



# Prospects for 'Inclusive Growth' in the MENA Region: A Comparative Approach

Hassan Hakimian  
London Middle East Institute  
SOAS, University of London  
Email: HH2@SOAS.AC.UK

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# Motivation for this study



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- The relationship between growth and equity is not a new problem and has deep roots in economic theory and policy debates
  - The main motivations for this study comes from:
    - (a) Recent experience of developing regions (mainly Asia and Africa) where growth has occurred alongside persisting poverty and/or inequality
    - (b) Political uprisings in the MENA region, where popular discontent has brought to question the neo-liberal model of development under autocratic regimes and the growth strategies they pursued with international advice and support.

# The Growth and Equity Nexus: The International Scene



- **Africa** has been achieving fast growth rates recently: averaging 6% per annum during 2001-08 referred to as the “**African Renaissance**”
  - But this has been mainly driven by boom in commodity prices and conceals clear disparities *between* countries (resource-rich and others)
  - But *within* countries inequalities are also significant: no significant reduction in poverty and the resultant growth has been generally against the poor
- **Asia** has experienced a much more inclusive growth combining growth with substantial reduction in poverty
  - However, inequality has been growing across most economies in Asia including China and India to the point of threatening social cohesion
- Experience of Asia and Africa seems to suggest that market driven growth tends to be inequitable
- Policy makers in both regions thus concerned with the challenge of a more inclusive growth to broaden the benefits of growth and prosperity for the benefit of all.

# First, Two Puzzles in MENA



- If the revival of interest in inclusion and equality is boosted by the recent spate of Arab uprisings, then how to answer the following two puzzles:
  - 1. MENA's recent growth experience in the decade before the uprisings was improving (since 2000)**
  - 2. Poverty in MENA – at least by conventional measures – seems to be moderate/low.**
  
- This in turn raises important questions:
  - a. Where economic factors not important?
  - b. Do revolutions occur when people are better off (at least relatively)?
  - c. Or is data suspect?

# MENA's Growth Record (1)

(Real GDP, average annual % Growth)



	1991-1995	1996-2000	2001-2005	2006-2010	2000-2010
Arab World	3.8	4.0	4.4	4.5	4.4
East Asia & Pacific	3.5	2.7	3.5	3.9	3.7
Latin America & Caribbean	3.3	3.2	2.7	4.1	3.4
MENA	4.1	4.1	4.2	4.4	4.3
South Asia	5.0	5.4	6.5	7.7	7.1
Sub-Saharan Africa	1.2	3.5	4.6	5.0	4.8
World	2.3	3.4	2.8	2.3	2.5

# MENA's Growth Record (2)

(Real per capita GDP, average annual % Growth)

