Analyzing the Financial Trends of Islamic and Non Islamic Emerging Markets of South Asia

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ABSTRACT

Purpose: The aim of the study is to explore the trends of organizations performance of Islamic and Non-Islamic South Asian countries.

Methodology: Out of 8 south Asian countries, 4 were selected those play a vital role in economic development of south Asia. Pakistan and Bangladesh were taken as Islamic ruling countries, whereas, India and Sri Lanka were taken as non-Islamic countries. 10 years of data before COVID-19 pandemic from organizations listed in stock markets were gathered on annual basis. Efficiency and profitability ratios were taken as variables. Augmented dickey fuller unit root test was used to interpret the stationary in data. Data was found volatile in South Asian countries organization in terms of efficiency and profitability ratios.

Findings: Results revealed that purchasing power among people of South Asia increased in terms of buying commodities as the stationarity in stock inventory did not investigate and it inclined with consistent growth gradually.

Implications: As Pakistan vision 2025 suggests a collaboration of public and private sector for rapid growth of the region such model should be implemented in all the cases. So, these countries seem to be building block of south Asia. Any economic variation taking place in these four regions may change the entire stage. Keeping their significance in view, an attempt aimed to explore the effect of Islamic and non-Islamic economy on the organizations' performance in south Asia.

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Introduction

Over the last few years, it has been revealed that South Asian countries are making progress in

terms of their economy and have made upward growth in maintaining their markets. Even, the reports of World Bank have also emphasized that South Asian countries have more economical growth with the rate of 6.2% to 7.5% as compared to other developing countries that is a huge success for all South Asian countries and a positive indication towards the emerging economic growth (Guillén & García-Canal, 2009).

Private sector is the key contributor of development in almost all the regions around the globe. Around 90% of global employment is generated by it (Avis R W 2016). South Asia has emerged as the strongest sub region with private sector of Asia with a growth rate of 7%. India and Bangladesh has proved to be the key promoters of south Asia and their growth rate is expected to rise even more in coming years. Though Pakistan and Sri Lanka are having a comparatively lower growth rate as compared to India and Bangladesh still they are continuously paving their path towards developed private sectors. Over all private sector of south Asian region is very impressive state. Except Afghanistan all other countries are enjoying a peaceful political state, adoption of new developmental agendas and commitment of governments are working behind this growth (ADB 2019).

The economic system of South Asia is comprised of both Islamic and non Islamic markets that are contributing in uplifting the major countries of South Asia. The present article is majorly focusing on Pakistan and Bangladesh in exploring trends in Islamic marketing and India and Sri Lanka in non-Islamic marketing by going through the annual reports of stock exchanges; these four being the primary nations contribute a lot to the growth potential of south Asia. Till 2019 Pakistan was at the lowest rank in growth but the inflow of investments from china changed the situation now Pakistan is playing as an emerging economy in the globe. The most powerful private sectors that is the most helpful tool for economic growth of Pakistan includes; agriculture, mining and quarrying, manufacturing, construction, electricity generation and services sectors. Both agriculture and industries contribute 20% to Pakistan's GDP while services contribute 60% to GDP (THE NEWS 2021). Bangladesh with a growth rate of 8% also turned up to be a strong candidate in economic race. It is expected that by the end of 2024 Bangladesh will be graduated from the list of LDCs just because of its rising private sector. 78% of Bangladesh's development is attributed to private segment (Abdin, 2020). While in Bangladesh, the most dominating private sectors are agriculture, food, textile, printing and publishing, tannery and leather, chemical, glass and ceramics etc. (Absar, 2012). Though Private sector is not only the dominant investor but also the largest employer with 7 million workers in formal sector and 18.6 million in informal sector (ADB 2008), yet literature suggests that the instable political and economic condition of Pakistan is not allowing the country to grow at a fast pace as just like other south Asian countries. More over infrastructure deficit is also restraining the private sector of Pakistan.

