

Chapter-1

DEVELOPING ECONOMY AND ITS CHARACTERISTICS

Introduction: There has been a flood of literature on economic development since the Second World War. The rise of academic interest in economic development is due to many reasons. First, in the developed countries of the world, the professional economists took keen interest in the process of growth and the theory and practice of planning. They have put forward models of economic growth for the developing countries. Secondly, the poor, backward, underdeveloped now called developing or the third world countries of the world have become conscious of their poverty, hunger, disease, illiteracy. They have become development minded and wish to achieve higher standard of living in the shortest possible period of time. Thirdly, the power blocks of the developed countries of the world, mainly due to political reasons, took interest and provided financial help to speed up the process of economic development of the less developed countries of the world (LDC's).

1. WHAT IS ECONOMIC DEVELOPMENT?

It is not easy to give any precise and clear definition of economic development. The term 'development' means different things to different people. **Before 1970's**, the traditional measure of economic development was the rise in the real national income and per capita income of a country. The rise in real national income must occur over a long period of time. **In the words of Mair and Baldwin, "Economic Development is the process whereby an economy's real national income increases over a long period of time and if the rate of development is greater than the rate of growth of population, then per capita real income will increase."**

In 1980's, the real national income or real per capita income as a measure of development was discarded. The problems of wide spread poverty, unemployment and unequal distribution of income came to the forefront. The term economic development was redefined in terms of reduction of poverty (2) inequality in income and (3) unemployment. The common slogan of economic development was "Redistribution of Income from Growth". In the words of Daudley Seers, "The questions to ask about a country's development are therefore; What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If all these three have declined from high levels, then beyond doubt, there has been a period of development for the country concerned. If one, two or all three have been growing worse, it would be strange to call the result 'development' even if per capita income doubled".

In 1990's, there was again a change in the meaning given to the term development. The modern economists are of the view that economic development is the development of people

rather than the development of things. The challenge of development is to improve the quality of life. The quality of life generally calls for higher incomes and also involves better education, higher standards of health, less poverty, a clean environment, more equality of opportunity, greater individual freedom and a richer cultural life. Michael Todaro has defined development in the following words, "Development must be conceived of as a multi dimensional process involving major changes in social structures, popular attitudes and national institutions as well as the acceleration of economic growth, the reduction of inequality and the eradication of poverty. In brief, economic development means economic growth coupled with the structural changes in the economy for obtaining a better life.

Objectives of Development

The main objectives contained in the above definitions of development, in brief, are as under:-

- (1) **Provision of basic needs.** The primary objective of development is the provision and expansion of basic human needs such as food, clothing, shelter, health and protection.
- (2) **Raising level of living.** Another important objective of development is to raise the level of living of the people by providing them higher incomes, more jobs, better education, greater freedom and self respect.
- (3) **Expanding the range of economic and social choices.** In addition to the above advantages of economic growth, development must include the increases in the range of human choices. People should have the freedom to choose greater leisure, political freedom and equality of opportunity.

2. ECONOMIC GROWTH

(A) What is economic growth?

Economic growth, economic welfare, total welfare and economic development were used to convey the same meaning in 1960's and 1970's. However, the terms 'economic growth' and economic development have different meanings and importance in economic literature.

Meaning of Economic growth?

The meaning and importance of economic growth is a vital issue in economics. Economic growth is often defined as a continuous increase in the real value of the production of goods and services. According to Kuznets, economic growth may be defined as a long term process wherein the substantial and sustained rise in real national income, total population and real per capita income takes place. In the words of Michael Todaro, Economic growth is a steady process by which the productive capacity of the economy is increased overtime to bring about rising levels of national output and income.

Elements of economic growth.

The definitions of "economic growth" clearly bring out the following elements of economic growth.

- (1) **Long term process.** Economic growth is a long run process involving a period of decades. A short term increase in national income for a few years is not considered an economic growth.

- (2) **Rise in real per capita income.** Economic growth is accompanied by substantial rise in real per capita income. This can be possible only if the real growth in income is higher than the rate of growth of population over a long period of time.
- (3) **Rise in productivity.** Economic growth is always associated with substantial rise in productive capacity of the economy. The rise in real output can be achieved by proper utilization of natural and human resources and better techniques of production in all sectors of the economy.
- (4) **Greater equality.** There should be greater equality in the distribution of income and reduction of unemployment in the country.

Sources of Economic growth

Economic growth, as we have stated earlier, is the production of more goods and services over the years. Economic growth can be achieved through two main sources (1) Supply factors and (2) Demand factors. Supply factors relate to the physical ability of an economy to grow. Production can be increased by using more factors of production (land, labour, capital and enterprise) and by using existing resources more efficiently with an improvement in technology. The second source of economic growth is to create increased demand for goods and services. The aggregate demand can be increased if there is additional spending by households, by private firms for investment, by government purchases of goods and services and exports minus imports.