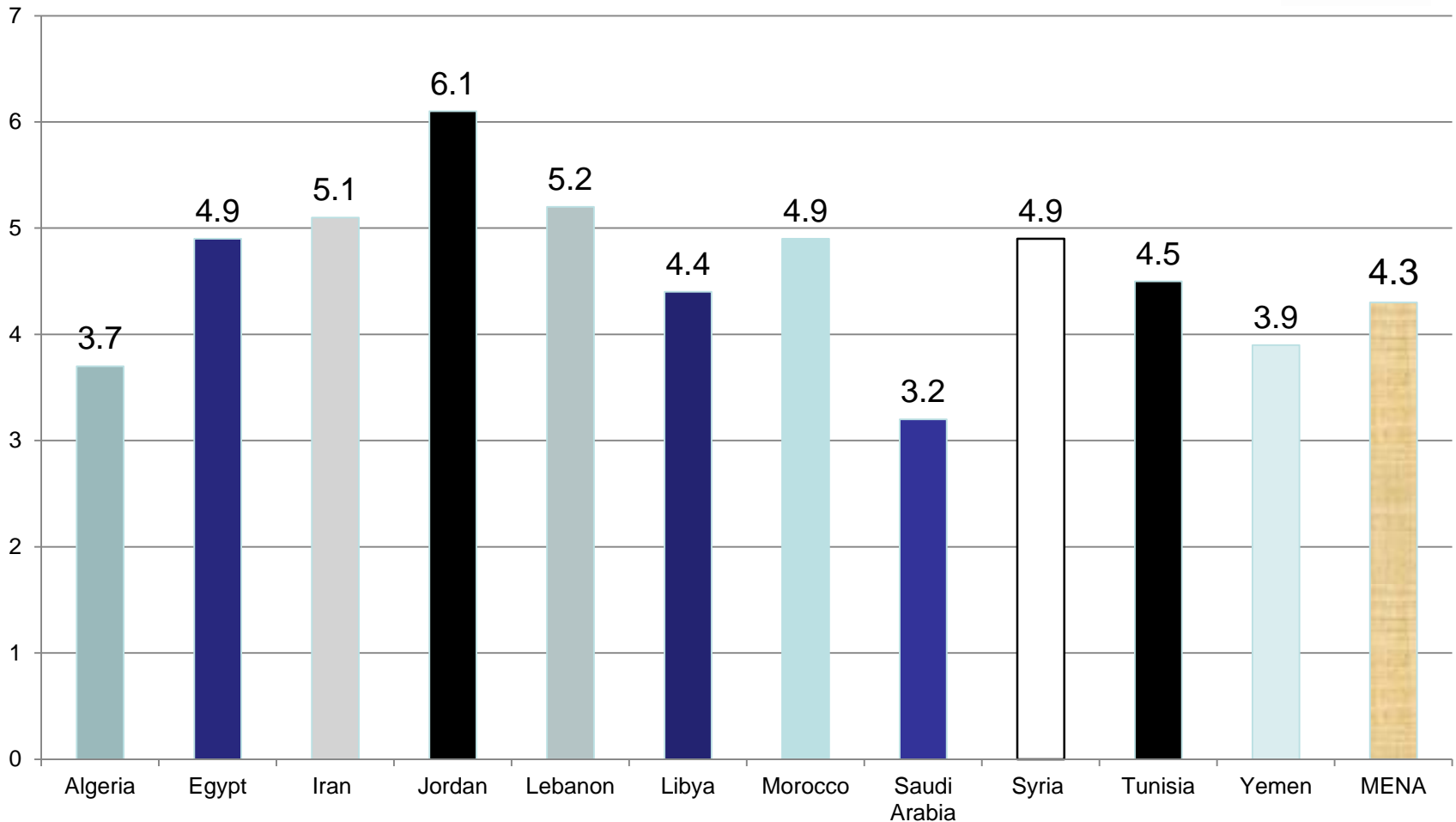


	1991-1995	1996-2000	2001-2005	2006-2010	2000-2010
Arab World	1.4	1.8	2.1	2.1	2.1
East Asia & Pacific	2.2	1.6	2.7	3.2	2.9
Latin America & Caribbean	1.6	1.6	1.3	2.9	2.1
MENA	1.8	2.1	2.1	2.3	2.2
South Asia	2.9	3.5	4.9	6.2	5.5
Sub-Saharan Africa	-1.5	0.8	2.1	2.4	2.2
World	0.8	2.0	1.5	1.1	1.3

