ECONOMICS OF DEVELOPMENT AND PLANNING

(THEORY AND PRACTICE)

- V.K. Puri
- S.K. Misra

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PREFACE TO THE NINETEENTH EDITION

The World Economy is passing through difficult times. First COVID-19 and now Russia-Ukraine war has caused massive economic disruption all over the world. Nations all across the globe are abandoning globalisation and resorting to protectionist policies to protect their economic interests. As far as India is concerned the recently released Report on Currency and Finance by RBI states that it will take more than 12 years for the Indian Economy to recover fully from the adverse effects of COVID-19.

The organisation, structure and contents of the present edition (which is nineteenth edition) of Economics of Development and Planning are as follows:

Unit I on 'Basic Concepts and Issues in Economic Development' is divided into six chapters and discusses the characteristics of developing nations; the difference between economic growth and development; the relationship between economic growth and development; the relationship between growth and social justice; the concepts of basic needs approach, entitlements and capability; the concept, components and importance of human development; the obstacles to growth and development; and a historical perspective on economic growth.

Unit II explains the general theories of economic growth and development like the classical theories of growth (incorporating the views of Adam Smith, David Ricardo and Thomas Malthus); Marx's theory of economic development; Schumpeter's views on growth; Rostow's stages of economic growth; essence of Keynes's theory and its relevance for the developing countries; growth models in the post-Keynesian phase; and discussion on Harrod-Domar growth model, neo-classical theory of growth, Cambridge models of growth, and forms and models of technical change including their empirical applications and relevance for the developing countries.

Unit III is devoted to a discussion on partial theories of development. In this unit we explain and critically evaluate the theory of big push as propounded by Rosenstein-Rodan, Harvey Leibenstein's theory of low level equilibrium trap, Nurkse's arguments in favour of balanced growth and their criticism by Albert O. Hirschman and Hans Singer, Hirschman's unbalanced growth doctrine, the theories of social and technological dualism, Lewis's model of economic development with unlimited supplies of labour, and the Fei-Ranis model of economic growth.

Unit IV is devoted to a discussion of various domestic problems and policy responses in the developing countries. In this Unit, all important problems that are faced by the developing countries on the domestic front have been discussed thoroughly, the alternative policy prescriptions examined, and answers sought wherever feasible. For example, a detailed discussion of the problem of poverty, income inequalities and unemployment is undertaken and various policy initiatives examined in detail. This part also takes up a discussion of the population problem in the developing countries, role of technology in economic development, the interrelationship between agriculture and industry, importance of capital formation, and the question of environmental protection and sustainable development.

Unit V opens up with a discussion on the relationship between trade and economic development. Building on the arguments put forward by Prebish, Singer and Myrdal emphasizing the deteriorating terms of trade for the developing countries, we argue that the trade prospects of the developing countries are not very encouraging. In this context, discussion in Chapter 34 is also relevant as here we point out how in the new international economic order that is taking shape under the aegies of WTO, conscious efforts are being made by the developed countries to dictate terms and suppress the claims of the developing world. This Unit also examines the oftrepeated question of trade strategy (outward oriented vs. inward oriented), arguments for and against protection, and the issue of international transfer of technology with special focus on the role of MNCs.

Unit VI examines how economic development is financed. The obvious choices of options here are (*i*) the role and importance of monetary policy, (*ii*) the role and importance of fiscal policy, (*iii*) deficit financing, and (*iv*) the role of foreign investment and aid in financing development in the developing countries.

Unit VII is concerned with issues and techniques of development planning. Input-output analysis, linear programming, shadow prices, cost-benefit analysis, and various investment criteria are discussed in this unit and their applicability in the developing countries examined. We also discuss the role of market in the developing economies and the importance of State intervention. Role of economic planning in the context of the problems faced by the developing countries is also examined.

Unit VIII is the last unit of the book and is devoted to a discussion of the Indian development experience. We have tried to critically examine the various policy initiatives undertaken by the Government of India during the planning period in practically all important sectors of the economy. For example, the chapter on agriculture discusses trends in agricultural growth and the government's policy related to this sector. The chapter on industry discusses the industrial growth trends, the government's industrial policy, the role of public sector and the issue of privatisation. The chapter on foreign trade discusses the foreign trade trends and the foreign trade policy while the chapter on 'India and the World Economy' highlights the issue of globalisation and the impact of WTO on Indian economy. Various other chapters deal with the issues related to the planning exercise like the objectives and strategy of planning, a critical appraisal of the five-year plans, impact of economic reforms and the policy of liberalisation, etc. In this section, a new chapter on 'COVID-19' has also been incorporated which discusses the impact of COVID on the Indian Economy.

As is clear from the above listing of the issues contained in this edition, we have undertaken a comprehensive examination and review of practically all theoretical and practical issues confronting the developing economies. In this elaborate exercise, we have benefited immensely from the ideas and thinking of a large number of development economists. We gratefully acknowledge our intellectual debt to all of them. We also express our deep sense of gratitude to Dr. Divya Misra, Associate Professor in Economics, Lady Shri Ram College, Delhi University, and Mrs. Kiran Puri for providing invaluable assistance and to our publishers M/s. Himalaya Publishing House Pvt. Ltd., for their wholehearted cooperation at all stages of the preparation of the present edition.

V.K. Puri

PREFACE TO THE FIRST EDITION

The problems of the Third World countries are attracting increasing attention worldwide and a vast theoretical and empirical literature has grown over the years dealing with the various issues of their economies. The students of Economics need to be exposed to this literature through some standard book of a semi-textual nature. In this literature it is now generally acknowledged that the Third World countries cannot grow along the classical capitalist path of development followed by the U.K. or some other Western countries. These countries must evolve their own strategies of development, and in any case they cannot rely completely on the market forces for their economic progress. It is this necessity which has compelled these countries to adopt economic planning in one form or the other. The purpose of this book is not to present detailed analysis of the developmental paths chosen by the various developing countries. We wish to confine our analysis to the basic theoretical issues of growth and development, treatment of growth models, leading theories of development and underdevelopment, policy measures widely undertaken in developing countries to accelerate the growth process and to tackle the problems arising in the progress of development theory, techniques and the practice of economic planning and planning practice in India.

The canvas of the book as stated above is quite extensive. It covers almost everything which the students doing a course in "Development and Planning" are required to cover both at the Post-Graduate and the B.A. Honours level in India. In this book we have taken particular care to cover a number of issues which are generally glossed over in books dealing with the same subject. Books written by the Western economists on these subjects often carry anti-Third World biases. Some of these even go to the extent of legitimizing neo-imperialism and neo-colonialism. Therefore, we have taken particular care in critically examining the viewpoints of these economists. An attempt has also been made to present the viewpoint of the developing countries. This we hope will provide students of developing countries with a perspective to examine and analyse the problems of their economies within their own framework.