Economic growth and the production possibility curve

Economic growth means a sustained increase in the real value of production of goods and services in a period of time. When economic growth occurs in an economy, it will cause an upward shift to the right in the production possibility curve as is shown in the figure below:

The Production possibility curve (PPC¹) shows the different maximum possible combination of quantities of capital and consumer goods which it can produce with a given amount of productive resources like, land, labour and capital equipment and existing state of technology.

Now if there is increase in the quantity of production of both these goods i.e., consumer goods and capital goods with the existing productive resources or with any improvement in technology or by some combination of both, it will shift the production possibility curve (PPC²) outward to the right. The upward shift of PPC² shows that the economy's real capacity to produce has increased.

Benefits of economic growth

The main benefits of economic growth are:

- (i) It helps in raising the material standard of living of the people.
- (ii) It allows the economy to have more consumer and capital goods.
- (iii) It increases employment opportunities.
- (iv) It reduces government cost associated with unemployment benefits, medical aid etc.

Costs of economic growth: The costs of economic growth are:

- i) As more goods are manufactured, it produce, (a) air and water pollution (b) noise (c) traffic jams (d) rural and urban congestion (e) smoke (f) ugly landscapes (g) garbage etc.
- ii) The pollution of water and air etc. reduces the quality of life.
- iii) The consumption of many goods and services reduces our scarce non-renewable resources such as gas, oil, minerals etc.

3. WHAT IS ECONOMIC DEVELOPMENT?

Economic development is a fundamental goal of any nation. "Economic development" is the process of lifting a nation's per capita consumption, production and income so that its people can enjoy the benefits of improved material wellbeing. The term 'economic development' is comprehensive in its scope as compared to economic growth. The term 'economic development' signifies both economic growth as well as structural changes in the economy. It is growth plus structural changes. Thus the term economic growth signify only rise in real national income and per capita incomes; Whereas the term economic development is the indicator of rise in real national income and per capita incomes along with the following structural changes in the economy.

- (1) **Changing occupational structure.** In the course of economic development, its occupational structure undergoes a change. As the level of economic development rises, the percentage share of labour working in primary sector (farming, fishing mining, food stuffs etc.). begins to decline; whereas the percentage share of working population in secondary, sector (manufacturing portion of the economy) increases.
- (2) **Changing sectoral structure of national output.** In the process of economic development, there takes place a visible change in the relative contributions of primary, secondary and tertiary sector (services and commerce portion of an economy such as trade transportation finance, etc.) in the generation of national output. The % share of primary sector in the national output falls and the share of secondary and tertiary sectors gradually goes up.
- (3) **Changing structure of industrial production.** In the course of economic development, industrialization takes place in the country. The proportion of capital goods in the total industrial output rises and that of consumer goods declines.
- (4) **Changing structure of foreign trade.** As the country develops economically, the share of primary goods in the total exports decline and that of the manufactured capital goods goes up. Like-wise, the share of consumer goods in total imports falls and those of raw material and capital goods rises.
- (5) **Technological progress.** In the development process, there is a technical break through in agriculture, transport, industries, communication and other sectors of the economy. The traditional techniques of production gradually give way to science based automated techniques.
- (6) **Social, institutional changes.** With the development of an economy, there is general urbanization and the adoption of modern methods of thinking, acting, producing and consuming. There are changes in behavioural, institutional and organizational factors. The propensities to undertake risk, innovations, and investment become more sharp.

Summing up, we can say that economic growth and economic development go side by side. Economic development to an advanced country means a contribution or acceleration of existing rates of economic growth. For a developing country, it means the rate of expansion which can move a developing country from the state of under development to the state of development through the changes in the technical and institutional arrangements. Whatever may be the objectives or goals of development, the essence of economic development, however, remains, rising per capita real income, elimination of poverty, greater employment opportunities, lessening income inequalities and **more important development of physical quality of life such as education, health, life expectancy etc. etc.**

4. MAIN MEASURES OF ECONOMIC DEVELOPMENT.

There are a number of measures which have been used to estimate the economic development of a country. These measures, in brief, are:

- (i) Increase in real GNP.
- (ii) Increase in real per capita income.
- (iii) Rise in overall wellbeing of the people.
- (iv) Basic needs approach.
- (v) Human Development Index.

The above measures of economic development are discussed now in brief.