# MENA's Growth Record (3)

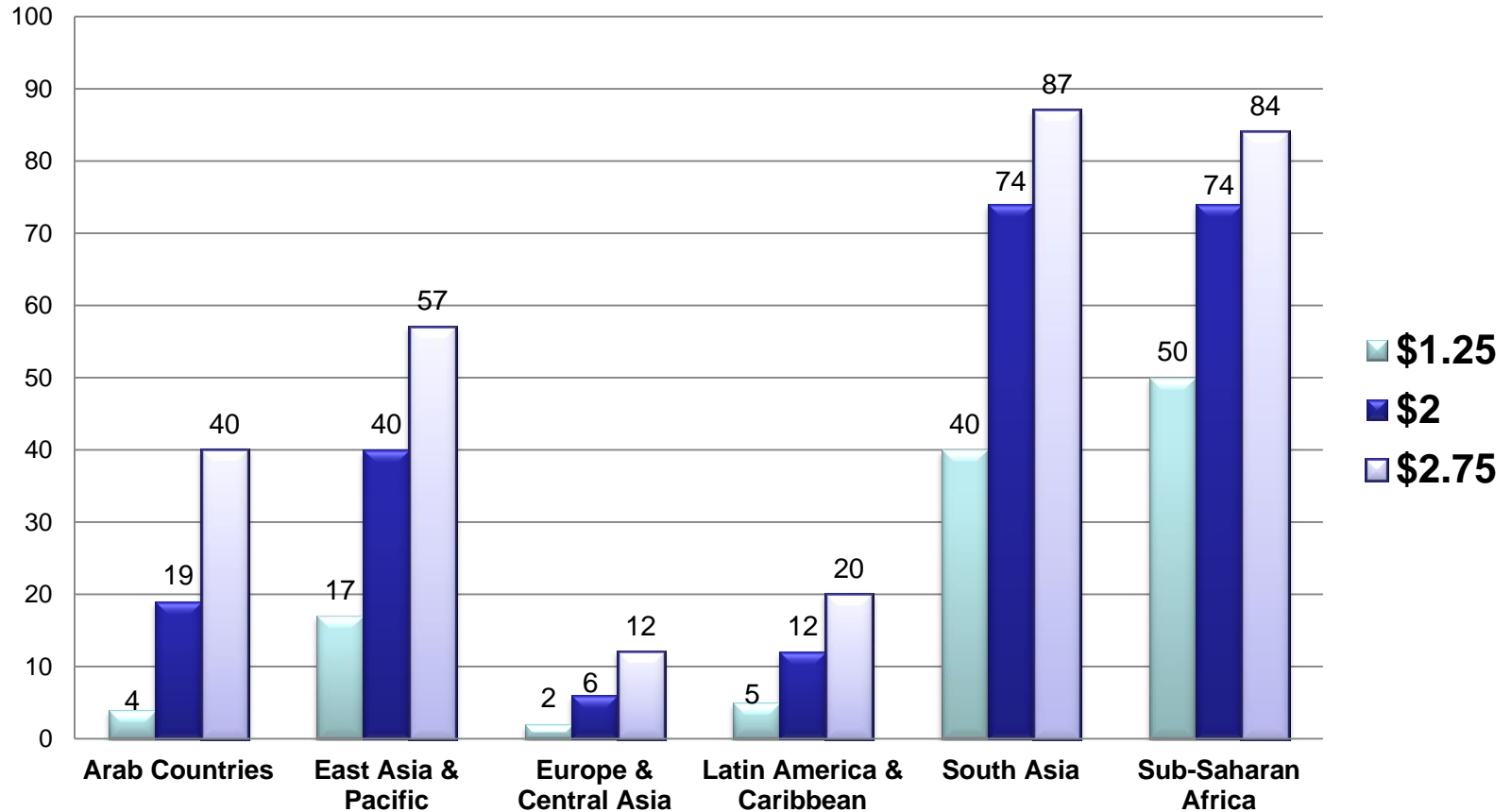


(Real GDP, average annual % Growth, 2000-10)





