Role of Exports Diversification in Human Development in South Asia: An Empirical Analysis

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Abstract
While several studies empirically find the relationship between exports diversification and economic growth, little is known about the relationship between export diversification and human development. This study empirically examines the relationship between export diversification and human development by using Panel data for the period of 1995 to 2020 in South Asia countries likely, Pakistan, Bangladesh, India, Nepal and Sri Lanka. According to the current outward policies in developed countries, the international development institutions stress on the policy of export diversification in South Asia to keep the current pace of economic growth in future. To avoid external shocks and to have the sustained and inclusive growth, the concentration of exports with limited scope of productivity growth and quality of export must be focused in the low income countries. The continuous structural transformation and lower concentration of products and market are key elements to development. This study contributes to the existing literature by exploring the export diversification as one of the determinants of human development in South Asia. The findings from panel Corrected Standard error model in the study confirms positive and significant impact of export diversification on human development in the region. Therefore, the distributional policies may get important role to improve income distribution as well as human development.
Keywords: Export Diversification, Human Development, South Asia,

1 INTRODUCTION

The recent political movement in the world like Brexit and the election of president of USA are the future of the globalization. According to South Asia economic Focus, (2017) the hype of globalization is over before this backlash. The world trade is under pressure due to these threats. But the region may gain benefit because of these restrictive measure and recent economic activity improvement in advanced economies by making exports diversification. The countries which are rich in resource have got the strong message, of output and export diversification, from the sharp decline

of commodity prices in 2015-16. The sharp decline in oil prices and other commodity has put enormous pressure on the exports and fiscal revenue which in turn slowed the growth. The situation demanded the macroeconomic adjustment and rethinking on the policies. So, the measures have been taken by these countries for the stimulation of output and diversification of exports (IMF 2016). The learning by exporting has been extensively discussed in the earlier literature and this learning by exporting will in turn leads to exports diversification. According to World Bank (2016) the diversification with respect to product has increased in emerging market economies especially in the region of South Asia. These circumstances stimulates for the study of external sector role in the economic growth and human development in the region.

The theory of international trade with comparative advantage was given by David Ricardo and this theory also emphasized the idea of complete specialization and concentration of exports. Heckcher Ohlin also proposed a theory of incomplete specialization with the concentration of few products and dependence of factors endowments. The proponents' are of the opinion that the exports diversification can provide different channels which contribute to the growth of the economy through different streams of prosperity. First, investment in a wide range of activities is necessarily involved in exports diversification. So, this phenomenon will broaden the revenue streams, mitigate the adverse result of the instability in exports and oscillation in terms of trade, save the country from external shocks and risk of the demand and price related fluctuations (Edward, 2009). Second, it will be a distributional channel for the new revenue streams for the other supplementary and complementary sectors of the country. So, the exports diversification can reduce regional inequality (Page, 2008). Third, the fluctuation and swings in foreign exchange revenue can be reduced through exports diversification and it can enhance the GDP and employment rate through the value addition initiatives and the improved quality of manufactured products (Alaya, 2012).Exports growth is vital for the country for many reasons because it is essential to generate foreign exchange, to finance imports, to contribute in the employment generation and boost economic growth, to increase the human capital in the economy (Samen, 2010). For structural transformation and diversification of exports a key driver is the well educated workforce

All people flourish in varied and creative ways is the basic objective of the development because people are the real wealth of the nation. To make fast economic growth and to collect financial wealth, man is often ignored remarkably but human development makes man the center of development. GDP per capita and economic growth often is used as a measure of the progress of the societies while the human wellbeing is not considered. This measure of progress cannot be justified as the adequate metrics of human wellbeing because of several reasons. First, GDP per capita and economic growth do not show the equality and composition of growth. Second, financial instabilities and crisis are the result of some higher economic growth strategies and policies. Third, higher GDP per capita and economic growth does not reflect the improvement in the indicators like health, livelihoods, relationships, education, security, happiness, political freedom and self-direction that reflect human wellbeing. Majority wants to get more income and work hard to get it but it is not the sum total of the human life. In a nutshell, HD is defined as the process of development by the people, of the people and for the people (Sabina Alkire, 2010). According to Doni Rodrik (20007) economic growth did best for the societies to have more chances of life especially for those at the bottom line. Economic growth has robust positive relationship with the employment opportunities for the societies. The relationship between economic growth and poverty is very clear and economic growth generates gender inequality which reduces the impact of economic growth on poverty reduction, is

ambiguous (DFID, 2007). There are two perspective of human development and one of it is the formation of human capabilities that is improved health, knowledge and skill. The other one is the accomplishment of the values which may be economic, political, social and cultural by using the acquired capabilities.

