

---

## Determinants of Poverty Reduction in Developing Countries

**Salah F S Taib**

Al Zawia University  
s20a1981@gmail.com

**Basem E Ertimi**

Al Zawia University  
basem\_bm002@yahoo.com

**Basem A. Abraheem**

Al Zawia University  
basim686@gmail.com

**Noura. A. O. Alghangha**

Al Zawia University  
Libyan.sky1983@gmail.com

### Abstract

هدفت الدراسة لتوضيح العلاقة بين النمو الاقتصادي والفقير في الدول النامية، ودور معدلات النمو الاقتصادي في تخفيض الفقر في هذه الدول. وقد اعتمدت الدراسة في الوصول إلى نتائجها على المنهج الوصفي التحليلي، وذلك بالاعتماد على دراسة آراء أهم الكتّاب الذين تناولوا الطرق المختلفة لتخفيض الفقر. وخلصت الدراسة إلى أن النمو الاقتصادي ليس العامل الوحيد الذي يؤدي لتخفيض الفقر في الدول النامية، بل إن هناك العديد من العوامل المهمة في هذا الجانب، مثل تحسين دخول محدودي الدخل، والتعليم، والصحة، وكذلك اتباع الدولة السياسات الاقتصادية الملائمة التي تؤدي لتحسين وضع الفقراء في الدولة. وقد أوضحت هذه الدراسة أنه من الممكن تخفيض الفقر بدون النمو الاقتصادي، حيث يمكن أن يخفض الفقر بإعادة توزيع الدخل من الأغنياء إلى الفقراء، وتحسين مستوى الدخل لكلا الفئتين بالتزامن مع النمو الاقتصادي.

**Keywords:** poverty reduction, economic growth , redistribution income, integration

---

### **Introduction**

Kumar (1997) defines poverty as it is basically a welfare concept denoting insufficiency of economic resources to meet certain basic requirement of life. Poverty has two different meaning which are, the first one is absolute poverty that refers to have the most important needs to stay alive such as shelter, health care and income, and the second one is relative poverty that refers to the gap between the rich and poor (Kaplinsky, 2005). World Bank (1996) divides measurement of poverty to two types. Firstly, level of income and consumption. Secondly, health, education and contribution into society.

Poverty reduction is the main object for developed and developing countries and they want to eliminate poverty. Many authors argue that economic growth will lead to reduce poverty rate in developing countries and they cited their argument by many different regions like East Asia that have achieved both high ratio of economic growth and take more than half of their population out of poverty (Dollar & Karry, 2002). Wolfensohn (2002) argues that countries have experienced in economic growth, have accounted decreasing in level of poverty for example people who living in poverty in countries like Uganda, China, India, and Vietnam which achieved a high growth rate, the poverty line fell from 5 to 8 percent in these countries during the period 1992 to 1998. By contrast, countries have a low or negative economic growth, have experienced with a high poverty rate for instance, Nigeria, per capita consumption decreased 16% during 1992-

1996. On the other hand, some authors argue that economic growth is not the whole story but it is part of it. They argue that economic growth is necessary to poverty reduction but there are other strategies to reach this growth to the poor directly (Spratt, 2009).

This paper will analyze the role and effect of economic growth on poverty in developing countries and discuss other factors such as policies, income distribution and economic integration that are more important than economic growth to eliminate poverty in viewpoints of many authors and they think developing countries should take steps in that term.

### **Economic growth and poverty reduction in developing countries**

Even though, economic growth is seen as an engine of poverty reduction. It will be more efficient throughout the existing of well distribution of income. There is debate that has been taking place by many authors about the impact of economic growth on poverty reduction. Some take negative side for the relation between economic growth and poverty. Others make some conditions and strategies to get a lot of benefits from economic growth (Spratt, 2009).

