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Why do Nations Fail in Developing Industries and Sustaining Productive GDP? A Contrarian Perspective

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Abstract

Few nations develop and sustain industries for quality and productive gross domestic product (GDP). Understandably, nations differ in their political, economic, natural resources, and technological strengths. Extracting natural resources and exporting them to industrially developed nations and corporations will not contribute to creating new wealth domestically, especially for nations at the bottom of the global industrial pyramid. Additionally, paying attention to the GDP breakdown of industries, and identifying value-adding industries for the future sustainable growth of a nation, is relevant. Instead of the status quo, following GDP growth for its own sake, the contrarian approach is to make strategic choices and incentivize domestic industries in new ways for development, growth, and global engagement.

Keywords: sustaining growth, engaged development, industrial policy, business culture adaptation, technology partnering, resource sharing for competitive advantage

Why do Nations Fail in Developing Industries and Sustaining Productive GDP?

In the modern world of today, all nations' citizens have access to new products and technologies used by advanced industrial nations through a variety of communication tools: (1) the Internet, (2) television, (3) newspapers, (4) mobile phones, (5) travel and tourism, (6) international education, and (7) social media outlets. This worldwide global awareness, especially among youth in poor and developing countries, creates unmet needs in nations across the world. Partly this creates a strong need for initiative-taking engagement globally in creative ways, including trade and business. This raises the question: why do poor and developing countries fail to sustain industrial development and initiative-taking global participation? Possible scenarios: (1) Self-isolation, (2) lack of ambition by government leaders, (3) do not know to initiate new wealth-creating industries, (4) absence of a targeted industrial policy for sustainable development and growth, (5) Excessive imports (creates national debts and trade deficits) of essential and luxury goods and services when alternatives exist, (6) lack of attention to youth underemployment, skills, and capacity building, (7) lack of global engagement

through technology partnering, and (8) absence of strategic industrial knowledge parks and free-trade zones. This can be a tall order for any nation, not to mention poor nations. However, looking at the histories of advanced industrial nations and their GDP accumulations and growth in recent years, there are lessons for all nations, including poor and developing ones. This research provides insights and recommendations for strategies and prescriptions for creating a culture of sustainability, productive GDP, and growth.

Literature Review

The development literature is extensive. Adam Smith and Friedrich Hayek are relevant and foundational to this research theme. Adam Smith (1776), in his book, *The Wealth of Nations*, was among the first philosophers of his time to declare that wealth is created through productive labor and that self-interest motivates people to put their resources to the best use. He argued that profits flowed from capital investments and that capital goes to where the most profitable activities are. Briefly, Smith postulated the law of self-interest, the law of competition, and the law of supply and demand. Smith argued that mercantilist trade practices did not promote a free-market exchange of goods and services. Smith's ideas laid the foundation for the nation's economic development, especially during the time of the Industrial Revolution. On the other hand, Hayek (1945), another noted economist, viewed knowledge and intergenerational accumulation of it as taking development to a higher level.

The following context and perspectives may help to get additional insights as we are experiencing a new era of GDP growth in the 21st century. Nations wrestle with developmental challenges. Before industrialization, agricultural output was a major component of GDP. As nations became increasingly industrialized, the production of steel, building materials, rails, roads, and bridges led to better living conditions (including access to potable water, healthcare, and education), people's mobility, and enhanced quality of life. Since the 18th century, a widespread embrace of the industrial revolution became the norm across nations. However, the problems and challenges remain for low-income (and low GDP growth) nations, as they remain at the bottom of the global industrial GDP pyramid (Shyle & Pjero, 2010). To modernize the economy, which is to create industries besides agriculture, is a challenge for poor nations. Modern economies require creating and applying modern technologies in manufacturing plants and equipment. In the 19th and 20th

centuries, today's advanced industrial Nations took advantage of creating new wealth through industries as a source of additional productive GDP growth, which includes new business cultures for managing diversified businesses (Mehdi, 1995). The contribution of the agricultural sector is still relevant but has become smaller compared to the industrial sectors in the overall GDP composition. According to the World Bank and Statista, the eleven sectors of the US S&P 500 contribute more than ten trillion dollars to the American GDP (2020). However, the question remains: Why do nations fail to develop industries and sustain productive GDP?