# Regional Poverty Headcount Ratios at \$1.25, \$2 and \$2.75 a Day (in 2005 PPP Dollars, % of Population)



# Poverty & Inequality in North Africa



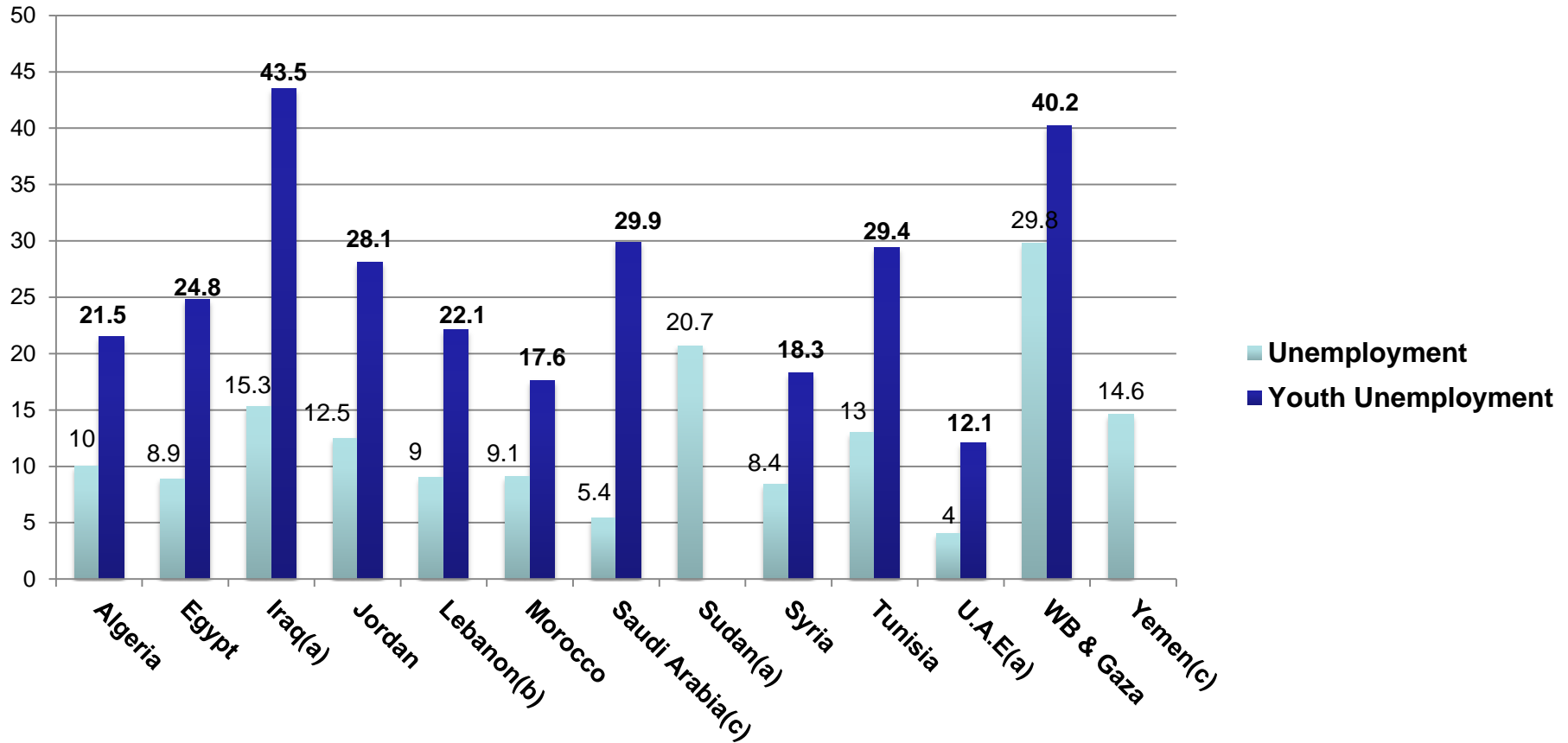
## Poverty Headcount Ratios

	Survey Period	Population (%) below \$1.25 a day		Population (%) below \$2 a day	
		Earliest Survey	Latest Survey	Earliest Survey	Latest Survey
Algeria	1995	6.8		23.6	
Egypt	2000-2005	1.8	2.0	19.3	18.4
<b>Morocco</b>	1998-2007	<b>6.8</b>	<b>2.5</b>	<b>24.4</b>	<b>14.0</b>
Tunisia	1995-2000	6.5	2.6	20.4	12.8

## Indicators of Income Distribution

	Survey Period	Earliest Survey		Latest Survey	
		Ratio of top 20% To Bottom 20%	Gini Index	Ratio of top 20% To Bottom 20%	Gini Index
Algeria	1995	3.9	35.3		
Egypt	2000-2008	3.2	32.8	2.9	30.8
<b>Morocco</b>	1999-2007	<b>4.8</b>	<b>39.5</b>	<b>5.1</b>	<b>40.9</b>
Tunisia	1995-2005	5.6	41.7	5.5	41.4