- (i) **Increase in real GNP.** Before 1970's, economic development was regarded as an increase in real national product of a country over a long period of time. A long run expansion in production was to be achieved by rapid industrialization of the country at the expense of agriculture and rural development. The growth and development at that time mainly meant the **growth of industrial production.**
- (ii) **Increase in real per capita income.** Another traditional measure of economic development was an increase in real per capita income of a country. It was considered that if the rate of growth of income per capita increases over a long period of time, it would indicate that the country was moving towards higher standard of living and achieving economic goals. The increase in real per capita income can be achieved if the nation has the ability to expand its output at a rate faster than the changes in price level. $r = \frac{y}{p}$; where r = real income, y = nominal income and p = price level. The problems of **poverty, unemployment and mal-distribution of wealth were of secondary importance.**
- (iii) **Rise in overall wellbeing of the people.** The third traditional measure of economic development was an increase in the economic well-being of the people. According to this measure, if the citizens of a country are able to get and consume more goods and services than before, people will be considered better off. The welfare of the people will rise. In the words of Okun and Richardson, "**Economic development is a sustained and secular improvement in the material well-being which is reflected in increase in goods and services.**"

The basic draw backs of these definitions are that if an increase in the goods and services produced have been created at the expense of too much hard work, or unequal

distribution of wealth or at the expense of health, safety and comfort or at the expense of dignity etc. etc., it would be unjustified to link rise in income or material welfare to an increase in economic welfare or economic development of the country. Moreover these definitions do not include non-market goods and services such as goods produced for self-consumption, women work at home etc. The objective of economic development is a rise in national income by making an improvement in the **quality of life of the people**. The economists, therefore, are in search of other measures which serve as **complements, or alternatives to the traditional measures**.

- (iv) **Basic Needs Approach.** Basic needs approach also called Physical Quality of Life Approach uses only three indicators for measuring economic development in a country. These indicators are (i) Life expectancy and age. (ii) Infant mortality and (iii) Literacy.

The basic need approach is considered superior as it spells out in detail the human needs in terms of health, nutrition, shelter and education etc. It is also devoid of the flaws which exist in per capita, GNP measure. However, the approach is criticised on the ground that it does not include security, justice and human rights which are an important measures of quality of life.

- (v) **Human Development Index.** The modern economists are not satisfied with GNP, per capita or national income as the principal measures of economic progress. According to them, the issue is **not only how much growth but what kind of growth**. They formulated Human Development Index (HDI). There were number of measures which were included in this index, However, to keep the HDI simple and manageable, the following main variables were included in it (a) **Life expectancy** was chosen as a measure of long life (b) **Literacy** as an index of knowledge and (c) Real GDP per person.
- (vi) **Other diverse indicators.** In addition to real GDP per person, the modern economists measure the level of country's development from the following indicators.

- (1) The percentage of **income originating from agriculture** in GDP. The higher the income originating from agriculture, the less developed is the economy of a country.
- (2) **Per Capita consumption of energy.** The higher the per capita consumption of energy, the more developed is the industry and economy of the country.
- (3) **Percentage of starches in total calories consumed.** If there is high percentage of starches consumed in total calories consumed by the people, the economy will be considered as underdeveloped.
- (4) **Degree of urbanization, high school enrollment ratio.** If the ratio of school enrollment, the degree of urbanization and life expectancy is rising in a country, they are considered as positive indicators of economic development.
- (5) **Infant mortality and density of population.** If in a country the infant mortality and density of population are high, it is considered to be negatively related to economic development.

Summing up, "Economic development includes not only economic growth but also a political, social and cultural changes in society which contributes to better living standard.

Problems related to the measures of Economic Development of Pakistan

The measurement of economic development in a country is a complex issue. There are number of problems related to each measure of economic development which in brief are discussed below:

- (1) **Increase in real GDP.** If there is increase in real GDP over a long period of time, the country is described as having a strong economic growth. In case of Pakistan, the revival of growth rate that started in 2013-14 further accelerated in 2017-18. The growth of Pakistan Economy remained 5.5% during FY 2017-18 with an average growth rate of 4.7% for the period FY 2014-2018. The contained inflation and maintained exchange rate accelerated the growth in domestic demand. However growth rate for FY2018-19 is only 3.29% as per Government estimates. The outgoing fiscal year 2018-19 witnessed a muted growth of 3.29 percent against the ambitious target of 6.2 percent. The target was based upon sectoral growth projections for agriculture, industry, and services at 3.8 percent, 7.6 percent and 6.5 percent respectively. The actual sectoral growth turned out to be 0.85 percent for agriculture, 1.4 percent for industry and 4.7 percent for services.

Moreover IMF has lowered its projection for the economic growth in Pakistan during FY2018-2019 to below 3%.

