



DETERMINANTS OF ECONOMIC GROWTH IN DEVELOPING COUNTRIES

Kenjayeva Sabohat Safarovna

3rd year student of the “Economics” department of Termiz State University
safarovna04@gmail.com

Abstract. This article examines the key determinants of economic growth in developing countries by analyzing both economic and non-economic factors. Economic determinants such as investment, foreign direct investment (FDI), trade openness, technological progress, human capital, fiscal and monetary policies are explored alongside non-economic factors including governance, political stability, geography, and institutional reforms. Using empirical evidence and graphical illustrations, the study highlights how these interconnected factors contribute to economic development. The findings underscore the critical role of education, infrastructure, political stability, and market openness in fostering sustainable growth. The paper also discusses the transformation of economies through urbanization and structural reforms, emphasizing their impact on improving living standards and economic performance.

Key words: Economic growth, Developing countries, Foreign direct investment, Human capital, Trade openness, Governance, Political stability, Urbanization, Structural reforms, Fiscal policies.

INTRODUCTION

Economic growth in developing countries is driven by a complex interplay of various interconnected factors. These include foreign aid, foreign direct investment (FDI), fiscal and monetary policies, investment, trade, human capital, demographics, natural resources, and institutional reforms. Broadly, these influences can be categorized into economic and non-economic determinants. Economic determinants encompass capital accumulation, technological progress, and labor, while non-economic factors involve government efficiency, institutional strength, social, and cultural dynamics. Understanding these factors is essential for formulating policies that foster sustainable economic development.

THE MAIN PART

1. Economic Determinants:

- **Investment:**

Investment, both private and public, plays a crucial role in fostering economic





growth. It supports infrastructure development, enhances productive capacity, and creates employment opportunities, thereby driving overall development.

- **Foreign Direct Investment (FDI):** FDI contributes vital capital, advanced technology, and managerial expertise to developing economies. These resources significantly bolster a country's growth potential and development prospects (see Figure 1).

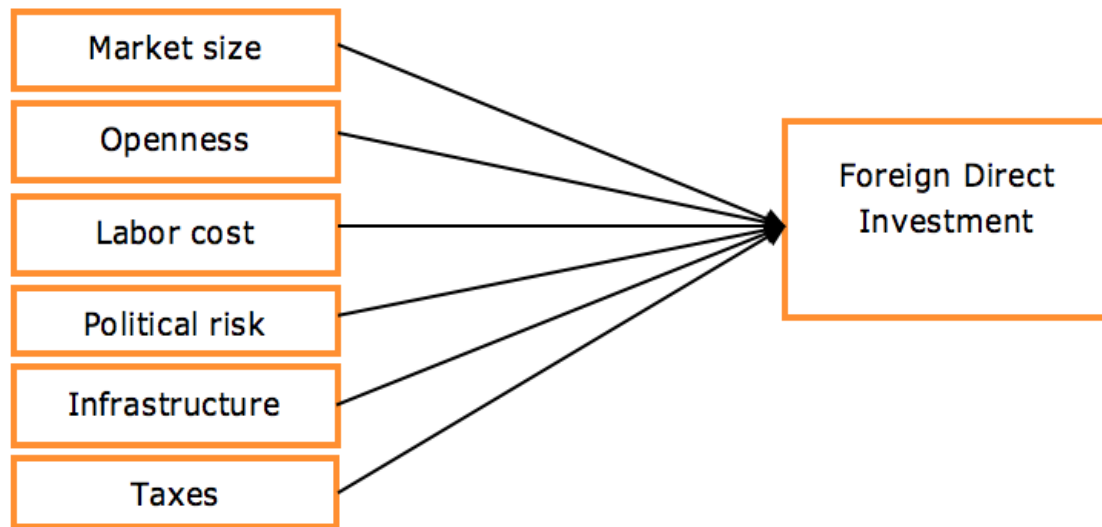


Figure 1. Most common potential determinants of FDI¹

- **Trade:** Openness to international trade—through imports and exports—boosts competitiveness and innovation. It enables countries to specialize in industries where they have a comparative advantage, thereby accelerating economic growth.
- **Technological Progress:** Advancements in technology, especially in sectors such as manufacturing, agriculture, and information technology, enhance productivity and accelerate economic progress.
- **Human Capital:** Investment in education, healthcare, and skills development cultivates a capable and innovative workforce, which is critical for sustained economic growth (see Figure 2).