Brief Discussion on Nations and Their GDP

The *United States* holds the highest GDP, approximately 20,893.74 billion USD, among the countries we are considering for 2020. A large component of the US GDP comes from the Finance, Insurance, Real Estate, Rental, and Leasing industries, comprising 22.3% of GDP. Following this, professional and business services, government, and manufacturing comprise 12.8%, 12.6%, and 10.8% of GDP, respectively. Together these accounts for over half of GDP, at 58.5%. Looking a bit further down the list, the US derives 8.6% of its GDP from Educational services, health care, and social assistance, 11.5% from wholesale and retail trade, and 5.5% from information and communications. With these industries totaling 84.1% of GDP, it is evident that the US focuses its attention extraordinarily less on areas such as agriculture, forestry, fishing, and hunting (accounting for 0.8% of GDP). Whereas, when considering nations such as India and Nigeria, agriculture plays a key role in their GDPs. In 2020, statistics show that imports accounted for 13% of GDP, whereas Exports stood at 10%. It is also important to note that while US GDP stands at a high of 20,893.74 billion USD, net borrowing plays a pivotal part in the economy, at about 15.4%. This 15.4% translates to about 3,217.64 billion USD. The US is capitalizing on the global economy through its investment, with net inflows of about 211,298 million USD in 2020 alone. That number is still stagnant when considering net inflows of 264,039 million USD in 2010. This decline could be merely due to the impact of the Covid 19 pandemic (see Tables 1 & 4).

In 2020, *Nigeria* had a GDP of about 432.29 billion USD. Considering it is a much less developed country than the US, the difference in GDP is no surprise. Looking at the economy alone, Nigeria focuses a substantial portion of its GDP on agriculture, about 24.45%. A substantial portion of agricultural output is exported

to other countries, realizing revenues for the nation. Aside from this industry, trade, manufacturing, information, and communication account for 13.86%, 12.84%, and 11.21% of GDP, respectively. In the industries from which the US derived most of its GDP (finance, insurance, real estate, rental, and leasing), Nigeria had only 8.81% from them. Breaking it down, 5.7% of that 8.81% came from real estate, while 3.11% came from finance and insurance. After taking construction (at 7.64%) and mining and quarrying (at 7.13%) into account, these industries make up 85.94% of GDP. It seems that while Nigeria's economy relies on its industries for exports (14% of GDP), it still imports a significant amount of its products from other countries (20% of GDP).

Given that there is a large focus on mining and quarrying, it is likely that imports and exports are related to the exchange of crude petroleum for refined ones. While Nigeria is also taking advantage of the global economy with foreign direct investment net inflows equaling 2,385 million USD, it still needs assistance. In 2020, they received \$3,375.5 million in net assistance for development (see Tables 3 & 4).

India had a GDP of 2,667.69 billion USD in 2020. The breakdown of this GDP in India's economy is interesting as it emphasizes both agriculture and finance, insurance, and real estate. In fact, like the US, India's largest component of GDP is finance, insurance, real estate, rental, and leasing (23.07%). Yet, like Nigeria, India's economy is still heavily reliant on agriculture, forestry, fishing, & hunting (at 16.38% of GDP). Other significantly large contributors to India's GDP include manufacturing and trade, hotels, transportation, communication, and broadcasting services, contributing about 16.92% and 17.73%, respectively. Following closely, 13.47% of GDP comes from public administration and defense. These five industries alone account for 87.57% of the overall GDP. While considering imports and exports, India's economy plays a key role in the oil refining business but imports goods to run and maintain its oil refining business. The 2020 statistics show that the import percentage of GDP and exports are the same, at about 19% of GDP. Overall net lending and borrowing are significantly lower than that of the US, at about 2.3% of GDP (while the US has 15.4%). That does not take away from the fact that India did need development assistance, netting 1,7941.2 million USD. These statistics show that India should focus more on the governance of their government, professional and business services, education, healthcare, and social

services. These observations do represent key differences between India and countries such as the US, Korean Republic, and Canada (see Tables 3 & 4).

Korea reported a GDP of 1,798.53 billion USD in 2021. A substantial portion of its GDP is attributable to manufacturing, at about 29.36%. It is no surprise considering Korea is among the top competitors in manufacturing. The compilation of cheap labor, strategic location for Asia, and skilled workforce made Korea ideal for manufacturing, especially for the US and other Western nations. Despite manufacturing being the most significant contributor to GDP, real estate, finance, and insurance follow second at 14.6%. Other industries are as follows: trade at 9.89%, professional and business services at 9.17%, public administration and defense at 6.63%, education and human health at 5.09% and 5.18%, and information and communication at 5.16%. Collectively, these industries account for 85.08% of Korea's GDP. According to the most recent statistics in 2020, exports account for 36%, and imports account for 33% of GDP. Overall net lending and borrowing amounted to 2% of GDP (see Tables 2 & 4).