The book itself is divided into seven parts. Part 1 deals with basic concepts and issues in economic development. Part 2 entitled 'General Theories of Economic Growth and Development' covers growth theories developed right from the time of the classical economists. Part 3 provides an analytical treatment of what are generally characterized as the partial theories of development. This section also examines the various strategies of development. Parts 4 and 5 have policy orientation. Whereas Part 4 deals mainly with domestic policies pertaining to problems like poverty and income inequalities, unemployment, capital formation, choice of techniques, etc. Part 5 covers mainly international economic problems and policies. Parts 6 and 7 deal with the planning theory and techniques and the practice of planning in India.

In common with most textbooks, this book is also an amalgam of many scholars' ideas. We accordingly gratefully acknowledge our intellectual debt to many authors cited in the references, as well as to our numerous unnamed professional colleagues. We wish to thank Dr. Prem Vashishtha, Senior Economist, National Council of Applied Economic Research, Shri R.N. Lokhar, Reader, Economics Department, Allahabad University and Ms. Divya Misra, Lecturer, Lady Sri Ram College, Delhi University, Delhi, for the stimulus they have given to us by raising many pertinent questions and making critical comments over a period of years. We also consider it necessary to express our deep sense of gratitude to Mrs. Kiran Puri who rendered assistance in various forms in preparing the manuscript of this book. But we accept all responsibility for such errors, omissions and other defects that may have remained in the text. Thanks are also due to the Publisher for bringing out the book in its existing form.

Suggestions for further improvement of the book are welcome from all quarters.

S.K. Misra and **V.K. Puri**

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UNIT 1

BASIC CONCEPTS AND ISSUES IN ECONOMIC DEVELOPMENT

CHAPTER 1

DEVELOPING NATIONS: DIVERSE STRUCTURES AND COMMON CHARACTERISTICS

Until the World War II rarely any interest was shown in the problems of the present day Third World countries. In fact, anyone who attempted to analyse the specific problems of these countries earned the distinction of being known as a heretic in academic circles and was denied any respectability. However, since the World War II there has been a prolific growth of literature on the development problems of these countries. This contrast in the approach of economists before and after the World War II is not at all surprising. Before the World War II most of the present day developing countries of Asia and Africa were colonies of the West European countries. Though Latin American countries were politically free, yet their economies remained integrated with those of the metropolitan countries, more specifically with that of the United States. Under the circumstances, the existence of these countries was recognised either because they were the sources of raw materials and the capital required by the metropolitan countries or on account of the market they provided for the finished products of the latter. It was not difficult to perceive the relationship that existed between the development of the metropolitan countries of the West and the underdevelopment of the colonies. However, no academic risked his reputation by treading this sensitive area.

The position radically changed after the World War II. Asian and African countries succeeded in winning freedom one after another. Once these countries got independence, they decided to embark on the developmental path. At this juncture the academics in the West could not ignore their existence. In doing so there was a risk that economists with nationalist bend of mind in these countries could have independently analysed the causes of their underdevelopment and would have suggested a development path which might not have suited the interest of the West. This would have been disastrous for the Western colonialism. Hence, the issues pertaining to the economies of former colonies suddenly became favourite subjects for study in the U.S.A. and other Western countries and over the past eight decades considerable work has been done in this area. Most of it, however, underplays the role of colonialism in the underdevelopment of Asian, African and Latin American countries. In fact, in most of these studies one does not find any reference to the historical past of these countries. Taking a partial view of the present day reality, policy recommendations have been made in an ideologically biased framework. In addition, some economists have attempted to work out growth models for the underdeveloped countries. In this book, it is not our purpose to survey whole of this literature. We shall confine ourselves to the main issues in economic development.

DEVELOPING NATIONS: THEIR DIVERSE STRUCTURES

The poor countries of the Third World are variously described in development economics. They are alternatively called as 'backward', 'underdeveloped', 'less developed' and 'developing'. Jagdish Bhagwati rightly asserts, "The choice of word depends largely on sensitivity of the audience and the sensibility of the analyst."[1] It is precisely this reason why the word 'backward' that gets closest to the essence of the problems of poor countries is not preferred to the other three words. The word 'underdeveloped' also hurts the pride of the people in poor countries, and as a result by sheer elimination, the word developing has become the most favoured term though it inadequately describes the nature of the economy in poor countries. We will also, without going into the merit of the term, describe poor countries as 'developing.'[2]

In its annual publication *World Development Indicators*, the World Bank classifies economies according to their gross national income (GNI) per capita. Economies are classified as low-income, middle-income (subdivided into lower-middle and upper-middle), or high income. *World Development Indicators* classifies the economies according to GNI per capita in 2020 as follows:

1. Low income economies	**—**	**\$ 1,045 or less**
2. Middle income economies	**—**	**\$ 1,046 – \$ 12,695**
A. Lower middle income economies	**—**	**\$ 1,046 – \$ 4,095**
B. Upper middle income economies	**—**	**\$ 4,096 – \$ 12,695**
3. High income economies	**—**	**12,696 or more**

Of the 217 countries for which data are provided in the Report, 27 fall in the category of low income economies, 110 fall in the category of middle income economies (55 in lower middle income group and 55 in upper-middle income group) while 80 fall in the category of high income economies.[3] At times, low income and middle income economies are jointly referred to as developing economies. However, it may be pointed out here that some high income economies also fall in the category of developing economies due to overall underdeveloped backward economic structure despite high income.

A number of development economists have in recent years argued that GNP or GNI per capita is not a correct measure of development. Their argument is that the ultimate objective is human development and not just increase in per capita income.[4] **The *Human Development Report* published by the United Nations Development Programme (UNDP) has, ever since its launch in 1990, been ranking countries according to the level of human development achieved.** The *Human Development Report 2020* has calculated HDI for 189 countries and has classified them into the following four categories: very high human development, high human development, medium human development, and low human development. There are 66 countries in very high human development category (the country occupying the first position being Norway with HDI of 0.957 in 2019), 53 countries in high human development category, 37 countries in medium human development category and 33 countries in low human development category (the country at the last position being Niger with HDI of 0.394 in 2019).

While in terms of per capita income almost all developing countries are poor, they are diverse in physical resource endowments, economic conditions, size of population, levels of human development

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1. Jagdish Bhagwati, *The Economics of Underdeveloped Countries* (London: World University Library, Weidenfeld and Nicolson, 1971), p.9.
2. In the text, however, for expository convenience and in order to avoid semantic confusion, we shall use the words 'developing', 'underdeveloped', and 'less developed' interchangeably to refer to the Third World countries. This has now become a standard practice with economists dealing with the problems of the Third World economies.
3. Computed from World Bank, *Word Development Indicators*.
4. For details of this argument, see chapter 4 on "Human Development".

achieved, historical past and social and political structures. Among the less developed countries some are richly endowed with physical resources, some are quite large with massive population having an advantage of large domestic market, and some others have large geographical area with sparsely inhabited population. Countries falling in any of these categories have one advantage or the other from the point of view of development. In contrast there about 11 developing countries, including Bhutan, Guyana, Comoros and Vanuatu having population less than 1.0 million each. Thus, in terms of size of population these countries are much smaller than the metropolitan cities of India, itself a less developed country. Small countries generally suffer from the problem of limited resource endowment. Further, the limited size of the domestic market often inhibits the growth of large-scale modern industries. In addition to these economic problems, small countries face a number of political problems, the most important being their vulnerability to external political pressures. Thus, the task of development is far more difficult in smaller countries.