Table: Growth Rates (%)

Sector	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
	1	2	3	4	5	6	7	8
A. Agriculture	3.62	2.68	-2.50	2.13	8.25	2.28	2.94	0.85
1 Crops:	3.22	1.53	2.64	8.16	-5.27	3.22	4.88	4.16
Important Crops:	7.87	8.17	7.22	-1.67	-5.84	2.68	2.58	4.55
Other Crops:	-7.52	5.58	-5.73	2.51	8.48	2.52	6.25	1.85
Cotton Growing	13.53	-2.90	-1.32	7.24	-22.22	5.58	5.88	21.72
2 Livestock	3.99	3.45	2.48	3.99	3.34	2.98	2.62	4.38
3 Forestry	1.79	6.58	1.88	-12.45	14.22	-2.22	2.58	6.17
4 Fishing	3.77	0.65	0.98	5.75	3.25	2.22	2.62	2.78
B. INDUSTRIAL SECTOR	2.55	0.75	4.52	5.18	5.88	4.52	4.92	1.48
1 Mining & Quarrying	5.16	3.38	1.48	4.97	6.19	-8.88	7.12	-2.88
2 Manufacturing	2.88	4.15	5.85	3.88	3.88	5.22	5.12	2.12
Large Scale	1.12	4.46	5.46	3.28	2.85	5.62	5.12	1.88
Small Scale	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
Slaughtering	3.53	3.62	3.28	3.24	3.82	3.52	3.58	2.12
3 Electricity Generation & Distribution & Gas Distribution	1.41	-26.35	-4.74	12.48	9.28	-2.88	8.88	41.72
4 Construction	3.88	1.88	5.88	7.26	12.88	8.78	8.22	12.12
AGRICULTURE, MINING AND QUARRYING, MANUFACTURING AND CONSTRUCTION	3.88	2.12	3.12	3.12	3.12	3.12	3.12	3.12
C. SERVICES SECTOR	4.88	5.12	4.12	4.12	4.12	4.12	4.12	4.12
1 Wholesale & Retail Trade	1.88	3.52	4.77	2.88	4.12	7.12	8.12	3.88
2 Transport, Storage & Communication	4.88	4.62	3.88	5.87	4.88	4.12	2.12	3.88
3 Finance & Insurance	1.64	8.22	4.22	6.25	6.42	21.22	7.12	12.12
4 Recreational Services (Other than of Drinking)	3.88	4.14	4.88	3.88	3.88	3.88	3.88	4.88
5 General Government Services	11.88	11.22	2.88	4.82	8.12	5.88	22.88	7.88
6 Other Private Services	6.48	5.26	6.22	6.84	6.77	8.22	8.22	7.88
GDP (Total of GVA at pp (A + B + C))	3.54	3.48	4.85	4.88	4.84	3.22	5.52	3.28

P. Provisional, R. Revised, T. Final

Source: Pakistan Bureau of Statistics

So far as the sectoral shares of Agriculture, Industry and services are concerned, their percentage shares in the overall GDP during the last three years remained as under:

	2016-17	2017-18	2018-19
Agri.	19.30	19.00	18.50
Industry	20.80	20.60	20.30
Services	60.00	60.40	61.20

In case of Pakistan, the share of agriculture in GDP was 21.4% in 2012-13 but has gone down to 18.50% in 2018-19. The corresponding share of industrial sector in the GDP decreased from 20.4% in 2012-13 to 20.30% in 2018-19. The share of services sector increased from 58.2% in 2012-13 to 61.20% in 2018-19. During the year FY2018-19, agriculture recorded a growth of mere 0.85% percent against the growth of 3.94% during FY 2017-18. Industrial sector recorded growth of 1.40% during FY 2018-19 as compared to 4.92% during FY 2017-18. Services sector growth rate slowed to 4.71% during FY2018-19 as compared to 6.25% during FY2017-18.

- (2) **Increase in per capita income.** Increase in real per capita income over a long period of time is also considered a strong indicator of economic development. The real per capita income is gradually increasing in Pakistan except FY2018-19. It was \$1,053 in 2007-08, \$1,026 in 2008-09, \$1,072 in 2009-10, \$1,274 in 2010-2011, \$1,321 in 2011-12, \$1,334 in 2012-13, \$1,389 in 2013-14, \$1,514 in 2014-15, \$1,529.40 in 2015-16, \$1,630.10 in 2016-17, \$1,652 in 2017-18 and \$1,497.30 in FY2018-19. Per capita income alone does not represent the standard of living of the people. We shall have to consider the level of distribution of income and the rate of inflation in the country.
- (3) **Basic needs approach.** As regards the Basic needs approach, the indicators to be included regarding basic needs change with the stage of development in a country. Therefore, they are not helpful in measuring economic development of a country.

5. HUMAN DEVELOPMENT

What is human development?

