THE IMPACT OF THE CAPITAL ON THE ECONOMIC DEVELOPMENT OF THE DEVELOPING COUNTRIES

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Abstract

From the empiricism is known that the capital is one of the crucial factors for economic development of every national economy, and is especially emphasized in the developing countries The enormous and special importance of the capital as a factor for economic development in the less developed counties emerge from its limit in these countries.

In fact, starting from here in this paper the subject of implementation is an analysis of the role and importance of the capital for the economic development especially in the developing countries, i.e. in this paper are going to be analyzed the following issues: the methods which are to be implemented by developed countries aimed to increase the capital in developing countries.

In fact there are going to be analyzed the structure and forms of the capital transfer from the developed to the developing countries.

Furthermore, the accent will be given to the official aid that is transferred from the developed to developing countries. In this paper will be emphasized the importance of the meaning of the capital accumulation that have to be considered because of the limit in these countries that posses capital. In many cases their development is directly connected to industrialization through capital accumulation.

In this paper will be researched and pointed that the efficiency of the capital use depends on many factors as: institutional efficiency, economic infrastructure, orientation for development, social norms, the quality of workforce's education, the functioning of the financial market etc.

Keywords: *capital; developing countries; development; accumulation.*

JEL Classification: *F1, F2, F3, F4, F6*

1. INTRODUCTION

The international economy will most likely continue to be characterized by various regional and national Economies moving at significantly different speeds a Pattern reinforced by the 2008 financial crisis. Although growth rates may converge as China's economy, in particular, begins to slow, the contrast between the current higher growth of the emerging economies and the slow or stagnating recoveries in the major developed economies exemplifies this trend - at least for the next decade or so. The contrasting speeds across different regional economies are exacerbating global imbalances - which were one of the contributing causes of the 2008 crisis - and straining governments and the international system. The key question is whether the divergences and increased volatility will result in a global breakdown and collapse or whether the development of multiple growth centers will lead to increased resiliency.

Future political and economic crises are a real possibility in the absence of concerted policy adjustments in the major developed and developing economies.

Both developed and developing countries face stiff challenges to achieve a new "normalcy" or stability in the global economy. For the West, the challenge will be to ensure that the recent slow or stagnating growth since the 2008 financial crisis, driven by de-leveraging (paying down debt), does not lead to a prolonged slump or worse - more financial crises. In the case of many European countries and Japan, the challenge also will involve finding ways to sustain growth in the face of rapidly aging populations. For rising states such as China and India, the main challenge involves sustaining economic development and not falling into the "middle- income trap" (a situation in which per

capital income does not increase to the level of the world's advanced economies). To avoid such an outcome, the rising powers will need to consider implementing wide-ranging changes to political and social institutions. Finally, the transition to a more multipolar global economy brings its own risks, which are likely to be particularly pronounced as the West's grip is loosening and the emerging powers are primarily focused on domestic development. In the interim, international management of the system could falter as players with diverging interests fail to cooperate with one another [1].

Table 1: Crisis-Prone Global Economy [2]

Type	Present status	Trend line	Impacts on Global Economy
Advanced economy	The 2008 crisis and its long "tail" raise the prospect of an extended crisis undermining the social and political fabric in many Western countries, leading to potentially destabilizing effects.	To compensate for slowing labor force growth, Western countries will need to rely on growth in productivity. Even the slowly growing labor force may not be fully employed because of external competition, particularly among low-skill workers. One billion workers from developing countries are likely to be added to the global labor pool. In Europe, economic and fiscal issues are entwined with decisions on the EU's future, making potential solutions more complex because of the multiplicity of actors and political concerns.	The declining weight of US and other Western countries and growing multipolarity enhances fragility of the global economy. Absent a hegemonic power or strong global governance mechanisms, risks increase in this multipolar environment for major economic powers to focus on domestic imperatives without regarding the Impact on others.

2. THE DEBATE BETWEEN DEVELOPED AND DEVELOPING COUNTRIES

This menu approach is to some extent a reflection of the tension about how action should and can happen within the global political framework. Developing countries expect developed countries to deliver their part of a post 2012 deal, by providing financing and technology transfer in exchange for developing countries' participation. In response, developed countries' governments argue that they cannot bear the full financial burden, and that private investment is vital, pointing out that overall FDI is much more significant than ODA. Table 1 provides a summary of these relative views and positions.

Table 2: Overview of developed and developing country positions and views [3]

This list provides a general overview of positions and views. There are variations and differences among countries and groups of countries.

Common concerns

- The need for increased financial and technological flows.
- Questions over the types of institutions and funding mechanisms for mitigation at the international and national levels.

