

**GLOBALIZATION, GROWTH, AND POVERTY REDUCTION IN THE
MIDDLE EAST AND NORTH AFRICA, 1970-1999**

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A recent report of the World Bank begins with the statement: “Globalization generally reduces poverty because more integrated economies tend to grow faster and this growth is usually widely diffused. As low income countries break into global markets for manufactures and services poor people can move from the vulnerability of grinding rural poverty to better jobs, often in towns or cities. In addition to this structural relocation, integration raises productivity job by job.”¹

By international standards, the low and middle income countries of the Middle East and North Africa (MENA) began the last decade of the twentieth century with levels of income poverty that were strikingly low.² Table 1 presents estimates of poverty using international purchasing power standards of \$1.00 or \$2.00 per person per day for six developing regions between 1987 and 1998. MENA stands out as the developing region with the lowest incidence of extreme poverty (\$1.00 per person per day) throughout the 1990s. If we shift our attention to an international poverty standard of \$2.00 per person per day—perhaps more appropriate for MENAs average level of per capita income—the Middle East still remains a low poverty region. In 1989 about 30 percent of the region’s population lived below the \$2.00 per person per day line. This index declined slightly to 29.9 percent in 1998. In that year, only the transitional economies of Europe and Central Asia had a lower incidence of poverty.

At the same time, the Middle East and North Africa region—and in particular its low and middle income developing economies—lagged other parts of the developing world in terms of its speed of integration into the global market for goods and services. MENA economies began the 1990s with levels of protection of imports that exceeded those of most other developing regions. Exports plus imports as a share of national output grew less rapidly in MENA than in any other developing region, except Africa south of the Sahara during the 1980s and 1990s. Manufactured export performance by low and middle income MENA economies failed to keep pace with the growth of MENAs markets, and the region lost market share in both traditional and non-traditional exports.

¹ World Bank, 2001d. p.1.

² In this paper we define the low and middle income countries of the MENA region as those for which we have both aggregate economic data and data on income distribution for at least one point in time. That set of countries includes: Algeria, Egypt, Iran, Iraq, Jordan, Morocco, Tunisia and Yemen. Due to their fundamentally different level of development, we omit the Gulf Cooperation Council Countries (GCC) – Saudi Arabia, Kuwait, Oman, Bahrain, Qatar and the United Arab Emirates – from this analysis

Recent concern with MENAs slow growth has led policy makers toward economic reform programs that stress—to greater or lesser degrees—the more orthodox role of trade in fostering growth and poverty reduction via its impact on resource allocation and productivity. For example, the European – Mediterranean (EuroMed) Agreements concluded by Egypt, Jordan, Morocco and Tunisia with the European Union, when fully implemented in 2012, will result in free trade between Europe and its MENA partners. Many MENA economies were also active participants in the Uruguay Round of trade negotiations and, as WTO members, recently agreed to enter into a new round at Qatar. As in many other parts of the developing world, trade liberalization has been accompanied by both domestic market liberalization and privatization, although some critics have pointed out that progress in all three areas has lagged that of East Asia, Latin America, and some of the transition economies of Europe and Central Asia.

Liberalization efforts have led in turn to criticisms that external sector economic reforms have had a negative impact on the poor. There is a widely held view in the region—based largely on anecdotal evidence—that the number of poor increased and the distribution of income became less equal during the 1990s. While critics of the reform process acknowledge that increasing poverty may be partly attributable to low growth and restricted opportunities for employment, they also argue that growing openness to the world economy and accompanying domestic reforms have led to increasing inequality of incomes.

In this paper we combine two approaches—analysis of aggregate, cross-country data and detailed, country case studies—to examine the complex and changing relationship between globalization and poverty in MENA. In Part I, we use cross-country data to look at the links between trade, growth, migration and poverty in MENA from 1970 to 1999. In this analysis we use international poverty lines—set at \$1.00 or \$2.00 per person per day—to evaluate MENAs poverty reduction record relative to other regions of the developing world.³ We also use comparative international data on trade policy reform and trade performance to examine the extent to which integration into the global market for goods and services was responsible for the poverty dynamics of the region. We then turn our attention to the impact of migration, remittances and official capital flows on poverty outcomes, and conclude the section with an assessment of the likelihood that the region can sustain its currently favorable poverty outcomes in the face of more limited opportunities for migration and official capital flows.