Economic growth can lead to reduction of poverty, and reduction of poverty can lead to economic growth. They are complementary to each other. For example, a growing nation will be able to increase production of the poor, which, in-turn can create more equitable distribution for the nation. This also works the other way around; a more equitable distribution can lead to increased production of the

---

poor, which can lead to higher growth (Spratt, 2009). Furthermore, raising the income of the poor can enhance their ability to produce (Access to credit, education, etc). There is natural growth and rural-urban migration. Rural-urban migration occurs because people want to move to the urban cities for more jobs than a rural atmosphere can provide. With so many people moving to the main cities for jobs, the number of jobs available is becoming insufficient. The lack of jobs will create growth in the informal sector as the formal sector cannot absorb most of the population. Majority of developing countries, their population can have basic necessities through the rise of output of countries. Transformation of lives for developing population will be made by economic growth. People of industrial countries have a long life expectance, have a good quality production (Spratt, 2009).

Weiss and Khan (2006) stated that Countries which have grown faster than others, they have decreased their poverty rate very fast. East Asia countries have achieved both economic growth and poverty reduction. Countries like China and India can be considered as a good examples for poverty reduction, their growth helped them to take many of their population out poverty. In Sub-Saharan countries, however, the number of people who living in poverty has increased from 227 in 1990 to 313 in 2001(measurement/dollar per day) and from 382 in 1990 to 516 in 2001(measurement/ 2\$ per day).

Furthermore, they stated that poverty in transitional European countries increased by 15 million during the same period. In 2001 more than half of the population of developing countries and

transitional economies lived in poverty according to these numbers. Weiss and Khan divided countries depend on their economic growth (low growth, intermediate growth, and high growth) and they conclude that there is negative relationship between poverty reduction and economic growth and low and mid economic growth countries need several years to change their poverty situation compare with high growth countries. They give many reasons to connect growth with poverty reduction as growth will create many opportunities of jobs and a good wages for unskilled labour that will take them out of poverty (Weiss and Khan, 2006) .

Easterly (2001) tested the relation between economic growth and poverty reduction, he concluded a survey on household income and expenditure. He stated that countries with faster economic growth are likely to reduce their poverty rate than other regions that have had decline in their economies like Sub-Saharan Africa, Eastern Europe and central Asia. He gave evidence for that Indonesia had economic growth in average 76 percent from 1984 to 1996 and that growth helped country to decrease poverty to one-quarter less than it was in 1984. However, during the financial crisis average income decreased to 12 percent in 1997 and that effect poverty rate to increase to 65 percent. It is clear that in Indonesia has been given as example to illustrate the relation between growth and poverty reduction.

### **Redistribution and poverty reduction**

Spratt (2009) argues that economic growth is not the only way to reducing poverty. He argues that the main important solution for

---

poverty is redistribution resources between populations and make sure that redistribution will reach to poor people directly. Moser and Ichida (2001) studied 46 developing countries between 1972-1997, their evaluation found that a 10 percent rise in per capita GDP due to a 1 percent rise in life expectancy, 3-4 percent decline in infant mortality rates, and 3.5-4 percent increase in rate of gross primary school. However, they argued that economic growth is not the main reason to reduce poverty. In some regions like Sub-Sahara Africa which its population living under poverty line have been increasing from year to year. Some argue that countries of Africa are mixed countries between new independent countries, ethnic conflict and lack access to markets.

Spartt (2009) argues the idea of Kraay and he states that high growth rate will effect poverty in specific condition that country should have equal society and he estimates that 1% of growth will lead to raise the income for poor by 4.3% in equal countries. However, countries without a good distribution policy, 1% growth will increase the income for poor just 0.6%. he further examined that India have grown very fast and achieved a high of growth rate during 1990s to 2004 reached to 7% annual. On the other hand, poverty rate stabled in 1993 85% of population of India (live less than \$2 a day) and this rate fell but still high at 80% in 2004.

### **Economic integration and poverty reduction**

Economic integration is increasingly recognized as an important tool for poverty reduction through a greater volume of trade. economic

---

integration in terms of trade and investment among countries benefits benefit more from this open access leading to poverty reduction.

