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Development Strategy: The Seventh Heaven

By Dr. Abha Agrawal

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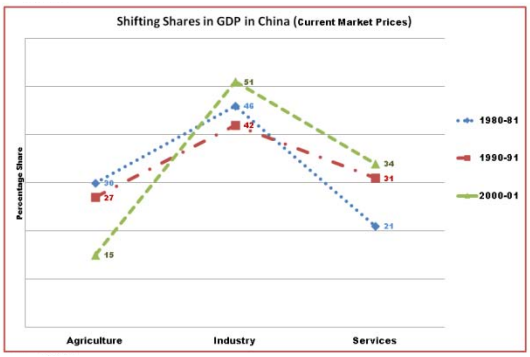
Development Strategy: The Seventh Heaven

Dr. Abha Agrawal

I. Introduction

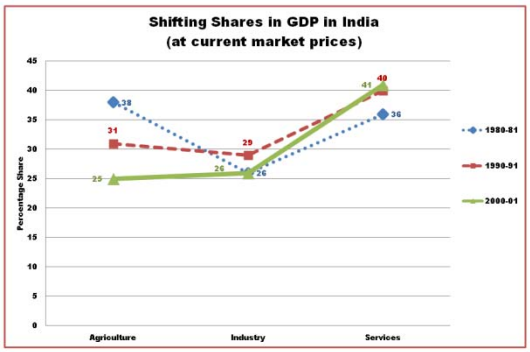
According to Goldman Sachs' India's GDP (Gross Domestic Product) in Current Prices may overtake France and Italy by 2020; Russia, Germany and United Kingdom by 2025; and Japan by 2035. It is also predicted that economy of India will be the third largest after United States of America and China by 2025. In this milieu let's have a look on both the most populous and basically agrarian economies i.e., India and China:-

II. A Comparison with Chinese Economy



Source: Wikipedea

Figure 1



Source: Wikipedea

Figure 2

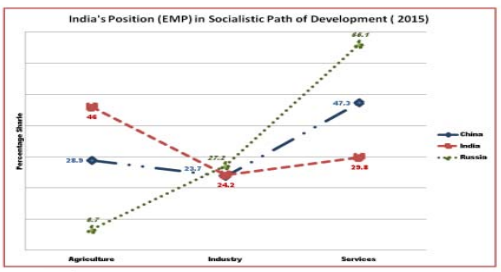
In the above figures 1 and 2 one contrast is noticeable: that sector-wise composition in GDP has reverse picture in both the economies ; while Chinese Economy is facing *Inverse V* while that of India's *Convex V(et al .2018).* What does it implies? Chinese Economy has built up strong manufacturing base while that of Indian Economy has stagnated and coupled manufacturing base with strong reliance on external demand for growth at the face of squeezing agrarian sector and prosperity driven but poverty -ridden service sector. Constantly falling share in GDP and with highly low per capita and per acre marginal productivity Indian agricultural sector is crippling with low purchasing power and consequently low demand for consumable as well as intermediate goods: thus putting downward pressure on manufacturing growth. Henceforth; unchecked population , resultant increasing labor force finds its way to livelihood in tertiary sector: next after to agriculture; which is highly unorganized and skewed in nature. Thus: concentration of unviable and marginal economic holdings, overcapitalization of manufacturing sector, a skewed distribution of national income coupled with concentration of wealth are consequently becoming the core factors for falling, stagnant and rising share in GDP of agriculture , manufacturing and services sectors, thereby. This narrates the story of Convexity of Indian Economic Growth.