In Part II we use case studies of four MENA countries—Egypt, Jordan, Morocco and Tunisia—to examine some aspects of the relationship between globalization, external sector reform, poverty and income distribution at the country level during the 1980s and 1990s.⁴ We use the results of recent household surveys to summarize poverty and

³ We define the US\$ 1.00 in comparable international purchasing power per day poverty line as “IDG poverty” in accordance with the “International Development Goals” embodied in the UN Millennium Declaration.

⁴ We should stress at the outset that it is not easy to analyze trends in poverty reduction in the MENA region. Of the 15 Middle Eastern countries included in the MENA (Middle East and North Africa) Region of the World Bank, only nine appear in the largest international data set reporting on poverty and income

income distribution changes in each economy, and we assess the extent to which the observed poverty dynamics in each country may have been influenced by macroeconomic adjustment and by changes in trade, migration and remittances.

In Part III examine some of the possible poverty and distributional outcomes of the future trade policy reforms embodied in the Euromed agreements. Part IV offers some conclusions.

I. GLOBALIZATION, GROWTH AND POVERTY REDUCTION IN MENA, 1970-1999

There is a substantial literature linking trade to economic growth and growth to poverty reduction. In its most simple form the argument runs as follows. Despite important criticisms of individual studies there is a preponderance of evidence to suggest that on average greater participation in international trade raises long-run individual country growth rates. (Lindert and Williamson, 2001). Provided that there are no major changes in income distribution, faster rates of per capita GDP growth lead to higher rates of poverty reduction. Since there is no systematic evidence to show that greater integration with the world economy changes the distribution of income, more trade on average results in more rapid poverty reduction (Dollar and Kraay, 2001).

Figure 1, shows the rate of per capita income growth and the rate of change of the IDG poverty head count for six developing regions for the period 1985-1999, together with the fitted regression line for the individual country observations underlying the regional averages. East Asia and the Pacific, a region in which the growth of exports of manufactured goods and services has played a prominent role in the growth process certainly appears to affirm the trade-growth-poverty reduction logic outlined above.⁵ In contrast Sub-Saharan Africa, a region characterized by lack of success in trade integration and slow per capita income growth has experienced little change in the incidence of poverty. The MENA region, however, apparently achieved high rates of poverty reduction with low levels of long-run GDP growth. What accounts for this seemingly anomalous pattern of rapid poverty reduction with lackluster economic growth? And how was globalization related to changes in poverty in MENA without the traditional trade-growth-poverty link?

Poverty Trends in MENA

Table 2 presents estimates of per capita income growth, the international poverty headcount ratio and the share of income going to the bottom quintile of the income distribution for the Middle East and North Africa. The thirty-year economic growth rate for the MENA region between 1970 and 1999 conceals a cycle of rapid growth (1970-

inequality. Moreover, only four MENA countries have nationally-representative household budget surveys that are openly accessible to the public, and of these four countries, none has an openly accessible data set for more than one year. Without direct access to household survey data, it is difficult both to identify trends in poverty reduction and to identify the reasons for different poverty outcomes.

⁵ On the role of export growth in East Asia see World Bank, 1993 and World Bank 2001d.

1984) followed by a period of much lower growth (1985-1994) and a modest recovery in 1995-1999. This cycle is clearly linked to changes in the price of oil (Page, 1997).

Poverty trends in the region closely followed these income movements with a lag. From 1975 to 1984, as per capita income growth for MENA as a whole averaged 3.25 percent, the IDG poverty headcount (\$1.00 per person per day) fell from 12.4 per cent in 1975-79 to 4.3 percent in 1985-89. In the fifteen years after 1985 average per capita income growth fell by nearly half (to 1.66 percent), but the IDG poverty rate continued to fall until the middle of the 1990's when it stabilized at about 2 percent of the population.