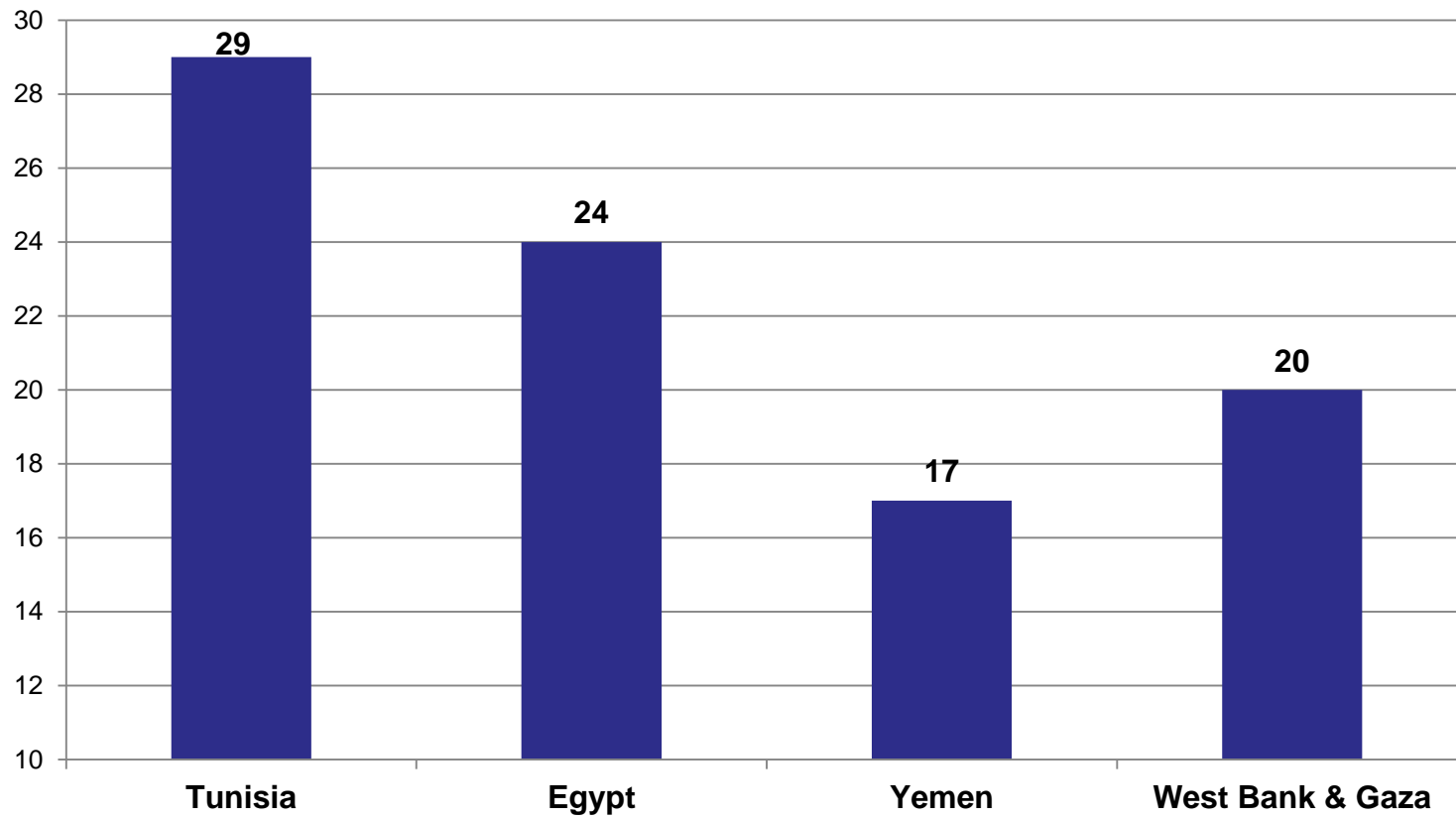
# Jobless Growth in MENA? (2010)