III. A comparison with World's Leading Economies (Employment: emp)



Source: Wikipedea

Figure 3



Source: Wikipedea

Figure 4

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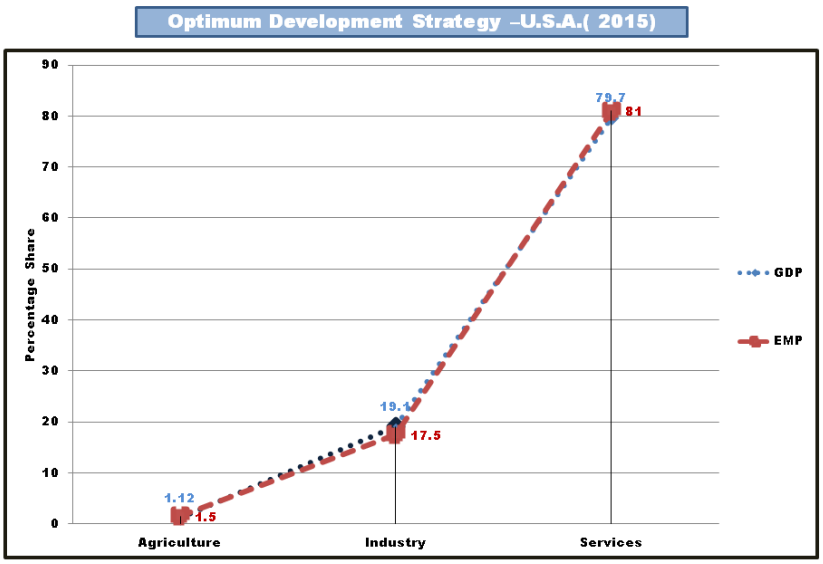
About the economy's employment potential it's major portion of working population still relies on agriculture (46 percent in 2015:) vis a vis capitalist economies (USA, UK) which employs only 2 percent of its population in agriculture (see figure 3). As compared to communist economies they too are moving fast to the services sector and shedding their reliance on agriculture for jobs as soon as diversification of jobs gathered its momentum in these economies. Russia employs less than 10 percent of its population in agriculture while that of China from 50 percent in 2002 to meager 30 percent in 2015 (see Table 1 & Figure 4). Services form a significant proportion of employment in all the above economies ranging from 80, 67,47 and 30 percent in case of USA & UK, Russia, China and India, respectively. So crux of the issue is that India' s economic development strategy has committed serious blunders; somewhere, in its formulation.

Now what should be the measuring rod for a flawless development strategy? I will start with the connotation that Economy is by the population, for the population and of the population. The objective of every economy should be its people's growth not the economy's growth. So the best development strategy would be when its [Employment Share / Sectoral Share] to GDP ratios becomes one, i.e. when both the curves co-insides (within a maximum time span of 100 years) and factors mobility within the economy apparently comes to an end: as factor price equalization theorem (Heckscher-Ohlin Factor Price Equalization Theorem) emphasizes. Until (average) value of the marginal physical product of labor (VMP: = MPPL* AR =P) in all sectors doesn't become equal: factors of production will keep on moving from one productive activity to another. Clearly, the sectors which have higher marginal physical product will employ more people herein lies the rationale of service sector's growth potential. But service sector's growth should be potent instead concentration of migrants (from agriculture and retrenchment).

With this view, I can deduce economy will be in seventh heaven when EMP hugs the GDP from below just like in equilibrium marginal cost curve cuts marginal revenue curve from below. *Meaning thereby that production process of the gross domestic product is not only conducive to employ all the labor force but is running, also, faster. Take EMP as Groom and GDP its Bride when EMP will be strong enough (people of the economy)GDP will be taken care off without upheaval.*

America, France ,the United Kingdom are the live examples of this approach.. In the (figure 5)

America's Employment and GDP composition has been shown which is near to factor price equalization in all sectors. Germany, Japan (Figure: 6 and7) have the same composition. These economies are moving on the correct development path.



Source: Wikipedea

Figure 5

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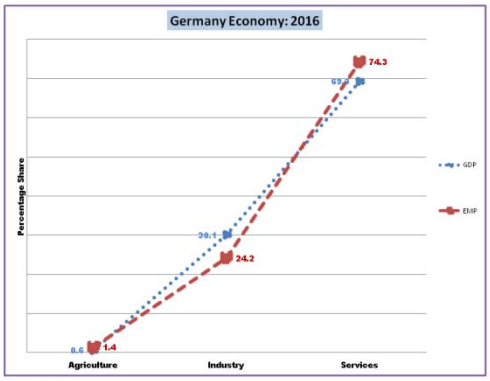