Developed countries

- The need to meet obligations and provide financial assistance to cover costs from impacts caused by historically accumulated greenhouse gas stocks and to encourage low carbon pathways. This perspective does vary.
- Discussions on support for in-country studies and on engaging developing countries more

directly on mitigation.

- The effectiveness of financial mechanism, particularly for taxpayers.
- The need to integrate climate change mitigation into Official Development Assistance (ODA).
- No new funds proliferation under the Convention.
- Minimum conditions for developing countries to access funding.

Developing countries

- Equity and justice issues resulting from climate change impacts in vulnerable countries due to emissions from "rich" developed countries.
- The need for developed countries to deliver on their obligations under the Convention on finance, technology and capacity building.
- The need for funding to cover the additional costs of climate change adaptation without diverting existing ODA commitments. In addition, the need to abstain from new conditionality's for ODA.
- The need for transparent governance of financial mechanisms, which include an equitable and balanced representation by all Parties, and operate under the authority of the CMP. Governance structures should provide "direct access" to funding and ensure that recipient countries are involved during all stages. "Predictable" sources of funding are needed, not just more funding.
- The need to provide support through the UNFCCC instruments rather than through fragmented efforts outside these instruments, most notably through the World Bank.
- The creation of new institutional arrangements, such as an adaptation committee or an expert body like the one covering technology transfer (EGTT) within the Convention.

3. THE IMPORTANCE OF THE CAPITAL FOR THE ECONOMIC DEVELOPMENT

Economic development is defined as a goal each country attempts to achieve. The goal of economic development is the attainment of a standard of living roughly equivalent to that of the average citizen in a developed country. In most of the world's countries, low GDP per capita is associated with a host of other factors that reduce the quality of life for most of humanity. In the poorest countries, there is pervasive malnutrition and chronically poor housing. Past basic food and housing, the lack of access to basic health care is also a threat to the lives of billions of people. The goal of economic development is the alleviation
of these dire conditions for billions of people.

As previously mentioned the capital is one of the crucial factors for economic development in national economies, and its shortage is especially pronounced in the developing countries (DCs) where for creation of sufficient capital is necessary a reduction of the current consumption, something what is impossible for the poor countries, because the consumption is already reduced to a subsistence minimum. In developed countries, however, the savings rate is around 20%, and unlike them in poor countries it is 4%, which is not enough even to build the necessary infrastructure, without which you cannot talk about development. The DCs made an attempt to compensate the absence of the domestic savings by borrowing from abroad, especially in the seventies and eighties of the last century. The rise in interest rates in the world, then the declining rates of economic growth, oil shocks and rising distrust towards DCs led to the emergence of the debt crisis. Hence, these countries had to reprogram the debt that is to postpone the repayment of their debts, while the developed countries become rigorous and selective in lending.

Approval of loans is accompanied by a pronounced control by creditors and is not always a function of the appetites of development of the developing countries. In these countries, also is present an irrational spending of income, frequent storage of savings in foreign banks (due to underdeveloped banking system and its low reliability) and so on. Therefore, developing countries in future should put emphasis on the importance of the accumulation of capital and to stress the need of the raise of its level, i.e. the raise of the extent of the accumulation of capital, because in many cases their development was associated with industrialization, and it was directly associated with the accumulation of capital.

Most economists see the investment as the most important single factor in the process of the economic growth and development. Namely, Rostow (W. Rostow) defines the process of "vigor" as an "sustainable growth in terms of the critical rate of investment in relation to the national product". There are many economists who, in a similar way, on the accumulation of capital, in broad terms, view as a special feature of the development and as a structural transformation of economies, or as a generalized process of accumulation of capital (Banerjee, R. and S.S. Roy, 2014). In this regard,

the development is seen as performed accumulation of capital and established social and economic mechanism to maintain higher capital amount per capita in different forms. Similarly conditions of underdevelopment are defined as having a relatively small and insufficient quantities of different types of capital. In countries in which specialization and division of labour is minimal, the opportunities of capital to contribute for an overall production methods and to increase the productivity potentially are higher than in countries where the division of labour had achieved greater excellence and sophistication. In fact, the technologically backward countries to increase their growth rate of capital should absorb new technological achievements through which they will reduce the technological gap and lagging behind from the developed countries.