Since 1990, the development economists are laying great emphasis on the human development both at the national and international level. Human development is now considered a global issue. Human development as defined by Dr. Mahbub-ul-Haq is the process of enlarging people's choices as well as raising the level of well-being already achieved. According to the modern economists, human life cannot be enriched by the increase of only one choice i.e. income. There are other human choices such as leading a long and healthy life, to be educated and enjoying a decent standard of living, clean environment, political freedom, human rights etc., which are essential for improving the human condition.

The difference between economic growth and human development is that the first exclusively stresses on the expansion of only one choice i.e., income as a measure of economic development. Human development, on the other hand, covers the enlargement of all human choices whether they are political, social, or cultural. Dr. Mahbub-ul-Haq rightly warns, "unless society recognizes that their real wealth is their people, an excessive obsession with creating material wealth can obscure the goal of enriching human life".

Why human development is considered necessary?

Human development is considered necessary for the following reasons.

1. After the Second World War, development was seen merely in terms of economic growth. However, in the nineties, took place a major shift in the development thinking. The modern economists led by late Dr. Mahbub-ul-Haq emphasized that economic growth is necessary for human well-being. It is an important indicator of improving the economic conditions of the people but it is not the end in itself. The fact is that human development is the end while economic growth is the mean to achieve this end. The ultimate objective is to improve the human conditions and this objective can only be achieved by enlarging the people's choices such as knowledge, health, political freedom, access to pleasures of life and other necessary resources, which are needed for a decent standard of living.
2. Human development is an important source of higher productivity in all sectors of the economy. If people of a country are healthy, educated and well skilled, they increase productivity and become an important productive asset.
3. It has been experienced all over the world that with the improvement in education levels, health facilities and economic conditions, there is reduction in infant mortality, fall in the family size and a decrease in mortality rate.
4. Human development is essential for physical environment. A country with low population growth and low population density generally creates healthy physical environment in the country.
5. Human development helps in reducing civil disturbances and in increasing political stability in the society.

Main Components of Human Development

According to Dr. Mahbub-ul-Haq there are four essential components in the human development (i) Equity (ii) Sustainability (iii) Productivity and (iv) Empowerment. These components are explained in brief.

- (1) **Equity:** Equity means that all the people should have equal access to opportunities available in the country. For enlarging people's choices to achieve opportunities, there should be a (i) change in the distribution of productive assets through land reforms (ii) introduction of progressive fiscal policy for transferring income from rich to poor (iii) provision of credit to the needy people for productive purposes (iv) giving opportunities to the low income groups to actively participate in politics.
- (2) **Sustainability:** Sustainability is an essential component of human development. The present and future generation must have mutual access to share development opportunities. **If this opportunity is not available, human development will not progress.**
- (3) **Productivity:** Productivity in all sectors of the economy can be increased at a rapid speed by increasing investment in human capital.
- (4) **Empowerment:** Empowerment means that people should be in a position to exercise choices of their own free will. This can only be possible if there is political democracy in

the country, less economic controls and regulations, decentralization of power, provision of equal opportunities to women to compete with men on an equal footing.

Human development strategy in Pakistan

The increase in expenditure on human development has shown improvements on social and living standard indicators of the people. For example, the literacy rate has increased from 56% in 2007-08 to 62.3% in 2017-18. Housing conditions as measured by the number of rooms availability have been improving consistently. The % of households using tap water as major source of drinking water has improved over the last several years. Health conditions of the population and life expectancy have improved significantly.

Human development index is a composite measure of well being of the people. According to the Human Development Report 2016, Norway tops in the 20 developed countries of the world. Central African Republic is the least developed in the ranking. Pakistan stands at 147th, India ranks 131th and Bangladesh 139th among the 188 countries.

6. COMMON CHARACTERISTICS OF DEVELOPING COUNTRIES

There are nearly 7.50 billion people living in the world, Out of these about 12% of the people live in poor or underdeveloped countries having a per capita income of around \$584 a year. Whereas in developed countries, the per capita income is very high (\$37,595 / Year). The poor countries with low per capita income are commonly called less developed countries, under developed countries, third world countries and developing countries.

Meaning of under development

There is no precise definition of an under development economy. According to Prof. R. Narkse, "*Under developed countries are those which compared with the advanced countries are under equipped with capital in relation to their population and natural resources*". The under developed country, according to Michal Todaro, is that which *has low levels of living*. (Absolute poverty, poor health, poor education and other social services), *Low self esteem* (Low respect, honour, dignity) and *limited Freedom* (freedom from external influence and dominance, freedom of choice etc). All these three factors work as a cumulative cause and affect the process and increase under development. In the word of Stanley "a country is said to be under developed which is characterised by the co-existence in greater or less degree, of unutilized or under utilized manpower on the one hand and of unexploited natural resources on the other.