Economic growth, human resource development, human rights and participation, peace and security and sustainability are the contributing channels to human development. The human rights and participation also include culture while all five heading include the phenomenon of equity. All countries can be divided into three group i.e. low, medium and high value of HD value with three basic variables life expectancy, literacy and purchasing power adjusted GNI per capita. There are two steps to calculate HDI, dimension index is measured in the first step and then aggregating the subindices to measure HDI. Dimension index is measured by allotting minimum and maximum values to the indicators in the range 0 to 1. The highest observed value in the time series is taken as the maximum value while minimum value is given for 20 years life expectancy, 0 years of education and 100 dollar per capita GNI. The geometric mean of the three key components is the HDI and can be measured by the formula (UNDP, 2011)

$$HDI = life^{1/3}.education^{1/3}.income^{1/3}$$

One of the main policy reforms is liberalization in Washington consensus and openness is always motivated by the development organizations, IMF, World Bank and WTO, in the past. Trade openness increases economic growth according to the conventional wisdom and the main argument always was the export led growth hypothesis. The hypothesis explains that the domestic firms become more productive because of foreign market exposure leading to enhance competitiveness (Feder, 1983). According to the previous literature the relationship between trade openness and poverty alleviation is not simple because it requires the fair income distribution and human development is the prerequisite of sustained growth.

The relationship between export diversification and economic growth has a sizeable volume of theoretical and empirical literature. Import substitution industrialization policy, in many developing countries and regions like Asia Africa and Latin America; have dominated the policy paradigm between 1950s and 10970s. East Asian economies made higher economic growth through implementation of export diversification strategies during 1970s and 1980s and they also influenced other developing countries in the region to believe on the outward oriented policies for export promotion. According to Raihan et al., (2016) the concentrated export basket with lower market access makes the countries vulnerable to economic shocks and decreases the potential to benefit from international trade. The export diversification in the readymade garments has benefitted the woman working in these industries by providing them employment. The employment opportunities raises their economic wellbeing in terms of higher income, increased consumption of food, good health, higher savings and investment, Higher security and better living condition. All these not only empowered the women but also increased their power in making decisions regarding fertility and household. Human development indicators improved in gulf countries during the period of lower concentration in exports (Tim Callen et al., imf, 2014). East Asia and Pacific showed improvement in human development index by 1.4 percent and 1.3 percent against the improvement in the whole world 0.7 percent during the process of export diversification in these region and South Asia also showed fastest improvement in human development (UNDP,2015).Manufactured exports, agricultural exports, mineral exports, informal cross border trade and electricity trade ultimately increases income, employment and opportunities for the individuals in the society (HDR, 2006).

Similarly the trade agreements not only provide access to the market but also have positive impact on human development.

The Dynamic Effect theory suggests that the exports diversification increases the learning capabilities for the labour and producers if they are dynamic in world market. When the developing economies shift their products to developed economies, they have more scope to learn through the contacts with international buyers and competitors. The result of all this is the increase in the productivity of the labour which in turn increases the economic growth (Andreas Pyka, 2012).

Fig: 1.1 Channel Structures of Export Diversification and Human Development
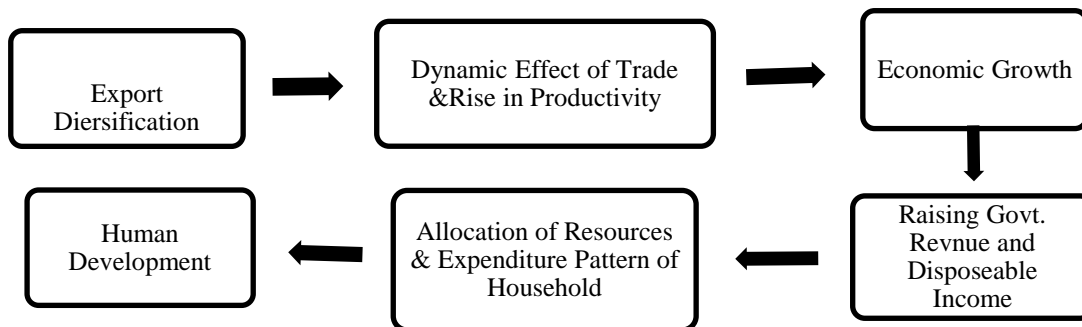

Source: Inspired from Feder, (1983) and Dominik Hartmann (2013)

The above figure shows that the HDI determines the export diversification through the rise in skill, knowledge, potential and capabilities of the labour class and the export producers. The export diversification, through dynamic effect of interaction and competition in foreign market, bring economic growth which in turn positively affects human development though fair income distributional policies and increase in social expenditure. Recent literature has identified that countries with export diversification have important implications for macroeconomic indicators like growth, trade, and unemployment and human development (Kabeer et al., 2013).

