GLOBALIZATION AND ECONOMY OF SOUTH AND SOUTH-WEST ASIAN COUNTRIES

[1]Zahoor Hussain Javed, [2]Bashir Ahmed Khilji, [3]Mohammad Ameen Akhtar

Abstract

This study investigates the impact of globalization in area of inflation, current account balance, exchange rate of currencies, growth and trend of exports and imports in South and South-West Asian countries. Economic performance of South and South-West Asian countries can be distinguished by an increase of GDP growth rate and a sharp increase in degree of openness. Nevertheless, the economy faces the problem of balance of payments deficit in some countries over the period of concern. The present study focuses its attention to the most important growth enhancing features of globalization that has played a vital role in the area of economy of these countries. The results inform us that the era of globalization brings a closer degree of financial and economic integration in an atmosphere where shocks have become more global in nature and where a crisis in one country easily affects others.

Keywords: *Globalization, growth, exports, imports, current account balance South and South-West Asian countries*

Introduction

The term “South and South-West region” is used to the study the economy of Afghanistan, Bhutan, Bangladesh, India, Iran, Maldives, Nepal, Sri Lanka, Turkey and Pakistan. The key question observed in this paper is to examine the impact of globalization on the economy of South-West and South-West Asian countries and to analyze under the impact of globalization: trade liberalization, GDP growth rate, and balance of payments deficit, inflation and exchange rate. European Community and Japan at the WTO (ECJ) are to establish new universal regulations of the trade, which will allow advanced countries to invest where they like, whenever they like, how much and in what products. The central conclusion of the paper is that, how globalization put impact on growth of GDP, inflation, exports, imports and deficit.

Globalization means everyone is a citizen of the global community and large corporations take advantage of developing

---

[1] *Assistant Professor, Department of Economics, GC University, Faisalabad.*
[2] *Associate Professor, Department of Economics, GC University, Faisalabad.*
[3] *Research Scholar, Department of Economics, GC University, Faisalabad.*

countries to increase profits and exploit resources. A central segment of globalization is its nature and interconnectedness. In light of that we have also defined the global economic meeting of the United Nations and provided a description of non-organizations that inform global policy. The term globalization describes the growing political, social, geographical, cultural, economic and technological, industrial interconnectedness and interdependence of the world today. As communication technologies advance, cultures continue to overlap and influence each other. In addition, globalization has created an economic interdependence between many states. This process has enormous effects on the environment, culture, political system, economic development and prosperity and on human physical well-being in societies in the world (*The World Trade Review*, August 2007).

The lay out of the paper is as follows: After this introductory section, Section II shows frame work of literature review, Section III shows the impact of globalization on trade liberalization, GDP growth rate, balance of payments deficit, inflation, trend of exports and imports in South and South-West Asia countries. Section IV provides briefly recommendations. The final and last section gives the summary of results.

Literature Review

The main focus of this paper is to examine impact of globalization on economy of South and South West Asia countries. Stligiz (2000) and Sugden, (1997) conclude that the IMF to task for advocating capital account liberalization to developing countries before the Asian crisis. He also suggests that the case for such liberalization is not verified either by sound economic theory or by empirical studies. In view of the particular structural features of developing economies, he favours capital controls on short-term flows in many instances. North, (1981) Whittam, (2001), Wade, (1996) suggest that division from the governments of developing countries and the multinationals, the role of workers of developing countries increase at significant level in advance countries. Many employees and trade unionists in advanced countries regard worldwide investment in developing countries as a major cause of their own labor market deficits, high unemployment, de-industrialization and wage distribution. Pfeffer, (1998), describes the relationship between employer and employee and suggests that unskilled labor is likely to be less productive which can make weak the purpose of the business. Therefore, employees got advantaged 'stakeholder'. This is not just because employees also invest in firm-specific assets, but also particularly because they are a very important determinant of a firm's ability to survive, and consequently, create and capture value in market.

