

ECONOMIC DEVELOPMENT ESSAY

Economic development and economic growth are both indicators of the economic position of the country. Economic growth is the growth in gross domestic product and economic development is related to growth in the standard of living and poverty. As you can see economic growth and economic development are not the same thing, economic development is far more than just growth in GDP as it involves indicators that are not purely economically related. However economic growth is an indicator of economic development but there are also several other factors that represent economic development. These indicators are; life expectancy at birth, infant mortality rate, daily calorie supply per capita, adult literacy rate, number of doctors per 1000 people, average years of schooling, availability of clean water, freedom of press, immunisation rates and levels of discrimination. As you can see these are generally not economic indicators but when they are combined they form the economic development figure.

There are fifteen barriers to economic development, the first of these being a lack of physical capital. Lack physical capital is a significant barrier to the development of a country for several reasons. There is already a shortage of capital that further leads to less capital being produced; this creates significant problems for developing countries. In these countries the income levels are low leading to low savings and therefore little money for investment in capital. This lack of capital furthers the low productivity therefore the employment remains low. This also leads to a lack of demand for goods and services the low demand means that less needs to be produced therefore less capital needs to be produced. This then forces the country into a cycle of underdevelopment. This consequently creates a barrier for the country to develop. An example of this is in most less developed countries where they are in constant times of war and civil unrest. Their capital is destroyed through war making it difficult for the country to produce more capital. Also, Sierra Leone, the worlds least developed country, as shown by the human development index, has a GDP per capita of US\$159 this creates significant problems for the economy and its development.

A lack of human capital is the next barrier to development. This barrier is created through a lack of education and training of the population. It also relates to the general health and wellbeing of the population. If the labour-force are getting sick then they are unable to work and therefore decreasing the labour capital. A current example of this situation is in South Africa. In South Africa the micro-economic impact of AIDS is very serious and is getting worse. Among skilled workers HIV prevalence is expected to peak between a fifth and a quarter percent by the year 2000, which is consequently depleting the number of skilled workers creating the lack of capital development barrier. These problems are also leading to a rise in insurance bills and the costs of health benefits rise. This therefore diverts government savings to pay for health care and as a result the availability of funds for investment will fall. AIDS is predicted to knock 0.3 to 0.4 percent off the annual growth rate. As you can see this is a severe barrier to development in these less developed countries. A strategy to this barrier is human resource development.

The next barrier to development is a lack of savings. This also causes low levels of investment due to the low income leading to low savings. This low level of savings is also caused by several other reasons such as; poorly developed financial markets, holding of savings in traditional non-money forms, the purchase of unnecessary luxury items, cheap family labour reducing the incentive to save for investment and the general indebtedness of the population. The low incentive to reinvest profits by businesses also reduces the savings. Budget deficits by the government to make up for the low taxation revenue are also decreasing the amount being saved. When there is a lack of savings caused by any of these causes it forces the need to borrow form overseas that consequently leads to problems with the balance of payments. An example of lack of savings exists in Nigeria. In Nigeria there are severe problems with their currency. These begin with significant fraud problems also the majority of trading is done with cash in which until recently the currency did not exceed the equivalent of 50 cents. The next problem is that they don't believe in banks, the only use of banks is to exchange foreign currencies for tourists, which leads to a lack of funds for investments. Also, Local traders keep all working capital stuffed in coca jars, as they believe business opportunities will disappear in the time it takes to make a withdrawal. Banks do not

allow credit due to the fear of not being repaid. All of these factors contribute to a large barrier to development simply due to a lack of savings. This could be solved through improving the financial system.

Another barrier to development is a lack of taxation revenue. A lack of taxation creates barriers as it means the government has little finances to use on economic development. The high unemployment, very low-income levels and difficulties in tax collection cause this lack of tax revenue. The government is then forced to collect tax mainly from customs duties, sales taxes and excises. These taxes can prove to be very inflationary and are also regressive. Another problem with these taxes is that they discourage investment and the creation of employment. Nigeria also has a problem with the collection of taxation. Most Nigerians that can afford to avoid paying taxes, as they believe that their money will be flinched by the corrupt government. This creates severe problems for the country, as there is no money for the government to use in investment to promote economic development. Improving the financial system will also help solve this barrier.