1.1 Export diversification in South Asia

The region of South Asia has been relatively successful in the diversification its product market especially in Asia and Africa while the recent crisis in Europe has reduced the exports growth According to World Bank the diversification with respect to product has increased in emerging market economies especially in the region of South Asia. The recent data shows that Pakistan and Nepal has a downward trend in the last decade while Bangladesh, India, Sri Lanka and Bhutan has upward trend in diversifying their product and market.

Fig: 1.2 Ten Years average of Export Diversification in South Asian Economies
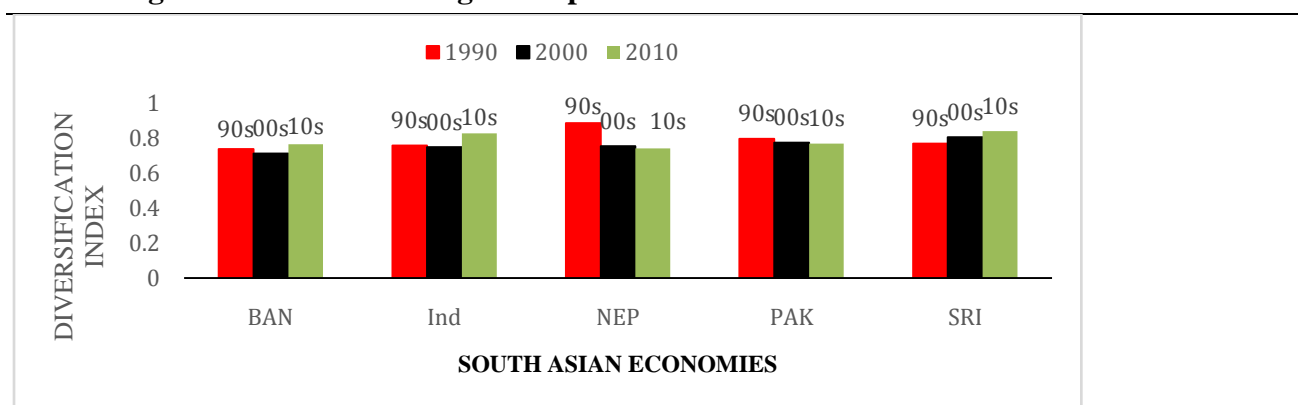
Source: Herfindhal Index (2015)

Pakistan is confronting a situation of concentration of product as well as markets and this is the main factor influencing the trade balance in Pakistan. The exports consist of few products like rice, leather, and sports goods with major share 60% of cotton products and similarly with few destinations like USA, UK, China, UAE and Afghanistan with their share of 17%, 8%, 8% and 4% respectively. Almost 60 percent of products are being exported to ten countries in the world and the need of the hour is the diversification to reduce trade deficit (Economic Survey of Pakistan, 2015-16).

1.2 Human Development in South Asia

The improvement in social indicators is due to the increase in public spending in education and health in developing and transition economies (Finance and Development, 1998). Pakistan is standing behind the other countries in South Asia like India, Sri Lanka, Maldives, Nepal and Bhutan because these countries spend more on human beings than Pakistan spends (Iftikhar et al,. 2010). To raise the living standards of the people of Pakistan, very important measures have been taken like five years plans and especially the Structural Adjustment Program in 1980. The expenditure on education and health has been increased from 1.4 % in 1980 to 2.8% in 2016. Inspite all these insufficient efforts Pakistan stood 147 out of 188 countries in2016 with HDI value .550. Sri Lanka remained at the top in HD report in 2016 in South Asia with the value of HDI .757 that is 73 out of 188 countries. Maldives has been ranked at 104 while India is at 130 out of 188 countries. Pakistan, Nepal and Afghanistan came under the group of lower human development countries while India and Bhutan remained in medium human development countries in the world (HDR, 2016). Pakistan is well behind from other countries in the region in like Bangladesh, India, Nepal and Sri Lanka in the indicators which are included in the human development ranking. Pakistan is ranked 147 with 5031 GNI per capita, 66.4 expected years of.