Let us now examine the following major components of the structural diversity of developing nations.

- The size of the country in terms of geographical area, population and income.
- Historical background.
- Resource endowments, both physical and human.
- The nature of economic planning and the relative importance of public and private sectors.
- Occupational structure.
- External dependence.
- Economic inequalities and the extent of poverty.
- Political structure, power and interest groups.

1. Size and income level. Geographical area, size of population and income level of a country determine to a great extent, its development potential. Large geographical area often ensures availability of diversified resources. Similarly big population, even if it is accompanied by a modest GNI, offers a reasonably large market which in turn provides inducement to invest. Thus, development potential of big countries like Indonesia, India, Brazil, Indonesia, Pakistan, Bangladesh and Nigeria is certainly greater than that of relatively smaller countries of the Third World. All the big countries referred to above have vast geographical area, and the smallest of these had a population as large as 164.7 million in 2020.[5] In terms of GNI per capita, India and Indonesia rank pretty low, yet because of their large population they have reasonably extensive domestic market which can sustain development of most of the industries. Smaller countries like EI Salvador, Togo, Burundi, Honduras, etc., do not have extensive geographical areas. They have limited natural resources and thus feel constrained in their development effort. Some smaller countries in the Middle East are, however, exceptionally rich in oil. They have managed to develop rapidly during the last few decades on the basis of their earnings from the export of oil. Large population without extensive geographical area and diverse resource endowments may prove to be a major obstacle to development. This is precisely the problem of Bangladesh. With a population of 164.7 million in 2020 which is two and a half times the population of France, its geographical area is merely one-fourth of France's area. Moreover, it does not possess any resources which could contribute to its economic development. Some Third World countries, particularly in Latin America and Africa, are sparsely populated. Their extensive land and diverse resource endowments indicate their development potential. So far these countries have failed to take advantage of these factors because of their past colonial exploitation. In future, how far they will manage to develop is difficult to predict.

5. World Bank, *World Development Indicators*.

2. Historical background. All developing nations do not have the same historical background. Most of them were the colonies of West European countries, particularly Britain and France. Belgium, Netherlands, Germany, Spain and Portugal were other European countries which had colonies in Latin America, Africa and Asia. Since Latin American countries have enjoyed political independence for a much longer period, they have reached a somewhat higher level of economic development than their counterparts in Asia and Africa. In Asia, countries of the Indian subcontinent and South-East Asia had suffered from the worst type of colonial exploitation. These countries got independence only after the World War II. Since then they have recorded some growth, but are still among the most backward nations of the world. Among the Asian countries, Japan had the unique distinction of not being a victim of colonial exploitation and this explains why it managed to develop along the capitalist path, while other countries with their colonial heritage remained underdeveloped.[6] Moreover, different colonial heritages and diverse cultural legacies of the indigenous people in the Third World countries have combined so differently that altogether different institutional and social patterns have emerged in countries such as India, Sri Lanka, Indonesia, Vietnam, Philippines, Algeria and Angola. In fact, this diversity is so important that all these countries cannot hope to proceed along the same path of development.

3. Resource endowments — physical and human. Until the 1930s, most economists explained development and underdevelopment of different countries in terms of their physical resource endowments. The position has now changed considerably. Now richness of resource endowments is regarded as just one factor in the economic development of a country and that too of secondary importance. We are now aware of a number of countries which have failed to reach a high level of development in spite of a relatively favourable ratio of cultivable land to population and an endowment of significant raw materials. Resource availability is thus not a sufficient condition for economic change. Nonetheless without a minimum of resources there is little hope for economic development. Keeping this fact in view, if we compare the resource endowments of the various countries, we notice that all of them have not been gifted equally by nature. Latin America, for example, has impressive reserves of important minerals, natural gas and petroleum. A number of African countries are rich in lead, chrome, cobalt, uranium, bauxite, phosphate, tin, manganese, oil, etc. Persian Gulf countries possess large petroleum reserves. Obviously development potential of these countries is considerably larger than that of all those countries where endowment of minerals and other raw materials is minimal. Judging by this criterion, countries like Bangladesh, Bhutan, Nepal, Lao PDR and Ethiopia are unfavourably placed. In the realm of human resources we consider size, skill levels and social-cultural characteristics of the population. These are important determinants of the pace and level of economic development. However, developing countries differ from one another in all these respects. Density of population which often determines the pressure on resources is also not the same everywhere. Countries like Bangladesh, Indonesia and India are densely populated while Zambia, Mozambique, Ethiopia and Angola have thinly distributed population. But most of the countries where density of population is relatively low have not reached even a modest level of development. Developing countries also differ in the spread of education and its quality. This explains the migration of skilled labour from countries like India and Pakistan to Persian Gulf and African countries.

4. The nature of economic planning and the relative importance of public and private sectors. All underdeveloped countries have not chosen to develop along the capitalist path. For a considerable number of years, China, Vietnam, Cuba, North Korea, Angola and some other backward countries followed the socialist path of development and, with this end in view, adopted comprehensive economic planning. One common feature of all these economies was that private sector was almost non-existent in them. However, the technique

6. C. Furtado seems to be right in his approach when he argues that underdevelopment is "a discrete historical process through which economies that have already achieved a high level of development have not necessarily passed." *Development and Underdevelopment* (California: University of California Press, 1963), p. 128.

of planning adopted in these countries was not the same. They also drifted away considerably from what is known as the Soviet model of economic planning. In most of the non-socialist underdeveloped countries both public and private sector now co-exist. In this sense these are countries of 'mixed' economic system. Some of these countries have also decided not to rely entirely on the market mechanism. Having opted for what is often characterised as democratic economic planning these countries are struggling hard to break their 'low level equilibrium trap.'[7] In Latin American countries, on account of the U.S. influence, public sector is too small. In the private sector foreign money seems to be well entrenched. The experience of these countries clearly suggests that foreign private investment in developing countries can at best be a mixed blessing. Some African and Asian countries in their effort to speed up their development have placed great reliance on the public sector. However, widespread economic failures of many public enterprises in countries such as Kenya, Tanzania, Ghana and Senegal have raised serious doubts about the capabilities of these enterprises. Growth of public sector permits the government to participate directly in the productive activity, while in a predominantly market economy it operates through a system of incentives and controls. Now with greater stress on liberalisation the dominant view in developing countries is that the role of the public sector and the discretionary controls should be minimised.