¹ <https://researchleap.com/wp-content/uploads/2017/01/Common.png>



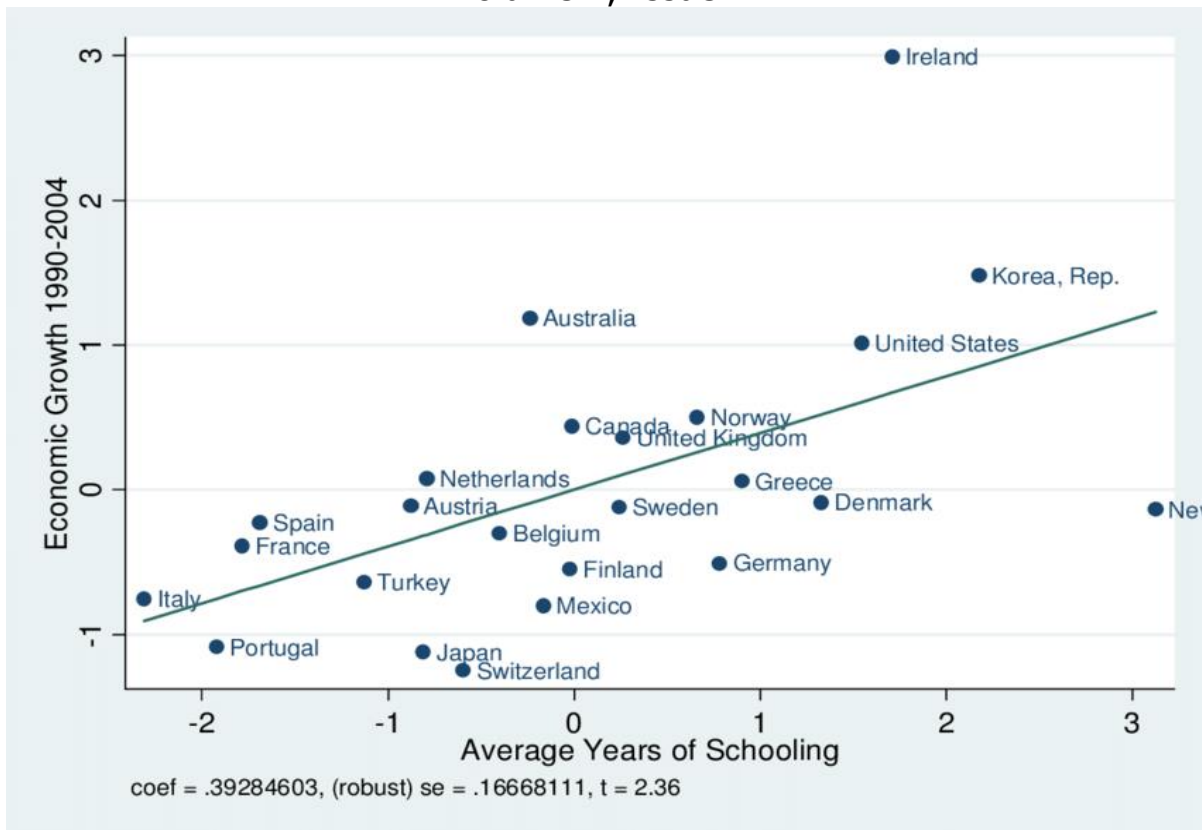


Figure 2. Human capital and economic growth²

This is a scatter plot showing the relationship between economic growth (on the Y-axis) and average years of schooling (on the X-axis) for various countries. There is a positive correlation visible: countries with higher average years of schooling tend to have higher economic growth. The trend line confirms this positive relationship.

Statistical details at the bottom:

Coefficient (coef) = 0.39284603 — indicating that for each additional year of schooling, economic growth increases by approximately 0.39 units.

Standard error (se) = 0.16668111.

t-statistic (t) = 2.36 — suggesting the coefficient is statistically significant.

• **Natural**

Resources:

For many developing countries, the availability and effective management of natural resources can significantly influence economic outcomes, especially when economies are heavily reliant on resource extraction.

• **Fiscal**

and

Monetary

Policies:

Stable and well-designed fiscal policies—such as balanced budgets and efficient

² <https://www.researchgate.net/publication/38428428/figure/fig5/AS:654366075781139@1533024438620/Human-capital-and-economic-growth-Partial-regression-plot-for-23-OECD-countries.png>





taxation—combined with sound monetary strategies like inflation and exchange rate management, create a predictable environment that attracts investment and promotes growth.

2. Non-Economic Determinants:

- **Governance** and **Institutions:**
Effective governance grounded in the rule of law, transparency, and accountability provides the stability and trust necessary to encourage investment and support long-term growth.
- **Political** and **Stability:**
A peaceful and stable political climate reduces uncertainty and fosters a favorable environment for economic activities.