The next barrier to entry is a lack of infrastructure. Less developed countries rarely have a sufficient supply of necessities such as roads, ports, sewerage, power schools or water facilities etc. The main reason that this infrastructure is not being made is that the government simply cannot raise the funds to finance them due to their lack of taxation revenue. Another reason maybe that the government has chosen to finance defence spending or if they are in time of war, in which most LCD's are. A lack of infrastructure restricts the free flow of goods and services and reduces the productivity of the labour force that further restricts the economic development of the country. In Africa infrastructure is very underdeveloped compared to the other less developed regions. They have 6 phone lines for every 1000 people compared to the average of 54 for other developing regions. Also their power supply is far less than the average of 300kw per 1000 peoples with 80kw this significantly stops their development. In Nigeria there are serious problems with infrastructure causing business uncertainty. Telephones rarely work and the electric comes in periodic vengeful surges. Nigerian firms, particularly the state-owned ones due to the lack of taxation, devote little effort into maintaining their infrastructure and it therefore ends up breaking down. Reliable firms are so hard to come by that firms barter contacts: we'll let you share the electricity from our generator if you can help us find spare parts for it. Firms wanting to set up in Nigeria face the problem known locally as BYOI (bring your own infrastructure) this shows how much of a problem infrastructure is in Nigeria. A lack of infrastructure could be solved in many ways such as encouraging enterprise, human resource development or improving the financial system.

A lack of entrepreneurs is another barrier to economic development. Enterprise is essential in order for development to occur, as it is one of the key factors to production. In the less developed countries there tends to be a lack of entrepreneurs for several reasons. The first of these is the fact that there is a limited opportunity to make a profit, due to the lack of demand. The next reason is that the businesses not easily financed due to the low level of savings. The lack of infrastructure available also distracts these entrepreneurs. Another reason to the lack of entrepreneurs is that cultural beliefs often place little importance on monetary gain and entrepreneurs are thus given little status. The number of entrepreneurs is also reduced by the lack of education in these countries. The final reason is that it is risky for an entrepreneur due to the political and economic instability. An example of a lack of entrepreneurs is also in Nigeria as it closely relates to the lack of the infrastructure. The lack of infrastructure adds at least 25 percent onto a firms operating costs if it chooses to set up in Nigeria, this is a significant deterrent for firms to set up and should be solved if the county wants to achieve economic development. A strategy that could be adopted to help this situation is encouraging enterprise.

The next barrier to economic development is a lack of technology. There are several reasons why these less developed countries are not more technologically advanced. The first reason being that most new technology will involve some investment in capital that is lacking in these less developed countries. Also another problem is that the new technology will need skilled labour to operate it but skilled labour is also of shortage in a LCD. The next reason is that companies don't really want to adopt labour saving technology when they already have cheap

labour and there are high unemployment rates. The final reason that there is a lack of technology is that new technology is used to facilitate the achievement of economies of scale and the small markets in LCD's reduce the incentive to mass-produce. The governments however, have managed to encourage technology into these LCD's and most currently use modern technology that complements the labour so workers maintain their jobs. A bit of the modern technology used in these countries is generally used in the foreign owned industries where they mass-produce in order to export to advanced markets.

Over population and rapid population growth is another factor that causes a barrier to development. In these less developed countries the birth rates are often five times higher than in the more developed countries. The advances of medicine have also caused a fall in the deaths, which leads to a higher population growth. The growth of these countries is generally around 2 percent and their growth is usually below this figure, which therefore worsens the situation, and the real GNP per capita often falls. In the more advanced countries they generally have population growth of around 0.5 percent and their economic growth will usually be higher than that. This is where the widening gap occurs pushing less developed countries further away from more advanced countries. This high growth of the population also has the effect of increasing the labour force, but as there is little demand for labour the unemployment rate will tend to rise. Also, most of this population is below 15 or above 65 meaning they are unable to contribute to production but still need things such as food, water, clothing and shelter. This creates a problem known as dependency burden making development even harder. Governments in these LDC's fight a tough battle with a rapid growing population and are always trying to slow this rate but they face several problems such as poor education, communication, lack of contraception and cultural attitudes. Africa is currently the fastest growing of all the developing regions with a growth rate of 3 percent over the past decade but with this high growth rate comes several associated problems. Africa has one doctor for every 20,000 people compared to an average 5000 people in developing countries and its infant mortality rate is the highest at 96 per thousand births almost double the developing countries average. Africans also have a life expectancy of 52 years where the average for developing countries is 64. As you can see that the effects of a high population are not beneficial to a developing country. This barrier to development can be solved with the population control strategy.

The next barrier to development is inflation. Inflation in these countries is caused by the scarce amounts of goods and services relative to the high population consequently causing demand pull inflation. The domestic supply is unable to match the domestic demand. The inflation rates in many of these countries gets above 200 percent compared to that of around 5 percent in most advanced countries. This high inflation has many unwanted effects such as decreased living standards and a reduction in real income, it also tends to redistribute the income from the poor to the wealthy therefore increasing the income inequality that already exists. A high inflation rate also causes the investment of non-productive assets such as antiques or gold, this money is therefore taken out of the economy reducing the funds available for investment. These high inflation rates also cause a reduction in the competitiveness of exporters and import competing firms that therefore leads to an increase in the countries current account deficit. Another effect that inflation will lead to is a falling exchange rate, which if the country has a large foreign debt will make it even harder to pay. Inflation is very high in most of the African countries and causes severe problems to their economy and development progress.