5. Occupational Structure. Although developing nations are by and large agrarian in character, yet it would be wrong to think that the occupational structure in all these countries is exactly the same. Table 1.1 provides information on percentage distribution of labour force in 15 developing countries. The contrasts

Table 1.1
Occupational Structure in Some Developing Countries

Country	*GNI per capita in 2020 (US $ 1)*	*Employment (as percentage of total employment, 2019)*		
		in agriculture	*in industry*	*in service*
Zimbabwe	1,140	66	7	27
India	1,920	43	25	32
Honduras	2,180	30	21	49
Vietnam	2,650	37	27	36
Bhutan	2,840	56	10	34
Philippines	3,430	23	19	58
Indonesia	3,870	29	22	49
Azerbaijan	4,480	36	15	49
Guatemala	4,490	31	19	50
Georgia	4,270	38	14	48
Namibia	4,500	22	16	62
Thailand	7,0450	31	23	46
Mexico	8,480	12	26	62
Malaysia	10,570	10	27	63

Source: World Bank, *World Development Indicators.*

7. 'The low-level equilibrium trap' refers to a stable equilibrium level of per capita income at or close to subsistence requirements. See Richard R. Nelson, "A Theory of the Low Level Equilibrium Trap", *American Economic Review,* December 1956, p. 894.

among the occupational structures of these countries is striking. Almost all low income and lower middle income economies, irrespective of their size, are predominantly agricultural. In some of these countries, agriculture accounts for more than 40 per cent of the labour force. For instance, it can be seen from Table 1.1 that in Zimbabwe (with a per capita income of only $ 1,900 in 2020), 66 per cent of the workforce is employed in agriculture. In India (with a per capita income of only $ 1,900 in 2020), 43 per cent of the workforce is employed in agriculture. In upper middle income economies, the dependence on agriculture is much less. For instance, in Mexico (with a per capita income of $ 8,480 in 2020), only 12 per cent of the workforce is engaged in agriculture. In Malaysia (with a per capita income of $ 10,580 in 2020), only 10 per cent of the workforce is employed in agriculture. Declining importance of agriculture in upper middle income economies clearly distinguishes their economic structures from those existing in low income economies like Ethiopia and Comoros and lower middle income economies like Bangladesh, India, Pakistan and Philippines where agriculture is not merely an occupation, but is also a way of life for the people. Further, agrarian systems and patterns of land ownership greatly differ in developing countries. In some countries meaningful land reforms have been carried out, while in many others feudal and semi-feudal agrarian relations still persist.

Developing countries greatly differ in terms of the relative importance of manufacturing and service sectors in their economies. Among the Third World countries, India has one of the largest manufacturing sector, but in relation to its enormous size of population, it is relatively small. Latin American countries, which have enjoyed independence for a longer period than the countries of Africa and Asia, have managed to develop their industrial structure far more than the latter. During the last few decades, some smaller countries of Asia, particularly Taiwan, Hong Kong, Republic of Korea and Singapore have recorded impressive industrial growth. In these countries massive inflow of private foreign capital under 'congenial' political conditions has speeded up the industrialisation process. This model of development is, however, not appropriate for countries which do not wish to bargain their political freedom for some short-term economic gains in the form of foreign dominated industrialization.

6. External dependence. According to T. Dos Santos, "dependence is a conditioning situation in which the economies of one group of countries are conditioned by the development and expansion of others. A relationship of interdependence between two or more economies or between such economies and the world trading system becomes a dependent relationship when some countries can expand through self-impulsion while others, being in dependent position, can only expand as a reflection of the expansion of the dominant countries, which may have positive or negative effects on their immediate development."[8] The relationship of dependence as defined by Santos developed between the West European countries, such as England, France, Netherlands, Portugal and Spain and the countries of Asia, Africa and Latin America with the colonisation of the latter by the former in the eighteenth and nineteenth centuries. Interestingly, this relationship exists even now though colonies have won political freedom. Dependence of the underdeveloped countries on developed countries is multidimensional and its exact nature depends on the specific history of a country. Thus, the nature of Sri Lanka's dependence on other countries is not the same as India's or Angola's dependence on foreign countries. Some developing countries cannot hope to develop unless they receive massive financial and technological aid, while others can manage modest growth even if they fail to receive any external assistance. Even the foreign trade relations between the developed and underdeveloped countries are of great importance from the point of view of the development of the latter. It has been noticed that greater the dependence of a country on others, whether in respect of the importation of capital, technology and industrial raw materials or in respect of market for its primary products, greater are the chances of its underdevelopment (particularly if it is not willing to sacrifice its political independence).

8. T. Dos Santos, "The Crisis of Development Theory and the Problem of Dependence in Latin America", in Henry Bernstein (ed.), *Underdevelopment and Development* (Harmondsworth: Penguin 1976), p. 76.

7. Political structure, power and interest groups. In the final analysis it is necessary to underline the fact that economic policies, more specifically the development strategies, are rarely decided in any country on merit. **It is the power structure and the interests of the dominant classes which ultimately decide the policy framework of the government.** The high level civil servants and the politicians operate within the parameters of the given policy framework and thereby faithfully serve the interests of the ruling classes. Sometimes military officers taking advantage of the prevailing chaotic conditions in the country, capture State power, but even they oblige the dominant classes, such as large landowners, planters, big industrialists and traders by serving their interests through State policies. In return, these classes lend support to military regimes, whereby they consolidate their position. Authoritarian military regimes have come to power in some of the Latin American, African and Asian countries. No doubt, under some of these regimes impressive growth has taken place, but it cannot be said that common people have benefited from it. Economic growth without economic development is a natural outcome of the policies which are meant to serve the interests of the ruling elites.[9]

DEVELOPING NATIONS: THEIR COMMON CHARACTERISTICS

From the above description of the diverse structures of developing countries, it is quite possible for a student of the development economics to infer that no generalisation can be made about these countries. The fact, however, remains that most developing countries have some common characteristics which clearly distinguish them from developed countries. **Most developing countries are poor and their present level of productivity is neither good enough to ensure a satisfactory level of consumption, nor does it generate an economic surplus that may be adequate for sustained development.** For the past few decades, in all these countries the population has been growing rapidly and dependency burdens have been high. Rapid growth of population has also resulted in chronic unemployment. As far as the nature of the economy in these countries is concerned, it is essentially agrarian and the dependence on agricultural production and primary product exports is substantial. It would thus be a folly to think that each developing country is to be treated as a specific case. Most observers now agree that developing countries of Asia, Africa and Latin America in spite of their diversities have some common features which make them a distinct category. Todaro and Smith have rightly remarked, "Despite the obvious diversity of these countries, most developing nations share a set of common and well-defined goals. These include a reduction in poverty, inequality and unemployment; the provision of basic education, health, housing and food to every citizen; the broadening of economic and social opportunities; and the forging of a cohesive nation-state. Related to these economic, social and political goals are the common problems shared in varying degrees by most developing countries: chronic absolute poverty, high levels of unemployment and underemployment, wide disparities in the distribution of income, low levels of agricultural productivity, sizable imbalances between urban and rural levels of living and economic opportunities, discontent on the part of the segments of the population not benefiting from economic growth, serious and worsening environmental decay, antiquated and inappropriate educational and health systems, and substantial increasing dependence on foreign technologies, institutions, and value systems."[10] It is therefore also possible and useful to talk about the similarities of critical development problems and to analyse these problems in a broad developing world perspective.