At present 173 member countries of the United Nations constitute the third world. While almost all are poor in money terms but there are variations in their culture, social political and economic conditions. Despite these variations, the developing countries share a set of common features both domestic and international. These common characteristics are as under:

Common Characteristics

1. **Burden of international debt.** Most of the developing countries are depending on foreign economic loans to meet the short fall in domestic savings and the investments

funds required for quickening the pace of economic development. As the years pass, the amount of foreign loans is increasing in Pakistan. The liability of external debt and of debt servicing has increased manifold. In Pakistan the outstanding external debt was Rs. 10.437 billion at March 31, 2019.

2. **Low per capita income.** Majority of the people living in developing countries are poverty ridden. Poverty is reflected in low per capita income. People live in insanitary conditions. Services like health, education expand very slowly. In short, mostly the people in LDCs (less developed countries) are ill-fed, ill-clothed, ill-housed and ill-educated. In Pakistan the per capita income reached \$1,641 in FY2017-18 but reduced to \$1,497.30 in FY2018-19.
3. **Unproductive uses of funds.** The limited savings that exist in LDC's is mostly used for unproductive purposes or for excessive military expenditures. These expenditures provide few economic development benefits.
4. **Inappropriate Investment Decisions.** It has also been observed that the funds available are usually invested in the purchase of those capital goods that are unsuited to LDC's. For example, the amount spent on solar energy may prove less valuable than on hydel projects
5. **Agriculture, the Main Occupation.** In developing countries two third or even more of the people live in rural areas. Their main occupation is agriculture which is in a developing stage. The average land holding and the yield per acre is low. The peasants mostly live at a subsistence level. As far as Pakistan is concerned agriculture contributes 18.50% of GDP, provides employment to about 38.50% of the labour force and makes a major contribution to the export earnings.
6. **Under-utilization of Natural Resources.** An important characteristic of the developing countries is that their natural resources either remain **un-utilized** or **under-utilized** or **mis-utilized**. Most of the countries are rich in resources but they remain unutilized or under utilized due to lack of capital, primitive techniques of production, limited size of the market and sluggish nature of the people.
7. **High rates of population growth.** Almost all the developing countries are having a high population growth rate and a declining death rate. The development made with low per capita incomes and low rates of capital formation here is swallowed up by increased population. As a result there is no or very slow improvement in the living standards of the people. Average annual population growth rate of Pakistan (1998-2017) at national level is 2.4 percent. This growth rate is offsetting achievements of developments.
8. **Unemployment and disguised unemployment.** Another notable feature of developing countries is vast unemployment and disguised unemployment both in the rural and in the urban areas. The unemployment rate is estimated at 5.79% in Pakistan in 2018-19. The unemployment is decreasing with the spread of education and urbanization.
9. **Low level of productivity.** In developing countries people are economically backward. The main causes of backwardness are low labour efficiency, immobility of labour due to joint family system, cultural and psychological factors leading to low level of productivity.

10. **Lack of enterprise and initiative.** The less developed countries (LDCs) lack dynamic leadership. The enterprise and initiative of entrepreneurs is hampered due to multiple factors such as small size of the market, lack of capital, lack of infrastructural facilities, technological backwardness etc. etc.
11. **Deficiency of capital.** Deficiency of capital is another common sign in all the developing countries of the world. The capital deficiency is mainly due to (1) low per capita income (2) low rate of saving (3) low rate of investment (4) inequalities of wealth (5) adoption of consumption pattern of advanced countries (6) higher level expenditure on consumption etc.
12. **Backward state of technology.** All the developing countries are in the backward state of technology. The technological backwardness is due to (1) higher cost of production despite low money wages. (2) deficiency of capital (3) predominance of unskilled and untrained workers (4) dualism (5) misallocation of resources etc. These are the major hurdles in the spread of techniques in the LDC's.
13. **Dependence on export of primary products.** The LDC's are still relying on the 19th century pattern of external trade. They are mainly producing and exporting primary commodities to the developed countries and importing finished goods and machinery from them.
14. **Glut of Unskilled Workers.** The LDC's usually suffer from a glut of unskilled workers and a shortage of skilled workers. The quality of population as measured by its skills, education and health is poor.
15. **Brain drain.** There is an outflow of the best and brightest students from developing countries to developed countries (Brain drain). Many of these good students do not return to the developing country. Those who come back get jobs as government officials. They remain unsatisfied with their low salaries and material comforts. These talented persons mostly remain in search of better jobs in foreign countries. They are thus not entrepreneurs of economic growth for their own country.
16. **Government control by wealthy persons.** In most of the developing countries, the government is run by feudal lords and wealthy elites. These influential persons are more interested in promoting their own economic interests rather than improving the quality of life of the poor living in the country.