Our data do not support the view that poverty increased markedly during the 1990s, but they do show a contrast between the pattern of change for the IDG poverty headcount index (\$1.00 per person per day) and that based on a poverty line of \$2.00 per person per day. By 1998, the share of those living below \$2.00 per day in the MENA region had returned to a level last seen in 1987 (Table 1). However, during this same period there was slight fall in the share of those living beneath the IDG poverty level of \$1.00 per person per day. In sum, while the share of those living in extreme (IDG) poverty continued to decline in the 1990s, despite slow growth, when poverty is defined using the higher international definition, there was no reduction in the share of the “poor” in MENA over the period, 1987 to 1998.

Trends in Income Distribution

The speed at which a given rate of economic growth reduces poverty is largely a function of the distribution of income.⁶ Middle Eastern economies entered their rapid growth period (1970 to 1985) with income distributions that were becoming more egalitarian. Figure 2 (a) compares trends in income inequality in MENA with those of other regions of the developing world over the period 1970 to 1999.⁷ While problems of data abound, two findings stand out in international context. First, MENA recorded the largest improvement in income distribution of all regions of the developing world between 1970 and 1999. In fact, MENA is only one of two developing regions—South Asia being the other—to record any reduction in income inequality over time. Second, because of these changes, the MENA region now has one of the most equal income distributions in the developing world (Gini = 0.360).

For most countries the link between extreme poverty (such as IDG poverty) and the relative distribution of income depends primarily on the behavior of the share of income accruing to the lowest quintile of the income distribution—the poorest. A rising income share of the poorest will impart a “pro-poor” bias to any rate of economic growth. Figure 2 (b) shows trends in the regional pattern of income shares accruing to the bottom quintile of the population for six regions. MENA has a relatively high share of income

⁶ For example, based on a large sample of developing countries, the poverty headcount for an economy with a Gini coefficient of 0.2 falls nearly 3.0 percent for each percentage point of growth, while that for an economy with a Gini coefficient of 0.6 falls only 1.5 percent.

⁷ The regional averages are calculated from the international data set of Dollar and Kray, 2001.

accruing to the bottom quintile of its distribution, and this share has increased significantly over time.

The continued increase in the share of income accruing to the bottom quintile of the income distribution during the 1990's may help to explain the divergence between poverty headcounts based on \$1.00 and \$2.00 per day. While the rate of growth of mean income slowed in response to the slowdown in overall economic growth, the rising income share going to the poorest, perhaps at the expense of the less poor, served to cushion the shock for those at the lowest part of the income distribution – those living on less than US\$ 1.00 per day. In short although the region continued to make progress in reducing abject poverty, the slowdown in growth translated into lack of progress in reducing the measure of poverty more appropriate to its middle income status.

Three Decades of Pro-Poor Growth

Figure 3 presents indices of the level of mean income of the poorest quintile of the population, the mean level of GDP per capita, and the level of total factor productivity (TFP) for the period 1970-1999 for MENA, Latin America (LAC) and East Asia (EAP). Mean income of the poor is a function of both the overall rate of economic growth, as reflected in changes in per capita income for the population as a whole, and of the share of income accruing to the poorest quintile of the income distribution.⁸ The mean income of the poorest quintile in MENA rose rapidly between 1975-79 and 1980-84 along with the growth of overall incomes. It then continued to rise during the succeeding five years, despite the impact of the negative oil shock on per capita incomes. The continued income declines of the early 1990s were reflected in a declining income of the poorest, but recovery of income per capita at the end of the 1990's to levels approximately equal to those of ten years before was also reflected in the incomes of the poor.

In that sense the perception that the decade of the 1990's was not favorable to the poor in MENA is correct. Average incomes of the poorest quintile of the population did not rise during the 1990s. On the other hand, the poor did not bear a disproportionate share of the costs of adjusting to the reduced price of oil. Average income per person of the poorest quintile of the population was substantially less volatile than average income for the population as a whole in MENA. This is consistent with our finding that the share of income accruing to the poorest quintile of the population was rising over the period 1970-1999, despite the boom-to-bust nature of economic growth in the region.