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9. Economic growth and economic development are distinct concepts. While economic growth refers to a rise in per capita real income over time, economic development is generally defined to include improvements in material welfare, especially for persons with the lowest incomes. Economic development thus implies alleviation of poverty, reduction in income inequalities and removal of unemployment. See Charles P. Kindleberger and Bruce Herrick, *Economic Development* (New York: McGraw Hill, 1977), pp. 1-4. Also Dudley Seers, 'The Meaning of Development', paper presented at Eleventh World Conference of the Society for International Development (New Delhi, 1969).
10. Michael P. Todaro, and Stephen C. Smith, *Economic Development* (Pearson Education Asia, Eighth edition, 2003), p. 37.

The most common characteristics of the developing countries are as under:

- Low levels of gross national product (GNP) or gross national income (GNI) per capita
- Larger income inequalities
- Widespread poverty
- Low levels of productivity
- Great dependence on agriculture with a backward industrial structure
- High proportion of consumption expenditure and low savings rate
- High rates of population growth and dependency burdens
- High levels of unemployment and underemployment
- Technological backwardness
- Dualism
- Lower participation in foreign trade
- Dependence

1. Low levels of GNI per capita. The gross national product (GNP) per capita or gross national income (GNI) per capita is often considered to be a good index of the economic welfare of the people in a country. Judging developing nations by this criterion one finds them in an extremely miserable position. The GNI per capita in these countries is very low. According to the estimates of the World Bank, in 2020, there were 27 low income economies where the GNI per capita at current prices was $ 1,045 or less. This low level of GNI per capita is sufficient to reflect the plight of common people in these countries. On world scale, income inequalities between the developed and developing countries are quite large. But what is more distressing is that the economic distance between the two groups of countries increases with every year that passes. In 2020, the average GNI per capita of the high income economies was estimated at $ 44,468 while it was only $ 666 in the low income economies.[11] All Third World countries are, however, not equally underdeveloped in terms of GNI per capita. Developing middle income countries such as Malaysia, Brazil and Mexico are far more well off than African and South-East Asian countries like Zambia, Ghana, Lao PDR, India, Kenya, Mali, Vietnam, Bangladesh and Ethiopia. Data in Table 1.2 are quite revealing.

2. Larger income inequalities. In developing countries apart from GNP per capita being considerably lower, income inequalities are also larger than in developed countries. Recent data published in the *World Development Indicators*, lends credence to the view that income inequalities are far greater in developing countries than in the developed countries. For example, we find that in as many 19 low income economies (of the 31 low income economies for which data are given), the poorest 60 per cent people accounted for one-third or less of the national income. Comoros, Haiti, Central African Republic, Namibia, South Africa and Zambia are the developing economies where the share of the top 20 per cent in the national income is more than 60 per cent. As against all this, only in the case of seven high income economies, the share of the poorest 60 per cent people in national income is one-third or less. Moreover, in no high income economy (with the exception of Chile), the share of the top 20 per cent in national income exceeds 50 per cent.[12]

According to Simon Kuznets, inequalities are much larger in the developing countries than indicated by the data. The comparison of income distribution in developed and developing countries is generally made for incomes prior to levying of direct taxes and the free benefits from the government also remain excluded. He thus rightly asserts, "since the burden and progressivity of direct taxes are much greater in

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11. World Bank, *World Development Indicators.*
12. *Ibid.*

Table 1.2
GNI Per Capita in US Dollars (2020)

Countries	*GNI Per Capita Current $ US*	*GNI Per Capita (PPP, 2020) Current $ US*	*Countries*	*GNI Per Capita Current $ US*	*GNI Per Capita (PPP, 2020) Current $ US*
High income economies	**44,468**	**51,114**	**Lower middle income economies (2020)**	**2,217**	**7,053**
Greece	17,930	28,260	Pakistan	1,270	4,710
Korea, Rep. of	32,960	43,650	Kenya	1,800	4,500
Italy	32,290	42,460	Bangladesh	2,030	5,390
Japan	40,360	42,460	Nigeria	2,000	5,000
United Kingdom	39,700	45,170	India	1,920	6,440
France	39,480	47,450	Angola	2,140	5,900
Belgium	45,750	53,180	El Salvador	3,630	7,970
Germany (2020)	47,470	55,770	**Low income economies**	**660**	**1,985**
Denmark (2020)	63,010	62,600	Burundi	230	770
United States (2019)	64,550	64,610	Congo, Dem. Rep.	550	1,110
Switzerland	82620	69,990	Liberia	570	1,300
Upper middle income economies (2020)	**9,412**	**17,742**	Chad	630	1,470
			Uganda	800	2,260
Thailand	7,040	17,710	Ethiopia	890	2,410
Brazil	7,850	14,550	Mali	830	2,250
Bulgaria	9,630	24,150			
Mexico	8,480	18,150			
China	10,550	17,080			
Malaysia	10,570	27,350			

Source: World Bank, *World Development Indicators.*

developed countries and since it is in the latter that substantial volumes of free economic assistance are extended to low income groups, a comparison in terms of income net of direct taxes and excluding government benefits would only accentuate the wider inequality of income distributions in the underdeveloped countries."[13]

3. Widespread poverty. The extent of absolute poverty is an important dimension of the problem of income distribution in the developing countries. At relatively lower levels of GNP per capita large income inequalities as they exist in the developing countries of Asia, Africa and Latin America, have resulted in widespread poverty. The poverty problem could perhaps be overcome in these countries with a more equitable income distribution. China's case lends credence to the view that in near future if developing countries wish to wipe out poverty they have no choice except to improve the income distribution so as to ensure a minimum standard of living in terms of calorie intake and nutrition levels, clothing, sanitation, health, education and so on.

13. Simon Kuznets, *Economic Growth and Structure – Selected Essays* (New Delhi: Oxford and IBH, 1965), pp. 278-91.

Table 1.3
Incidence of Poverty in Developing Countries
(Poverty Line at $ 1.90 a day per person, 2011 PPP US $)

Region or country group (per cent)	*People below the poverty line (per cent)*				
	1990	*2005*	*2008*	*2013*	*2019*
East Asia and Pacific	60.2	18.4	14.9	3.5	1.0
Europe and Central Asia	1.9	5.6	3.1	2.3	1.0
Latin America and the Caribbean	15.8	10.8	7.1	5.4	3.7
Middle East and North Africa	6.0	3.0	2.1	—	7.0
South Asia	44.8	33.6	29.4	15.1	15.2
Sub-Saharan Africa	58.4	50.0	47.0	41.0	40.4
World	34.8	20.5	17.8	10.7	9.3%

Source: World Bank, *World Development Indicators*.