Table:1.1 Statistics related to Human Development in South Asia 1990-2015

GNP per capita in current US dollar				
Country	1990	2000	2010	2015
Bangladesh	850	1340	2590	3550
India	1120	1960	4270	6050
Nepal	2060	2740	4360	5300
Pakistan	780	1220	1960	2490
Sri Lanka	2060	2740	8300	11480

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Life Expectancy at birth in Years				
Bangladesh	56	65.3	70.24	72.2
India	61	62.59	66.63	68.33
Nepal	54.19	62.32	67.91	69.86
Pakistan	60.09	62.75	65.19	66.4
Sri Lanka	69.65	71.08	74.31	74.98
Total schooling average in years				
Bangladesh	3.13	4.48	5.91	10.2
India	3.45	5.03	6.24	11.7
Nepal	2.49	2.97	4.23	12.2
Pakistan	2.92	3.83	4.6	8.1
Sri Lanka	8.51	10.24	10.06	14.0

Source: WDI, UNDP (2016)

Schooling, 8.1 expected years of schooling, 0.237 multidimensional index values and 0.471 gender development index value (UNDP, 2016). Sri Lanka is at the top with highest ranking number 27th because of highest GNI per capita, life expectancy at birth and the total average years of schooling etc in the region. This study contributed to the literature to have the empirical analysis related to the impact of exports diversification on the human development in the region.

2. LITERATURE REVIEW

The role of economic diversification has been one of the prominent research issues over the last fifty years in the developing countries. These studies focused on the determinants as well as the consequences of the export diversification. Different measures have been used by the researchers to estimate the proportion of primary and manufacturing export in the total export of a country and it help to induce export diversification. According to Salomon (2010) these studies also helped to develop policies for the export diversification which ultimately played their part in the economic growth of the developing economies. This section will provide a brief review of related literature on the relationship between export diversification and human development index.

Hartmann and Pyka (2013) explored the gap between innovation, economic diversification and human development and analysed the postive and negative impact of economic diversifiication. According to them the economic development is the result of economic variety but there must be compatibility between the policy of human development and the industrial policy for economic diversification. The study explored the negative effect on human development in the short run during crises but positive impact on the HD during in the long run. Eren et al., (2013) empirically investigated the impact of different variable including GDP on the human development by using the HDI of 84 countries. They used logit, probit and tobit regression model to examine the factors affecting the development level of countries. The results of the study shows that the labour force participation rate (female-male ratio), expected years of schooling, life expectancy at birth and GDP are the significant determinants of the development. The study also suggested that the countries which have high HDI value may focus on these four factors to get higher level of development. Remirez et al., (1997) explored important link between economic growth and human development through the public spending on education and health especially on female. They also suggested that both human development and economic growth should be jointly promoted but priority must be given to human development. Rains et al., (2000) empirically investigated the relationship of

economic growth and human development with two chains- form economic growth to human development (chain A) and from human development to economic growth (chain B) by using cross country regression. By using the data set from 1960-1992, Chain A described the improvement in human development due to economic growth through the community organization and nongovernmental organizations while the chain B described the increase in GDP due to improvement in human development. Stiglitz (2012) explored the channels of macroeconomic fluctuations on the inequality and further the impact of inequality on the human development for especially in developing countries. According to him the impact of volatility is go far behind the loss of GDP and employment which in turn effect the human development. Gries, Thomas, Naude and Wims (2010) investigated the impact of entrepreneurship on human development. Entrepreneurship both as a resource and process can extend the human capabilities so, it can be human functioning. According to their model it is possible that the entrepreneur may not match their ideas to the suitable opportunities while the entrepreneurship is valued.

Seth and Villar (2017) explored the concerns related to HDI, the empirical relationship between inequality and HD and the empirical research and findings related to multidimensional poverty. According to the study a panel of indicators saves from the choice of difficult modeling while a single index make it easier to have the evolution of HD and poverty. These both phenomenon are complementary rather than alternatives. There are some inconvenience regarding HDI like income is measured in logs while income distribution is not and what is the interpretation of inequality regarding health and education. The MPI is much better and sounder than the previous measure of poverty and it is applicable to the less developed countries. Squire (2002) explored the relationship between equity, growth and human development especially for East Asian economies. According to the study, available data set gives little support between the inequality and economic growth and there is strong correlation between inequality and human development. The East Asian economies reduced the gap towards developed economies by acquiring higher growth without a rise in inequality and their success story is an example for other countries to follow .Mustafa et al. (2013) estimated the link between openness, economic growth and human development for the Asian economies and used the OLS, 2SLS and 3SLS econometric technique for the panel regression. The results of the three equations confirmed a positive impact of trade openness on the economic growth and human development while the impact of human development on economic growth is positively explored. The impact of economic growth on human development was significant and negative.