Collier (2002) argues that developing countries which has integrated and opened their market to trade with the world economies are likely to get benefits from that process through achieving high ratio of growth and give the poor people opportunities to get jobs. For instance, Vietnam considers as a good globalised country, it had war in the past during 1960s after that it has made many adjustment in its economy. Vietnam have achieved a high growth rate during the 1980s and the 1990s from 4.5% to 8.9% and population grew lower than growth at 4.5 during this period and poverty reduced, the income was 1.6 time higher in 1996 more than it was in 1985. There are many reasons for this growth in this country, like Vietnam became the third rice exporter after Thailand and USA, and export increased from 2\$ billion to 9\$ during 1991-1997 (Hoang and Liao 2002).

India is another example which showed that its economy has integrated in the early 1990s which has effected a growth of the economy. In the 1970s the growth rate in India was 3%, this percentage nearly doubled to 5.9% since its economy became integrated (Goyal 2006). Mexico has eliminated its barriers, opened its market and followed the liberalization way to achieve a huge benefit from that. The proportion of exports of GDP increased between 1988 and 1994 from 13.8% to 15.2% showing that the average of income per capita increased during the period of openness to reach 2.91%. These processes attracted foreign investment to enter

the country, and this helped country to fill the gap of unemployment by increasing employment by 24% from 8.5 million to 10.4 million between 1993-1999, which at the same time employment by foreign investment rose by 58% which helped people to have a new lives standard (Rozo, 2002).

On the other hand, The movement of labour from rural region to urban one is considered as one of the most important ways to poverty reduction. Chinese rural residents move from their region to urban region to find job opportunities and there is an estimate that states that the 12 percent of rural employees are worked away from their original cities (Weiss, 2005). However, the movement of Chinese labour from one region to another is not fully integrated because there are many restrictions for that such as the registration in urban regions which has been made it difficult for rural workers to move freely (Weiss, 2005). Overall, The most exports of developing countries are agriculture and food exports which are very important for them to produce growth and create jobs. In addition, 61% of employment is employed in agriculture activities in developing countries and it accounts 14% of their GDP (World Bank, 1996).

Roemer and Gugerty (1997) suggest that Openness and trade policies will help African regions to growth, if they follow the Asian characteristic that will fill the gap between two regions and they argue that macroeconomic stabilisation through low inflation and low budget deficit that are strongly related with economic growth and growth will lead to poverty alleviation.



---

## **Policies and poverty reduction**

The reforms in developing countries economy are considered as the significant way to help these countries to reduce poverty through many policies. Weiss (1995) focuses on creating some strategies to help developing countries to make end of poverty such as solve the problem which the most developing countries suffer from it that lack of productive assets (land, credit). Poor countries have to improve their poor population through improving access to land and obtain loans for consumption and business activity. Another strategy is raising the return on assets like infrastructure and creating employment from any reform in productive projects in the country and there were many projects like that for example Employment programme in Chile and the Programme of Temporary support for income in Peru.

The most important approach that is providing poor by primary education and health services that will enhance the poor place in the society and country should expand on these sectors. World Bank argues that the expenditure on education and health declined during the period the mid-1980 and 1985 and that decline was 16 percent in Sub Sahara Africa and 18 percent in Latin America. Weiss (1995) suggest that expenditure must be reallocated in terms to improve the level of poor education among focusing on primary schools more than secondary school. This improvement of education includes the rural areas of countries. In term of health expenditure focuses on basic treatment for poor people in developing countries.

---

The next strategy is supplementary transfers that means country creates a new distribution system of subsidies through providing poor people food for free or sells by its cost but this strategy has many problems like the cost of administration and it might not reach to poor people or poor will resell it into the market with high price.

Some developing countries have decreased poverty rate through many policies and strategies not just depended on economic growth. For instance, during the last 25 years, China has accounted the highest growth rate in the world and experienced the significant reduction in poverty. The headcount of poor people in China decreased from 634 million in 1981 to 128 million in 2004 and the percentage of headcount ratio falling from 64% to 10%. The whole progress of poverty reduction did not due to economic growth only but China has a long experience working with the World Bank and development agencies to reduce poverty through many programmes of these institutions (Todaro & Smith, 2009).