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## Median Age of Population



# From Pro-Poor Growth to Equity



- By the mid-2000s, equity was back on the development agenda
- Growth to be 'inclusive' to ensure a more equitable spread of its benefits to the 'widest population' possible
- Asian Development Bank, for instance, adopted IG as one of its three 'strategic pillars' (the other two being environmentally sustainable growth and regional integration, ADB's *Strategy 2020*)
- Two main intellectual drivers:
  - An *intrinsic* belief in the value of equality (based on a moral case or a matter of human rights)
  - *Instrumental* value for long term and sustainable growth (inequality poses a risk to growth leading to inefficient utilization of human and physical resources, lowering the quality of institutions and policies, eroding social cohesion, and increasing social conflict.

# What is Inclusive Growth?

- There is not a universally agreed definition of ‘inclusive growth’
- Very broadly, inclusive growth is growth for ‘the benefit of most and not just the poor’
  - In its broadest sense growth should ‘benefit all stripes of society, including the poor, the near-poor, the middle income groups, and even the rich’ (Klasen, 2010)
  - This overlooks the *extent* and *distribution* of benefits from growth
- More narrowly, IG can be taken as ‘growth plus declining income disparities’ (Rauniyar and Kanbur, 2010).
  - In this formulation, IG comes close to the notion of PPG in *relative* terms with the difference perhaps that its notion of equality is more embracing and reaches beyond the poor
- But equity and poverty are **multidimensional** and should not exclude **non-income** considerations
- Further challenges both for the concept and its measurement when taking into account the scope and process of attaining IG.

## Further Challenges

- Recent contributions have conceptualised IG as ‘policies focusing on both creating *opportunities* and making the opportunities accessible to all’ (Ali and Zhuang, 2007)
  - But tension as to what extent such opportunities are to be taken care of by market forces and to what extent through more active state intervention
  - The former approach takes us back to the ‘trickle down’ notion
- The provision of *public and social goods as well as safety nets* and social protection are important elements of the inclusive growth package
- Focus on *process* too broadens the scope of the debate to include social and institutional aspects of growth and development.
  - How to deal with a trade-off between processes and outcomes?
  - Is growth more – or less – inclusive when improved processes result in poorer economic outcomes (for instance during revolutionary turmoil and upheaval)?
  - Conversely, if better outcomes are secured in the absence of any improvements in process, does that make the experience of growth less desirable (for instance, *under* autocratic regimes)?

# Measurement Issues



- Growing interest in inclusive growth has not been matched by success over a universal definition
  - Narrower concepts stress outcomes (e.g., growth plus equity) and are easier to measure and monitor.
  - Wider concepts are multi-dimensional and hence more ambitious in scope: they stress improved opportunities for achieving better outcomes; differentiate between processes and outcomes, and include non-income outcomes (social goods and safety nets);
  - Klasen (2010) indicates a wide range of measurement indicators which vary from 'unclear' to 'straightforward' and 'technically difficult'.
- An implicit risk is that an overambitious notion of inclusive growth becomes both meaningless and impractical if it comes to imply 'everything for everyone'.



# A Proposed Measurement Methodology (2)



Broad Categories	Specific Indicators ( $S_j$ )	No of countries in the Dataset ( $m_j$ )
<b>Growth</b>	1. Real GDP growth	194
	2. Real per capita GDP growth	194
<b>Health and Demographics</b>	3. Public health expenditure (% GDP)	187
	4. Mortality rate under-5 (per 1,000)	193
	5. Life expectancy at birth	196
	6. Tuberculosis (per 100,000 people)	202
<b>Labour Force &amp; Employment</b>	7. Wage & salaried (% of total employment)	92
	8. Employment-to-population ratios (% of 15+)	173
<b>Gender</b>	9. Female labour force (% of total workforce)	184
<b>Education</b>	10. Ratio of female to male secondary enrolment (%)	163
<b>Sanitation</b>	11. Population using improved sanitation facilities (%)	178
<b>Inequality</b>	12. Gini index	99
<b>Governance</b>	13. Corruption Perception Index	179