In 2021, *China's* GDP was at 17.7 trillion USD, 32.6% of its GDP contributed by the industrial sector. Like Korea, this would include manufacturing being a large contributor. Other services, trade, financial intermediation, agriculture/forestry, and construction account for another 15.8%, 9.7%, 8%, 7.6%, and 7% of GDP, respectively. These industries collectively total 80.7% of the overall GDP. Comparable to Korea, China's imports account for a much smaller percentage of GDP. The most recent 2020 data shows exports equal about 19% of GDP, while imports are at 16%. China also recorded net inflows from foreign direct investments of about 253,096 million USD in 2020 (see Tables 2 & 4).

In 2021, *Germany* had a GDP of 4,223.12 billion USD. This GDP comprises of 69.8% for the services sector, 23.5% for the production industry (excluding construction), 5.9% for construction, and 0.9% for agriculture, forestry, and fishery. Just on these numbers alone, Germany and US both place less emphasis on the agricultural aspect of their economy. The most contributing sectors are the service sector and production. While looking at the data from 2020, the German economy is more heavily reliant on exports than imports. Exports amounted to 43% of GDP, while imports accounted for 38%. Just like in developed countries, net lending/borrowing was in the negatives as borrowing accounted for 3.6% of GDP (see Tables 1 & 4).

Canada's GDP for 2020 was 1,345.42 billion USD. Like the US, the main source was contributions from real estate, finance, and insurance, 21.01% of GDP. Following closely, manufacturing at 9.46 %, mining and quarrying at 7.67%, human health and social services at 7.27%, construction at 7.53%, public administration at 6.95%, and professional/ scientific/and technical services at 6.44. These industries' total contribution would be 66.33% of GDP. Wholesale trade, education, and retail trade would add another 15.93% (5.36%, 5.32%, and 5.26%, respectively); thus, they total 82.26% of GDP. With respect to imports and exports, there seem to be more imports. The 2020 statistics show that imports accounted for 31% of GDP, while exports accounted for 29%. Net borrowing/lending numbers also climbed closer to that of the US, equaling net borrowing of 10.3% of GDP (see Tables 1 & 4).

Table 1

GDP Breakdown USA, Canada, & Germany

Industry Description	United States (2020, % of GDP)	Canada (2020, % of GDP)	Germany (2020, % of GDP)
GDP, Billion USD	20,893.74	1,345.42	4,223.12
Finance, Insurance, Real Estate	22.3%	21.01%	-
Nonfinancial Service Industries (education, healthcare, social security)	8.6%	14.99%	69.8% (Combined with Public Administration)
Wholesale and Retail Trade	11.5%	10.61%	-

Industry Description	United States (2020, % of GDP)	Canada (2020, % of GDP)	Germany (2020, % of GDP)
IT and Telecommunication	8.3%	7.17%	-
Export	10%	29%	43%
Import	13%	31%	38%
Financial Market Capitalization	194.9%	154%	55.6%
Agriculture	0.8%	2.02%	1%
Public Administration (or Gov Spending)	12.6%	6.95%	69.8% (Combined with Nonfinancial Service Industries)
Manufacturing	10.8%	9.46%	18.2%

Note: Adapted from World Bank, Statista, and IMF Data, 2020-2021

Table 2

GDP Breakdown of China, Singapore, Ireland, & Korea

Industry Description	China (2021, % of GDP)	Singapore (2021, % of GDP)	Ireland (2020, % of GDP)	Korea (2021, % of GDP)
GDP, Billion USD	17,734.06	396.99	425.89	1,798.53
Finance, Insurance, Real Estate	14.8%	21.3%	11.02%	14.6%
Nonfinancial Service Industries (education, healthcare, social security)	-	3.6%	9.4%	10.27%
Wholesale and Retail Trade	9.7%	19.3%	10.48%	9.89%
IT and Telecommunication	7.9%	11.7%	14.72%	8.39%
Export	19%	182%	131%	36%
Import	16%	150%	109%	33%
Financial Market Capitalization	83.2%	189%	37.2%	121.9%
Agriculture	7.6%	-	1.03%	1.87%

Industry Description	China (2021, % of GDP)	Singapore (2021, % of GDP)	Ireland (2020, % of GDP)	Korea (2021, % of GDP)
Public Administration (or Gov Spending)	-	-	8.3%	6.63%
Manufacturing	26%	22.3%	35%	29.36%

Note: Adapted from World Bank, Statista, and IMF Data, 2020-2021

Table 3

GDP Breakdown of India & Nigeria

Industry Description	India (2020, % of GDP)	Nigeria (2020, % of GDP)
GDP, Billion USD	2,667.69	432.29
Finance, Insurance, Real Estate	23.07%	8.81%
Nonfinancial Service Industries (education, healthcare, social security)	-	2.42%
Wholesale and Retail Trade	11.6%	13.86%
IT and Telecommunication	6.13%	12.95%
Export	19%	14%
Import	19%	20%