The contrast between MENA, East Asia and Latin America with respect to how changes in economic growth rates have impacted on the poor is notable. In East Asia the mean income of the lowest quintile rose continuously along with the region's rapid

⁸ The average income of the poorest quintile is equal to the share of income accruing to the poorest quintile times per capita income divided by 0.2. Thus, a higher quintile share translates directly into higher average incomes of the poor for any given level of income per capita.

income growth until the economic crisis of 1997/98. It then fell abruptly (except in China) with the strong negative impact on the poor that has been widely documented.⁹ The disproportionate effect of the economic shock on the welfare of the poor is clearly illustrated in Figure 3. With a falling share of income accruing to the poorest quintile, the abrupt decline in incomes in 1997-1998 was more strongly felt by those in the lowest quintile. The abrupt fall in per capita incomes during the crisis in East Asia returned the poor to income levels last seen in the 1970s, although the recent recovery in growth has reversed this downward trend.

In Latin America the mean income of the poorest quintile declined continuously from the 1980s onward, despite growth in per capita income that on average exceeded that for MENA. The divergence between changes in the average incomes of the poor and in average income is particularly acute during the 1990s, reflecting the rapid deterioration in the income share of the poorest quintile. If growth was unusually “pro-poor” in MENA, it appears to have been equally unusually “anti-poor” in Latin America.

We find relatively little support in the cross country data for the proposition that increasing productivity levels played a major role in reducing poverty in any of the three regions. In both Latin America and MENA total factor productivity (TFP) declined between 1970 and 1985 and was essentially constant thereafter. In East Asia TFP rose modestly until the crisis and may have contributed to the more rapid increase in the average income of the lowest quintile relative to per capita income during the period 1975-1989 by allowing a rapid increase in real wages for unskilled labor.¹⁰ Sustained economic growth based on factor accumulation, however, was the primary engine of poverty reduction in all three regions.

Trends in Trade Integration, 1970-1999

Over the last three decades, a striking feature of the MENA region is how little the region’s economies have increased their integration with the rest of the world. Figure 4 shows changes in real trade ratios (exports plus imports as a share of GDP) from 1965 to 1998, a period of rapid expansion of the global economy. Globalization has been driven in large part by an increase in trade among the high income countries and trade ratios have continued to accelerate in the developed world since the mid 1970s. In the developing world, the lion’s share of the growth in real trade ratios has accrued to the economies of East Asia, Eastern Europe and Central Asia, and Latin America. Growth of real trade ratios in the MENA region—aside from oil-related volatility—has been weak.

A review of cross-regional trade patterns since the mid-1980s also shows some interesting trends. MENA is not only performing poorly vis a vis its potential partners in the industrialized economies, but also with regard to South-South integration. The major Latin American and East Asian economies (Brazil, Argentina, China, South Korea, Indonesia, Taiwan) have made consistent inroads into MENA markets. However, MENA exporters have not made significant in-roads into the major economies of LAC and East

⁹ See for example World Bank, 2001b.

¹⁰ See World Bank, 1993 on the behavior of real wages in East Asia during the 1970s and 1980s.

Asia. Nor are there any major links to the major economies in the rest of Africa or South Asia (Madani and Page, 2000).

Looking at changes in export and import volumes over the last decade, Figure 5a shows that the average annual growth rate of export volumes in MENA at 3.9 percent was well below the worldwide average of 5.9 percent, and far below the export growth seen in East Asia, South Asia and Latin America. The story is similar for imports (Figure 5b).

In fact, the MENA region has been losing ground in terms of integration into the world economy. Figure 6 shows the speed of integration of economies in the MENA region compared to those in other developing regions.¹¹ For the period from the mid-1980s to the mid-1990s, the “median” country in MENA has a speed of integration that was just about the same as in Sub Saharan Africa, and well below other developing regions. In fact, even the top performing economies in MENA had a negative index.

