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INTERNATIONAL JOURNAL OF ENGINEERING SCIENCES & RESEARCH TECHNOLOGY
AN INFORMAL SECTOR URBANIZATION AND ECONOMIC GROWTH IN DEVELOPING NATIONS

Sidra Haroon

ABSTRACT
There is some relationship exist between variables. Economics growth has negatively related with urban growth, economic growth is used as dependent variable and urban growth, trade, urban population, inflation and capital formulation is used as independent variable. Data has been has been taken from World Development Indicators for years 2000-2016. The study is based on panel data collected for 30 developing countries. In which study we use Generalized Method of Moments (GMM) technique and result show that urban growth negative impact on economic growth which is measured by GDP growth annual %.when urban growth is high then individual spend on investment, Govt. spend on infrastructure or for development in urban areas to increase his growth therefore GDP growth declined that showed negative relation among them. Urban population and Inflation has negative impact on economic growth and the other hand Trade and Gross Capital Formation has positive impact on economic growth.

1. INTRODUCTION
Why can some countries get rich from poverty while other hand some countries are always poor? The issue of economic growth has always attracted the people's attention. From the classical economic theory to the other new economic theory, the labor division, factor accumulation, human capital and technological progress have always been the old and trendy topics in economics. The demographic factor played an important role in Adam Smith's labor division theory, Malthus' trap theory and Solow's steady-state growth theory. After the Second World War, the rejuvenation of the population became a trend in the world, especially the dependency ratio of the population rapidly decreased in East Asia, and an ample labor supply and high savings rate significantly promoted an economic take-off in East Asia. Therefore, among a number of economic growth factors, the demographic factor has gotten increasing attention in macroeconomic studies in the last 20 years.

Since the global economic crisis of 2007-08, a number of economies have gone through a decline in economic growth. These economies are still striving to cope with such type of recession. The population giants like China and India remained intact of growth slowdown during this recession. One of the important pathways to explain the effect of age-structure on economic growth is human capital formation. The question arises whether all the global economic regions and income groups of the developing economies are having the benefits of demographic dividend equally and role of human capital is same in all economic regions and income groups.

Urbanization is seen as an effect of the current globalization phenomenon, with social aspects as well as the economic ones, representing the migration process of the population organizing in urban areas, areas considered to be true centers of progress that offer multiple Options to residents. During the Asian economic crisis of the 1990s, millions of people who lost formal jobs in the former East Asian Tiger countries tried to find jobs or create work in the informal economy (Lee 1998). Meanwhile, structural adjustment in Africa and economic transition in the former Soviet Union and in Central and Eastern Europe were also associated with an expansion of employment in the informal economy.

Objective of the study
The main objective of this studyis:
- To determine the relationship between an informal sector urbanization and economics growth in developing nations.

2. Literature Reviews

Doci and Dunarintu (2012) investigated that The Socio-Economic Impact of Urbanization. The process of urbanization was representing the increase in the proportion of people living in towns and cities as a result of people movement from rural areas to urban areas. Urbanization was widely accepted as a process with several consequences, such as social, economic or environmental and it usually occurs in developing Countries that complex process knows a strong global dimension that overcomes the spatial barriers, acting as real centers of progress with a significant impact on Natural resources and on life quality. Urbanization is independent variable and socio economic is dependent variable. There is positive relation between socio economics and urbanization because people do work increase labor force in urban and demands of products will also increase generates the employment at that result increase national income economic development will increase that's mean there is positive relationships between them . Conclusion of study one of the solutions is the orientation to green cities, subjected to the principles of sustainable development and the establishment of urban spaces adapted to the environmental principles. Also, should be taken into consideration the development of new opportunities in rural areas in order to prevent the realization of scenarios regarding the spatial migration trend of rural to urban areas in the following years.