Sugden and Wilson (2003), emphasize that the economies of the all countries have been undergoing deep changes as result of 'globalization and raised the progress in each sector and associated with new technologies and system of E-commerce. However, this is not clear. In part, the confusion is because globalization has become empty idea of harshness in both meaning and application. The lack of clarity is no doubt linked to globalization being associated with complex, difficult issues that cover the economic, social, political and geographical (Radice, 2000; Whittam, 2001; Scholte, 2000; Waters, 2001; Giddens, 2002) but even within narrower disciplinary limitations much is unclear and challenged. Friedman, (2000), Reich, (2001) and Stigliitz, (2002), state that in the economic activities, globalization is strongly associated with the increasingly global reach of markets and of production, in turn powerfully related to the activities of worldwide corporations**.**

Impact of Globalization and Economy of South and South-West Asian Countries

South and South-West countries are rapidly emerging as engines of global growth. In 2006, the 7.9 per cent increase in the size of the region's developing economies represented a third of worldwide growth. These gains were generally distributed among all sub-regions. The economies of South and South-West countries affected by the 1997 Asian financial crisis reported 5 per cent growth and strengthened the macroeconomic variables, with controlled inflation and improved external balance. These encouraging trends are visible in the Economic and Social Survey of Asia and the Pacific in recommended period of study. Deep integration into the global economy offers exciting opportunities for South and South-West nations, but it also poses its own unique challenges. The Survey of the consideration recognizes some of these issues, and analyses the near and medium-term policy implications to solve these issues.

The study investigates the impact of globalization in the following sectors: economic participation; inflation; exports; and imports, balance of payments, exchange rate and real growth of GDP. In each area, examples of best practices illustrate the effectiveness of the recommendations. This study is a timely and important contribution towards a better understanding of the many development challenges faced by the countries of South and South-West. At first moment, we compare exchange rate of currencies of South and South-West countries for $1 as at December 2006.

Table-1: Currencies of South and South-West Asian Countries

Countries	Fiscal Year	Currency	Exchange rate for $ 1 as at December 2006
Afghanistan	21 March to 20 March	Afghani	50.10
Bangladesh	01 July to 30 June	Taka	69.07
Bhutan	01 July to 30 June	Ngulturm	44.25
India	01 April to 31 March	Indian Rupee	44.25
Iran	21 March to 20 March	Iranian Riyal	9233.0
Maldives	01 January to 31 December	Rufiyaa	12.80
Nepal	16 July to 15 July	Nepalese Rupee	71.10
Pakistan	01 July to 30 June	Pakistani Rupee	60.92
Sri Lanka	01 January to 31 December	Sri Lanka Rupee	107.71
Turkey	01 January to 31 December	Turkish Lira	1.41

Sources: United Nations, *Monthly Bulletin of Statistics* website, http://esa.un.org/unsd/mbs/mbssearch.asp; International Monetary Fund.

Exchange rate shows the value of Turkish Lira robust with rest of all currencies of South and South-West countries. Iranian Riyal has the lowest value against USA dollar in the basket of currencies of other countries.

Table-2: Rates of Economic Growth and Inflation of Selected Economies in the South and South-West Asian Region, 2005-2007.

Country	Year	Real GDP	Inflation
Afghanistan	2003	---	---
	2004	---	---
	2005	---	---
	2006	---	---

	2007	---	---
Bangladesh	2003	5.2	9.1
	2004	6.2	7.0
	2005	6.0	6.5
	2006	6.7	7.2
	2007	6.0	7.0
Bhutan	2003	6.8	4.6
	2004	5.8	5.3
	2005	6.1	---
	2006	---	---
	2007	---	---
India	2003	7.0	3.7
	2004	7.7	4.3
	2005	9.0	4.4
	2006	9.2	6.0
	2007	9.0	5.0
Iran	2003		
	2004		
	2005	6.4	12.1
	2006	6.1	11.0
	2007	6.0	9.1
Maldives	2003	5.4	6.4
	2004	6.1	3.2
	2005	---	---
	2006	---	---
	2007	---	---
Nepal	2003	3.4	5.7
	2004	3.6	3.6
	2005	2.7	4.5
	2006	1.9	8.0
	2007	4.3	6.0
Pakistan	2003	5.1	7.3
	2004	6.4	9.0
	2005	8.6	9.3
	2006	6.6	8.0
	2007	7.0	7.0
Sri Lanka	2003	2.4	7.5
	2004	3.3	11.5
	2005	6.0	11.6
	2006	7.0	13.0
	2007	6.5	7.0

Sources: ESCAP, based on national sources; International Monetary Fund, *International Financial Statistics* (CD-ROM) (Washington, D.C., IMF, 2006): Committee of the Commonwealth of Independent States, www.cisstat.com 26 February 2007.