Due to the inefficacy of monetary policy, the domestic prices of products are becoming unaffordable for investors that are further causing trouble in producing enough output for local population. The import rates are also increasing day by day in Pakistan that is another barrier in economic growth of country (Sharif, 2002). On the other hand, the evidences from Dhaka Stock Exchange frequently suggest that the market is not growing in Bangladesh rapidly due to the delayed transfer of modern information, incompetent pricing and positive feedback trading (Ahmed & Hossain, 2019). Political instability and climatic disturbances are the constraints in Bangladesh's way toward growth. Rising private sector development is found to be an engine of growth through income & employment creation. Growth of private sector promotes social and economic status of the region through poverty alleviation. Developing countries have been experiencing an upward trend in private sector expansion since 1990 (Bayraktar 2003). Despite its significant role private sector in developing countries face many obstacles such as poor infrastructure, adverse investment climate and skills etc.

The literature and stock exchanges of countries suggest that non Islamic countries in South Asia; such as India and Sri Lanka are more prone to get better economic benefits than Islamic countries as mentioned above. Private sector is prime investor of India and major contributor of capital formation. About 51.2% employment is generated by private sector as compared to 44.3% by public sector of India. It is contributing three fourth of the India's national income (Seth T). India has attractive financial market exchange rates and equity investment. The markets are more economically strengthened by using stable capital flow. Agriculture, poultry, and banking are most important private sectors in India (Ghosh, 2013). The share of agriculture and services are 15.4% and 61.5% respectively in India's GDP. Sri Lanka also found to be at higher side of economic growth amongst other South Asian countries; and the economy and market of Sri Lanka mostly depends upon agriculture and manufacturing industries. The capital structure of Sri Lanka seems to be more firm and stable and the market trends seem to be moving upward in past few years (Colombage, 2005). Private sector is also ruling the economy of Sri Lanka as in 2018, 8.3 million Sri Lankan labor force is employed in private sector while only 1.1 million are working in public sector (Kulatunga, 2021).

The pandemic covid-19 has changed the setting; it has worsened the performance of former growth champion. Before pandemic south Asia was almost on its way to attain SDGs but region's poor health infrastructure demanded strict lockdown and it left deep scarce on the south Asian economy. Regional economic growth fell from 3.1% to -8.6%. Without any distinction of being Islamic or non-Islamic all the economies only India's growth declined from 4.7% to -9.6% in 2019 to 2020. Pakistan a country already entangled in crisis its growth rate fell to -2.7% in 2020. And Bangladesh's growth falls from 8.4% to 0.5% (UN 2021). But it is expected that by fiscal year 2022 the private sector will accelerate the economic growth in these regions. All the hurdles which were disrupting private sector will be sorted out, India and Bangladesh are supposed to be playing a vital role in this regard (Devnath, 2021). But growth cannot be relied only on public sector. Specifically, in those countries where tax system is weak and debt burden is high, there is no other way except promoting private sector to come forward as a booster. Increased investment from private sector can assure the growth in future. As Pakistan vision 2025 suggests a collaboration of public and private sector for rapid growth of the region such model should be implemented in all the cases (khan S F 2019). So, these countries seem to be building block of south Asia. Any economic variation taking place in these four regions may change the entire stage. Keeping their significance in view, an attempt aimed to explore the effect of Islamic and non-Islamic economy on the organizations' performance in south Asia.

The aim of this study is explore and investigate the financial trends of South Asian markets while keeping other disasters and abnormal financial events kept constant.

Methods

Four large countries in terms of geographical area and population were taken into account that contributes the most to the development of south Asia's economy. The data was extracted from the official annual reports of the organization. The last 10 years (2008-18) of data were taken into consideration. The reason of not considering the data for 2019 and 2020 is to avoid the abnormal volatility in the financial market due to COVID-19 pandemic, hence the study is based on the normal financial trends of South Asian market. Organizations listed in respective stock exchange markets were selected. Pakistan and Bangladesh were taken as Islamic ruling countries; and India and Sri Lanka were taken as non-Islamic ruling countries. Stock exchanges of four South Asian countries were selected i.e.; Pakistan Stock Exchange (PSX), Bombay Stock Exchange (BSE), Colombo Stock Exchange (CSE), and Dhaka Stock Exchange (DSE). Almost all the data was selected from the private sector's investment. Efficiency ratios i.e. Asset Turnover (ATO), Inventory Turnover (ITO) and Receivable Turnover (RTO); and Profitability Ratios i.e. Gross Profit Margin (GPM), Return on Asset (ROA) and Return on Investment (ROE)

were considered because they are prominent explainable variables for the analysis of financial trends. Total 105 observations were gathered from stock markets of Islamic countries and 166 were from non-Islamic countries. Auto-Regressive Lag Distribution (ARLD) Model was deployed for mathematical representation of data.