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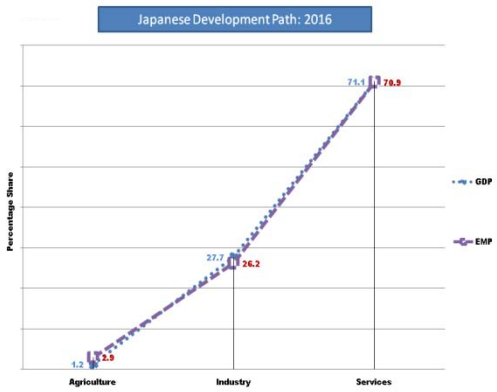
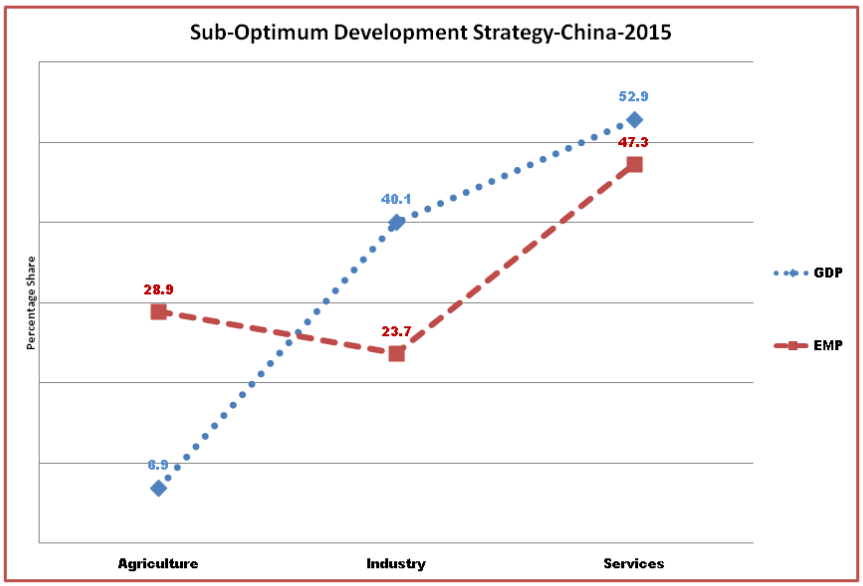
Figure 6



Source: Wikipedea

Figure 7

While in figure: 8 China's GDP composition and its employment share has been depicted which clearly shows that Bride or GDP is above the Groom and both are hesitating in hugging each other means male (EMP) should be superior or say employment should be increased in the sectors where GDP > EMP i.e., people will keep on moving from agriculture to Industry and to services until EMP and GDP coincides. So it is sub-optimum development strategy in William Alfred Pareto's sense. How this will be done: by expanding manufacturing sector base, so that additional demand for labor can be met by shifting people from agriculture to manufacturing and raising *autonomous investment* in agricultural sector. The Services boom will become automatic. At last, GDP will hug EMP from left side and both will be in cozy - sleep. The ultimate end where each economy want to move. But when GDP hugs EMP it implies about the maternal strength i.e., its expansion capacity for further absorption of its labor force by intensification and multiplication of its growth prone tertiary sector irrespective of their existence.



Source: Wikipedea

Figure 8

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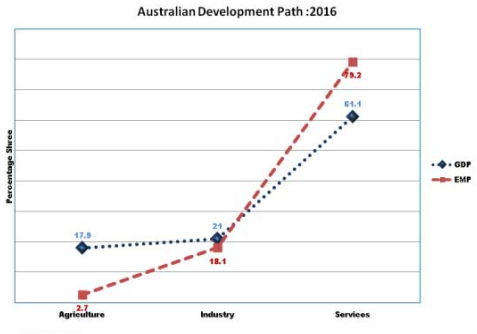
Figure 9