Balance of payments problems is also another barrier to development of these less developed countries. The majority of LCD's have problems with their external balance as the little income they do earn is used on imports and used to pay off interest on their foreign debts. As these countries are in deficit they are continually forced to borrow from overseas to finance their payments worsening their current account deficit even more. Many of these countries are also suffering from worsening terms of trade that also decreases their export revenue and thus further worsening their balance of payments. The WTO worldwide reduction of tariffs will help to assist this but government policies need to be implemented to seriously boost export revenue and turn the consumers away from imports. The strategy to help the balance of payments is import replacement.

The next barrier to development that LCD's face is a depletion of their natural resources. Many of these countries are highly dependent on one major export to create export revenue, create growth, employment and income and the reduction in the current account deficit. This creates problems as they may deplete natural resources without considering future production. This reduces the potential for further future development and growth. In Mauritius, they have cleared 25 percent of their forests in the last 19 years purely for export. This causes massive environmental effects and also is a serious concern, as when the resources run out the country's economy will fail to stay afloat. This is the same in many less developed countries including many African countries and their dependency on oil. It can be helped with export development to have a wider range of exports and less dependency on one major export.

Another significant barrier to economic development in these less developed countries is corruption and poor administration by the government. Corruption is a very common problem in LDC's. The problem associated with this is that aid and government revenue is not all used in promoting growth, corrupt leaders and government officials take most of it. When a government is corrupt it causes most of their aid to be withdrawn forcing them to reform their political structures. This withdrawal of overseas assistance causes depletions in general living standards of the country. Another problem with these governments is that they know little or nothing about economics. These leads to several problems including poor administration and efficiency these lead to a poor ability to promote development. An example of this is in Nigeria where it has been estimated that in the last twenty years over two billion dollars of oil revenue from the country has been embezzled. This is mainly due to their last dictator who ordered the Nigerian Central Bank to deposit 15 million dollars a day into his own Swiss bank account. This works out to twenty percent of GDP and when you take into consideration that their NFD is over 40 percent of GDP, the country is not left with much money. A strategy that has been put into place for this specific barrier is the refusal to lend money to Nigeria from IMF.

Natural disasters are another barrier to development in less developed countries. The effects of natural disasters such as floods or droughts have a much greater impact on less developed countries compared to that of advanced countries. Most LCD's are prone to these natural disasters, which is a significant factor to their underdevelopment. In India they have times of severe droughts and flooding where 80 million people were affected. This has severely decreased their agriculture production and is consequently creating a barrier to their development. There is not much that can be done about natural disasters but do adjust to them and to adopt new ways to cope with them.

Another significant factor preventing the development of less developed countries is war and civil unrest. Many LCD's are in constant war and civil unrest, this causes several problems with development. The first of these problems is that entrepreneurs are discouraged by the countries instability also important infrastructure is destroyed and governments spend their little taxation revenue on maintaining order or producing weapons. Economies in war torn countries are unlikely to be operating at full capacity making it hard for development to occur. In Rwanda civil wars in the nineties have claimed the lives of almost 1,000,000 Rwandans. Most of the aid to the country was invested in weaponry and therefore not used in promoting economic development, as it should have been. This is how civil wars can create barriers to development. The only solution to this is to end the wars and focus the spending into promoting economic development.

The final barrier to development is a lack of press freedom. Press freedom involves the exchange of ideas, criticism of government and increased awareness of world events and developments. This is something that most LCD's do not have and therefore their economic development is limited. In Mexico the government allowed Televisa to have a monopoly in the television market if they didn't play any anti-government shows and supported the government. In the eighties journalists were killed by the police in Mexico City if they published any anti-government articles. This is serious problem in these less developed countries and is usually the result of government corruption.

The first strategy to promote economic development in these less developed countries is export development. This strategy involves assisting those producers who export to overseas markets. An increase in export development will earn foreign exchange and create unemployment and income and also help to solve problems with the balance of payments.

The next strategy to promoting development is import replacement. Import replacement involves the shifting of demand away from imports and towards the domestically produced products. This can be done in several ways including the induction of tariffs on imports making them more expensive relative to the domestic product. This also encourages foreign investment as the foreign firms wish to have the same protection. Assisting domestic producers financially is another way of promoting this economic development, by subsidising and offering tax incentives to local producers it will increase their competitiveness with imports by the lower costs of production. However, replacing imports is only a short-term solution and therefore policies promoting long-term development must be applied.