Poverty is, however, not easy to define, and whatever be the approach, there is bound to be an element of arbitrariness in it. **Till recently, the World Bank used a poverty line of $ 1.25 a day in 2005 PPP (Purchasing Power Parity) terms. This has now been revised to $ 1.90 a day in 2011 PPP terms**. Information on the basis of this poverty line is presented in Table 1.3. A study of this Table reveals the fact that there has been considerable decline in the percentage of people below the poverty line in all regions of the world over the period of the last three decades. For example, in South Asia, the percentage of people below the poverty line was as high as 44.8 per cent in 1990. This fell to just 15.2 per cent in 2019. Over the same period, the percentage of people below poverty line fell from 15.8 per cent in Latin America and the Caribbean to 3.7 per cent, and from 58.4 per cent to 40.4 per cent in Sub-Saharan Africa. The most drastic reduction took phase in East Asia and Pacific where the percentage of people below the poverty line was as high as 60.2 per cent in 1990. This fell steeply to 14.9 per cent in 2008 and just 1.0 per cent in 2019. This steep reduction in poverty levels in East Asia and Pacific was basically because of the rapid decline in poverty levels in China. Only in the case of Middle East and North Africa, the percentage of population below the poverty line increased (from 6 per cent in 1990 to 7 per cent in 2019). For the world as a whole, the percentage of people below the poverty line was 34.5 per cent in 1990 (implying that more than one-third of the world's population lived below poverty line in 1990). This percentage fell to 9.3 per cent in 2019 (which was about one-tenth of the world's population).

As far as absolute number of people below the poverty line is concerned, the number of poor people in th world fell significantly from 1,846 million in 1990 to 706 million in 2018. In South Asia, the number of people below poverty line fell from 505 million in 1990 to 274 million in 2018. As noted above, the most drastic reduction in poverty has been recorded by East Asia and Pacific basically due to the rapid decline in poverty levels registered by China. In this region, 966 million people were below the poverty line in 1999. This number fell to just 71 million in 2013. However, the point of concern is that absolute number of people below poverty line has been increasing in Sub-Saharan Africa. It was 276 million in 1990 and as high as 412 million in 2018.

One must also note the massive prevalence of multidimensional poverty in the developing countries. In this context, the data provided in *Human Development Report 2020* are quite revealing. Data for multidimensional poverty provided in Table 6 of this Report shows that 1.3 billion people in these countries suffer from multidimensional poverty. Of these, 41 per cent are in South Asia (about 530 million) and 43.2 per cent are in Sub-Saharan Africa (about 558 million). Despite the overall progress, about one-third of people in the world live in unacceptably low human development."[14] Moreover, **one person in nine in the world is hungry, and one in three is malnourished.**[15]

4. Low levels of productivity. Labour productivity in developing countries is invariably low. It is both a cause and effect of low levels of living in these countries. Todaro and Smith assert that "**low levels of living and low productivity are self reinforcing social and economic phenomena in Third World countries, and as such, are the principal manifestations of and contributors to their underdevelopment.**"[16] Mydral has also developed his well-known theory of "circular and cumulative causation" in terms of these interactions between low levels of living and low productivity of labour.[17] Obviously, at low levels of productivity, the shareable cake will also be small and people cannot hope for an overall prosperity in the country. Of course, some groups constituting a microscopic minority can succeed in achieving a good living standard, but this they can manage only by sacrificing the interests of the vast mass of the population. Therefore, a considerable increase in labour productivity is the only way of raising the living standards of the mass of people in the developing countries.

Labour productivity depends on a number of factors, particularly the availability of other inputs to be combined with labour — health and skill of workers, motivation for work and institutional flexibilities. The two inputs, *viz*., capital and managerial skill raise the productivity of labour considerably when they are combined with it. But developing countries (without exception) lack both of these inputs. Hence, it is quite natural to advocate that this deficiency should be overcome as early as possible by improving the domestic supply of these inputs, and if need be, also by supplementing it from foreign sources. Though there are difficulties in increasing the supplies of capital and managerial skills from domestic sources, yet one must admit that at the existing level of development most Third World countries can augment the supplies of these inputs without further tightening the belts of the poor. **Malnutrition, inadequate health care and living in unhygienic conditions are the main causes of the poor health of workers, and one would note that there are clear linkages between the physical health of workers and their productivity.** Poverty of the workers also prevents them from acquiring skills to perform specific jobs. In addition to this, workers lack motivation to raise their productivity in exploitative less developed capitalist economies. In agriculture, unorganised manufacturing and tertiary activities, wages are determined traditionally and are not easily allowed to rise above the subsistence level. This factor takes away all motivations which workers might have to raise their productivity. Institutional changes are also necessary to build up the stock of human capital. Apart from creating a network of educational and training facilities, the State should eliminate oppressive land tenure system, improve tax, credit and banking structures and restructure administrative system with a complete break from its colonial past.

5. Great dependence on agriculture with a backward industrial structure. Harvey Leibenstein asserts that developing economies are basically agrarian in their character.[18] **In these countries agriculture and allied activities generally account for 30 to 70 per cent of the labour force.** This is true of most of the Asian and African countries. As would be clear from Table 1.4, on account of large employment in agriculture a considerably large portion of the national income also originates in this sector. In Latin America, however, there are a number of developing countries where proportion of labour force employed in agriculture has declined to 20 per cent or even less of the total workforce. As compared to overall labour productivity,

14. *Human Development Report* 2016, *op. cit*., pp. 54-6.
15. *Ibid*., p. 5.
16. Michael P. Todaro and Stephen C. Smith, *op. cit.,* p. 64.
17. Gunnar Myrdal, *Asian Drama* (New York: Pantheon, 1968), Appendix 2.
18. Harvey Leibenstein, *Economic Backwardness and Economic Growth* (New York: Wiley, 1958), p. 40.

labour productivity in the agricultural sector is lower in the developing countries than in the developed countries. Making his observations on this phenomenon Simon Kuznets remarks, "One major implication of the relatively low per worker production in agriculture in the underdeveloped countries is that a large proportion of the population is attached to a sector with low productivity operating under conditions of rural life and isolation that cannot easily be penetrated by modern economic methods."[19]

The industrial sector in the developing countries is both small and backward. While the extended industrial sector in these countries accounts for about a fifth of the total product in these countries, less than 10 per cent is allocable to manufacturing proper. Interestingly, in many countries small scale factories and handicrafts are also included in manufacturing. The backwardness of the industrial structure is also reflected in the composition of the industrial output. The major manufactures in the developing countries are food and textiles which together account for over half of the industrial output. Most of these countries even now do not have much ability to produce their own producer goods, particularly capital equipment. Considering the industrial structure by the size of producing units and the form of management, we notice that there is a predominance of small individually owned and managed producing units in the developing countries.