Above table reports the results that after a period of slightly slow growth in the 2005, the resurgent Bangladesh economy has shown an impressive growth rate for the second year. Real GDP grew by 6.7 percent during the current year against 6.0 percent last year. This growth in 2007 is underpinned by a calculation, which grew by 6.0

percent. The growth of GDP of other countries in South and South-West countries, the Indian economy has shown that real GDP grew by 9.0 and 9.2 percent respectively, while growth of GDP in 2007 is 9.0. Notwithstanding, the real GDP of economy of Pakistan is 6.6 and 6.6 percent respectively. Moreover, in Nepal slow growth took place in the 2005, while growth of GDP in 2007 is 1.9. In Maldives real GDP grew by 6.7 percent during the current year against 6.0 percent last year. This forecast growth is underpinned by a calculation, which will grow by 6.0 percent. The available evidence suggests that growth of real GDP of India remained the highest over the period of consideration.

Oil and gas exports remained strong in the Islamic Republic of Iran, as well as many economies of others countries of South and South-West region. Service of exports also remained well in 2006. The economies of India and Turkey, Iran were increased by growing exports. Domestic demand pushed GDP growth up in South and South-West Asia, particularly on the back of high investments in India and Turkey. But it has been relatively weak in much of the two East Asian sub regions, except for China.

High and volatile oil prices were one of the central sources of difficulty in macroeconomic management in the region in 2006. Inflationary pressures in oil-importing economies increased with the increase in oil prices through August 2006. With the further reductions in fuel subsidies during 2006, the economies of India, Pakistan and Maldives attained inflationary pressures. High and volatile oil prices were one of the central sources of difficulty in macroeconomic management in 2006. Governments across the region rapidly responded to inflationary pressures by tightening monetary policies, which they had begun doing so in mid-2005.

India’s current account deficit in 2006 remains manageable at 1.6% of GDP. High oil prices contributed to an estimated 31.5% increase in imports. But exports also grew at close to 30%, reflecting good performance in the key exporting sectors of engineering goods, chemicals, automobiles, ore and minerals and basic metals and petroleum products.

Price stability has always been of primary importance in preparing and planning macro economic goals. With this view, fiscal policies and monetary policies are designed to ensure stable prices and to maintain a high growth. It also discourages saving and promotes consumption. As result, there has been considerable price stability in the South and South-West Asian region over the years 2003-2007. In economy of Pakistan, the inflation rate during the period averaged 8.4 with the lowest 7.3 percent in 2003-2006. This inflation is underpinned by a calculation, which will grow by 7.0 percent. The pressure on prices intensified in economy of Nepal in 2003-2006. The inflation has started to decline over the period of 2003-2005 and has started to increase in 2006. This inflation is underpinned by a calculation, which will grow by 8.0 percent. Similarly, we focus our eye on the inflation rate over the years 2003-2007 in Bangladesh. The inflation rate during the period averaged 7.3 with lowest 7.0 percent in 2007.

The inflation has started to decline over the period of 2003-2005 in India and has started to increase in 2006, which was 6.0 percent while the forecast inflation is 6.0 percent. In nutshell, the value of inflation of all countries remained in single digit except Iran and Srilanka.

