides since independence in 1971. Annual G.D.P. growth has averaged around 4 percent. Macro economic stability had been maintained in the first half of the 90's and the per capita income was US $358.15 in 1999. With the exception of the impressive performance of the ready-made garments sector, G.D.P. growth has remained at or around 4.7 percent in 1996, and 6.0 in 1998. The sources of economic growth in Bangladesh are anchored in the agricultural and manufacturing sectors. Since the early 1980s production of ready-made garments for the US market has grown rapidly. Bangladesh is the fifth largest supplier of cotton apparel to the United States, and it has begun exporting to West European markets. Bangladesh also has established an export-processing zone (EPZ) in Chittagong and plans to create additional ones. The ready-made garment industry employed more than 200,000 people. A good example of import substitution manufacturing was the pharmaceutical industry, a field

that attracted both foreign and domestic investment. Mobil Oil and Jamuna Oil Company of Bangladesh signed two joint venture contracts for construction of a liquefied petroleum gas (LPG) import facility and a lubricant oil blending plant at Chittagong port.

India:

The Indian economy expanded persistently over the years. India also developed a diversified industrial base, and a relatively large and sophisticated financial sector. The traditional industries of India such as iron and steel, shipbuilding, automobile, chemical and textile industries have diversified little in the last fifty years. These industries are still located in places where it has the maximum geographical advantages. The iron and steel industries are located at Jamshedpur, Bhilai, Rourkela and Durgapur. The ship building industries are located in Vishakhapatnam, Cochin, Mazagon, Kandla and Trombay. The automobile industry is located in Calcutta, Bombay and Madras. The chemical industry is mainly concentrated in West Bengal, Baroda, Bombay, Madras and Mysore. The textile industries are located in Gujarat, Maharashtra, Kerala, Madras and West Bengal.

The southern states along with Gujarat and Maharashtra have over the years developed a sound bases for industrial development. The southern states are industrially developed with around 65,000 registered factories. The list of industries includes automobiles and auto-components, engineering, electronics and software, leather, textiles, machine tools, pharmaceuticals, electrical, chemicals and petrochemicals. At present these states account for 25 percent of India's industrial output. These states with long coastline provide a natural gateway to trade and have five major ports and numerous

minor ports with established trade links with the world markets. Gujarat and Maharashtra together received 36.7 percent of the investment proposal in the year 1999. While Gujarat which accounted for less than 5 percent of the population of the country received about 19 percent of the private investment proposals. Most of the new thermal power projects, petrochemical and oil refineries are coming up in these two states. Jamnagar, Surat, Vadinar, Vadodara in Gujarat and Deogarh, Thane in Maharashtra is coming up with new industries, apart from the already existing industrial centres in the country.

Pakistan:

Pakistan recorded strong economic growth in the early 1990's. The agricultural sectors expanded considerably and can be attributed to several factors, including improvement in the distribution of virus-resistant varieties of cotton, favourable weather conditions, higher use of fertilisers and irrigation. Industrial performance also improved with growth of 6.0 percent in 1996 compared with 3.6 percent in 1995. The textile industry was boosted by the large cotton crop production. The mining and quarrying, construction, electricity and gas distribution posted moderate growth rates. The service sectors also recorded higher growth at 5.9 percent in 1996. The port city of Karachi with the largest population of 5,180,562 is the main centre of industrial development. This city acts as the hinterland to the whole of Pakistan as well as Afghanistan. The largest plants are still mainly state-owned, including those producing cement, fertiliser and steel. Majority of the population is still engaged in agriculture and it still contributes a considerable amount to the G.D.P. New industries such as oil refineries and petrochemicals are coming up in the port city of Karachi.

Table-25: International Trade within the four countries (Exports) (million US$)

From\to	Bangladesh		India		Pakistan		Sri Lanka		Grand Total	
	1990	1996	1990	1996	1990	1996	1990	1996	1990	1996
Ban	–	–	22	21	23	37	8	2	60	61
									(3.59)	(1.85)
Ind.	297	832	–	–	43	141	102	458	487	1519
									(2.73)	(5.01)
Pak.	103	109	49	41	–	–	69	80	223	240
									(3.99)	(2.58)
Lanka	10	12	20	43	32	37	–	–	69	109
									(3.64)	(2.66)
Total									839	2029
									(3.07)	(4.05)

Source: IMF, Direction of Trade Statistics & Quarterly March 1998.
Note: figures in the parentheses are shares in total exports/imports of a particular country.