7. CHARACTERISTICS OF DEVELOPED VERSUS DEVELOPING COUNTRIES

The total population of the world in 2013 reached 7.046 billion people. About 5.744 billion of the world's population is living in low and middle income countries and the remaining 1.302 billion in the developed world. There is a marked difference in the standard of living of the people living in advanced industrial countries and those living in developing countries. The main indicators which differentiate the developed countries from the developing countries are in brief as under:

(1) GNP per Capita

One of the crude index of measuring the level of national well being of the people across the world is GNP per capita. In the advanced countries of the world, the GNP per capita far exceeds that of low and middle income economies. The income inequalities between the developed and under developed countries are not only large but the gap between them is increasing as the years pass. According to the World Development Report 2014, the GNP per capita of USA was as high as \$50120, and UK \$38,250 whereas it is around \$584 of low income countries. GNP per capita of selected developed and underdeveloped countries is given below:

GNP Per Capita in US Dollars

Developed countries	GNP per capita 2016	Low and middle income countries	GNP per capita in 2016
USA	58,030	Bangladesh	3,790
Germany	49,530	Pakistan	5,580
France	42,380	India	6,490
Canada	43,420	China	15,500

(2) Consumption of World's Output

The developed nations account for about one quarter of the world population but they are estimated to consume about three quarters of the world's output. The developing countries with three fourths of population thus consume one fourth of world income. The result is that people living in developing countries have limited income. Their per capita income is near to the subsistence level.

(3) Unutilized and underutilized resources

In developing countries most of the resources of the country remain unutilized or underutilized due to limited savings, unproductive uses of funds, inappropriate investment decisions, shortage of skilled workers, availability of low development technology etc. etc. Whereas the advanced nations make full use of the resources available to them. The advanced countries have substantial resources, efficient and productive technology to make the best use of resources for production.

(4) Vicious Circle of Poverty

The developing countries are finding difficult to come out of the vicious circle of poverty due to limited savings and the low level of investment. The advanced countries of the world are making full use of human and physical capital for the development and progress of their countries.

(5) Population

Birth rates and death rates are strikingly different between developing countries and advanced industrial countries. Birth rates in LDC's are generally at very high level of the

order of 30 to 40 per thousand; whereas in developed countries it ranges from 6 to 12 per thousand. The crude death rate in developing countries is estimated at 10 to 20 per thousand whereas in developed nations it ranges from 4 to 8 per thousand.

(6) Life expectancy

Currently the global life expectancy is 71 years – 68.50 years for males and 73.50 years for females. In Pakistan the average life expectancy has improved from 64.6 years in 2013 to 65.8 years in 2017 for males and from 66.5 years in 2013 to 68.2 years in 2017 for females.

(7) Secondary school enrollment

The secondary school enrollment in developing countries is about 40% of the population, whereas in developed countries it is about 95% of the population (Pakistan 49%).

(8) Percentage of population in urban areas

The percentage of population in urban areas in LDC's is about 27%; whereas in advanced countries it is about 80% (Pakistan 37%).

(9) Population below the poverty line

The population below the poverty line varies from country to country. In Pakistan, 22.3% of the people lived below the 'poverty line in 2005-06. In 2008 it declined to 21.04%. The overall poverty situation in 2010-11 is expected to have further improved. In India 32.67% of the people fell below the poverty line in 2010. In USA., U.K., Spain, South Africa, Saudi Arabia, Italy, Ireland, France, Austria, the persons falling below the poverty line are Nil.

(10) Voicelessness and Powerlessness of the people

In developing countries, there is lack of voice, power and independence of the people. Their voicelessness subject themselves to rudeness, in human treatment and exploitation at the hands of the institutions of the state and society. In advanced countries of the world people are not maltreated at the hands of institutions. They have full liberty to raise the voice against any injustice. The people, therefore, work with peace and security and engage themselves wholeheartedly in raising their living standards and reaching new heights.

(11) Debts.

During the last two decades, the developing countries are heavily burdened with international loans and also domestic loans. It is feared that many debtor nations may default on their outstanding loans. The advanced countries have brought the heavily indebted poor nations in their complete hold. The developed nations must recognise the helplessness of the poor nations to repay the debts. These debts should be written off or reduced to soft loans for attacking poverty of the people living in LDC's.

(12) Social overhead capital.

The developing countries are often burdened with **inadequate social overhead capital** ranging from poor public health, and sanitation facilities to inadequate roads, telephone, air service etc. As these social overhead are expensive to provide, therefore, the developing countries are not able to provide on large scale. The industrial advanced countries, having huge resources at their disposal have spread a net work of social overhead in their own countries for accelerating the rate of economic development and raising the living standard of their citizens.