Furthermore, in countries with relatively abundant labour but low equity ratio in terms of labour, the process of deepening the capital can contribute to a significant increase in GDP. Namely, the process of capital increase in developed and developing countries registered an increase in the continuity of a long period of time, it is confirmed by the following data. (See Table 3 and Table 4)

Table 3: International reserves, including capital and monetary gold in million US dollars - for the period from 1975 to 2014 [4]

Countries (according to the level of development)	1975	1980	1985	1990	1995	2000	2005	2010	2014
Developing countries (2)	19,911	88,850	177,117	194,971	330,903	675,665	1,056,881	2,694,521	6,802,993
Countries in transition	140	872	1,550	1,190	7,762	23,920	38,457	233,728	584,401
Developed countries	73,069	139,133	282,521	293,164	645,951	826,148	943 904	1,515,935	2,367,404
Note: 1) The values of stocks are stated at current (2010) prices and current exchange rates; (2) The given data are without PRC.									

Table 4: International reserves, including capital and monetary gold in % - for the period of 1970 - 2014 [5]

Countries (according to the level of development)	1975	19 80	1985	1990	1995	2000	2005	2010	2014
Developing countries (1)	20.96%	61.10%	37.99%	38.18%	31.51%	41.36%	47.48%	51.69%	57.14%
Countries in transition	0.15%	0.38%	0.34%	0.25%	0.81%	1.65%	2.06%	6.45%	8.49%
Developed countries	78.89%	38.52%	61.68%	61.57%	67.68%	56.99%	50.47%	41.86%	34.38%
Note: (1) The percentage amount includes data without PRC.									

The stated circumstances show that capital can far more contribute to the economic development of underdeveloped countries, and if it is less initial capital amount in terms of population. It is based on the economic rule that if one production factor is rarer its productivity is higher, if other factors are held constant. Starting from here, the role and importance of capital in function for faster economic development, is far more pronounced and far more need in developing countries as in the developed countries.

4. THE IMPORTANCE OF THE CAPITAL FOR THE DEVELOPING COUNTRIES

Most theories of economic development, as previously was pointed out, almost exclusively emphasis the capital as a major factor for development. In fact, economic development is not possible without capital investments. Of course the capital itself, though necessary, is not a sufficient condition for achieving economic development. Efficiency in the use of capital depends on a series of other factors such as the efficiency of institutions, economic infrastructure, orientation towards development, social values, quality of education of manpower, market depth, etc.

The research on capital contribution and individual factors on economic growth in a number of developing countries yielded results that differ significantly in relation to the research made in economically developed countries especially in the United States. As an illustration, the calculations of seven leading Latin American countries for the period from 1960 to 1996 show that the accumulation of capital determines significantly larger part of the economic development compared to other factors, including here the complex of the technological change. Exploring the contribution of different factors that have an impact on economic growth in 20 developing countries, a group of American economists concluded that the capital accounts for about 40% increase of its annual production, which can be seen from the data in Table 3.

Table 5: Sources of Economic Growth (in %) to a selected group of 20 developing countries over the years from 1970 to 2014 [6]

Economic growth rate	3.2
Contribution of the increase of growth factors	4.3
Labor	1.8
Capital	2.5
Global productivity factors	2.0

As previously mentioned, the capital itself, is a very important factor for the development of underdeveloped countries. In terms of slightly increased production, the contribution of productivity growth in the process, normally, is modest. Contrary to that, in terms of high rates of economic growth, the contribution of global productivity factors is significant. The World Bank, unequivocally confirm that the increase of production factors, especially capital, increasingly affect the development in the developing countries than the economically developed areas. In short, the accumulation of capital is far more important for economic growth in economically less developed countries than in the case in economically developed countries.

5. CONCLUSION

In terms of slightly increased production, the contribution of productivity growth in the process, normally, is modest. Otherwise, in terms of high rates of economic growth, the contribution of global productivity factors is significant. The World Bank, unequivocally confirm that the increase of production factors, especially capital, increasingly affect the development in developing countries than the economically developed areas. In short, the accumulation of capital is far more important for economic growth in economically less developed countries than in the case in economically developed countries.

Having into account that the developing countries need to have increasing of the accumulation volume we can put an accent i.e. in the developing countries it can mark a growth through:

Increasing of:

- The level, i.e. through its increased growth in the national income on the account of the other sizes
- Growth of the accumulation mases with the constant level through increasing the effectiveness of producing use (it refers to the same volume of accumulation, but the more effective methods that lead to national income increased growth, so the mases would be bigger as a result of calculation according to the bigger volume of national income.
- Growth of taxing, through introduction of new taxes or increasing the levels of the actual laws. The taxes allows restriction of the consumption and enlargement of the saving i.e. accumulation. However, the too high taxes loading can influence destimulating and decrease the economic subjects motifs.

We find that the country plays active roll in the increasement of the domestic accumulation in all developing countries. The differences should actually exist in the application of mechanisms and instruments of macroeconomic nature, which should respect the individual specificities of each country. In this regard, developing countries through measures and instruments of economic policy must, in addition to domestic endeavor, to favour foreign investments in these countries.

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