Econometrical Models

Average Turnover

$$\text{Equation 1: } \Delta (\text{ATO}_t) = \alpha_1 + \beta_1 \Delta (\text{ATO}_{t-1}) + \varepsilon_t$$

$$\text{Equation 2: } \Delta \log (\text{ATO}_t) = \alpha_1 + \beta_1 \Delta \text{Log} (\text{ATO}_{t-1}) + \varepsilon_t$$

Inventory Turnover

$$\text{Equation 3: } \Delta (\text{ITO}_t) = \alpha_1 + \beta_1 \Delta (\text{ITO}_{t-1}) + \varepsilon_t$$

$$\text{Equation 4: } \Delta \log (\text{ITO}_t) = \alpha_1 + \beta_1 \Delta \text{Log} (\text{ITO}_{t-1}) + \varepsilon_t$$

Receivable Turnover

$$\text{Equation 5: } \Delta (\text{RTO}_t) = \alpha_1 + \beta_1 \Delta (\text{RTO}_{t-1}) + \varepsilon_t$$

$$\text{Equation 6: } \Delta \log (\text{RTO}_t) = \alpha_1 + \beta_1 \Delta \text{Log} (\text{RTO}_{t-1}) + \varepsilon_t$$

Gross Profit Margin

$$\text{Equation 7: } \Delta (\text{GPM}_t) = \alpha_1 + \beta_1 \Delta (\text{GPM}_{t-1}) + \varepsilon_t$$

$$\text{Equation 8: } \Delta \log (\text{GPM}_t) = \alpha_1 + \beta_1 \Delta \text{Log} (\text{GPM}_{t-1}) + \varepsilon_t$$

Return on Asset

$$\text{Equation 9: } \Delta (\text{ROA}_t) = \alpha_1 + \beta_1 \Delta (\text{ROA}_{t-1}) + \varepsilon_t$$

$$\text{Equation 10: } \Delta \log (\text{ROA}_t) = \alpha_1 + \beta_1 \Delta \text{Log} (\text{ROA}_{t-1}) + \varepsilon_t$$

Return on Equity

$$\text{Equation 11: } \Delta (\text{ROE}_t) = \alpha_1 + \beta_1 \Delta (\text{ROE}_{t-1}) + \varepsilon_t$$

$$\text{Equation 12: } \Delta \log (\text{ROE}_t) = \alpha_1 + \beta_1 \Delta \text{Log} (\text{ROE}_{t-1}) + \varepsilon_t$$

Notation:

1. Δ is the difference
2. $\Delta \log$ is difference of log
3. α is alpha co-efficient of constant
4. β is beta co-efficient of variables
5. ε_t is error term.
6. t is present value
7. $t-1$ is previous year lag value

Raw data was combined and cleaned in order to remove typos and duplicity before putting into analysis. Augmented Dickey-Fuller Unit Root test (Dickey & Fuller, 1981) was applied for getting the desired output. The real means of the time series of variables were not known and could not be reported through central tendencies. Therefore, Trend Analysis was performed to investigate the stationarity (Alvi, 2014). Results were summarized and presented in tabular form. Similar Econometrical models and statistical technique were applied in previous attempt in order to investigate the stationary in observed data (Alvi & Kamal, 2015).

Result and Discussion

Table 1: ADF Unit Root Test on Islamic Countries

Islamic Countries				
Variable	N	At Level	At 1st Difference	Max

		Sig Value	T-Stats	T-Stats Comparison with Critical Value	Sig Value	T-Stats	T-Stats Comparison with Critical Value	Lags
ATO	102	0.00	-7.74	T-Stats < CV 1%	0.00	-14.16	T-Stats < CV 1%	12
ITO	94	0.84	-1.35	T-Stats > CV 10%	0.00	-19.28	T-Stats < CV 1%	8
RTO	101	0.00	-10.34	T-Stats < CV 1%	0.00	-5.95	T-Stats < CV 1%	12
GPM	104	0.00	-10.41	T-Stats < CV 1%	0.00	-7.11	T-Stats < CV 1%	12
ROA	103	0.00	-11.10	T-Stats < CV 1%	0.00	-9.80	T-Stats < CV 1%	12
ROE	103	0.01	-3.88	T-Stats < CV 5%	0.00	-5.74	T-Stats < CV 1%	12

