

CHAPTER 13

ECONOMIC DEVELOPMENT

13.1 Economic Development

Economic development is the most desired need of the present world, especially for underdeveloped countries which are victims of acute poverty and deprivation. Standard of living of people can not be raised without achieving goals of economic development.

Economic experts have described economic development in different words and ways. Some important definitions of economic development are given below:

According to Professor Watson, **“Economic development is the expansion of production and consumption faster than population”**. In simple words, economic development means increase in the country’s output, in the long run.

Meier and Baldwin have defined economic development in a more comprehensive and clear manner that **“Economic development is a process whereby an economy’s real national income increases over a long period of time”**. Salient features of this definition are:

- Economic development is a process which causes structural changes in the economy
- Country’s resources are used with specialization and skill
- Productive capacity of all sectors of the economy starts increasing
- Standard of living of the people improves as a result of increase in income

It is important to note that economic development takes place only when real national income increases in the long run and not temporarily. During this process, infrastructure of the economy changes, which in turn adds to per capita income.

13.2 Factors of Economic Development

Economic development of a country depends upon the following factors:

1) Natural Resources

The countries with more natural resources such as forests, minerals, fertile land, water resources, oil, gas etc have high rate for economic development. Performance of productive sectors flourishes. People enjoy improved standard of living. On the contrary, countries with limited natural resources, or where these are mis-utilized, have to face growing poverty and deprivation. It causes decline in rate of economic development and consequently decline in standard of living of the people.

2) **Technology**

Efficiency of productive sector improves manifold with the use of technology. Modern tools and equipments increase quantity and quality of the output as well as the pace of the economic development. The countries, using obsolete and outdated techniques, have to face slow rate of economic development and consequently standard of living of the people declines.

3) **Human Resources**

Occupational and technical skills and capabilities of persons working in productive sectors of a country are called human resources. The countries endowed with skilled human resources can easily and rapidly attain high rate of economic development and growth. On the other hand, the rate of economic development and standard of living of the people decreases if countries use obsolete and old techniques/methods of production.

4) **Capital Formation**

The process of investing individual savings into productive channels is called 'capital formation'. Investment results in more availability of a country's resources in the form of factories, buildings, machinery, infrastructure etc. Therefore, rate of the capital formation shall be higher in countries with more savings. It shall increase economic development as well as standard of living of the people.

5) **Social and Cultural Factors**

Economic development of any country is directly affected by various factors such as relating to religious values, racial relationship, social grouping, caste system and resultant demonstrations effect etc. Societies with aforementioned problems can not make optimum and effective use of their resources and therefore obstruct the pace of economic growth. However, countries which do not have aforementioned problems make rapid economic development and provide better standard of living to their people.

6) **Political Factors**

Economic stability is one of the most important requirements for attaining high rate of economic development. In a politically stable country, productive sectors of the economy become more active, new development projects are implemented and proper investment opportunities made available to investors etc. It results in the improvement of overall performance of the Government and roadmap for rapid economic development is determined. Contrary to it, political instability impedes economic development.

13.3 Economic Development in Different Sectors of Pakistan

Economic development is a systematic expansion among economy's all important sectors such as agriculture, industry, trade and commerce, services,

banks/financial services, communication and information technology etc. during a specified period of time, normally one year. Following paragraphs will analyze the role of these important sectors in the Pakistan's economic development:

13.4 Role of Agriculture Sector in Economic Development

Importance of agricultural sector in the economic development of Pakistan can be assessed from the following:

1. Main source of employment

Pakistan is basically an agricultural country. Around 70% of its total population lives in rural area and 50% of the country's population earns its livelihood from the agriculture. Remaining 50% of the country's population depends on all other sectors such as industry, trade and commerce, mining, transportation and communication etc.

2. Largest Source of national income

Agriculture sector contributes a huge amount to the national income. This sector's share in national income was 50% at the time of independence in 1947. This has been declined with the passage of time with increasing share of other sectors. However, agricultural sector still contributes around 19.8% of the country's gross domestic product, which is an impressive contribution as compared to the other sectors.