MENAs lack of integration into global markets for goods and services is not really surprising. While East Asia—followed in the late 1980s and 1990s by most Latin America countries—liberalized their economies and adopted more outward oriented policies, this process has not yet fully taken place in MENA. Although most MENA countries have undertaken tariff and tax reforms since the 1980s, process has been slow and uneven. Figure 7 shows that throughout the 1990s, the unweighted tariff rate in MENA was higher than in any other region except for South Asia. Further, there have been no significant overall reductions over the past two decades.

With little evidence of growing integration in global markets, it is difficult to argue that MENAs unusually positive performance in terms of poverty reduction in the period from 1970 to 1995 was the result of the outward oriented growth. Indeed, it is apparent that the reduction in the region’s poverty headcount took place despite a growth process that was becoming progressively more dependent on factor accumulation to offset declining productivity levels (Figure 3). But if trade did not lead to rising productivity and accelerated growth where did the gains to MENAs poor come from?

Migration, Aid and Poverty Reduction in MENA

While it is unlikely that trade has had much long term impact on growth, income distribution, and poverty in the MENA region, the “pro-poor” pattern of growth in MENA reflects another aspect of globalization—the substantial role played by remittances earned and sent home by workers laboring abroad and to a lesser degree the impact of aid flows on public sector investment and employment. Figure 8 shows international workers remittances as a share of GNP for the Maghreb (Algeria, Morocco

¹¹ A speed of integration index can be derived from changes in four indicators: the ratio of real trade to GDP, the ratio of foreign direct investment to GDP, institutional investor credit ratings, and the share of manufactures in exports. The speed of integration index is the average of changes in the four indicators over the period (each expressed as standard deviation from its average). See: World Bank, *Global Economic Prospects, 1996*.

and Tunisia) and the Mashreq (Egypt, Jordan, Lebanon, Syria and Yemen) between 1977 and 1999. In the Maghreb international remittances increased steadily between 1977 and 1991, from about 2 percent to nearly 4 percent of GDP. They then rose dramatically between 1991 and 1993 to about 6 percent of GDP and have remained essentially constant thereafter. In the Mashreq the increase was even more dramatic—from zero in 1972 to about 8 percent in 1977 to peaks of nearly 14 percent of GDP in 1984/85 and 1992 (due to the Gulf War) — but these increases were followed by a substantial decline beginning in 1992 to about 6 percent of GDP by 1999.

These remittances appear to have had an important impact on reducing poverty. For example, evidence from rural Egypt suggests that international migration had both a direct and an indirect impact on the poor (Adams, 1991). Remittances earned from working abroad went disproportionately to the poorest households in rural Egypt. In indirect terms, the widespread migration of unskilled workers from rural areas reduced the pool of agricultural workers, and this in turn boosted real agricultural wages. In addition, a large share of remittance earnings was invested in private housing and construction, and this served to increase employment (and income-earning) opportunities for the unskilled, rural poor.

Migration and remittances also played a role in mitigating the impact of oil-based income volatility in the region on the incomes of the poor. The rapid rise in income in the oil producing economies was transmitted to the poor in the non-oil economies primarily through increased domestic and foreign employment and rising real wages for unskilled workers. Employment growth lagged income growth during the early phases of the oil boom causing changes in poverty head counts and in the income per capita of the bottom quintile to lag average income growth. But, reductions in employment and migration were not as large as the fall in oil prices and incomes after 1985, allowing the increasing share of income accruing to the poorest segments of the society to cushion the impact of MENAs economic contraction on the average income of the poor.

A second factor which may have contributed to increasing incomes at the bottom of the income distribution in the MENA region was the rapid increase in official capital (aid) flows, associated with oil rents and geopolitical concerns (Figure 8old3). In many Middle Eastern countries, these large resource flows helped to finance both a public investment boom and a comprehensive set of commodity-based consumer subsidies.¹² The public investment boom led to very substantial increases in real wages in construction (in those economies for which data exist) that peaked in the mid-1980s. While for the most part the commodity based subsidies were untargeted, they formed an important part of the social safety net supporting poorer households in the region.

Can MENA Sustain its Record of Pro-Poor Growth?