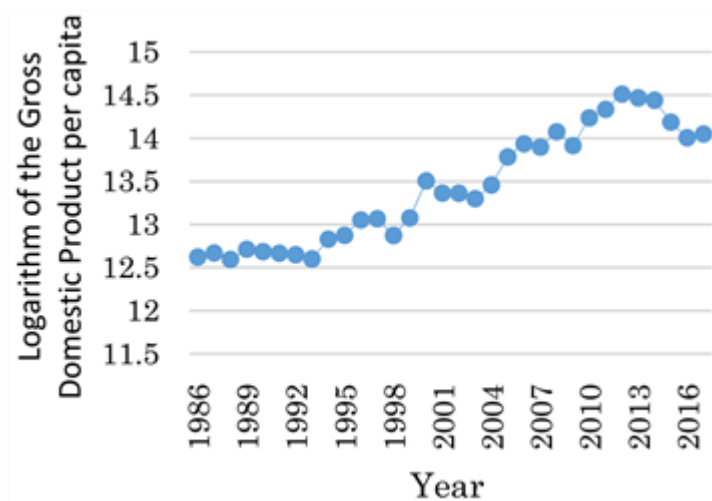


Figure 3. Effects of political instability on economic growth in the Republic of Congo³

This graph shows the change in the logarithm of the Gross Domestic Product (GDP) per capita over time, from 1986 to 2016. From 1986 to around 1998, the logarithm of GDP per capita remains relatively stable, showing little growth. Starting from around 1998, there is a noticeable upward trend, indicating an increase in GDP per capita. The growth continues until about 2012–2013, when the logarithm of GDP per capita peaks. After 2013, there is a slight decline in GDP per capita until 2016.

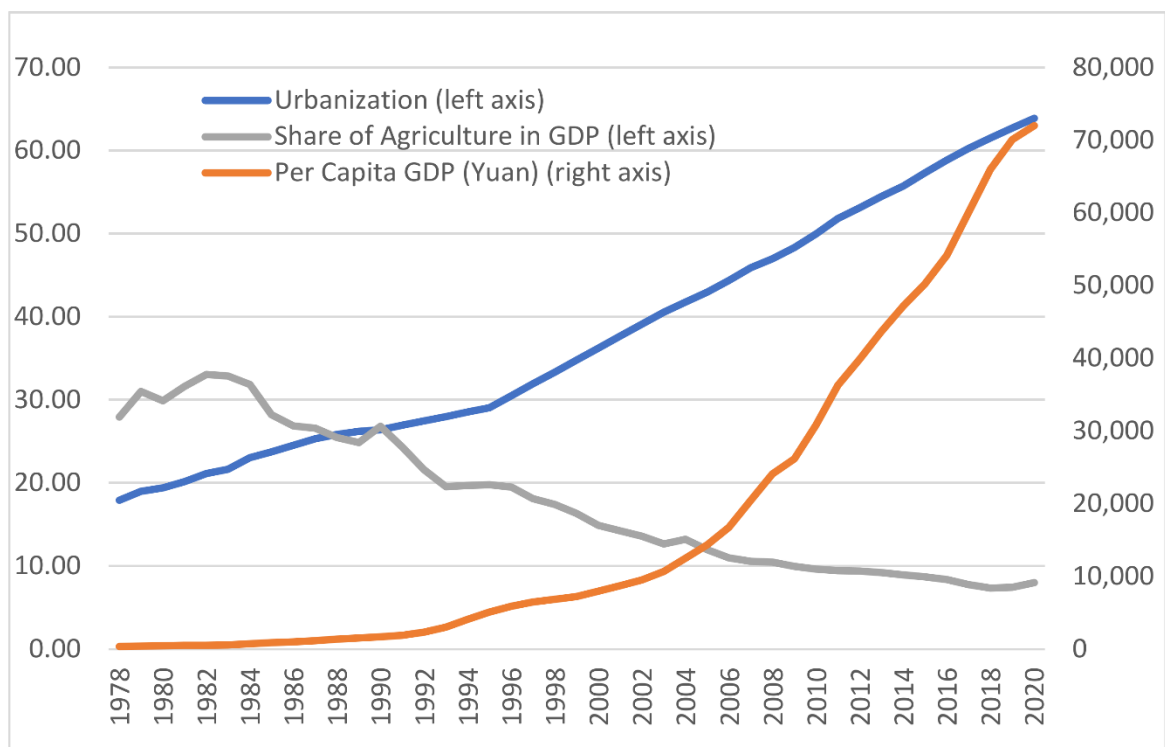
- **Social** and **Cultural** **Factors:**
Cultural norms, social behaviors, and traditional values influence how people engage in economic activities and affect development trajectories.
- **Demographics:**
Population growth, age distribution, and urbanization trends shape labor supply,

³ <https://html.scirp.org/file/14-7202879x5.png?20211222164121275>





consumer demand, and overall economic dynamics (see Figure 4).



**Figure 4. Urbanization, economic development and ecological environment.
Evidence from provincial panel data in China⁴**

This graph presents the trends of three important economic and social indicators over time (from 1978 to 2020):

- The country has undergone rapid economic development and modernization.
- The decline in agriculture's GDP share and rise in urbanization suggest a transition from a primarily agrarian economy to an industrialized and urbanized one.
- The sharp increase in per capita GDP indicates improved living standards and economic growth, likely driven by urbanization and economic restructuring.