Henderson (2003) analyzed that Urbanization and Economic Development. There was economic development dependent variable and urbanization was independent variable. The study of urbanization with development focuses on three issues. For each of these, this paper will review key empirical facts and evidence and explain the key theoretical models used in analysis. In the last section, the issue concerns whether the urbanization process involving rural to urban migration within countries is reasonably efficient, or whether it is subject to forms of market failure or distortionary government policies. Part of the literature on the subject looks at the basic overall rural-urban divide to ask whether countries are over- or under-urbanized. That particular narrow question is not what the recent economics literature has focused on, for reasons we will see. Rather the literature has focused on the form that urbanization takes. There are a variety of papers which model the form of localized scale externalities such as information spillovers in output and input markets and backward and forward linkages which lead to agglomeration; and there is a large body of empirical work trying to measure the nature and extent of scale externalities. Finally there is a more recent literature examining dynamic externalities and localized knowledge spillovers.

Hanushek (2013) investigated that Economic Growth in Developing Countries: The Role of Human Capital. There was independent variable use like human capital n dependent variable was economic growth .there is positive relationship between economic growth n human capital because increase in human capital then economic growth will also increase employment rate increase income increase of people then, growth will also increase . Developing countries have made considerable progress in closing the gap with developed countries in terms of school attainment, but recent research has underscored the importance of cognitive skills for economic growth. This result shifts attention to issues of school quality, and there developing countries have been much less successful in closing the gaps with developed countries. Without improving school quality, developing countries will find it difficult to improve their long run economic performance. The conclusion of that article some evidence in developing countries suggests that the tradeoff of easy labor market Entry versus potential disadvantages later in the life cycle because of less adaptability can be Significant (forthcoming)). Unfortunately, this evidence comes just from developed countries. No similar analysis exists for developing countries, and it is unclear whether the tradeoff holds across different development levels.

Peng (2013), Chen and Cheng integrated that Urbanization and its consequences .The main objective of theory was that the fundamental difference between urban and rural is that urban populations live in larger, denser, and more heterogeneous cities as opposed to small, more sparse, and less differentiated rural places Under 1 percent annually – and high rates of urban immigration – 1.5 to 3.2 percent annually(Lowry, 1990). With a few exceptions, urban and rural rates of natural increases were about the same, yet urban growth rates were two to

five time above rural growth rates, reflecting the strong effect of rural-to-urban migration in regions with relatively small urban sectors. More than 80 percent of the population lived in towns and cities in Venezuela, Uruguay, Chile and Argentina. Levels of urban development were low throughout most of Africa, South and East Asia. Less than one person in three in sub-Saharan Africa was an urban dweller. and the conclusion of

theory was based on Empirical studies, whether explicitly from this theoretical perspective or not, have borne out the serious undesirable consequences of rapid urbanization in developing countries such as rural-urban imbalance, lopsided city hierarchy, housing segregation, and income inequality both within and across nations Under Urban Consequences, the level of urbanization reached 50 percent in 2008 as mentioned at the beginning of this chapter. Finally, cities like Shanghai, Mumbai, Sao Paulo, and Moscow have closed their gaps with New York, London, and Tokyo as the world's dominant cities.

3. DATA & METHODOLOGY

The data has been taken from different sources. Data has been has been taken from World Development Indicators for years 2000-2016. The study is based on panel data collected for 30 developing countries. The selected variables that may determine the relationships between an informal sector urbanization and economics growth in developing economies are as follows:

The Equation
The functional form of model is as follows:
GDP = f (UP, UNEM, TRADE, INF, CF)
GDP $= \beta_0 + \beta_1$ (UP) $+ \beta_2$ (UNEM) $_+ \beta_3$ (TRADE) $+ B_4$ (INF) $+ \beta_5$ (CF) $+\mu i$

GDP   Gross Domestic Product
UP   Urban population
UNEM   Unemployment
TRA   Trade
INF   Inflation
CF   Capital Formation
μi = Random error term independently distributed with zero mean and constant variance.
β = this is coefficient.

