On the Surge of Inequality in the Mediterranean Region

Chahir Zaki

chahir.zaki@feps.edu.eg

Cairo University and Economic Research Forum
A tale of three regions

<table>
<thead>
<tr>
<th>Group</th>
<th>GDP billion US$ (PPP)</th>
<th>% MENA GDP</th>
<th>Population in millions</th>
<th>% MENA population</th>
<th>GDP per capita US$ (PPP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource poor</td>
<td>854.1</td>
<td>31.8</td>
<td>144.0</td>
<td>48.1</td>
<td>6 701</td>
</tr>
<tr>
<td>L. A.</td>
<td>536.2</td>
<td>19.9</td>
<td>111.1</td>
<td>37.1</td>
<td>5 425</td>
</tr>
<tr>
<td>L. I.</td>
<td>1 298</td>
<td>48.3</td>
<td>44.2</td>
<td>14.8</td>
<td>34 204</td>
</tr>
<tr>
<td>MENA</td>
<td>2 689</td>
<td>100</td>
<td>299.3</td>
<td>100</td>
<td>19 826</td>
</tr>
</tbody>
</table>
Introduction

• While Arab countries are relatively heterogeneous, Mediterranean ones have some similarities:
  • Resource-poor
  • A large service sector
  • An emerging manufacturing sector (mainly in garments and processed food)
  • High levels of both poverty and inequality at several levels
Outline

• Overview of Inequality and Poverty
• On the sources of pressures  
  • Macroeconomic imbalances  
  • Refugees flux
• A Multidimensional Issue  
  • Unequal Opportunities on the Labor Market  
  • Human Capital Inequalities  
  • Financial Exclusion  
  • Low Entrepreneurship
• Conclusion
Outline

• Overview of Inequality and Poverty
  • On the sources of pressures
    • Macroeconomic imbalances
    • Refugees flux
  • A Multidimensional Issue
    • Unequal Opportunities on the Labor Market
    • Human Capital Inequalities
    • Financial Exclusion
    • Low Entrepreneurship
• Conclusion
Poverty and Inequality

The share of total Middle East income accruing to the top 10% income recipients is currently 55% (vs. 48% in the United States, 34% in Western Europe, and 52% in South Africa). The top 10% income share could be well over 60%, and the top 1% share might exceed 25% (vs. 20% in the United States, 9% in Western Europe, and 18% in South Africa).
Poverty & Income Inequality in MENA

Poverty Headcount Rate - US$1.25 a day

Income Inequality

Countries:
- Iraq
- Egypt
- Yemen
- Algeria
- Morroco
- Tunisia
- Syria
- Jordan
- West Bank and Gaza
- Iran
- Djibouti
• This region did not experience the price liberalization and transition recession of the early 1990s, its income distribution has shifted further and further to the right over time.

• It has also become less skewed as people at the left-hand end of the distribution have experienced stronger income growth.
Outline

• Overview of Inequality and Poverty
• On the sources of pressures
  • Macroeconomic imbalances
  • Refugees flux
• A Multidimensional Issue
  • Unequal Opportunities on the Labor Market
  • Human Capital Inequalities
  • Financial Exclusion
  • Low Entrepreneurship
• Conclusion
Declining Tourism

• Have slightly recovered but remain well below pre revolution levels
• Given tourism accounts for 20% GDP in Lebanon, 12% in Jordan and between 5% and 8% in Morocco Tunisia and Egypt, decline had a significant effect on growth.

Sources: National Authorities, DB Research
Low Levels of Foreign direct investment (FDI)

- Accelerates a trend that started with financial crisis 2008-09
- Between 2010 and 2011 FDI inflows fell by 46%
Declining Foreign Reserves

- Stronger depreciation in many cases could only be averted by substantial interventions of national central banks – sold FX and bought local currency
- Relative stability in FX came at the expense of reserves
- Fall most dramatic in Egypt

[Graph showing FX reserves, USD bn (ends Sep 2012)]

Sources: IMF, National Central Banks, DB Research
High Fiscal Deficit

- With flat revenues, the result was rapidly growing fiscal deficits and associated debt.

Fiscal balance, % of GDP

Sources: IMF, DB Research
Resource poor economies are more diversified but less competitive

- Manufacturing and services value added in resource poor countries is higher than in resource rich countries.
- But they register lower levels of competitiveness.
- The overall MENA region scores particularly low in terms of innovation.

Source: WEF
Rising food prices

A. Consumer price inflation

B. Food and fuel imports, 2009 or latest

Source: OECD staff calculations based on IMF 2011d and World Bank 2011a.

