Chapter 6

Issues of Convergence: Some Evidences of SAARC Countries

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ABSTRACT

There is no point to disagree that inequality in recent time has come up as a growing social predicament in the world. This chapter endeavors to look into the issue of convergence in terms of per capita gross domestic product, infant mortality rate, life expectancy at birth and Human Development Index among eight member countries of South Asian Association of Regional Cooperation (SAARC) during the time frame 1990-2013. There has been an evidence of strong absolute beta divergence in terms of per capita gross domestic product and infant mortality rate. But the beta convergence in terms of life expectancy at birth and HDI has also been empirically evidenced. Strong evidence of conditional beta divergence conditioning on infant mortality rate exists in terms of PCGDP only for the time period 1990-1995. Sigma divergence implying dispersion among the countries in terms of PCGDP and IMR has risen over time. But sigma convergence has been found to exist for LEB and HDI.

INTRODUCTION

The issue of convergence appears to be significant in the context of social and economic development. It refers to the catch up effect which represents the phenomenon that poorer countries grow faster in terms of per capita income than the richer countries. The study of convergence has attracted the attention of social scientists as well as policy makers. Although in a group of homogenous countries the poor countries grow faster in terms of per capita macroeconomic variables (Solow, 1956), the study has also produced some new stylized facts such as ‘persistence’ and ‘bi-modality.’ The idea of ‘persistence’ implies that most of the countries continue to remain in the same position (or range) of the distribution of the variable concerned. Further, ‘whatever mobility (within the distribution) exists, it works to ‘thin out the middle,’ and ‘pile up of probability mass at the two tails.’ According to Quite result of bi-modality of

the distribution do not change and this makes the bi-modal property linked with the situation of ‘poverty piling up’ (Quah, 1996). The growth theory is now called upon to explain these facts about cross-country growth regularities (Naurul, 2003).

It has been argued that poorer countries grow at a faster rate than the richer countries because in rich countries diminishing returns to factor operate. But the poor countries have enough opportunity to modernize the production process. It also depends on the absorbing power of the poor countries for adopting new technology. This technology is very much expensive also for poor countries.

One of the prevailing myths of globalization is that the increased trade has been the catalyst for the new era of convergence. Expanded trade is helpful to narrow the gap between the rich and poor countries, because the gains from trade of the developing countries owing to new technologies and new markets. But successful integration amongst the countries is the exception rather than the rule and trade is a driver of global inequality as well as prosperity. For the majority of countries the globalization story is one of divergence.

For most of the past 40 years human capabilities have been gradually converging. From a low base, developing countries as a group have been catching up with rich countries in such areas as life expectancy, infant mortality and literacy. High rates of investment in human capital are helpful to enhance the growth of an economy and reduce regional inequality. A better level of human development provides incentives to people to invest in productive activities and in the development of new goods and production technologies which enhances the growth rate. On the contrary, the worrying aspect of human development is that the overall rate of convergence is decelerating and for a large group of countries divergence is becoming the order of the day. In a world of already extreme inequalities, gaps in human development between rich and poor countries are in some cases widening and in others narrowing very slowly. The process is uneven, with large variations across regions and countries.

Inequality in terms of income, wealth, and asset hinders the long run growth of an economy. The study of convergence emphasized on the technological differences across regions. Thus, it has induced the policy makers to frame suitable strategy of development in order to wipe out the cross country differences. This provides a new information base which helps in understanding the interaction among different regions along with other dimensions like spread of institutions, investment etc. At the international level, the critical strategy for reducing inequality needs to be designed in such a manner that it should ensure amenities for all and universal access to basic needs such as food, housing, health services, education and social protection.

The South Asian Association for Regional Cooperation (SAARC), which was established on 8th December 1985, is an economic and geopolitical organization of eight countries that are primarily located in South Asia or the Indian subcontinent. The combined economy of SAARC is the 3rd largest in the world in the terms of GDP (PPP) after the United States and China and it stands as the 5th largest economy in the terms of nominal GDP. SAARC nations comprise 3% of the world’s area and contain 21% (around 1.7 billion) of the world’s total population and around 9.12% of Global economy (http/wiki/SAARC). The founding members of SAARC are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri-Lanka. In 2007 Afghanistan joined the organization. Now, the members of this association are Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri-Lanka and Afghanistan. The member countries of SAARC are complemented by regional, political and economic similarities. All these countries are situated within South Asia and are developing countries. They are characterized by low income, high population and vulnerable governance accompanied by political instability. The objective of this organization is to promote economic and social progress and cultural development within the South Asian