3. Source of earning of foreign exchange

Export of agriculture products is the largest source of the country's earning in the foreign exchange. Pakistan is self sufficient in the production of rice, cotton, cotton yarn, fruits and other agricultural products, surplus of which is exported to other countries to earn huge amount of foreign exchange. Development of this sector on modern lines can accelerate the rate of economic growth of the country.

4. Source of income of rural population

Pakistan is basically an agrarian economy. About 70% of its population is living in rural areas and is directly or indirectly dependent upon agriculture for its livelihood. Agriculture sector is, therefore, providing employment to a very significant portion of our population.

5. Provision of raw material

Agriculture sector is the largest raw material supplier to our industrial sector. For example, it supplies cotton to textile industry, sugarcane/beet to sugar manufacturing companies, oilseed to oil/ghee units, tobacco to cigarette industry etc. It, therefore, ensures domestic supply of raw material to manufacturing sector to increase its production. Agriculture sector therefore contributes in accelerating rate of economic progress of the country.

6. Provision of market for products

Agriculture sector acts as a big market for many industrial outputs such as fertilizers, pesticides and agriculture implements for example tractors, threshers, harvesters and tube wells etc are used by agricultural sector. It therefore provides a sound base for industrialization which provides employment and thus improves peoples' standard of living, a prerequisite for economic development.

7. Supply of workforce

Agriculture sector also provides its surplus/off-season workforce to the industrial sectors. It helps in industrialization of the country.

8. Source of food

Agriculture sector is the major source of food for local consumption, which includes cereals, vegetables, pulses, fruits, meat, eggs and milk etc. Agriculture sector therefore directly fulfills dietary needs of the people of Pakistan, promotes human health and contributes in improving standard of living of the people.

9. Engine for Promoting Industrial Development

Agriculture sector is a driving force in industrial development of the country in its capacities of supplier of raw material as well as consumer of industrial output. It therefore helps in setting up more and more industrial units to meet local consumption. Agriculture sector acts as a major force for acceleration of economic development of the country.

13.5 Role of industrial sector in economic development

The development of industrial sector is inevitable for balanced growth and economic sustainability and development of an economy. Pakistan's industrial sector is playing an important role in the economic development of Pakistan since its independence, as is evident from the following points:

1. Source of agricultural development

It is well known to everybody that Pakistan is an agricultural country; however the growth of the agricultural sector is not possible without the development of the industrial sector. Agricultural sector depends upon the industrial sector for modern and latest agricultural inputs such as agricultural machinery (tractors, ploughs, sprayers, tube-wells etc), fertilizers, pesticides and insecticides etc. It also needs construction machinery and material for construction of dams, and barrages/canals for irrigation purposes. Roads are also constructed to transport agricultural products from farms to markets. All of the above materials are manufactured in the industries without development of which agricultural sector could not progress at the desired level.

2. Increase in national income

Industrial sector is the second largest contributor to gross national product (GNP). Currently, this sector contributes 21.02% to the Pakistan's GDP.

Industrialization causes rapid growth in the domestic production which ultimately becomes source of increase in national income.

3. Source of earning of foreign exchange

Industrial development is an important source of foreign exchange earnings. A huge amount of foreign exchange is earned by increasing the production of goods and exporting those to other countries. Industrialization is not only a source of foreign exchange but also protects home-industries, which is much needed to increase speed of development of industrial sector.

4. Substitutes of imports

Local industries may produce goods which can provide a substitute for imported goods. It, therefore, saves national spending on import of such goods and reduces national dependence on imported goods. Industrial sector in this way not only saves foreign exchange, but also protects/promotes growth of local industries.

5. Increase in Employment

Unemployment is a very critical issue faced by under-developed countries. This problem can be tackled by the establishment of industries. New large and medium scale industries not only give direct employment to a large number of people, but also provide employment, indirectly, through small scale down-stream industries. It increases income of the people, thereby raising their standard of living, which is a prerequisite of economic development.

6. Strengthening the Sovereignty

Currently, investment is directly dependent upon safety and security situation of a country. This basic need of investment-friendly atmosphere can only be met with militarily strong country. Local defense industries play a vital role in strengthening the defense of the country and therefore protecting its people and industries from foreign aggression.