Source: Wikipedea

Figure10

As far as India (Figure: 9) is concerned its industrial sector has reached to its optimum while all other sectors are in transition. Because, India has followed Soviet model of development till 80's that was focused on building a strong industrial and military base to make India self -reliant in coming decades. This public-sector led growth unduly inflated the cost-structure of the economy of India due to long-gestation period. Inflated economy and stringent labor laws further aggravated the problem of unemployment in the coming periods: rising trade deficit, high tariffs, double-digit inflation all led to steep devaluation of Indian currency; Indian foreign exchange-reserves fallen to meet only two and half months import bill: this led Indian economy to pledge its gold reserves to international monetary fund for monetary aid in 1991. IMF imposed conditional aid to overhaul the economy, i.e. switch over to private sector from public sector, liberalize the economy, reduce tariff rates, slash the items reserved only for production in public sector etc. Second wave of economic reforms led to financial liberalization and opened sectors for foreign investment with certain limits. These measures led to GDP growth up-to 5 to 6 percent from earlier 3.5 percent growth. This success on GDP front induced our planners to move on this path and Indian economy moved on export-led growth model. Export- led growth model increased wages of existent laborers and within this structure advent of foreign-capital increased industrial capital : output ratio. External linkage of Indian economy increased and internal weakened due to falling agricultural share and overmanned farming . Industrial sector reached to near saturation in terms of GDP and absorption capacity. From the year 2002 service sector started gaining momentum particularly software industry due to the striking salary differences between developed countries and India. Irrespective of the inward or outward looking strategies of development: focus remained only upon industrial development so that due to higher productivity advantage people can shift from agriculture and further to services from manufacturing for the same reason. But it could not happen; due to lop- sided investment strategy. Lack of quality investment in community services (direct services education) not only hampering the qualitative growth and diversification of services like information technology, administrative -services, higher-education, railways, financial, medical except personal services and entertainment; but also putting a downward pressure on the existing ones. Thus, excess population from agriculture can find its way only in personal home care, local transportation, construction-services, sales-person in the shops etc., which are low profile un-organized jobs including information technology enabled services a little bit ahead. This movement from extremely low paid work to semi low paid work: albeit, will equalize the factor prices and GDP: EMP curve will co-inside internally.

Figure:10 depicts Australia's growth strategy which is same with regard to manufacturing sector while reverse that of agricultural and services sector. Its service sector is overmanned while that of India's it is agricultural sector. These economies can be rated as complimentary economies. If it looks impossible shifting factors of production from one sector to another within the economic system then it can be thought out to merge two economies having same characteristics from the point of view of factor endowments in one sector to another. For example; surplus agricultural labor in India can find its way in Australian agricultural sector and vice-versa in services. Specialization in production leads to enhance export earnings and maximizes production; but, if mobilization of laborers from one economy to another within the same sector could happen it would maximize not only production but also employment: because structural rigidities are sharper acquiring the other skill sets for moving across sectors are shaper than moving across the economies within the same sector.

But looking closely at the optimum strategy of development so far: the distribution of population among sectors should be in the ratio of 1 : 4 : (1:4)[4] because services sector has to serve both. Transition from primary to secondary sector would be at diminishing rate while from manufacturing to services at increasing,

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i.e. slope of the line of first part will be less steep than that of second part . Standard deviation between two slopes will exhibit the comfort and effort level (welfare) of each economy.

So even if separately each economy's GDP and EMP curves get co-inside still price differences will prevail among the economies in the long run even after partial specialization. So looking on strategic part of the Heckscher-Ohlin factor price equalization theorem which could not pay enough attention to the efficiency part of entire workforce *whether ruling* or serving. Because in humanities this is not the economic rather iconic size which is a major determinant.

GDP Composition of Sample Economies (Figure: 11-14) & (Figure: 14-18)