Human resource development is the next strategy to development. This development involves improving the size of the labour force and also the skills of the labour force. The labour force can be increased through improved health care and skills can be attained through things such as training and education. In Nigeria the World Bank is currently funding an \$80 million project into their education as well as building a better and more consistent water supply. Also In Malaysia education investment has been amongst their highest priorities for decades, they have spent \$731 million on improving their education levels to the level they are currently at

Another way to promote economic development in these less developed countries is through encouraging enterprise. In most LDC's there is a lack of entrepreneurs, in order to increase the quantity there are several solutions such as improving management and leadership training and tax incentives, subsidies and free loans. Cuba has introduced a group of people called the cuentapropistas, 170,000 entrepreneurs marking the arrival of a new business sector in the islands socialist economy. They account for 8% of the labour force and manage to put food on the table for one in ten Cuban's. These new small businesses have been a result of reduced subsidies to state enterprises, increased foreign investment, and introduction of incentives in the agricultural sector and the legalisation of dealings in foreign currency. This has already had positive signs on the Cuban economy with growth in 1998 at 8 percent some 31 percent higher than two years previous.

Population control is another strategy to economic development. Rapid population growth is unwanted as it creates problems such as inflation and scarcity and therefore more poverty. There are plenty of methods that can be put into place to slow population growth. Some of these methods include maximum children policy such as China's one child policy and free supplies of contraception. The Grameen bank is another contributor to helping population control in Bangladesh. The bank issues loans to women and as part of the conditions to borrowing the money they must agree to have small families. This has proved to be a successful program all across the world and has helped to promote the small-scale development of many less developed countries.

The next strategy to promote economic development is increasing the agricultural productivity. Agriculture is usually a major sector in the less developed countries and thus improving its productivity will significantly promote development. Improving the agriculture productivity can be done in many ways. Some of these include merging small farms to create larger more efficient ones and encouraging owner operators to increase the incentive to improve productivity there also several other ways in which these countries can improve their agricultural productivity. With 75 percent of the population living in rural areas, improving the efficiency of India's agriculture is the key to attaining high growth and reducing poverty. Accelerating rural development and poverty reduction requires cutting spending on input subsidies; investing in rural infrastructure; providing more effective rural services, especially to the poor and socially excluded; improving management of water, forests, and other natural resources; liberalizing the rural economy, including the rural financial system. In the heart of India's poorest region, the Bihar Plateau Development Project is increasing access to much-needed irrigation and safe drinking water by tribal communities and raising their incomes

through the diversification of rural livelihoods. The project aims to reach 4.5 million people through a variety of institutional mechanisms, including water and sanitation committees, water user associations, and income generation schemes, all aiming to transfer skills and enhance people's capabilities so that the benefits may be sustained once the project ends. This is one way in which India is proving to increase its agricultural productivity.

Another strategy to promoting economic development is by adopting intermediate technology. If a less developed country invested in new technology it may be forgoing employment possibilities, as most new technology is very labour intensive, this will consequently lead to a fall in employment. As these countries have an abundance of labour it is much easier, cost effective and better for the economy if they use intermediate technology that still requires high levels of labour. An example of this is Fred Hollows, Hollows uses local resources to create employment income and economic growth through the training of people to perform the medical tasks and also employment in the factories where the lens are created.

The final strategy to promote economic development is to improve the financial system. In these economies there is a lack of savings and an insufficient financial system, this creates major barriers to development. Thus policies need to be adopted to improve this situation that promote growth and employment without generating high levels of inflation. The World Bank's Executive Board approved a \$506 million loan to support financial sector adjustment and reform in Colombia. The loan is part of a revised World Bank strategy for Colombia that includes intensified lending to help the country promote peace, ease the impact of the recession on the poor, and rebuild after their earthquake. It is also part of a \$1.4 billion package to help bolster Colombia's economy. "This financial sector adjustment loan reflects the World Bank's confidence in Colombia's wide-ranging reform strategy, which is critical to its effort to overcome the recession," said Andres Solimano, director of the Bank's program in Colombia.

The financing of many of these strategies is usually funded through institutions such as the World Bank and the International Monetary Fund institutions. The World Bank is a major force behind the development of less developed countries as it gives issues discounted loans to most of these countries. Another way that these countries can fund their development is through overseas aid. There are large amounts of money flowing out of the developed countries from governments and other aid organizations as aid into the less developed countries hoping to achieve economic development. For all of these less developed countries to achieve economic development, an effort from all developed countries with aid and advice must be contributed, but until then the world will not have any chance of abolishing poverty.

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