Table-26: International Trade (Imports) (million US$)

From\ to	Bangladesh		India		Pakistan		Sri Lanka		Grand Total	
	1990	1996	1990	1996	1990	1996	1990	1996	1990	1996
Ban	–	–	170	1018	70	90	8	10	257	1124
									(7.03)	(16.29)
Ind.	15	58	–	–	45	39	22	35	97	181
									(0.40)	(0.50)
Pak.	38	36	46	212	–	–	37	45	121	320
									(1.64)	(2.63)
Lanka	9	2	118	562	51	69	–	–	184	647
									(6.98)	(12.87)
Total									653	2272
									(1.87)	(4.01)

Source: IMF, Direction of Trade Statistics & Quarterly March 1998.
Note: figures in the parentheses are shares in total exports/imports of a particular country.

If we observe table-24, we can easily find that India is the leading country as far as exports to its neighbouring countries are concerned. Its main exporting partner is Bangladesh, followed by Sri Lanka and to a very negligible extent Pakistan. Similarly, table-25 shows that Bangladesh imports a large amount from India. Sri Lanka too imports a large amount from India. However, both India and Pakistan have a very low percentage of imports from its neighbours.

Chapter-5

Conclusion

Favourable geographical locations (coastal districts) as well as availability of proper infrastructural facilities are the most important factor that has to be considered in under-developed countries. In developing nations like Bangladesh, India, Sri Lanka and Pakistan, metropolitan regions have by far the highest standard of physical infrastructure – in power, roads, housing, tele-communication – and social infrastructure, such as health and education. At the same time, the countries of this region, following the East Asian model, sees foreign investment as the key to spurring economic growth. And it also sees its coastal districts as well as large metropolises as likely foreign investment destinations. Further, these coastal states need to enact favourable policies and should react by emphasising the development virtues of its largest cities. The coastal regions in general, and the coastal cities in particular, have become the focal points of direct investment, as the new-outward looking regimes, access to the outside world from coastal locations assume greater importance.

In the analysis, we found that the contribution of agriculture in G.D.P. is the lowest in Sri Lanka (18.3 percent). In India and Pakistan, the contribution of this sector to G.D.P. was 24.3 percent and 24.2 percent respectively in 1997. In Bangladesh the share of agriculture in GDP recorded a sizeable decline between 1980-1997. The share of industry in G.D.P. was the highest in Sri Lanka (32.3%). Its share in Bangladesh, India and Pakistan were 19.2, 31.9 and 26.4 percent, respectively. An interesting feature of the

sectoral composition is the growing importance of the services sector in the whole region. The sector accounted for nearly 50 percent of G.D.P. in Bangladesh, Pakistan and Sri Lanka in 1997. The share of the service sector in G.D.P. was 43.8 percent in India.

The Per Capita GDP and Per Capita GNP in South Asia are the highest in Sri Lanka. Since the early 1980's Sri Lanka has been maintaining a growth rate which is higher from the other three countries viz., Bangladesh, India and Pakistan. The Per Capita GDP was US$ 89.47 and Per Capita GNP US$ 87.68 in 1982. In 1990, the Per Capita GDP was US$ 260.74 and Per Capita GNP was US$ 255.26, whereas in 1999 the Per Capita GDP was US$ 728.26 and Per Capita GNP was US$ 715.21. After Sri Lanka, Pakistan occupies the second position. Its Per Capita GDP was US$ 71.82 and Per Capita GNP was US$ 77.44 in 1982. In 1990 its Per Capita GDP was 153.39 and its Per Capita GNP was US$ 160.01. In 1999 it was US$ 419.36 and US$ 415.70 respectively. Till 1995 Bangladesh had a higher per capita GDP and per capita GNP growth rate than India. However, since 1995 India's per capita GDP and per capita GNP growth rate increased at a faster rate than Bangladesh. This can be attributed to the general political instability and industrial lockouts in Bangladesh since the mid-1995.