7. Terms of trade

Better quality goods are produced in industrially developed countries. Such goods can compete internationally to fetch its market share. Increased share in international market, as well as fulfilling domestic needs from local industry, can bring about a favourable impact on terms of trade of a country.

8. Development of culture and traditions

Industrialization helps in progress and evolution of art, culture and traditions of a society. During industrialization, new cities and towns are developed which becomes centre of activities relating to civilization, including culture and fine art etc. Further, with increased employment and per capita income, people gives more time to entertainment activities which promote and help progress of art and culture.

9. Technological development

Modern industries invest huge amounts in industry related research and development (R & D) projects. These (R & D) projects aim at evolving and inventing new technologies and methods to enhance quality and quantity of production with minimum cost.

10. Economic stability

Industrial development causes a rapid growth in productive sector of an economy. It not only feeds the domestic market, but also reduces imports and increases exports to earn foreign exchange. Industrialization increases employment level in the country and raises standard of living. All these factors contribute economic stability in the country and results in rapid economic growth.

13.6 Foreign Trade and Banking Sector

For rapid economic growth, the under developed countries shall have to promote development of foreign trade and financial sector. Both of these sectors are part and parcel of economic development. Foreign exchange earnings and exchange of goods in the international market helps in promoting economic development. In the same way, modern financial/banking sector can also promote economic growth by properly handling financial and monetary affairs of the economy.

Role of Foreign Trade in Economic Development

Foreign trade plays a vital role to accelerate economic development of under-developed countries like Pakistan. Following paragraphs explain the role of foreign trade in economic development:

1. Full usage of country's resources

The economies involved in foreign trade make efficient use of their resources and specializes to manufacture a certain class of goods. This principle of specialization does not only reduce cost of production of such goods, but also improves quality of the products.

2. Use of modern technology and science

International trade introduces usage of modern techniques and new improved scientific methods in production process. It reduces cost of production on the one hand and also increases quality of goods. Therefore, use of modern technology and science promotes economic development.

3. Increase in national income

Foreign trade increases volume of exports. New factories are set up and huge amount of foreign exchange is earned through export of goods. As a result, national income increases that leads to rapid economic growth.

4. Extension of market

Foreign trade provides opportunities to domestic products for their trade in international market. Countries involved in foreign trade expand their production facilities to manufacture more and more for export purposes. At the same time, those countries also produce goods domestically to provide a suitable domestic substitute to imports. It is very clear that these activities speed up economic development.

5. Economic stability

Foreign trade brings economic stability in the country. It facilitates countries to export surplus goods and import goods in case of their deficiency. It therefore saves countries from economic instability which may trigger depression like situation. Foreign trade therefore, strengthens economic stability on global level.

Role of Banking/Financial Sector in Economic Development

Banks and financial institutions are backbone of any economy and play very important role in the development of an economy, as explained in the following text:

1. Promoting savings

The banks provide various incentives to common man to save money and keep it in banks' custody. The banks mobilize these small investments in the form of loans to various sectors for setting up new projects. The bank thus helps in fostering economic development of any country.

2. Agricultural and Industrial development

As described above, the banks provide short term and long term loans to industry and agriculture sectors to modernize any existing unit or to start a new project. The loan is repaid in easy installments agreed upon mutually between the bank and borrower. The banks in this way help to increase investment in industrial and agricultural sectors, which ultimately brings about economic development.

3. Implementation of monetary policy

As you are aware, central bank formulates monetary policy to check inflation and to keep the economy on the right path. The banks play very important part to make monetary policy a success. The banks regulate interest rates in accordance with monetary policy and control inflation or deflation, without affecting economic development.

4. Completion of development projects

The banks provide loans to the government and private sector to complete on-going or new projects. The banks also offer loans on sectoral basis to speed up economic development.

5. Development of under-developed/backward sectors

The banks provide more funds to less-developed sectors of an economy to achieve the target of balanced economic growth.