Table 1.4
Agriculture in Some Selected Developing Countries

Country	*Employment in Agriculture (2020)*		*Value added in agriculture (percentage of GDP)*
	Male % of male employment	*Female % of female employment*	
Albania	36	42.5	18.6
Bangladesh	30	56	12.7
Chad	78	74	42.6
Ethiopia	73	57	33.9
India	38	54	16.0
Indonesia	29	26	12.7
Kenya	48	60	34.1
Nepal	52	74	24.3
Pakistan	29	64	22.0
Tanzania	63	67	28.7

Source: World Bank, *World Development Indicators.*

6. High proportion of consumption expenditure and low saving rate. On examining the major use structure of gross national product in the standard national accounts, Kuznets has observed that "the underdeveloped countries differ from developed countries in several respects: a large share for private consumption (73 to 75 per cent compared with 64 to 66 per cent for developed countries); a slightly lower share for government consumption (11 to 12 per cent compared with 12 to 14 per cent); a distinctly lower share for gross domestic capital formation (15 to 16 per cent, compared with 22 to 23 per cent); and an even lower share of gross national capital formation (14 to 15 per cent, compared with 22 per cent)."[20] On replacing government consumption by truly final component in it — direct services in education and health,

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19. Simon Kuznets, *Modern Economic Growth — Rate, Structure and Spread* (New Delhi: Oxford & IBH, 1979), p. 411.
20. *Ibid*., p. 426.

the share of total ultimate consumption in purer and less duplicated gross national product is about 84 per cent for the underdeveloped countries as against 76 per cent for the developed countries. On the assumption that capital consumption is 0.4 per cent of gross capital formation, Kuznets estimates that "the shares in net national product are 90 per cent for ultimate consumption and 10 per cent for net national capital formation in underdeveloped countries; and 84 and 16 per cent respectively in developed countries."[21]

It is not at all surprising why the savings rate is lower in the developing countries. **If the income level is low, the propensity to consume will be high, and as a consequence capital formation will be low. Ragnar Nurkse has contended that since the underdeveloped countries are caught in a vicious circle of poverty they do not have much capacity to save. Furthermore, on the demand side the market constraint operates as a disincentive and the potential savers** (faced with a situation in which demand for loanable funds is not enough to induce them to save) **indulge in wasteful consumption.** It seems that Nurkse has overemphasised the market constraint, nonetheless the fact remains that developing countries are characterised by a shortage of capital.

7. High rates of population growth and dependency burdens. Population has been rising in most developing countries at rates varying between 2 and 3.5 per cent per annum for the past few decades. This demographic trend is unprecedented in the history of mankind. Due to increased medical facilities there has been a sudden decline in the mortality rates in these countries. However, **in most developing countries birth rate remains very high, in the range of 25 to 50 per thousand, while in developed countries, nowhere it exceeds 15 per thousand.**[22] A high rate of population growth in the Third World countries is both a cause and an effect of their underdevelopment. People struggling to survive under sub-human conditions have practically no interest in restricting the size of their families, as they have virtually no stakes in their life. This attitude of indifference causes still more hardships to the people and creates conditions which are hardly conducive to economic growth in these countries.

A major implication of high birth rates in the developing countries is that it results in a greater dependency burden than that in the developed countries. At present the age depending ratio for young 15 years as percentage of working age population is 76 per cent in low income economies 46 per cent in lower middle income economies 29 per cent in upto middle income economies and only 25 per cent in high income economies. Of course on account of greater longevity of life in the developed countries, dependency burden of older people is much greater in these countries. However, the overall dependency burden (*i.e.*, both young and old) in the developing countries is about one-half of the population as against about one-third of the population in the developed countries. This implies that the proportion of productive population to unproductive population is much lower in the developing countries than in the developed countries. This factor explains to some extent why in some of the less developed countries there has been an actual decline in the living standards of common people.

8. High levels of unemployment and underemployment. Unemployment in both rural and urban areas is widespread in the developing countries. The traditional agriculture characterised by outmoded techniques of production and low level of productivity lacks labour absorption capacity. Thus, with rapidly growing population in these countries, pressure of population on agricultural land has been increasing and with it the problem of disguised unemployment is becoming increasingly serious. Rural people are aware of this malady, and therefore quite often they migrate to cities in search of jobs where not many employment opportunities exist for them. This part of urban unemployment in the developing countries is a spillover of unemployment

21. *Ibid*., p. 427.
22. For low income economies as a group, birth rate was 34 per thousand in 2019 while it was 22 for lower middle income economies, 13 for upper middle income economies and only 10 for high income economies in that year. See World Bank, *World Development Indicators*.

in the countryside. Another reason for unemployment in cities is inadequate growth of industries. In developing countries, markets for manufactures are quite small due to widespread poverty. Faced with the problems of lack of adequate demand, industries grow at a snail's pace and fail to provide jobs in sufficient number to absorb the growing population. Current rates of open unemployment in urban areas in most developing countries average from 10 to 15 per cent of the urban labour force. Unemployment among educated people aged 15 to 24 years is also considerable in the urban areas. This unemployment is not to be interpreted as an indicator of over-investment in education. Since it is caused by market imperfections the appropriate remedy might involve an active 'manpower policy' designed to improve the functioning of labour markets.[23] The overall unemployment position in the developing countries is quite grave. Whatever we have said about it represents only the tip of the iceberg of labour underutilisation in these countries. According to Michael P. Todaro, **"When the underemployed are added to the openly unemployed and when "discouraged workers" — those who have given up looking for a job — are added in, almost 35 per cent of the combined urban and rural labour forces in Third World nations is unutilised."**[24]

9. Technological backwardness. In developing countries, production techniques are inefficient over a wide range of industrial activity (whole of agriculture, small-scale units and handicrafts). This sorry state of affairs cannot be explained in terms of one or two factors. Lack of research and development (R&D), weak communication system between the research institutes and industries, abundance of labour and capital scarcity are some obvious reasons for the use of techniques which have otherwise become obsolete. Developing countries generally do not have large effective institutions working for discovering appropriate technology. Under the circumstances, an attempt is made to import technology from developed countries which often fails to adapt to local conditions. Moreover, whatever limited research is undertaken in industrial technology, its results fail to reach producers due to weak communication system. But these factors do not explain wholly the continuance of outmoded techniques. In most cases it is not the ignorance which prevents producers from adopting modern techniques. In many cases technological choice of producers is dictated by their poverty. In India, for example, farmers are well aware of the merits of new farm techniques requiring increased use of fertilisers and water, and yet many of them still persist with traditional farming due to their inability to raise resources required by the new technology. In the industrial sector, workers' unions often oppose introduction of labour displacing technology. This organised attempt on the part of workers may be a retrogressive act from the point of view of industrial development, yet it is justified because modern technology will certainly render many workers jobless at least temporarily.