(13) Inequality in incomes

As the years pass, the income gap between the developed and developing countries is widening. The developed countries should, therefore, open market opportunities to poor nations to build up their assets and break the vicious circle of poverty for coming closer to the advanced nations.

(14) Market economies

The industrially advanced countries have developed market economies based on large stock of capital goods, advanced production technology and well skilled labour force and well knit market. Whereas the developing countries suffer marketing deficiency like that of infrastructure deficiencies, weak bargaining position of the producers etc. The unskilled labour force, low production technology force productivity to low level.

(15) Information technology.

There is a rapid advancement in information technology in advanced countries of the world. The revolution in information technology in all the sectors of the economy has brought potential benefits to them. It has helped them in expanding goods and services at the national and international level, decreasing the cost of production, reducing inventories, reduced transportation costs, expediting access to information etc. The developing countries are far behind them in learning and adoption of information technology for rapid growth of the country.

8. TWELVE MUSTS FOR ECONOMIC DEVELOPMENT

The traditional concept of economic development which primarily focused on economic growth has been redefined. According to modern economists, the development is summed up in the following twelve musts:

1. **Development must be total.** It should be beyond economic dimensions and include the whole dimensions of social, cultural and even spiritual self realization embracing creativity, quality of life and the rights of man.
2. **The strategy of development must be original.** It should not be a blind imitation of the models of other countries. The strategy should be framed in such a manner that it responds to the economic, social and cultural requirements of a country.
3. **Development must be self-determined.** The internal markets should be widened so that it would ensure the production and supply of basic food stuffs and goods to the people.
4. **Development must be co-operative.** All the developing countries should participate with one another for raising the standard of living of the people living in the less developed world and in quickening the process of development in these countries.
5. **Development must be integrated.** All the basic sectors of the economy should be developed in such a manner that they ensure real development.
6. **Development must respect the integrity of the natural, social, cultural and religious environments of a country.** The alien values should not unnecessarily be imposed on the people of a country.

7. **Development must be properly phased.** The central authority should safeguard only the genuine interests of private enterprise. It should be properly phased.
8. **There must be participation by all sectors of the population** in the structural transformation of the economy.
9. **Development must respond to the choices of the people.** It should be democratic.
10. **Development must encourage the productive activities,** in all the regions of the country.
11. **Development must be innovative.** It should adopt technology which suits the requirements of a country.
12. **Development must be realistic.** It should make the maximum use of resources available to the country.

TEST YOUR KNOWLEDGE

1. Define economic development. How will you differentiate economic growth from economic development?
2. Define, in brief, the main elements of economic development.
3. Economic development is the process whereby an economy's real national income increases over a long period of time and if the rate of development is greater than the rate of growth of population, then per capita real income will increase." Explain.
4. Discuss the main measures of economic development in a country.
5. Define economic growth. Explain benefits and costs of economic growth.
6. How economic development can be measured? Discuss briefly the problem being faced in this regard in the under developed countries like Pakistan.
7. **Describe in brief the various characteristics of underdeveloped countries.**
8. "There are some characteristics common to the developing countries of the world". Do you agree with this statement?
9. "Besides poverty less developed countries share many traits", elaborate this statement.
10. **Compare in brief the characteristics of a developing country with that of a developed country.**
11. **How economic development can be measured and what kind of problems are faced in Pakistan.**
12. Describe in brief 12 musts for economic development.

Short Answer Questions

Q.1. Differentiate economic growth from economic development.

Ans. Economic growth refers to increases overtime in a country's real output of goods and services.

Economic development implies both more output and changes in the technical and institutional arrangements by which it is produced.

Q.2. Name three basic characteristics of an underdeveloped economy.

Ans. (1) Low level of per capital income (2) Mass poverty and (3) Lack of capital formation.

Q.3. Compare the per capital income of Pakistan with that of America.

Ans. Pakistan's per capita income \$1,497 per annum in FY2018-19. America's per capita is \$48,150 in 2017.

Q.4. Is Pakistan's economy dualistic in economic structure?

Ans. Yes. Modern economy is existing side by side with a primitive traditional economy.

Q.5. Name three basic dimensions of human development

Ans. A long and healthy life (ii) Knowledge and (iii) a decent standard of living.

Q.6. What is the percentage of people falling below the poverty line in USA, Canada and France

Ans. Nil

Q.7. How much of the total population of the world living in developing countries.

Ans. About 75%

Q.8. How much of the total population of developing countries depending on agriculture sector.

Ans. 60 to 70%

Q.9. Pakistan is underdeveloped primarily due to _____

(i) Low per capita income (ii) Low saving (iii) Higher rate of growth of population.

Ans. Low per capita income.

Q.10. Give an appropriate definition of human development.

Ans. Human development implies the development of abilities and skills and freedom among the population of the country.