13.7 Development of Communication and Modern Technology

In the modern age, economic development can not be achieved without developing communication and modern technology. The countries with modern communication system can have easy access to the new discoveries, inventions and innovations. Such countries may be benefited more from those innovations and therefore can make optimum utilization of their resources. It is also very well known that usage of modern technology increases production capacity of a country. Role of modern means of communication and technology in economic development of a country is discussed below:

Role of Communication in Economic Development

1. Means of communications (radio, television, internet, and print media) have turned the whole world into global village where news spread like a fire. Now, any invention or innovation in one part of the world reaches the other part within no time due to modern means of communication. Up-to-date knowledge about the world events helps in optimum utilization of resources and it leads to foster economic development.
2. Means of communications help in promoting cultural and social relationship with other countries. Such relationship introduces trade relationship which ultimately promotes economic development and stability.
3. Online trading system has been in use in many developed countries. Promotion and usage of these modern trading tools by under-developed countries can give a boost to international trade. It can give a big chance for economic growth of under-developed countries.
4. Market imperfections can be controlled through means of communications. It will ensure price stability and economic development.

Role of Modern Technology in Economic Development

The countries which do not have technical know-how and therefore do not use modern technology are called backward countries. Therefore, modern technology is the basic need for rapid economic growth. The following highlight the role of modern technology in economic development:

1. At present, high quality goods can be produced in large quantity with minimum cost with the help of modern technology. High quality surplus goods can be exported to the countries where those are required and exporting country may earn foreign exchange.

2. Modern technology has helped the mankind to uncover hidden treasures from the earth, oceans, mountains etc, for example oil, gas, coal, various ores, precious stones, minerals. These natural resources are very much helpful in accelerating economic growth of any country.
3. Modern technology has also helped us in getting rid of primitive methods of production and replaced it with modern plant and machinery. It helps in promoting economic growth.
5. New technology has introduced innovative designs and improved quality of products, besides reducing their price and cost. As a result, economic development progresses.
6. Modern technology has increased production capacity of projects. Employment opportunities are increasing and, as a result, standard of living of the people also rises.

13.8 Exercise

.Q. 1: Each statement has four possible options. Tick (✓) the best one:

1. Economic development is a process whereby real national income of an economy increases:
 - a. for a short period of time
 - b. for a long period of time
 - c. for fixed period of time
 - d. temporarily
2. Most important sector of Pakistan's economy is:
 - a. industry
 - b. trade
 - c. communication
 - d. agriculture
3. Industry contributes to Pakistan's GDP:
 - a. 20 %
 - b. 25%
 - c. 21.02%
 - d. 30%
4. Which one of the following factors is not necessary for economic development:
 - a. economic factors
 - b. political factors
 - c. cultural factors
 - d. private factors
5. Best definition of economic development is given by:
 - a. Robbins
 - b. Arther Lewis
 - c. Keynes
 - d. Meier and Baldwin

Q 2: Complete the following statements by filling in the missing words or phrases:

1. Under developed economies have a rate of economic development.

2. Agriculture sector is the of Pakistan's economy.
3. Cultural and trade links among various countries may be improved through
4. Specialization in production and production capacity of various sectors may be increased by use of

Q.3: Match the statement in column A with statement in column B; choose the best answer to write in column C:

A	B	C
Economic development	19.8 percent	
Infrastructure	Internet	
Contribution of agriculture sector	Increase in real national income	
Economic factors	basic needs of our economy	
Means of communication	Technology	

Q. 4: Answer the following questions in three sentences:

1. What is meant by economic development?
2. Write down names of economic factors of economic development?
3. Describe the importance of industrial sector in Pakistan.
4. Why is agriculture sector important for Pakistan?
5. What is the role of technology in economic development of Pakistan?

Q. 5: Answer the following questions in detail:

1. Define economic development.
2. Write down economic, social and political factors affecting economic development.
3. Explain the role of agricultural sector in economic development of Pakistan.
4. How is industrial sector helping in achieving economic growth in Pakistan?
5. Narrate the role of trade and banking in economic development of Pakistan.
6. Explain, 'Why are the means of communication and modern technology essential for economic development?'