Table-3: Summary of External Accounts for Selected South and South-West Asian Countries, 2005-2006

Country /	E/GDP				M/GDP				CA/GDP			
Years	2003	2004	2005	2006	2003	2004	2005	2006	2003	2004	2005	2006
Afghanistan	---	---	---	---	---	---	---	---	---	---	---	---
Bangladesh	18.0	20.4	14.3	17.0	15.7	20.9	21.8	23.8	0.3	0.3	-0.9	0.9
Bhutan	21.2	18.7	23.4	25.8	28.2	56.9	58.7	---	---	---	22.0	-15.1
India	14.1	15.3	13.0	15.1	22.3	23.4	19.5	22.8	2.3	-0.4	-1.1	-1.6
Iran	23.0	24.9	31.8	---	---	31.8	30.4	21.7	0.6	0.9	7.5	7.4
Maldives	18.2	16.0	21.5	24.8	27.8	31.5	99.2	102.2	2.6	2.9	-33.6	-36.2
Nepal	18.0	19.4	11.1	10.1	20.5	27.6	28.3	28.8	4.9	1.9	2.2	2.4
Pakistan	19.1	17.9	13.8	13.5	20.1	18.7	19.7	23.5	4.9	1.9	-1.4	-3.9
Sri Lanka	21.5	22.4	27.0	26.2	37.6	39.8	-0.4	-32.0	---	---	-2.8	-5.3
Turkey	---	20.3	20.9	---	32.3	34.7	-3.4	-5.2	---	---	6.4	-7.4

E/GDP = Exports/GDP, M/GDP = Imports/GDP and CA/GDP = Current Account Balance/GDP

The important growths in research and development, information technology and other activities increased the exports in India. India is now the 18th largest exporter of services in the world, with its share in world exports rising from 0.6% in 1990 to 1.8% in 2004. In

Pakistan, exports and imports continued to grow at double digit rates. The trade deficit extended to a record $8.4 billion, with 45% of the increase due to a higher import bill for crude oil and petroleum products. Imports of raw material and machinery also increased sharply. Nevertheless, the current account continued to benefit from large remittances from emigrant workers, estimated at $4.6 billion in 2006. Remittances from workers were also important in Bangladesh, Pakistan and Nepal, which played vital role in the current account of these countries in 2006. Exports in Bangladesh, supported sharp depreciation of the domestic currency in the previous year, grew by 21.6%, imports by 12.2%. The country has successfully weathered the phasing out of the Multi-Fibre Agreement, with garment exports seeing robust growth. More than 70% of the country's total exports consist of textiles and clothing in 2003 and 2005.

Table-4: Growth Rates of South and South-West Countries

Country / Years	Exports				Imports			
	2003	2004	2005	2006	2003	2004	2005	2006
Afghanistan	---	---	---	---	---	---	---	---
Bangladesh	20.3	16.1	13.8	21.6	15.1	12.9	20.6	12.2
Bhutan	37.3	39.7	18.0	25.3	---	29.2	67.6	18.0
India	---	28.5	23.4	30.0	27.2	48.6	32.0	31.5
Iran	---	29.0	36.9	38.0	28.5	29.2	7.3	30.6
Maldives	31.0	19.1	-10.7	39.7	24.4	36.3	16.1	26.5
Nepal	6.4	8.9	14.8	-1.1	-3.7	10.6	15.6	11.2
Pakistan	7.7	10.3	16.9	14.3	13.7	27.6	32.1	38.8
Sri Lanka	7.1	12.2	10.2	9.1	9.9	19.9	10.8	18.9
Turkey	---	33.7	16.3	13.4	---	40.7	19.7	17.8

Sources: ESCAP, based on national sources; Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2006* (Manila, ADB, 2006); International Monetary Fund, *International Financial Statistics* Washington, D.C., IMF, 2006

India maintained its growth momentum in 2006 with GDP growing at 9.2%, a higher percentage than the 9.0% achieved in 2005. While there was some deceleration in agriculture, both industry and services performed well over the year. Having concluded that the country's physical infrastructure is not sufficiently developed to sustain high growth, government is therefore promoting large-scale infrastructural development projects. Rural infrastructure remains a key issue.

India's impressive growth is driven by industry and services in actions, financial services and trade-related activities. This, together with the rapid increase in spending on public administration, social services, rural extension services and defense has pushed up the share of services in GDP to 55.1% in 2006.

