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Late Converger Stall: Is India facing an imminent threat?

The year 2017 may be remembered specifically for market disruptions on account of a) liquidity concerns post demonetization and b) uncertainty following the implementation of the goods and services tax (GST) regime. The first half of the previous year was largely muted, thereafter some momentum was seen to be building and this optimism was further supported by much awaited global recognition. Over a longer term, the Economic Survey has identified four possible headwinds that were absent for the early convergers such as Japan and Korea and so could lead to what the survey refers to as "Late Converger Stall".

Convergence has been defined as "Economic convergence" which is the process of poorer countries "catching-up" with richer countries and closing gaps in standards of living. For example if the development path that India is seemingly following is compared with that of US, we see that India went up in ranks from a low income country to a lower middle-income status in close to 4 decades, measuring from only to 6% of US per capita income to about 12% by 2008. The survey clarifies that if India manages to grow by 6.5% per year, it could well reach an upper-middle income status somewhere around 2020s.

The Economic survey tries to address the issue of whether some of the global trends adversely affect countries such as India that joined the convergence club later in the process or could there be "late converger stall" that could derail the growth narrative for India. The four risks are (a) mounting protectionism sentiment that could possibly limit export growth, (b) failure to restructure business models to transfer strength in high productivity sectors, (c) inadaptability to growing technological inclination and unpreparedness with upskilling human capital and (d) growing agricultural distress and rising environmental concerns.

Slowing down of hyper globalization: In the earlier decades, due to the rising sentiment around globalization, world trade to GDP ratio increased significantly, and the early convergers such as Japan, South Korea and China could post average export growth rates of over 15% for the thirty years of their convergence periods. However, since 2011, there has been a rising backlash against the globalization process and this could mean that rapid growth in exports, as seen previously early convergers, may not be available. The problem arises as more and more countries join the bandwagon of global trade. The increment in global trade to GDP ratio to be able to accommodate the rising volume may not be possible in the present global economic scenario. Therefore, while an export led growth may still hold true for an individual country, but may not be available if all the low-to-low middle-income countries are taken together. From a policy perspective, this signals that in the short run, exports can and will be an engine of growth but a more rapid transformation will come by enhancing private investment for domestic consumption.

Thwarted structural transformation: The Economic Survey defines thwarted structural transformation as the process of development wherein the resources shift from low productivity to marginally more productive sectors instead of shifting to high productivity sectors. Earlier, manufacturing sector was thought to be most critical for successful structural transformation. However, the Survey talks about other dynamic sectors in the Indian context like, finance, telecommunications, and professional services. The job for policymakers is now to develop a framework of incentives and infrastructure that can allow and in fact motivate shifting of resources from the informal sector to these sectors

Climate change-induced agricultural stress: As the Economic Survey has rightly pointed out, agriculture in India in many ways the oldest issue for economic development. Indian agricultural productivity growth has been stagnant, averaging roughly 3 percent over the last 30 years. The multiple factors causing this low productivity have been discussed and analysed in detail. However, the Survey also discusses some long term issues for the sector that pertain to climate change. The analysis in the Survey shows that if climate change raises temperatures and the variability of rainfall, then farm income could decline by up to 20 percent to 25 percent in areas with no or poor irrigation. In the context of headwinds, improving agricultural productivity is important as that will prompt the resource shift from agriculture to the modern sectors. If the growth momentum in agriculture is not released, then attempts to engineer a successful structural transformation may not work out for India. Apart from sorting out the pressing issues of land holdings etc., it is important to build irrigation infrastructure and crop technology to prepare for climate change vagaries.

Human capital regression: The Economic survey has highlighted a key issue which Indian development is facing i.e. the issue of increasing gap between available and required skill and the lack of quality oriented intervention by the government to address this gap. As discussed in the Survey, the early convergence was largely based on educated but less skilled resources that could be deployed across manufacturing. But for late convergers like India, there appears to be a twin challenge. India has not been able to provide basic education of the quality that is necessary for some structural transformation and to add to that, the required levels of human skill and capital have shifted further ahead because of rapid technological development. Therefore, India needs to spend on ensuring basic education as well as on providing infrastructure for better higher education. The outlay on quality and quantity both are important. The Survey points out that India's primary school enrollment is now nearly universal for both boys and girls at elementary level. But as several studies suggest that educational outcomes are less than desirable and now it appears that the goal for a successful structural transformation has moved higher in the value chain.

Conclusion

Over the last few decades India has made rapid strides in economic growth, posting an average per capita GDP growth rate of 4.5% since 1980, which remains in the top quartile of countries over that period. Despite the growth, there is one main late converger stall that India must avoid and that is the risk that resources are likely to move from low productivity informal sectors to only marginally less formal and marginally more productive sectors. What is needed for India to achieve a sustained growth trajectory would be a swift improvement in India's human capital base, specifically in terms in creating healthy individuals, including all women, and imparting primary education. Moreover, despite the distress in agriculture through climate change, a rapid improvement in agricultural productivity will remain imperative for sustainable economic growth.

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