Note: Weighted averages based on GDP
Outline

• Overview of Inequality and Poverty
• On the sources of pressures
  • Macroeconomic imbalances
  • Refugees flux
• A Multidimensional Issue
  • Unequal Opportunities on the Labor Market
  • Human Capital Inequalities
  • Financial Exclusion
  • Low Entrepreneurship
• Conclusion
Conflicts in the region

- Armed Conflicts
- One-sided State Violence
- One-sided Non-state Violence
- Non-state Armed Conflicts
- All Conflicts
• War in the Syria enters its fourth year.
• Return to widespread violence in Iraq threatens to affect millions.
• Yemen's fragile political transition risks renewing internal clashes.
• The emergence of ISIS escalated the unprecedented flows of displaced people and refugees.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Refugees from</th>
<th>Refugees in</th>
<th>IDPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Algeria</td>
<td>3523</td>
<td>94,128</td>
<td>0</td>
</tr>
<tr>
<td>Egypt</td>
<td>15873</td>
<td>236090</td>
<td>0</td>
</tr>
<tr>
<td>Libya</td>
<td>4194</td>
<td>27964</td>
<td>363067</td>
</tr>
<tr>
<td>Mauritania</td>
<td>34114</td>
<td>75635</td>
<td>0</td>
</tr>
<tr>
<td>Morocco</td>
<td>1532</td>
<td>1216</td>
<td>0</td>
</tr>
<tr>
<td>Tunisia</td>
<td>1486</td>
<td>901</td>
<td>0</td>
</tr>
<tr>
<td>Western Sahara Territory</td>
<td>116482</td>
<td>-</td>
<td>0</td>
</tr>
<tr>
<td>Bahrain</td>
<td>347</td>
<td>311</td>
<td>0</td>
</tr>
<tr>
<td>Iraq</td>
<td>369904</td>
<td>271143</td>
<td>3596356</td>
</tr>
<tr>
<td>Israel</td>
<td>971</td>
<td>39,716</td>
<td>0</td>
</tr>
<tr>
<td>Jordan</td>
<td>1716</td>
<td>654141</td>
<td>0</td>
</tr>
<tr>
<td>Kuwait</td>
<td>994</td>
<td>614</td>
<td>0</td>
</tr>
<tr>
<td>Lebanon</td>
<td>4272</td>
<td>1154040</td>
<td>0</td>
</tr>
<tr>
<td>Oman</td>
<td>29</td>
<td>151</td>
<td>0</td>
</tr>
<tr>
<td>Qatar</td>
<td>21</td>
<td>133</td>
<td>0</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>630</td>
<td>561</td>
<td>0</td>
</tr>
<tr>
<td>State of Palestine</td>
<td>97,235</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Syrian Arab Republic</td>
<td>3883585</td>
<td>149140</td>
<td>7632500</td>
</tr>
<tr>
<td>United Arab Emirates</td>
<td>90</td>
<td>417</td>
<td>0</td>
</tr>
<tr>
<td>Yemen</td>
<td>2628</td>
<td>257645</td>
<td>334093</td>
</tr>
</tbody>
</table>
Syrian Refugees

• With 90 per cent of refugees in Jordan, Lebanon and Turkey living outside camps, the economic and social integration of refugees into their host communities represents a major challenge for those host countries.

• The influx of refugees has further increased inequality in the host countries. Nearly nine out of ten registered Syrian refugees living in Jordan and Turkey are either living in poverty or expected to be in the near future.
Outline

• Overview of Inequality and Poverty
• On the sources of pressures
  • Macroeconomic imbalances
  • Refugees flux
• A Multidimensional Issue
  • Unequal Opportunities on the Labor Market
  • Human Capital Inequalities
  • Financial Exclusion
  • Low Entrepreneurship
• Conclusion
Unequal Opportunities on the Labor Market

• Discontent has also been strengthened by high unemployment.
• Not only is the proportion of young people in the Middle East extraordinarily high, but their numbers have grown quickly over a short period of time.
• Many of these young people have been able to go to university, especially in recent years.
• Issue of underemployment and informal employment
Unequal Opportunities on the Labor Market

• Region also faces widespread skill mismatches – inefficient education systems produce unprepared market entrants.

• Firms operating in region regularly list insufficient labor skills as a major constraint.

• Public sector accounts for an outsized portion of employment in region (9.8% compared to global average of 5.4%)
Unemployment
Unemployment among youth, women, and the educated, 2009 or most recent year for which data are available

Source: World Bank
Female labour participation rate is extremely low in the MENA region

MENA average Female labor participation rate: 27%

Informal employment as percent of total non-agricultural employment, 2000–07

Outline

• Overview of Inequality and Poverty
• On the sources of pressures
  • Macroeconomic imbalances
  • Refugees flux
• A Multidimensional Issue
  • Unequal Opportunities on the Labor Market
  • Human Capital Inequalities
  • Financial Exclusion
  • Low Entrepreneurship
• Conclusion
Inefficient Social Spending

• MENA countries spend more on tertiary than on secondary or primary.
• Expenditures in more developed world regions are more balanced between education levels than in MENA. It is generally understood that public funding should focus on early in life, at primary level if not on early childhood education (Heckman, 2003).