Pakistan's economy has grown at an average of more than 7.5% over the last three years, although it remained to 6.6% in 2006. The deceleration in 2006 reflected the unexpected increase in oil prices, the devastation caused by the October 2005 earthquake and adverse weather conditions. Agriculture grew at just 2.5% in 2006, down from 6.7% in 2005, with negative downstream impacts on the textile and sugar industries. Large-scale manufacturing grew by 9%, down from 15.6% the previous year. Services improved from 8% in 2005 to 8.8% in 2006 and investment hit a record high of 20% of GDP.

India's strong economic performance has generated growing private sector demand for transport, communication and technological revolution. Despite internal difficulties, Sri Lankan economy expanded by 7% in 2006, up from 6% in 2005. Agriculture performed better, with higher output of major crops and fisheries, confirming its recovery from the devastating Tsunami in December 2004. Export oriented industries and domestic market-oriented industries, along with the continued expansion in construction, bolstered industry. Trade and financial services supported the expansion in services. The Islamic Republic of Iran is the sub region's only net exporter of oil. High oil prices coupled with an expansionary fiscal policy and an accommodative monetary policy are continuing to fuel strong GDP growth of 6.1%, up from 5.4% in 2005. Turkey has enjoyed high growth over the past few years; in 2006 its rate of growth fell to 6%, down from 7.4% in 2005, a result of higher inflation and rising interest rates.

Bhutan's GDP grew by 10% in 2006, largely due to the launching of the hydroelectric project; a major project which the Government hopes will place the country's economy on a more sustainable path and create a more expanded economy with increased business activities and linkages to the rural economy.

Mining, quarrying, manufacturing, electricity, water and construction also grew robustly, as did services, reflecting strength in tourism. The Tsunami that hit Maldives in December 2004 caused great damage and brought the country's decade- long expansion to an abrupt halt; GDP contracted by 4.5% in 2005 and tourism, which accounts for one third of GDP, contracted 33%. The strong pickup in tourist arrivals and recovery in the fisheries sector, resulted in GDP growing at an estimated 18.7% in 2006. The political stalemate and escalating conflict in Nepal, continued to impede growth, which remained unchanged at an estimated 1.9% in 2006 – the average growth rate of the past few years. The recent peace agreement has, however, brought new hope and growth is expected to improve.

Expectation for 2007 in South and South-West Asian Region

India is expected to grow around 9% in 2007, underpinned by a strong performance by the industrial and services sectors. The Government's target is to increase growth to 10% in coming years. Growth prospects for Pakistan are fairly promising and a small increase to 7% in 2007 is expected following a recovery in agriculture and improved performance of the manufacturing sector. To sustain future growth rate of 7-8%, more investment is needed to develop human resources and physical infrastructure. Given the recent increase in ethnic conflict and violence, Sri Lanka's growth is expected to slow to 6.5% in 2007. In the Islamic Republic of Iran, volatile oil prices and international tensions over its nuclear programme have created uncertainties for the economic outlook. In Turkey, high inflation and rising interest rates will continue into 2007, with its GDP forecast to grow by 5%. Among the least developed countries, GDP growth in Bangladesh could moderate to around 6% in 2007, reflecting political uncertainties related to the elections. In Bhutan, construction of new hydropower projects is expected to keep growth strong. With the peaceful resolution of the armed insurgency, Nepal is now looking for new momentum, with its GDP expected to grow by 4.3% in 2007. GDP growth in Maldives is expected to moderate to a more normal 7% in 2007.

Reform needs to be maintained to sustain high growth and rapid poverty reduction. With fiscal adjustment still a challenge, more progress is needed in tax collection and resource mobilization to reduce large budget deficits. This will allow redirecting resources from servicing public debt to economic development and social programmes, while at the same time creating an enabling environment for private investment. An increase in consumer prices is a genuine concern in most countries. Striking an appropriate balance between promoting economic growth and price stability remains a challenge because inflationary pressures accompany rapid economic expansions. As the current account deficit is becoming serious in some countries, this will have implications for the balance of payments. If oil prices remain high, they will have to devise ways to contain their deficits.