Tellez (2011) explored the link between trade liberalization, FDI and gender inequality employment, labour income, health and education in context of developing and developed economies. According to him the evidence from developed countries are mixed and it depends whether they are trading with developing or developed countries. The most Asian and Latin American women have benefited from the trade liberalization while the women from Africa and Chines have been hurt. Women in Asia and Africa work in agriculture but not in Latin America. The women in Asia and Africa are hurt by trade liberalization and the wage gap rose while Latin American women are not hurt by such gap. Kocourek et al. (2013) empirically investigated the impact of human development on globalization and also explored the parameters of institutional quality that is HDI. They selected two indexes for their study that is inequality adjusted HDI and KOF globalization with 36% weight of economic globalization, 38% weight of social globalization and 26% weight of political globalization. The model included the IHDI squared term as independent variable for the estimation of the dependency of globalization on human development. The study concluded that there is significant relationship

between globalization and human development. The higher the value of HDI, the higher will be the globalization and this result was approved on almost all countries.

The theoretical and empirical review of literature shows that a lot of studies regarding on export diversification, human development and economic growth have been conducted in the past. The current situation regarding globalization in developed nations demands developing countries the diversification of their export to maintain the pace of economic growth as well as human development. From the above literature review it has been found that the export diversification is one of the determinants of economic growth and economic growth is the essential element of human development. This study will fill the gap in literature regarding the long run relationship between economic diversification and human development in South Asian economies.

3. MODEL SPECIFICATION

Exports diversification is essential for the growth of total factor productivity as well as to decrease the oscillation in growth of exports Rath and Akram (2017). Scholars have been investigated the positive relationship between exports diversification and economic growth over the year. Bertz (2010) and Gozgor and Can (2016) empirically investigated the effects of product diversification on the real GDP per capita level at different stages of development. Kazadjian et al. (2016) developed the linkage between exports diversification and human development through the increase in education of the labour force. According to them the increase in human capital in labor market will initiate new ideas of products and potential of the labour market which enhances exports diversification.

3. 1 Methodological Issues

The secondary data is used in the study and the data set consists of the annual observations from 1995 to 2020 and we have equal observations for all individuals so it is balanced panel data set. Human development index is taken as dependent variable to capture the effect of export diversification on human development index while the control variables are infant mortality rate, foreign direct investment, gross domestic product per capita, and female labour forec participation rate and urban growth as right hand side variables. HDI is estimated through running panel data regression by the methods of pooled regression or constant coefficient method, fixed effect LSDV method and random effect or error component method. For the selection of best model, FEM hypothesis testing, REM versus FEM, Hausman specification test and Breusch-Pagan Lagrange Multiplier test are used (Gujarati, 2003).

The tests which are available for pooled, fixed and random effect are Hausman test, Breusch-Pagan test, Bhargarva and Sargan Test but in this study we F-test, Hausman test, and Breusch-Pagan test. F-test with Ho: Pooled OLS is appropriate than FE model this test can be used for significant for change in R- square. Hausman specification test with Ho: REM is appropriate is most commonly used test to decide between FE and RE model. If we reject the null hypothesis, the FEM is the most appropriate. Breusch Pagan Lagrange Multiplier test with Ho: Pooled OLS is appropriate than RE model and it is also decided on the significant p- value.

The application of OLS to endogenous relation between dependent and explanatory variable give biased and inconsistent estimates since the problem of endogeneity is the cause of omitted variable bias, measurement error in variables and simultaneity in variables. So, we can run fixed effect model

which give unbiased and consistent estimates while in case of endogenous explanatory variables case random effect model generates biased and inconsistent estimated coefficients (Gujrati,2011)

3.2 Model

The parsimonious model of human development is built on the basis of recent development theory and research work of Binder and Georgios (2011).

$$HDI_{it} = \beta_0 + \beta_1 EDI_{it} + \beta_2 IMR_{it} + \beta_3 FLFPR_{it} + \beta_4 GDPPG_{it} + \beta_5 FDI_{it} + \beta_6 URG_{it} + \mathcal{E}_{it}$$

The model has explanatory variables that are IMR stands for infant mortality rate; LGNIPC is log of Gross national income per capita; FDI is foreign direct investment; FLFPR is the female labour force participation rate; HDI is the human development index; EDI is the export diversification index and $\mathcal{E}it$ is the error term in the panel.

