Chapter 1

Infrastructural Development: An Engine of Growth – An Empirical Study in SAARC Countries

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ABSTRACT

Development of infrastructure industries is essential to enhance the growth of a developing country. The present chapter attempts to examine the impact of infrastructure on Gross Domestic Product and Per Capita Gross Domestic Product of six SAARC countries from the period 1990-91 to 2013-14. The model is mis-specified whenever we have used the restricted panel data model. We have derived the results by employing the unrestricted panel data model. Impact of road, internet users and total electricity production on the level of GDP as well as on the level of PCGDP is highest for India among the all SAARC countries. India has also the highest rate of growth of GDP over the entire period. Rate of growth of PCGDP is highest for Sri Lanka followed by India.

INTRODUCTION

Infrastructure development is an instrumental component in encouraging a country’s economic growth and development. It not only enhances the productivity of a country but also improve the efficiency of production, transportation and communication etc. The accessibility and quality of infrastructure in a region help the domestic firms to take investment decision and determine the region’s attractiveness to foreign investors (Econ South, Federal Reserve Bank of Atlanta, 2008). Infrastructure has two different lines of implication. Alternatively infrastructure may be interpreted as soft infrastructure and hard infrastructure. Physical infrastructure such as road, rail lines, telephone and internet lines etc. which belong to the category of hard infrastructure may be measured by physical units of output. Human infrastructure such as efficient labour, knowledge creation, the way of governing a public and corporate

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system, political application of good technology etc. fall under the category of soft infrastructure and is expected to play a crucial role in economic growth and development. The health and education of a country also depend on infrastructural development which in turn affects the growth of an economy. According to World Bank (Econ South, Second Quarter, 2008) one in six people worldwide, mostly the poor have inadequate access to water more because of limited access to infrastructure than because of water scarcity. The availability of clean and safe water is necessary for maintaining a healthy population.

Electric power, which is one form of energy, is an essential ingredient of industry, agriculture and transport sector development. Insufficient access to electricity adversely affects the public health care system. Storage and distribution of medicines largely depend on the availability of adequate infrastructure facilities. All the developed countries have adequate power supply so that all the activities are executed efficiently, smoothly in time. On the other hand, all the underdeveloped and developing countries have not sufficient supply of power. The plans of these countries are targeting for building of adequate infrastructure to put their economies on a high growth path (Kalita, 2012).

Efficient transport is a critical component of economic development, globally and nationally. Transport availability affects global development patterns and can be a boost or a barrier to economic growth. Transport’s contribution to economic development can be explained as follows. Transportation investment link factors of production together in a web of relationships between producers and consumers to create a more efficient division of production and provide the means to expand economies of scale and scope. Good transport system reduces the cost and time which contributes to the economic growth. It helps to better utilization of resources through linking the backward region with the forward region which is indispensable for overall economic development. The transport sector helps to expand the market for goods and helps to produce at a large scale through division of labour. It is also essential for the movement of raw materials, fuel, machinery etc. Adequate transport facilities enable the poor section of the community to have better access to education.

The communication system comprises posts, telecommunication, broad band lines and internet lines etc. The communication system helps to provide necessary information about the market condition to the buyers and sellers. It is a vital instrument for global competition which attracts foreign direct investment. Development programmes can only realize their full potential if knowledge and technology are shared effectively, and if populations are motivated and committed to achieve success. Unless people themselves are the driving force of their own development, no amount of investment or provision of technology and inputs will bring about any lasting improvements in their living standards (Diouf, 1994). Communication media and techniques can be powerful tools to advise people about new ideas and methods, to encourage adoption of those ideas and methods, and to improve training overall.

The South Asian Association for Regional Cooperation (SAARC), which was established on 8\textsuperscript{th} 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
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