• **Geography and Regional Integration:**

Geographic location, access to transportation networks, and regional economic integration are important in determining a country's growth potential.

• **Reforms:**

Structural reforms such as liberalization, deregulation, and privatization improve market efficiency, competitiveness, and support sustainable long-term development.

EMPIRICAL EVIDENCE AND ILLUSTRATIONS

⁴ https://pub.mdpi-res.com/sustainability/sustainability-14-01124/article_deploy/html/images/sustainability-14-01124-g001.png?1642588774





- **Human Capital and Economic Growth**

Figure 2 presents a scatter plot showing a positive correlation between average years of schooling and economic growth from 1990 to 2004. Countries with higher educational attainment tend to experience stronger economic growth, highlighting the importance of human capital investment.

- **Political Stability and Economic Growth**

Figure 3 illustrates the impact of political instability on GDP per capita in the Republic of Congo between 1986 and 2016. The graph shows stable GDP growth beginning around 1998, coinciding with improvements in political stability.

- **Urbanization, Economic Development, and Ecological Environment**

Figure 4 tracks urbanization, the share of agriculture in GDP, and per capita GDP in China from 1978 to 2020. The data reveal rapid urbanization and economic growth alongside a decline in agriculture's GDP share, reflecting a transition from an agrarian to an industrialized economy.

CONCLUSION

Economic growth in developing countries is shaped by a diverse set of economic and non-economic determinants. Investments in capital, technology, and human resources, combined with openness to trade and stable fiscal and monetary policies, are fundamental drivers of growth. Equally important are effective governance, political stability, and institutional strength, which create the environment necessary for sustained development. Additionally, demographic shifts, urbanization, and structural reforms play vital roles in transforming economies and improving living standards. Policymakers should adopt a holistic approach, integrating these factors to foster inclusive and sustainable economic growth.

REFERENCES:

1. Acemoglu, D., Johnson, S., & Robinson, J. A. (2005). Institutions as a fundamental cause of long-run growth. In P. Aghion & S. Durlauf (Eds.), *Handbook of Economic Growth*, 1, 385–472.
2. Ahmed, R., & Hossain, T. (2023). The significance of early entrepreneurship education in Bangladesh: An investigation on Innokids as a case study. *×Daffodil International University Journal of Business and Entrepreneurship×*, 16(1), 106-134.
<http://dspace.daffodilvarsity.edu.bd:8080/bitstream/handle/123456789/10810/Paper%206.pdf?sequence=1&isAllowed=y>
3. Akyuz, Y. (2019). *The Turkish economy in the 2000s: Policies, performance, and prospects*. International Development Economics Associates.





4. Alam, S., Repon, M., & Rupa, R. A. (2023). An analysis of Indian commercial dynamism in international trade. *×Daffodil International University Journal of Business and Entrepreneurship×*, 16(1), 179–200. <http://dspace.daffodilvarsity.edu.bd:8080/bitstream/handle/123456789/10794/Paper%209.pdf?sequence=1&isAllowed=y>
5. Ali, E. B., Shayanmehr, S., Radmehr, R., Amfo, B., Awuni, J. A., Gyamfi, B. A., & Agbozo, E. (2023). Exploring the impact of economic growth on environmental pollution in South American countries: How does renewable energy and globalization matter? *Environmental Science and Pollution Research*, 30, 15505–15522. <https://doi.org/10.1007/s11356-022-23177-4>
6. Anaripour, J. T. (2011). Study on the relationship between interest rate and economic growth by Eviews (2004–2010, Iran). *Journal of Basic and Applied Scientific Research*, 1(11), 2346–2352.
7. Attari, M. I. J., & Javed, A. Y. (2013). Inflation, economic growth and government expenditure of Pakistan: 1980–2010. *Procedio Economics and Finance*, 5(13), 58–67. [https://doi.org/10.1016/s2212-5671\(13\)00010-5](https://doi.org/10.1016/s2212-5671(13)00010-5)
8. Ayyoub, M., Chaudhry, I. S., & Farooq, F. (2011). Does inflation affect economic growth? The case of Pakistan. *Pakistan Journal of Social Sciences (PJSS)*, 31(1), 51–64.
9. Babu, T. (2022). Civil service system and personnel management of Bangladesh. *Ukrainian Policymaker*, 11, 10–18. <https://doi.org/10.29202/up/11/2>
10. Baharumshah, A. Z., Slesman, L., & Wohar, M. E. (2016). Inflation, inflation uncertainty, and economic growth in emerging and developing countries: Panel data evidence. *Economic Systems*, 40(4), 638–657. <https://doi.org/10.1016/j.ecosys.2016.02.009>