On the other hand, inequality in China increased during the same period, the reasons for the growth of the inequality in China, for instance, are the difference in growth between cities and rural urban areas and the income distribution between regions. For instance, the south-eastern has been reaching a high level of growth; it has nearly 13 percent per year in contrast with the national average of 8.5 percent because they can access ports, modern technology, and foreign investment on this area more than others. However, the rural urban

areas has been growing over 6 percent and they go further following the globalisation example(World Bank, 1996).

### **Conclusion**

This paper addressed the debate about the relation between economic growth and other factors that help to reduce poverty in developing countries. There is no agreement about if economic growth is the only reason which will lead to poverty alleviation. Some argue that economic growth will help to decrease the number of population living in poverty and others argue that idea when they suggest some strategies that will lead to reduce poverty in developing countries.

Some argue that there are two points which poor can be obtained and become better off income should be redistributed from high income people to low income population, and the income for both rich and poor should increase in the same way for increasing the economic growth. It can be concluded that the improvement of the life condition does not depend on economic growth itself but countries should focus on macroeconomic policies such as low inflation, income distribution, better education, openness to international trade and so on, that will help to increase the income of poor people.

### **References**

Collier, P. (2002) *Globalisation, growth, and poverty: building an inclusive world economy*. New York: Oxford University Press.

Easterly, W. (2001) *The elusive quest for growth: economists' adventures and misadventures in the tropics*. London: Cambridge.

Dollar, D and Kraay, A. (2002) Is Growth Good for Poor? *World Bank*, no. 7, pp 195-225.

Goyal, K. A. (2006) *Impact of Globalization on Developing Countries (With Special Reference to India)*. International Research Journal of Finance and Economics. No. 5. Euro Journals Publishing. 2006. Available at:

<http://www.eurojournals.com/IRJFE%206%20goyal.pdf> [accessed 30-12-2009]

Hoang, N and Liao, J. (2002) *Economic Effect of Globalization in Developing Countries: An Analysis of Vietnam and China*. Available at:

<http://www.stanford.edu/class/e297c/Economic%20Effects%20of%20Globalization.pdf> [accessed date: 25-11-2009]

Kumar, v. (1997). *Economic growth and rural poverty : the Indian experience (1960 - 1995)*. New Delhi: Concept Publishing Company.

Kaplinsky, R. (2005). *Globalization, poverty and inequality: between a rock and a hard place*. Malden: polity.

Moser, G., and Ichida, T. (2001) *Economic Growth and Poverty Reduction in Sub-Saharan Africa* (African Department). August 2001 IMF Working Paper.

---

Rozo, C. (2002) *Trade Liberalisation and Economic Development in Mexico: A Case for Globalisation?* In: Longan, I. *Globalisation, the third world state and poverty-alleviation in the twenty-first century*, Aldershot: Ashgate, pp 115-124.

Roemer, M and Gugerty, M. K. (1997) *Does Economic Growth Reduces Poverty?* Technical Paper. Harvard Institute for International Development. Available at:

[http://pdf.usaid.gov/pdf\\_docs/PNACA656.pdf](http://pdf.usaid.gov/pdf_docs/PNACA656.pdf) [accessed date 12-01-2010]

Spratt, S. (2009). *Development finance : debates, dogmas and new directions*. London: Routledge.

Todaro, M. P., and Smith, S. C. (2009) *Economic development* (10<sup>th</sup> edition). Harlow: Pearson Education.

Weiss, J., and Khan, H. A. (2006) *Poverty strategies in Asia : a growth plus approach*. In: Weiss,J., and Khan, H. A. *Poverty strategies in Asia : a growth plus approach*. Cheltenham: Edward Elgar, pp 1-40.

Weiss, J. (1995). *Economic policy in developing countries : the reform agenda*. London: Prentice-Hall.

Weiss, J. (2005) *Poverty, Growth, and Development: Recent Chinese Experience*. In: Tribe, M & Thoburn, J. *Development Economics and*

Social Justice: Essay in Honour of Ian Livingstone. Aldershot: Ashgate Publishing Limited, pp, 44-57.

Wolfensohn, J. D. (2002). *A case for aid: building a consensus for development assistance: includes a "partnership for development and peace"*. Washington: World Bank.

World Bank. (1996) *World development report: from plan to market*. New York: Oxford University Press.