4. RESULTS AND DISCUSSIONS

The descriptives shows the entre, spread and range of the data. All the used variables have 130 observations and it is a balanced long panel with 5 cross sections and 26 years data.

Table: 4.1 Descriptive Statistics

Variables	Observations	Mean	Std. Deviation	Min.	Max.
HDI	130	0.564	0.101	0.41	0.785
EDI	130	0.694	0.129	0.433	0.895
FLFP	130	38.49	22.04	12.51	81.67
GDPPG	130	3.432	2.621	-8.16	9.002
IMR	130	45.59	24.26	6.1	96
FDI	130	0.980	0.730	-0.09	3.669
URG	130	2.774	1.334	0.046	6.734

The OLS model is selected after the REM on the basis of BP test while Hausman test is in favour of FEM. F-test also in favour of FEM but when the diagnostics are applied to the fixed effect model, there is heteroscedasticity as well as autocorrelation. That's why panel corrected standard error model is selected as a final model. The coefficient of EDI is negative and significant and it indicates a rise in the concentration of exports will decrease the human development and this result is according to the earlier studies in the literature. In other words the coefficient of export diversification shows that the rise in the value of index of export diversification will increase the human development. The increasing potential of labour market i.e. a rise in the labour force participation rate will increase human development. The other variables like IMR, FDI, URG and GDPG are also significant but have low contribution in HDI index.

Table: 4.2 Panel Static Regression   Dependent Variable: HDI

Variable	POLS	FEM	PCSE
EDI	-0.035*	.017	-0.035**
	(0.087)	(0.028)	(0.016)
FLFP	0.01***	0.005	0.001***
	(0.007)	(0.004)	(0.0001)

GDGPG	-0.003***	-0.002	-0.003***
	(0.008)	(0.005)	(0.0008)
IMR	-.003***	-.001***	-0.003***
	(0.00)	(0.003)	(0.0001)
FDI	0.06*	0.006***	0.006**
	(0.04)	(0.002)	(0.003)
URG	-0.013***	-0.021***	-0.013***
	(0.02)	(0.002)	(0.003)
Constant	0.849***	0.774***	0.836***
	(0.025)	(0.0257)	(0.018)

Column 1 has coefficients and P-values (parenthesis) of Pooled OLS; Column 2 is of Fixed Effect Model; column 3 belongs to Random Effect and column 4 & 5 has panel corrected standard error model.

Table:4.3 Model Specification & diagnostics tests

Sp. Tests	Null hypothesis	P /F-values	selection
Hausman test	REM Model is appropriate	0.000	Fixed Effect
Bruesch- Pagan test	Pooled OLS is appropriate	1.000	Pooled OLS
F-test	Pooled OLS is appropriate	3.75	Fixed Effect
Ho: Residuals across countries are not correlated (BP LM test) Value=0.000			P-
Ho: No Heteroscedasticity	(Modified Wald test)		P-Value=0.000
Variance Inflation Factor			Mean VIF=2.11

5. CONCLUSION

The study explained strong positive impact of export diversification on human development in South Asian countries like Bangladesh, India, Maldives, Nepal, Pakistan and Sri Lanka, by employing Pooled OLS, Fixed effect and Panel corrected standard error model for the period of 1995-2020. The specification tests decided in favour of PCSE model and it can be seen from the above table (4.3). The study proved the positive and significant relationship between export diversification on human development. Human development has been explained with the different determinants including gross national income per capita, life expectancy, Govt. expenditure on health and infant mortality rate. The recent literature has clearly explained Trade openness has significant impact on gender inequality as well as human development (Kazadjian et al., 2016). The continuous structural transformation and lower concentration of products and market are key factors to development. On the basis of the findings the following recommendations can be made. First, the countries with higher export concentration with respect to product and destination, technical assistance and incentives are needed from the government side for research, innovation and development of manufacturing sectors. Second, there is important role of public policies to distribute the benefit of diversification to the people to raise their income, health and literacy rate in the countries of the region with higher exports diversification. There are certain limitations of the study

like the number of countries in South Asia due to non-availability of data and some other macroeconomic variables can also be included as explanatory variables.

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