Fig.: 11

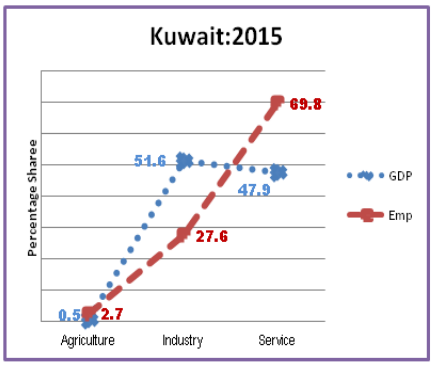


Fig.:12

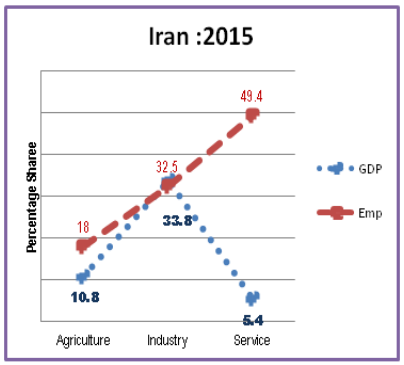


Fig.:13

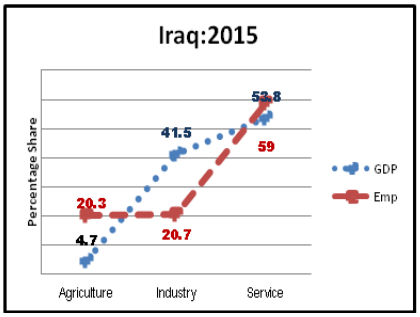


Fig.:14

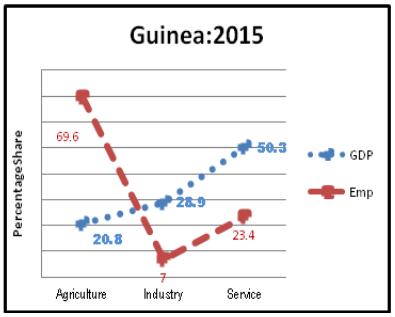


Fig.: 15

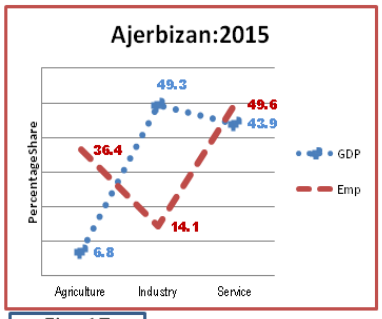


Fig.:16

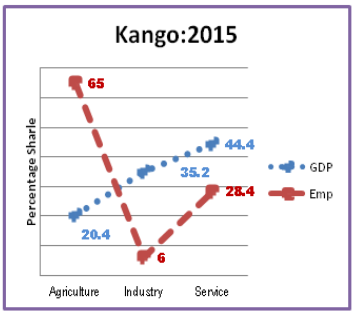


Fig.:17

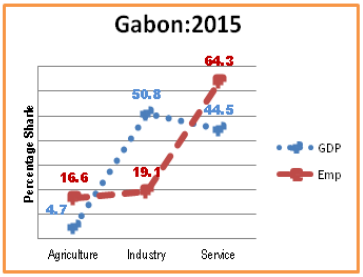
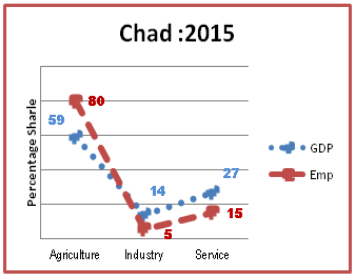


Fig.:18



Source: Wikipedea

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These economies can never reach to the equilibrium given their resource endowments. People in such economies can't find gainful employment unless they indulge in international trade. *As has been predicted by Hacksher -Ohlin this lop-sided abundance in one raw material will force them to acquire near full specialization which will distort conditions necessary for factor -price equalization in the economies.*

Table 1: Major Economic Parameters of above Economies

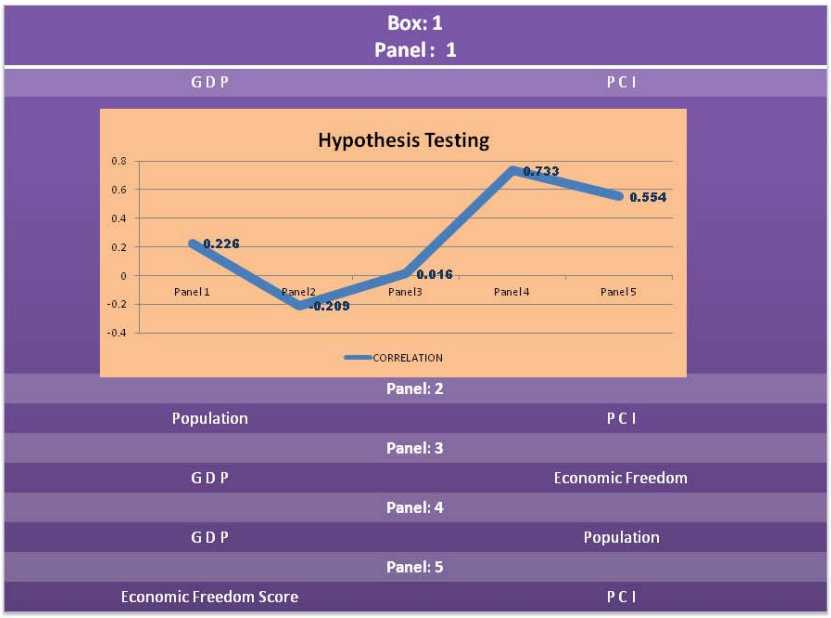
World's Leading Economies (2018)							
	Million Population	Trillion GDP	% Unemployment	% Growth rate	% (CPI) Inflation	Per Capita Income(PPP)	Economic Freedom Score
China	1400	$21.30	4.6	7.3	2	$15,399	57.8
USA	323.3	$18.60	4.9	2.1	1.3	$57,436	75.7
India	1300	$8.7	3.5	6.8	4.9	$ 6616	54.5
Japan	126.9	$5.20	3	1	-0.1	$41,275	72.3
Germany	82.7	$4.00	4.3	1.2	0.4	$48,111	72.4
Russia	143.4	$3.80	5.7	0.5	7	$26,490	58.2
U K	65.6	$2.80	4.8	2.1	0.6	$42,481	78
France	64.6	$2.70	10	1.2	0.3	$42,314	63.9
Italy	60.7	$2.20	11.5	- 0.6	- 0.1	$36,833	62.5
Iran	80.5	$1.50	11.3	0.1	8.9	$18,077	50.9
Australia	24.3	$ 1.2	5.7	2.7	1.3	$48,899	80.9
		Billion					
Iraq	36.1	$647.20	16	7.4	0.4	$17,944	N.A.
Kuwait	4.2	$303.7	2.4	2.7	3.2	$71,887	62.2
Azerbaijan	9.5	$165.50	5.1	1.6	12.4	$17,439	64.3
DRC	84	$65	3.6	6.9	22.4	&773	52.1
Gabon	1.9	$35.90	18.5	4.3	2.1	$19,056	58
Chad	11.9	$20.90	5.8	3.4	- 1.1	$2,445	49.3
Guinea	12.7	$16.00	6.8	2.2	8.2	$1,265	52.2