If we examine the FDI inflows to the individual South Asian countries, it reveals that most of the receiving countries have shown increasing but erratic trends. This is more so in case of Bangladesh, Sri Lanka and to a large extent in Pakistan. At the same time, we find that India has been consistently taking an overwhelming part of the FDI inflows into South Asia. In fact, this has more or less steadily gone up from 34 percent in

1980-85 to 66 percent in 1998. On the other hand, the shares of Pakistan and Sri Lanka have drastically gone down.

In Sri Lanka, trade contributed the largest share in the G.D.P. in 1999. Whereas, in 1982, agriculture was the largest contributor to the G.D.P. and trade occupied the second position. In 1990, too agriculture was the highest contributor to the G.D.P. This trend changed in 1992, when trade overtook agriculture to be the main contributor to the G.D.P. This trend shows the growing importance of International Trade for Sri Lanka in the growth of its economy. The change in the structure of export for Sri Lanka has resulted in a favourable balance of trade, after continuous years of trade deficit. In spite of the fact that Sri Lanka ranks the highest in human development index (HDI) in the region, it could not achieve much as far as the economy is concerned. Moreover, it is a coastal country that lies in the transit route of the South East Asian countries and the Gulf countries. However, the main impediment faced by Sri Lanka is its ethnic strife, which drives away the foreign investors to safer locations such as India.

The economic growth in Bangladesh is hampered not because the country lacks economic potential, but because the growth prospects of the country has been seriously affected by internecine political conflicts, continuing general strikes and the general lack of governance. However, Chittagong is poised to become a vibrant growth zone due to its strategic location and geographical advantage. Similarly, in Sri Lanka, the ongoing ethnic strife has hampered the economic growth of the country. The port cities apart from Colombo are also diversifying and exporting a variety of other products apart from tea,

coffee and rubber. Pakistan on the other hand has been hampered by a lack of good governance and political stability. The largest industrial city of Pakistan, Lahore has been witnessing strikes and lockouts, which greatly hampered its economic growth.

The western coastal states of Maharashtra and Gujarat, in India, are individually the two top investment destinations. Maharashtra has been ranked first in total investment and second in per capita investment. On the contrary, in the north, the states of U.P. and Rajasthan have attracted even less than their already meagre share of capital. Sanjoy Chakravorty, in his study found out that foreign capital is more concentrated in coastal districts. The share of FDI in all coastal investment is 50% more than in all inland investment. The private sector investments too are focused on the coasts – especially in Maharashtra, Gujarat, Tamil Nadu, Andhra Pradesh and Orissa, with a small pocket in Karnataka. In general, there is less private investment in the north and east, especially in Bihar, Rajasthan, Eastern U. P. and West Bengal. FDI is present in only 60 districts out of 470, with a clear coastal and metropolitan bias (focusing on Mumbai, Delhi and Chennai). The preference of investors for coastal districts also depends on many other factors, apart from infrastructural. For example, in Bihar and U.P. there is evidence of bitter caste conflicts leading to identity-based politics and deeply faction-ridden political structures, so much so that some parts of these regions appear to be heading towards state-less anarchy. West Bengal and Kerala are stable, but they are both communist states catering to their major constituencies – landless and small farmers, and organised industrial labour. The prime reason for the failure of these states is their local political economy, rather than some structural factors such as lack of infrastructure or skilled

labour. Similarly, if we look at the GNP density, we find that coastal districts have higher GNP density compared to non-coastal districts in India, as well for the region as a whole.

All the countries in this region have location specific advantages for FDI in the sense that these countries have relatively cheap labour costs, large domestic and regional market as well as attractive investment incentives. However, all these countries apart from India, suffer from political instability, lack of technical and manpower and weak physical infrastructure.

Finally, to conclude we can argue on the basis of the above study, that the coastal districts are poised to grow at a faster rate compared to non-coastal states on the basis of the various indicators that were used to identify the growth potentials of the region. It has been found that the coastal districts are the first preference for investors as this act as the gateway to international trade as well as domestic market due to their location and geographic advantages.

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