OPINION
Global poverty

Quantifying poverty's global decline

Is globalization making poverty history? Brookings Institution researchers *Laurence Chandy* and *Geoffrey Gertz* argue that the ascent of emerging markets is accompanied by a statistical decline in the planet's poorest.

Global poverty is rapidly falling. This phenomenon is a natural corollary to the rise of emerging markets witnessed since the turn of the century and augurs the start of a new economic era. Official estimates of global poverty are compiled by the World Bank and stretch back 30 years. The most recent tally is for the year 2005, at which point the World Bank estimates that 1.37 billion people – one in every four people in the developing world – lived below the international poverty line of US$1.25 a day.

Of course, a lot has changed since 2005. The economies of the developing world have expanded by 50 percent in real terms, reflected in the take-off of emerging markets.

In new research, the Brookings Institution captures how this unprecedented economic growth has transformed the global poverty landscape. By combining the most recent national household survey results with the very latest data on private consumption growth for 119 developing countries, we generate global poverty estimates which bring us right up to the present day.

Our analysis suggests that, since 2005, half a billion people have escaped poverty, bringing the global poverty count to below 900 million. This means that the prime target of the Millennium Development Goals – to halve the global poverty rate from its 1990 level by 2015 – was probably achieved some seven years ahead of schedule. Never before have so many people been lifted out of poverty in such a short period of time.

Emerging markets are at the heart of this story, led by the BRICs. The two Asian giants, China and India, can account for a massive four-fifths of the total reduction in global poverty. China has long led the global war on poverty and has nearly completed its journey out of destitution with a poverty rate today estimated at only 3 percent. India is on a similar trajectory but a decade behind: home to one third of the world's poor six years ago, it is now driving the global decline in poverty, lifting tens of millions above the poverty line every year.

In Russia and Brazil, two economies that are further developed, poverty was already on the way out by 2005. Today, Russia appears to have fully escaped extreme poverty, and Brazil is quickly approaching that point, thanks to an economic rebirth and the delivery of effective social programs at scale.

The next wave of emerging markets can also claim a stake in this success story. Collectively, the so-called N-11 nations (*see page 45*) have seen an estimated 50 million of their citizens climb above the international poverty line since 2005, bringing their combined poverty rate down from 27 percent six years ago to just 20 percent today.

Yet to focus exclusively on those escaping poverty in emerging markets would understate the role this new class of economic powerhouses has played over the past six years. The impact of economic success in emerging markets is spilling across borders to other poor countries, helping spark development and poverty reduction far afield.

First, south–south economic relationships are blossoming as emerging powers deepen their trade and investment ties with the world's poorest countries, and diversify into new markets. Over the past decade, the BRICs' share of Africa's exports has more than doubled, stimulating growth and job creation in many of the continent's fledgling economies. As the latest *African Economic Outlook* notes, China is investing in infrastructure across the region, India is working in skill-intensive services, and Brazil has established itself as a key partner in agro-processing.

Second, the robust performance of many emerging markets through the Great Recession helped to buoy the global economy and prevent an economic crisis from turning into a human crisis among the world's poorest countries. Emerging markets have not only propped up aggregate demand but also helped spur rising commodity prices,which have benefited many low-income resource-based economies. With demand from advanced economies diminished since 2007 and expected to be tepid at best for the foreseeable future, the importance of emerging market growth to the world's poor has never been greater.

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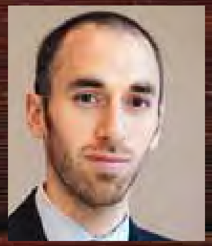
Third, emerging markets have convincingly demonstrated to the poorest economies the invaluable role that markets and good economic governance play in development. These ideas are hardly new, having been advocated by the World Bank, IMF, and WTO for years. Yet there is a difference when prescriptions emanate from Washington or Geneva, too often compromised by condescending tones and divisive ideologies, and when lessons are conveyed in examples of real-world success by developing country peers.

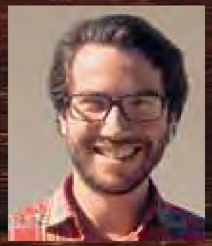
The remarkable fall in poverty achieved over the last six years is a heartwarming story and a significant achievement for humanity. But it is also much more than that. Progress in poverty reduction is part of a broader transformation in the global economy that will create a wellspring of new business opportunities worldwide. As poverty declines, the global middle class – defined as those living on between US$10 and US$100 a day – will balloon, from under 2 billion today up to 5 billion by 2030. We are on the cusp of an age of mass development, which will see the world transformed from being mostly poor to mostly middle class. Those same millions who are pulling themselves out of absolute poverty today will soon emerge as the producers, consumers, innovators, and investors who will drive the economy of the 21st century.

Poverty in emerging markets 2005 and 2011

One grain of rice equals ten million people living below the international poverty line.

Source: Brookings Institution





Laurence Chandy is a fellow, and **Geoffrey Gertz** a research analyst, in the Global Economy and Development program at the Brookings Institution. This commentary is adapted from their recent paper, "Poverty in Numbers."

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