(Note: ATO = Average Turnover, ITO = Inventory Turnover, RTO = Receivable Turnover, GPM = Gross Profit Margin, ROA = Return on Asset, ROE = Return on Equity)

Table 2: ADF Unit Root Test on Non-Islamic Countries

Non Islamic Countries								
Variable	N	At Level			At 1st Difference			Max Lags
		Sig Value	T-Stats	T-Stats Comparison with Critical Value	Sig Value	T-Stats	T-Stats Comparison with Critical Value	
ATO	159	0.00	-5.56	T-Stats < CV 1%	0.00	-6.65	T-Stats < CV 1%	12
ITO	145	0.99	0.18	T-Stats > CV 10%	0.65	-1.81	T-Stats > CV 10%	11
RTO	155	0.00	-5.40	T-Stats < CV 1%	0.00	-5.17	T-Stats < CV 1%	12
GPM	158	0.00	-12.52	T-Stats < CV 1%	0.00	-6.60	T-Stats < CV 1%	12
ROA	164	0.00	-12.73	T-Stats < CV 1%	0.00	-11.86	T-Stats < CV 1%	12
ROE	165	0.00	-11.93	T-Stats < CV 1%	0.00	-6.04	T-Stats < CV 1%	12

(Note: ATO = Average Turnover, ITO = Inventory Turnover, RTO = Receivable Turnover, GPM = Gross Profit Margin, ROA = Return on Asset, ROE = Return on Equity)

Total six variables were chosen from two significant financial ratios (efficiency and profitability) for finding the market trends in South Asian countries that were Asset Turnover (ATO), Inventory Turnover (ITO), Receivable Turnover (RTO), Gross Profit Margin (GPM), Return on Asset (ROA), and Return on Equity (ROE).

These factors are helpful in calculating the fluctuations of efficiency in marketing trends. The results show that the efficiency of firms and profitability growth seem similar amongst Islamic and non Islamic countries because they are volatile in nature. All variables change over the period of time. It means that the literature that was showing somehow differences in market trends amongst Islamic and non Islamic countries were not proven by this study. There was no significant difference found amongst the economic growth of four countries. Stationary in inventory turnover was not found without considering data into 1st difference, mean organizations listen in stock exchange tend to make constant growth in terms of inventory.

A strange finding revealed that the stationarity in the series of proposed variables and indicated large wave length in the oscillation of series while comparing the t-test value with MacKinnon critical value in ADF test (Cheung & Lai, 1995). On the other hand, it has also been noted that there is still room for error correction model in this study. The turnover in the stock inventory found with the consistent growth in South Asian region indicates consumption of the commodities among people inclined with constant rate and purchasing power has been increasing gradually.

Limitations and Recommendations

The data needs to be taken for a longer period of time so that the differences can be shown in a better way. The data from few more countries need to be gathered to find the significant

difference amongst various other countries. Several other statistical tools would be needed in order to investigate further linkages between variables. There is need to increase sample size to gain better results. A same data with different association using different methods and model can be included in further analysis like pictorial graphical representation would be significant contribution along with further non parametric statistical tools as a secondary analysis of this study.

All the years which are included in the study were normal years, including years like 2019 & 2020 where pandemic effects would have surely changed the situation so these years are excluded from the study, considering them as outliers. These years can be considered for future studies. Only South Asian region is considered, a broader comparison can be made by inducting other regions of Asia. Thus changing the time span and population set can bring a considerable change in the findings.

Ethical Considerations

All the gathered data of variables was presented fairly and no exaggeration was done in data for analyses. The gathered data is the property of Authors and will be kept in secured computer under data protection act (1998). Authors have rights to keep the ownership of data and will not be presented anywhere else other than this manuscript. The outcomes of the data will be disseminated fairly and available to the general population for awareness, critics and future studies.

Conflict of Interest

Mr. Mohsin Hassan Alvi and Prof. Dr. Syed Shabib Ul Hasan declare that they have no conflict of interest (either financial or non-financial both) in the subject matter or content discussed in this manuscript.

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