

ECONOMIC GROWTH, STRUCTURAL CHANGE AND INTERSECTORAL LINKAGES IN SAARC ECONOMIES

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Abstract. In this globalized and liberalized era, studies concerning global economic interdependence have occupied a central place. Specifically, the issue of assessing the extent to which the economic growth of each member nation in a regional cooperation can influence the growth of other members, has recently attracted the attentions of academicians, researchers and policy makers as well. Despite the fact that SAARC (South Asia Association for Regional Cooperation) has been constituted in 1985 for promoting peace, stability and progress in the region, yet it has to produce notable outcomes. On the basis of the argument that structural changes in an economy can foster its economic growth and influence *de facto* economic integration across member nations, this paper investigates the sectoral interdependencies in SAARC economies. This study adds to extant literature by interpreting macroeconomic interdependence in terms of intersectoral linkages. The study found that the partner countries of SAARC demonstrate different trend patterns of economic growth fostered by different patterns of structural transformations. In a panel framework, the study provides the evidence of long-run equilibrium relationship between the agriculture, industry and services sectors among SAARC countries. The analysis found the evidence of causal relationship running from industrial and services sectors to the agricultural sector in the long-run. There is also the evidence of short-run bidirectional causality between agricultural and services sectors, and between industrial and services sectors. Additionally, short-run unidirectional causality is observed running from industrial sector to agricultural sector. The estimation of long-run elasticities concludes the existence of strong positive long-run intersectoral linkages between the three sectors in the SAARC region which would be helpful in utilizing each other's economic potential, business environment, and legal frameworks that may facilitate mutual trade and better sectoral integration.

Key Words: Economic Growth, Structural Change, Intersectoral Linkage, Panel Data, SAARC

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1. Introduction

Economic integration, in the literature, has been considered as an important means of increasing social welfare (Jovanovic, 1998) and achieving efficiency in the use of economic resources (Robson, 1987) for sustainable growth and development. Thus, the goal of economic integration mainly among the developing economies, given their scarce resources, is either to achieve a higher rate of economic growth and increase in social welfare in member countries, or alternatively to optimize the cost of using scarce resources for attaining a given level of economic growth and social welfare

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