10. Dualism. Economists talk of various types of dualism existing in the developing economies. During the colonial and post colonial period the concept of '**social dualism'** was quite popular with the Western economists and they used it extensively to explain the problems of underdeveloped economies. J.K. Boeke in his study of the Indonesian economy argued that social dualism arises in a backward economy with the import of an alien progressive system. In Indonesia, it had emerged with the import of capitalism, in that country under the Dutch rule. The imported system, according to the exponents of social dualism, comes in conflict with the indigenous system of another style. It, however, cannot speed up the process of development. Boeke asserts that industrial or agricultural development in these countries has to be a 'slow process', small scale and adapted to a dualistic system.[25] Benjamin Higgins while rejecting Boeke's theory of social dualism contends that "dualism is more readily explained in economic and technological terms."[26] He uses the concept of **technological dualism** to explain the labour employment problems. In his model of an

23. M. Blaug, P.R.G. Layard and M. Woodhall, *The Causes of Graduate Unemployment in India* (London: Allen Lane, 1969), p. 234.
24. Michael P. Todaro, *Economic Development* (Seventh edition, 2000), p. 56.
25. J.H. Boeke, *Economics and Economic Policy of Dual Societies* (Hoarlem, The Netherlands: Tjeenk Willnik, 1953).
26. Benjamin Higgins, Economic Development (Allahabad: Central Book Depot, 1966), p. 281.

underdeveloped economy there are two compartmentalised sectors, *viz*., the traditional rural sector and the modern sector. The traditional rural sector has variable technical coefficients of production in contrast to modern sector's fixed technical coefficients of production. The implication of these is that the rapid growth of population (if not accompanied by a sufficient accumulation of capital) results in unemployment of excess supply of labour or it must seek employment in the traditional sector where marginal productivity eventually falls to zero.

According to Myint, the dualism in economic organisation and production methods between the peasant sector and the mining manufacturing sector is paralleled by the **financial dualism**. In the colonial period in most underdeveloped countries domestic financial institutions co-existed with modern financial institutions oriented towards export production. After these underdeveloped countries got independence, they developed modern manufacturing industries oriented towards domestic market. This required development of modern financial institutions also giving rise to a different kind of financial dualism.[27]

11. Lower participation in foreign trade. It is commonly believed that developing countries rely excessively on foreign trade, in the sense that their proportions of exports and imports to domestic product are much higher than those of the developed countries. On careful scrutiny, this widespread belief is found to be wrong. Simon Kuznets after examining this question finds that the extent of participation of a country in foreign trade cannot be measured directly because the proportion of foreign trade to total output is affected by the size of a country. He, therefore, suggests that the effects of size should be measured and eliminated first. "Once this adjustment is made, it becomes clear that the extent of participation in foreign trade by underdeveloped countries is distinctly lower than that of developed countries.[28] Thus, if the average foreign trade proportions expected on the basis of size were the same for the two groups of countries, *viz*., developed and developing, the average actual trade proportion for developing countries would be considerably lower than that for the developed countries. As a matter of fact, underdevelopment of a country cannot, in itself, induce large foreign trade. The inadequate development of transportation system and trade organisation and backwardness of production technology are some such factors that would make large exports and imports impossible.[29]

12. Dependence. The process of underdevelopment in the Asian, African and Latin American countries had begun with the integration of their economies with those of the West European capitalist economies. This relationship between the colonies and the metropolitan countries gave rise to an international division of labour which allowed industrial development to take place only in the latter. Though the economies of the colonies remained backward yet they were part of the world capitalist system. They were in fact made subservient to metropolitan interests and were forced to specialise in primary producing activities. The pattern and direction of trade in the colonial period was also determined by the basic fact of the integration of colonies with the metropolitan countries. On the one hand colonies depended on the metropolitan countries for almost all the capital goods, industrial raw materials and most of the manufactured consumer goods, while on the other hand their exports constituted of one or two primary products. India, for example, depended on exports of tea and jute for most of the colonial period. Similarly, Malaysia's exports of rubber, Brazil's exports of coffee, Sri Lanka's exports of tea and Cuba's exports of sugar reflected their great dependence on the markets they got for these primary products in the metropolitan countries.

After the World War II most of these colonies got political independence, but because of the integration of their economies with the metropolitan economies, they could not get rid of the dependence which they had developed in the latter. Even now the industrial structure in these countries is quite backward, and

27. H. Myint, *The Economics of the Developing Countries* (New Delhi: B.I. Publications, 1977), pp. 55-8.
28. Simon Kuznets, *Modern Economic Growth*, *op. cit*., p. 430.
29. *Ibid*., p. 431.

therefore for all their development requirements they continue to remain dependent on the developed countries. Further, the trade pattern and direction of trade between the former colonies and metropolitan countries has not undergone any significant change.

Apart from the above mentioned common characteristics there are a few other distinguishing features of the developing countries. In the ***first*** place, social life in most of these countries is tradition bound and the attitudes of the people are orthodox which hamper any kind of change in outdated social-economic relations. ***Secondly,*** in the social organisation some obvious negative features are present. We may mention only a few, such as, high degree of illiteracy, extensive prevalence of child labour, general weakness or absence of middle class, and inferiority of women's status and position. ***Lastly,*** as Gunnar Myrdal says, almost all the developing countries are **'soft States'**. Their characterisation as soft States implies that they lack social discipline. The legal system is also defective and quite often legislative measures are scuttled at the implementation level. This happens because bureaucracy is both corrupt and anti-people. Its connections with elite groups are firm and obvious.

SUGGESTED READINGS

Todaro, Michael P., and Smith, Stephen C., *Economic Development* (Pearson Education Asia, Eighth edition, 2003), Chapter 2. The authors attempts to identify some of the most important structural differences among developing countries and then provide relevant data to delineate some of their common characteristics.

Herrick, Bruce and Kindleberger, Charles P., *Economic Development* (Tokyo: McGraw-Hill Book Company, 1983). Appendix to Chapter 1 provides basic facts about poor countries.

Higgins, Benjamin, *Economic Development: Principles, Problems and Policies* (Allahabad: Central Book Depot, 1966). Chapter 1. Apart from discussing the characteristics of underdeveloped countries, this chapter also classifies them into four categories.

Kuznets, Simon, *Modern Economic Growth — Rate, Structure and Spread* (New Delhi: Oxford and IBH Publishing Co., 1979). Chapter 8. This is perhaps one of the most authentic treatment of the economic and social structure of underdeveloped countries.

Pearson, Lester *et al., Partners in Development: Report of the Commission of International Development* (New York: Praeger, 1969), Annex 1, pp. 231-353. A concise but very informative summary of the diverse structures and the major economic characteristics of Third World countries.

Singer, Hans W. and Ansari, Javed A., *Rich and Poor Countries* (London: George Allen & Unwin 1982), Chapter 3. While describing the economic structure of the poor countries, the authors underline unity in the diverse structures of the LDCs.

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