Recommendations

- South and South-West Asian countries should be financed in infrastructure investment equally by developed countries.
- Globalization agencies should protect consumer's business and ensure financial transparency and a fair return on investment.
- Trace out other resources for energy.
- Tariff rates should be kept low, affordable for small countries South and South-West countries, consequently exports will be raised.
- Micro credit program can help in buying energy-efficient equipment and appliances, thus national income of nations can be raised.
- Developing countries have fewer human and technical resources. Globalization should enhance these resources.
- Mega projects may be essential to accelerated growth, but in these projects equal importance should be given to the benefit of the member countries of South and South-West region.
- Instead of laissez faire, globalization and integration of the world economy is more likely to be promoted by suitable national and international regulation for South -West and South-West Asian countries.

Criticism

The developing countries are not able to see that the rules of globalization contained the realities of South and South-West Asian countries. Globalization is mainly solving the problems of the advanced industrial countries. Therefore institutions of globalization do not apply the rules uniformly with the countries of South and South-West Asian region.

Conclusion

This paper investigates that the economic performance of South and South-West Asian countries since integration with the global economy can be described by an increase in GDP growth rates, controlled inflation, increase trend of exports and imports. Developing economies in the South and South-West Asian region grew at 6.2% in 2006, up from 6.0% in 2005. Exports of electronics continued to be a key source of growth, while oil and gas exports remained strong in the Islamic Republic of Iran and the oil and gas exporters of North and Central Asia, and South-East Asia. Domestic demand drove gross domestic product (GDP) growth in South and South-West Asia, particularly on the back of high investments. Oil prices sky rocketed in the middle of 2006, while stock markets dropped across the South and South-West region, raising fears of a recession. Despite high and volatile oil prices in 2006, developing economies in the South and South West region kept inflation under control at 5.3%, similar to that of the previous year. The sharp appreciation of major currencies in the region against the United States dollar made it difficult to keep exchange rates competitive while addressing inflationary pressure. Asian currencies were strong, reflecting larger-than-expected current account surpluses and capital flows, at the end of 2006. Current account balances deteriorated across the region in 2006, mainly as a result of rising oil imports. Strong exports in many countries offset some of the effects of rising oil prices. Finally, it is concluded that globalization has positive impact on growth, trend of exports and imports and balance of payments.

References

1. Friedman, T. (2000). *The Lexus and the Olive Tree: Understanding Globalisation***,** New York, Anchor Books.
2. Giddens, A. (2002). *Runaway World: How Globalisation is Reshaping our Lives*, London, Profile Books.
3. North, D.C. (1981). *Structure and Change in Economic History*, London, Norton.
4. Peffer, J. (1998). *The Human Equation: Building Profits by Putting People First*, Watertown, Harvard Business School Press.
5. Radice, H. (2000). Responses to Globalisation: a critique of progressive nationalism, *New Political Economy*, Vol. 5, No. 1, 5-19.
6. Radice, H. (2001). *Class, state and globalization in today's capitalism*, presented at the Fifth ERC/METU International Conference in Economics, Ankara.
7. Reich, R.B. (2001). The new economy as a decent society, *The American Prospect*, Vol. 12, No. 3, available at http://www.prospect.org/.
8. Stiglitz, J.E. (2002). *Globalization and its Discontents*, New York, Norton.
9. Sugden, R. (1997). Economías multinacionales y la ley del desarrollo sin equidad, FACES, *Revista de la Facultad de Ciencias Económicasy Sociales*, Vol. 3, No. 4, 87-109.
10. Sugden, R. and Wilson, J.R. (2003). Development in the shadow of the consensus: a strategic decision-making approach, *Contributions to Political Economy*, Vol. 21, 111–34.
11. Wade, R. (1996). Globalization and its limits: reports of the death of the national economy are greatly exaggerated, in *National Diversity and Global Capitalism*, edited by S. Berger and R. Dore, London, Cornell University Press.
12. The World Trade Review, August, 2007.

13. Waters, M. (2001). *Globalization*, 2nd edn, London, Routeledge.
14. Whittam, G. and Danson, M. (2001). Power and the spirit of clustering, *European* Planning Studies, Vol. 9, No. 8, 949-63.
15. World Bank (1998). *World Development Report 1998/1999*, Oxford, Oxford University Press.