- GDP growth   (annual %)
- Urban population   (% of total)
- Unemployment   (% GDP)
- Trade   (export + import/GDP)
- Gross capital formation   (% GDP)

Technique
Generalized Method of Moments (GMM)
Generalized method of moments (GMM) is a general estimation principle. Estimators are derived from so-called moment conditions.

Three main motivations:
(1) Many estimators can be seen as special cases of GMM. Unifying framework for comparison.
(2) Maximum likelihood estimators have the smallest variance in the class of consistent and asymptotically normal estimators.
(3) GMM estimation is often possible where a likelihood analysis is extremely difficult. We only need a partial specification of the model.
- A moment condition is a statement involving the data and the parameters:

4. RESULTS & DISCUSSION

In this section, empirical investigation is undertaken regarding the impact of selected variables on GDP growth and Urbanization in developing economies (2000-2016) using GMM estimator to determine the relationship between dependent and independent variables.

Urbanization, Unemployment & Economic Growth
The dependent variable that is GDP growth rate is regressed on five explanatory variables which are urban population, trade, gross capital formation Unemployment and inflation following results are obtained. Regression results are shown in tabulation form.

Dependent Variable	Independent Variable	Coefficient	Probability
	constant	**16.20917**	**0.00**
GDP	UP	-0.2799226	0.00
	UNEM	-0.2466437	0.001
	INF	-0.1284103	0.003
	TRADE	0.0650612	0.00
	CF	0.129252	0.000

GDP = 16.20917 −.2799226 (UP) −.2466437 (UNEM) −.1284103 (INF) +0.0650612(TRADE) +0.1292532(CF) µi

- **Urban Population**

Urban population has negative affect on GDP growth. If 1% increases in urban population then GDP growth has declined 0.27%. because urban population increase people move for batter resources batter facilities moved rural to urban, then increase in population of urban areas ,face insufficient resources because economy not do work efficiently economy don't fulfill the need of individual .heavy burden of population don't affordable for economy automatically the growth will be declined. Urban population measured in term of total %.

- **Unemployment**

 Unemployment has negative impact on GDP growth. Unemployment measured % of total labor force from ILO (International labor organization). If 1% increases in unemployment, GDP growth has declined 0.24%. People move rural to urban areas economy work on full employment level but it is not efficient production which fulfills the demand of people large rate of unemployment acre high increased inflation people unemployed and GDP growth decrease.

- **Trade**

Trade has positive impact on GDP growth &it measured by % of GDP.When economy produce surplus production then exchange commodities to each other.GDP will be automatically increased. Theory tells us that If 1% increase in trade 0.065% increase in GDP growth.

- **Inflation**

 Inflation of consumer price has negative impact on GDP growth it measured in amount %. Inflation increase prices will increase day by day. Then Government impose taxes on commodities that will cause to decline GDP growth .n the next step production will declined due to heavy amount of taxes imposed. If 1% increases in inflation then GDP growth has 0.12% declined.

- **Gross Capital Formation**

Gross Capital Formation has positive impact on GDP growth .it measured by % of GDP.

5. CONCLUSION

 There is some relationship exist between variables. Economics growth has negatively related with urban growth, economic growth is used as dependent variable and urban growth is used as independent variable .urban growth negative impact on economic growth which is measured by GDP growth annual %.when urban growth is high then individual spend on investment, Govt. spend on infrastructure or for development in urban areas to increase his growth therefore GDP growth declined that showed negative relation among them.

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Gross Capital Formation has positive impact on GDP growth .it measured by % of GDP.
It finds that inflow of foreign investment had positive effects on economic growth in one time period, whereas it has a negative effect in another for developing countries. We have looked at the labor market informality as a result of rapid and Uncontrolled migration from rural to urban areas in developing countries. At the root of the Problem of the informal economy is the inability of economies to create sufficient numbers of decent jobs to absorb the growing labor force. With increasing urbanization in developing countries, the informal economy tends to absorb most of the growing labor force. But the creation of employment through informal sector has generated poor working conditions.

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