## Estimated 'Inclusive Growth' Index, 2000-02 and 2008-10 Normalised Ranks (max=100; min = 0)

	2000-02	2008-10	Change
<b>North Africa</b>			
Algeria <sup>(a)</sup>	24.1	29.6	22.8%
Egypt	34.7	38.8	11.8%
Libya <sup>(a)</sup>	29.4	37.6	28.1%
Morocco	29.2	31.6	8.3%
Tunisia	41.3	42.4	2.8%
<b>Other Middle East</b>			
Iran <sup>(a)</sup>	32.2	27.9	<b>-13.1%</b>
Israel	59.7	69.2	15.9%
Jordan	39.7	42.6	7.4%
Lebanon <sup>(a)</sup>	35.2	43.8	24.7%
Saudi Arabia <sup>(a)</sup>	25.5	27.1	6.5%
Syria	36.2	29.1	<b>-19.4%</b>
Turkey	31.7	36.3	14.4%
Yemen	16.7	21.6	29.6%

(a) Data for these countries exclude 'Inequality' and 'Governance' for 2000-02 and 'Inequality' for 2008-10.

## Estimated 'Inclusive Growth' Index, 2000-02 and 2008-10 Normalised Ranks (max=100; min = 0)

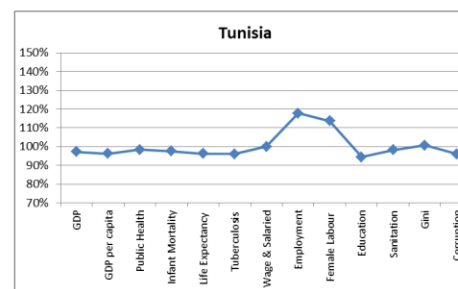
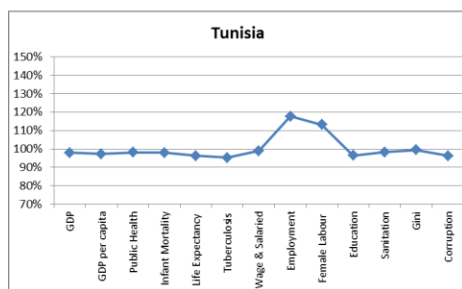
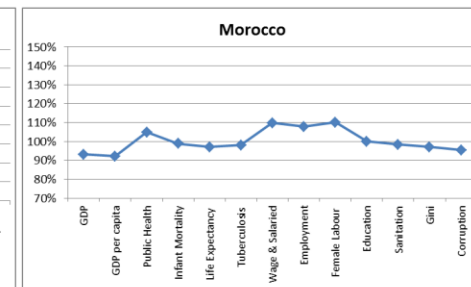
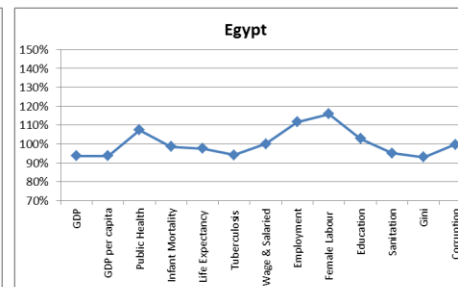
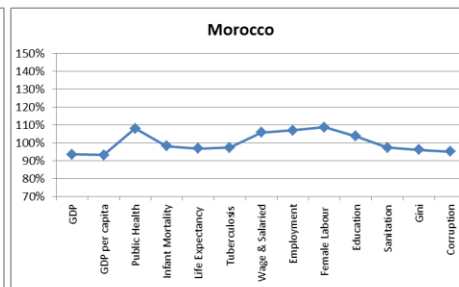
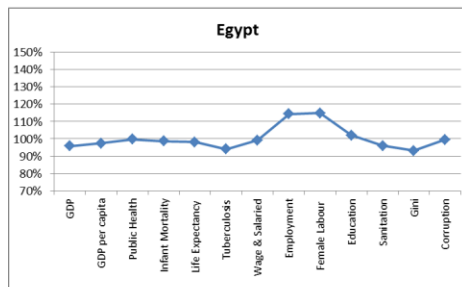
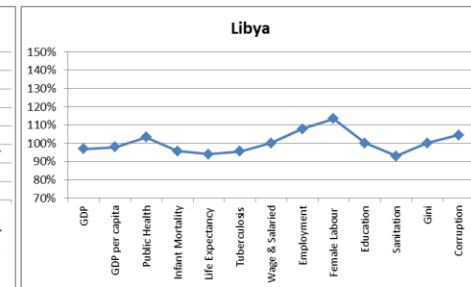
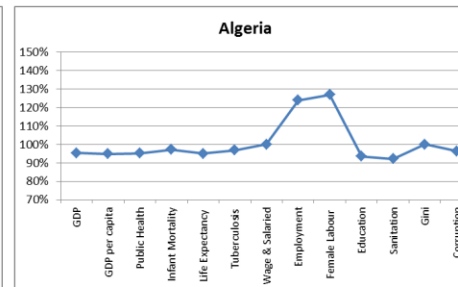
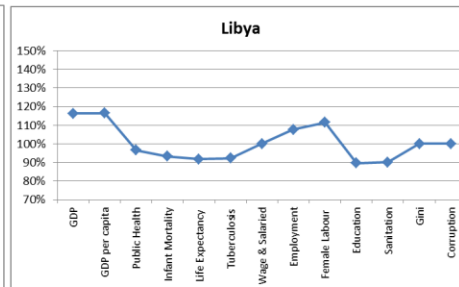
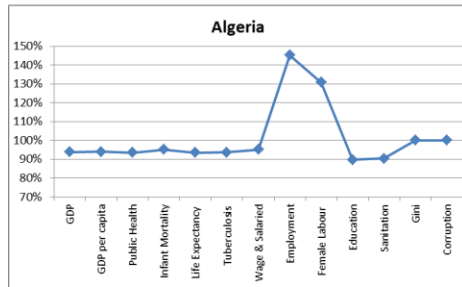
	2000-02	2008-10	Change
<b>Selected LDCs</b>			
<b>China</b>	47.8	56.5	18.2%
<b>Chile</b>	47.2	50.2	6.3%
<b>Brazil</b>	41.1	45.0	9.6%
<b>India</b>	25.2	28.8	14.3%
<b>Indonesia</b>	27.4	31.6	15.2%
<b>South Korea</b>	62.0	54.1	<b>-12.7%</b>
<b>Malaysia</b>	54.5	48.8	<b>-10.6%</b>
<b>Mexico</b>	41.6	40.8	<b>-2.0%</b>
<b>Russia</b>	53.4	42.9	<b>-19.7%</b>
<b>South Africa</b>	30.1	20.6	<b>-31.8%</b>



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# Sensitivity Analysis for 'Inclusive Growth' Index, 2000-02 and 2008-10

Sensitivity Analysis 2000-02



## Implications for MENA

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- Major improvements in growth performance and social indicators
- With a highly skewed age structure and a large youth bulge the benefits of growth will have to reach the young to make sure that MENA countries can share the fruits of their growth widely
- Generating high quality employment will be an essential element in the region
- Overall, labour markets in MENA remain the principal arena where inequality and the social impact of economic adjustments are witnessed, and also where reforms and policy interventions should focus to achieve inclusive targets.

# Inclusive Growth – A New Orthodoxy?



- **IG and Poverty:** There is a risk that inclusive growth may come to be seen as supplanting – rather than *supplementing* – concerns with poverty and poverty eradication
  - IG has to be sustainable and to improve well-being for all but particularly for the poor
  - In Asia poverty reduction was to a large extent focused on rural areas
- **Revolutions and political upheavals:** An expectation that achieving inclusive growth can act as a ‘social insurance’ mechanism to attain stability and avert future upheavals and revolutions.
- **Changing agenda:** Towards a new agenda for “**pro-growth poverty reduction**”?