<table>
<thead>
<tr>
<th>Table 5: Public education expenditures per student by level of education, percent of GDP per capita (2001-2011 averages)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
</tr>
<tr>
<td>--------------------</td>
</tr>
<tr>
<td>Algeria</td>
</tr>
<tr>
<td>Iran</td>
</tr>
<tr>
<td>Jordan</td>
</tr>
<tr>
<td>Kuwait</td>
</tr>
<tr>
<td>Lebanon</td>
</tr>
<tr>
<td>Morocco</td>
</tr>
<tr>
<td>Oman</td>
</tr>
<tr>
<td>Qatar</td>
</tr>
<tr>
<td>Saudi Arabia</td>
</tr>
<tr>
<td>Syria</td>
</tr>
<tr>
<td>Tunisia</td>
</tr>
<tr>
<td>Yemen</td>
</tr>
<tr>
<td>OECD members</td>
</tr>
<tr>
<td>East Asia &amp; Pacific</td>
</tr>
<tr>
<td>Europe &amp; Central Asia</td>
</tr>
</tbody>
</table>
Health

• While MENA spending is among the lowest at the world level, spending per capita is substantially lower given that it represents 14 percent of health spending per capita in Europe and Central Asia and 40 percent in Latin America.

• Given the large size of populations and in particular young ones in the MENA region, health spending per capita is low.
Outline

• Overview of Inequality and Poverty
• On the sources of pressures
  • Macroeconomic imbalances
  • Refugees flux
• A Multidimensional Issue
  • Unequal Opportunities on the Labor Market
  • Human Capital Inequalities
  • Financial Exclusion
  • Low Entrepreneurship
• Conclusion
Banking Services

• MENA lags several regions on the key indicators of bank deposits and loans accounts per population.
Microfinance

• Financial inclusion in the MENA region is characterized by NGO-dominated microcredit sectors, postal networks and state banks. A few countries have introduced legislation that allows for other legal forms of microfinance.
Outline

• Overview of Inequality and Poverty
• On the sources of pressures
  • Macroeconomic imbalances
  • Refugees flux
• A Multidimensional Issue
  • Unequal Opportunities on the Labor Market
  • Human Capital Inequalities
  • Financial Exclusion
  • Low Entrepreneurship
• Conclusion
Entrepreneurship

New firm entry per 100 working age population

- High income: 4.21
- Europe & Central Asia: 2.26
- Latin America & the Caribbean: 1.31
- South Asia: 0.79
- East Asia & Pacific: 0.77
- Middle East & North Africa: 0.63
- Sub-Saharan Africa: 0.58
Entrepreneurship

• It is 5 to 10 times more difficult for an entrepreneur in MENA to get to break-even than it is in the United States or the United Kingdom due to:
  • the region’s lack of appropriate management of property laws,
  • inadequate infrastructure such as electricity and internet in certain countries,
  • a market system that is so heavily structured around family businesses
  • a lack of an entrepreneurial mindset,

• In many cases, cultural and societal norms promote a fear of risk-taking and failure, and a bias towards governmental jobs.
Outline

• Overview of Inequality and Poverty
• On the sources of pressures
  • Macroeconomic imbalances
  • Refugees flux
• A Multidimensional Issue
  • Unequal Opportunities on the Labor Market
  • Human Capital Inequalities
  • Financial Exclusion
  • Low Entrepreneurship
• Conclusion
The Way Forward

• Fiscal policy:
  • Fiscal space: less subsidies, less interest payments.
  • Allocating higher amounts from current spending to productive spending (health, education and infrastructure).

• Industrial policy:
  • Encouraging the manufacturing sector that is likely to generate jobs for youth.
  • Aiming at diversifying oil-rich countries (a matter of sustainability especially that oil prices are declining).
  • Fiscal adjustment so that countries can share the reduced oil wealth equitably with future generations and rebuild buffers for dealing with oil price volatility.
The Way Forward

• Labor market laws:
  • Empowering females
  • Increasing their access to finance especially in terms of SMEs.

• Institutions:
  • Enforcing anti-corruption laws.
  • Deep structural reforms, particularly to improve the business climate and governance, which will make economic growth more inclusive and diversified.

• Financial inclusion:
  • Provide a Regulatory and Supervisory Framework that allows microfinance institutions to grow prudently.
Thanks for your attention