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IMPACT OF ECONOMIC OPENNESS ON MACRO TECHNICAL EFFICIENCY IN SOUTH ASIA

ABSTRACT

This study utilized panel data and the stochastic frontier approach based on the Cobb-Douglas production function to estimate macro-level technical efficiency and economic openness as well as to identify the determinants of technical efficiency in South Asian countries over the period 1990 to 2019. Data are from the World Development Indicators of the World Bank and the United Nations Conference on Trade and Development. The results suggest a 10% technical inefficiency in the region. In addition, they show high efficiency with more foreign direct investment and openness in South Asian countries. The country-specific technical efficiency estimation indicates that Sri Lanka is the most technically efficient country, followed by India and Pakistan, whereas Bangladesh is the least technically efficient country. Furthermore, the study provides robust evidence for the positive effect of macroeconomic openness of foreign direct investment and trade on technical efficiency. The present study provides a future perspective on the country-specific economic strategies in South Asia. In addition, the findings provide important evidence on how macroeconomic policies can affect efficiency and steady growth by examining and identifying the factors that influence technical efficiency in the region. Additionally, the differences between the factors that influence technical efficiency in different countries are discussed by comparing the findings of this study with those of previous studies that have focused on economic openness. This paper presents a view on the status of macro-level

technical efficiency. Furthermore, it explores the opportunities for foreign direct investment and export-oriented policies of South Asian countries, which would benefit these nations.

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