Source: The Heritage Foundation | heritage.org/Index (2018)

After scrutinizing the above parameters (Table:1) certain hypotheses were tested:

Ho1: Panel 1; Ho2: Panel 2; Ho3: Panel 3; Ho4: Panel 4; Ho5 : Panel 5.

As has been portrayed in the Box: 1 (given below); except Panel 2, i.e. population and per capita income all parameters showing positive relationship :-



Box 1

On this basis every economy seems doing their best and Goldman Sachs forecasts about Indian economy to overtake other advanced economies have come true; barring USA and China. But when the aim is to maximize the welfare of our citizens it is PCI: however skewed it is ; which reflects the truth. Gabon which is a smallest country has its PCI near to China's which is the most populous country; i.e. $ 19056

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in the world (See Table 1). So the welfare level of people of China and Gabon is same irrespective of their GDP. On the other hand India' s GDP is in Trillion Dollar and ranks third after China and U.S but in terms of PCI which is the barometer of Economy's and it's people's health it stands third from below in the given sample, i.e. just after Guinea and Chad . So there is no correlation between GDP and PCI: as well as between population and PCI. China with highest Populationhas PCI greater than India's which is slightly behind in terms of population. So it can be concluded that it is neither population nor GDP which determines the level of welfare of its people rather it is the efficiency of the factors of production (mainly labor) and the resource endowments that matters most. Quwait which is a billion dollar economy and population of mere 40 lacs has the highest PCI in the sample (18 countries out of 186 and at least one from each continent).

IV. Conclusion

Since *PCI =f (Age, Knowledge, Topology, Management and Economic Freedom)----Positively related with all the factors*

GDP= f (Land, Labor, Capital, Entrepreneurship and Managerial Efficiency)-- Positively related with all the factors

Population = f (Marriage Age, Fertility rate, Death rate, Urbanization and Social Freedom)--Negative relation except fertility rate.

So neither GDP nor PCI is the barometer of economic health rather its co-union of EMP and GDP as renowned economist Heckscher- Ohlin indicated in his theorem. For the economies which are suffering from unemployment problem: a combination of raising the economic freedom, managerial efficiency and either marriage age or social freedom ought to be followed.

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Appendices

Table Share of Employment by Economic Activity(%) Developed conntries & Emerging Economies in 2002

Country	Agriculture	Industry	Services
U.S.A.	2	22	76
U.K.	1.5	23.5	75
Japan	5	29	65
France	2.5	23.5	75
Italy	5.5	29.5	65
China	49.8	23.5	26.7
Pakistan	58.7	14.5	27
India	57	21	22

Source: World Development Indicators (WDI), 2005 pp 56-58

2.Download the link (A Brief Description of Sample Economies)

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