Resolving the Enigma of Role of Structural Transformation in Economic Development

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Abstract: The main objective of this paper is to review the related literature of economic development as a process of structural transformation. By the end of the Second World War, Latin America was expected to be the next region of the planet to join the privileged group of rich nations. However, more than half century later the countries of the region still remain at low income ranges, facing significant challenges to reduce their social, economic and techno-logical gaps with the Developed economies. In a similar stratum, after gaining independence, many sub-Saharan African countries were expected to achieve an important speeding up in the rates of growth, taking advantage of their backward position and the wave of foreign capital seeking for higher returns than those in their domestic markets. Again after, fifty years the outcomes observed in the vast majority of these economies can better be described as a growth tragedy. Therefore, we can say that the development process requires the Structural Transformations as qualitative change and necessary change at its initial stage.

Keywords: Structural Transformation, Economic Development, Research and Development, Human Capital

Jel Classification: L16, O1, O11, O32, O3

I. INTRODUCTION

Economic growth refers to continuous increase in real income which enables the country to attain next stage in the process of economic development. Structural transformation is necessary step for economic development but not sufficient. In fact, economic development and structural changes go side by side. In other words, economic development is the process of economic growth, duly accompanied by structural changes in the economy. During process of development, due to increase in real income, the preferences of consumers will transform from less income elasticity goods (agriculture goods) to highly income elasticity goods (manufacturing and services sector goods). This results in diminishing significance of primary producing activities and growing dominance of manufacturing and services activities. Any shift of labour and other resources from agriculture to secondary or services sector results in immediate increase in overall productivity and income per capita. This refers to the structural changes bonus (Lawis, 1954; Fei and Ranis) and is a major source of economic growth in developing country like India. Structural transformation can be defined as large scale transfer of resources from some sectors to other in a system, necessitated by fundamental changes in polices of the economy. Structural transformation is also the reallocation of economic activity across the broad sectors agriculture, manufacturing and services. This reallocation of economic activities started in India after economic reform of 1991. Economic reform of 1991 provided a break from low growth trap in which the country’s economy had been caught for four decade. An exclusive focus on growth rate obviously leaves out the issue relating to structural changes. Economic growth is accompanied by structural changes and changes in structure of the economy have their own implication for rate and sustainability of economic growth. (Cortuk and Singh, 2011). Structural changes can be studied in respect of different outcomes like output, employment, capital investment and consumption. This present paper is an attempt to understand structural transformation in relation to Economic Development.

II. REVIEW OF LITERATURE

Rangarajan (1982) examined the inter-sectoral linkages between agriculture and industry sector for the Indian economy during post-independence period, and observed that consumption linkages were much more powerful than production linkages between these two sectors, arising from input usage (such as industrial implements) in farming or in the provision of raw materials to industry. He also estimated that an addition of one percent growth to agriculture sector would stimulate output in the industrial sector to the extent of 0.5 percent.

As per Bhattacharya and Mitra (1989), agriculture-industry relationship would depend crucially on relative growth of income and employment in not only the industrial sector, but in tertiary sector as well. Bhattacharya and Mitra (1990) envisaged the strengthening of one-way linkage towards income generation from services to industrial sector and development of a reverse linkage from industry to services sector.

Sethi and Raikhy (1992) analysed growth and structural transformations in real NDP of India during post-independence period: 1950-51 to 1987-88. Through the use of ten different indexes of speed of structural transformations, the analysis revealed that the fastest changes had taken place either during pre- or during post-
green revolution period, but the economy remained virtually stagnant during the intervening period. While analyzing the growth performance in major Indian states.

Dasgupta et al. (2000) observed that the share of manufacturing sector had remained mostly stable in almost all the states, while the share of primary sector had fallen sharply with a corresponding rise in the share of tertiary sector (except for Delhi and Goa).

Shand and Bhide (2000) examined inter-sectoral relationships among NSDP of 15 major Indian states, and observed that agricultural growth had a positive impact on industrial and service sector growth. Moreover, agricultural growth was affected positively by land productivity and negatively by the share of agriculture in the domestic product.

Singh and Singh (2002) made an assessment of the growth experience and structural changes in major Indian states, in general, and in Punjab and Haryana, in particular, over the period 1966-67 to 1998-99. As per the findings, Punjab and Haryana states witnessed deceleration in economic growth in post-reform period due to irrational pattern of investment and decline in development expenditure.

Sethi (2003) examined the nature of structural changes in output and employment along with inter-sectoral linkages in income of Haryana’s state for the period from 1970-71 to 1998-99. Through the proposed index of structural imbalance (ξ), the period from 1995 to 1998 was observed to have undergone structural changes to the largest extent. Further, secondary sector of the state’s economy was observed to have failed to exhibit forward and backward linkages with income from the other sectors.

Through Granger's causality approach, Balakrishnan and Parameswaran (2007) examined inter-sectoral linkages in India, and observed the presence of unidirectional causality running from tertiary sector growth to secondary sector growth. The authors further observed that growth in services was the major factor behind the growth of Indian economy.

Sethi and Kaur (2011) analysed some dynamic aspects like pace of growth; nature, pattern and speed of structural changes; and extent of inter-sectoral linkages in aggregated/disaggregated NDP of India over the period 1950-51 to 2007-08. The findings of the study indicated towards the tertiarisation of the Indian economy. Furthermore, strong interlinkages were detected to be present in respect of income generation from secondary and aggregated tertiary sectors.

Various other studies like Tewari (1998), Chowdhury and Chowdhury (1995), Bathla (2003), Hansda (2003), Banga (2005), Anand (2012) etc., have researched on different aspects of domestic product and inter-sectoral linkages in India and elsewhere. Nevertheless, scant attention has been paid to analyse these aspects, specifically, for Punjab and Haryana states.

**Structural Transformation as Necessary Condition of Economic Development**

The stylized set of facts is that structural change is positively related to economic growth and with development. In the light of various developed countries experience of development, structural transformation is a vital issue. Structural transformation is necessary condition for economic development but not sufficient condition because other qualitative changes are also integrals of economic development. Therefore, the interrelations among different qualitative changes should also be focused to make it sufficient. From various empirical studies point of view, there are two key transformations to be achieved in order to catch up with the advanced world: on one hand, the absorption of an increasing share of the labour force in the modern part of the economy (structural change); on the other hand, the technological upgrading of these modern sectors (technological catch up) and due to transformation of labour from low productivity sector (agriculture) to high productivity sector (secondary and tertiary sector), total productivity will be high and income per capita will also tend to increase. The Failure to achieve either of these transformations will eventually lead to Low Level Equilibrium Trap, in which only a fraction of the society can reap the benefits of the international flows of technological knowledge. Thus, structural transformation is very necessary to achieve desired economic development.

**III. CONCLUSION**

Thus, we can say that the present paper endeavoured to review and explain the strong evidences about the interlinkages between structural transformations and economic development from existing literature. The Investigation of structural relationship among the sectors is a vital issue from policy perspectives; knowledge of such changes along with the nature of inter-sectoral linkages in output may turn out to be instrumental in framing suitable policies.

**IV. REFERENCES**


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