Industry Description	India (2020, % of GDP)	Nigeria (2020, % of GDP)
Financial Market Capitalization	97.3%	13.8%
Agriculture	16.38%	24.45%
Public Administration (or Gov Spending)	13.47%	1.95%
Manufacturing	16.92%	12.84%

Note: Adapted from World Bank, Statista, and IMF Data, 2020-2021

Table 4

Net Borrowing and Lending, Inflows from Foreign Investment, and Development Assistance

Country	Net lending (+) / Net Borrowing (-) (2020, % of GDP)	Foreign Direct Investment, Net Inflows, 2020 (BoP, current US \$) (millions)	Net Official Development Assistance Received (current US \$) (millions)
US	-15.4%	211,298	-
Canada	-10.3%	26,559	-
Germany	-3.6%	142,779	-

Country	Net lending (+) / Net Borrowing (-) (2020, % of GDP)	Foreign Direct Investment, Net Inflows, 2020 (BoP, current US \$) (millions)	Net Official Development Assistance Received (current US \$) (millions)
China	-	253,096	-573.6
Singapore	-7.5	74,751	-
Ireland	-4.9	32,452	-
Korea	-2.0	8,765	-
India	-2.3%	64,362	1,794.2
Nigeria	-	2,385	3,375.5

Note: Adapted from World Bank, 2020

Role of Foreign Exchange Reserves, Balance of Payments, and Foreign Exchange

In today's Internet-enabled global networks, the nation's GDP composition, its sustainable growth, and quality are very much dependent on how it relates to foreign exchange reserves, the balance of payments, and foreign exchange. Table 5 shows, for the nations discussed in this study, their foreign exchange reserves, the balance of payments, and foreign exchange rates for the years 2020 and 2021. Of all the countries, China has the largest foreign exchange reserves for the two years under discussion—and a favorable balance of payments as well. Germany, Ireland, and Canada have healthy exports and imports; their currencies are in parity with dollars.

Table 5

Foreign Exchange Reserves, BoP, and FOREX

Country	Foreign Exchange Reserves (Billions USD)	Balance of Payments (BoP) (Billions USD, Current Account)	Forex (FGRN To USD)
United States			
2021	40.7	-821.64	1
2020	44.5	-616.09	1
Canada			
2021	78.1	1.22	0.79111
2020	76.8	-29.22	0.78555
Germany			
2021	36.95	314.09	1.1374
2020	36.77	274.2	1.2216
China			
2021	3,250.2	317.3	0.15733
2020	3,216.5	248.84	0.15308
Singapore			
2021	408.27	71.93	0.74148

Country	Foreign Exchange Reserves (Billions USD)	Balance of Payments (BoP) (Billions USD, Current Account)	Forex (FGRN To USD)
2020	359.34	58.14	0.75650
Ireland			
2021	5.89	70.25	1.1374
2020	4.94	-8.9	1.2216
Korea			
2021	438.3	88.3	0.0008411
2020	430.1	75.9	0.0009211
India			
2021	569.89	-34.65	0.01342
2020	542.16	32.73	0.01369
Nigeria			
2021	40.23	-	0.002427
2020	36.48	-16.98	0.002580

Note: Adapted from World bank, Ceicdata, and Exchange-Rates, 2020-2021

Conclusion

From the GDP analysis and the context of this research, nations differ in their capacities and abilities to create sustainable growth in industries. The USA, at least for the near future, can sustain its GDP quality and create new wealth, despite

its negative Balance of Payments now. Likewise, Canada and Germany can sustain value-creating industries and new wealth as well. China, Singapore, Korea, and Ireland can continue to sustain current industries and create newer ones because of their exports in high-end manufacturing and intense global trade and engagement. Both India and Nigeria, as of today, have not shown decreases in their imports of heavy equipment, technologies in aerospace, and computer-related hardware, as well as automobile parts. Both have weak currencies and unfavorable Balance of Payments. Poor and developing nations are also in the same predicament. Why do nations, especially poor and developing nations, fail to sustain GDP and quality growth? Both Adam Smith and Friedrich Hayek have advocated free market access in industrial development. Adams lived and published his ideas during the turn of the industrial revolution (1776), which impacted transitioning from agrarian societies to adopting division of labor and the application of labor-saving technologies. Whereas Hayek (1945), in the post-war era, added another layer to economic development, which is the application of knowledge, experimentation, and innovation. Accumulation of knowledge and intergenerational transfer of scientific and industrial knowledge becomes essential for sustaining GDP and growth. Therefore, GDP growth alone is not a complete measure of development, but other measurements such as exports, imports, the balance of payments, favorable currency exchange rates, and accumulation of foreign exchange reserves are relevant as well.

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