The poverty reduction achievements in the Middle East and North Africa were substantial—and certainly unusual in international terms—between 1970 and 1999. But,

¹² For more on this point see Page, 1998.

a crucial question remains: Can MENA sustain its pattern of low growth and significant poverty reduction into the twenty-first century? The short answer is probably not. In terms of simple arithmetic, if the current income distribution is maintained and per capita growth rates continue to track those of the last 15 years (of about 1.4 per cent), the IDG poverty headcount (US\$ 1.00 per day) will remain virtually unchanged at about 2 percent of the population and the \$2.00 per day headcount will continue to rise to more than 27 percent of the population (Table 2).

We have seen that the impact on the poor of the contraction in per capita income following 1985 was cushioned by an increasing share of income accruing to the poorest quintile of the income distribution. It is unlikely, however, that the rising trend in the share of income of the lowest quintile of MENAs population will continue if economic growth remains lackluster. We have argued that the two main drivers affecting the income share of the bottom quintile in MENA have historically been workers remittances which had direct impacts on the household incomes of the poor and migration and aid flows which had indirect impacts by raising real wages for unskilled labor, especially in agriculture and the construction sector.

As Figure 8 shows, workers' remittances in the Mashreq have been on a declining trend since the mid-1980s. This is due both to weak economic growth in the major oil exporting economies of the Gulf, driven by the relative stability of the price of oil, and to shifts in the sources of migrant workers to other regions such as South and East Asia. Changes in technology make it unlikely that oil prices will rise substantially above the levels observed in the 1990s limiting the scope for another oil boom to increase the demand for unskilled migrants from the Mashreq. It is also unlikely that GCC governments will reverse their policies of admitting migrant workers from countries outside the Middle East, thereby allowing a substitution of Arab for non-Arab unskilled labor.

Remittances into the Maghreb in contrast have been growing modestly, but historically represented a much lower share of GNP than for the Mashreq economies. Prospects for continued growth in migration to Europe – the principal destination for workers from the Maghreb – are perhaps better than to the Gulf, but one of the clear intentions of the EuroMed agreements on the European side was to reduce migratory pressures from North Africa in the first instance via accelerated growth in incomes and jobs in the migrants countries of origin. If these undertakings do not succeed, however, it is not unlikely that political pressures will increase in Europe for recourse to more direct controls on the volume of immigrants.

Aid flows have declined for both regions of the developing Arab world, dramatically so for the Mashreq. Again, given the long run decline in official development assistance from both Arab and non-Arab sources and the increasing number of claimants for aid, it is unlikely that aid flows will return to the levels of the 1970s and 1980s. The decline in official capital flows is clearly reflected in a decrease in the level of public investment in the region (Page, 1998). This has led in turn to reduced public employment opportunities for unskilled labor and to reductions in construction. Table 3

shows the average share of construction in value added for selected MENA economies for the 1980s and 1990s. Overall—and for all individual economies except Egypt—the share of construction activity declined between the two decades, reducing demand for unskilled construction workers.

Adding these trends up it appears unlikely that in the face of continued low growth in the region, poverty reduction deriving from a growing share of income accruing to the poor will be possible. Given MENAs relatively egalitarian income distribution, however, only modest increases in growth can result in substantial progress in reducing both IDG and the more moderate, \$2.00 per day international poverty head counts. A per capita growth rate of GDP of 1.7 percent—less than the average growth rate of the region in 1995-99—would result in a projected fall in the IDG headcount to 1.3 percent of the population and of the \$2.00 headcount to less than 15 percent of the population by 2010 (Table 2). Thus the challenge for policy makers in MENA is to design programs of economic change that can accelerate the rate of economic growth without eroding the substantial gains made by the poor over the last 30 years.

II. ADJUSTMENT, ECONOMIC REFORM AND POVERTY REDUCTION: EGYPT, JORDAN, MOROCCO AND TUNISIA

The aggregate, cross-country data provide us with a number of insights into the dynamics of globalization and poverty reduction in the MENA region, as compared to other regions of the developing world. They do not address, however, many of the issues concerning the impact of globalization on poverty and income distribution at the individual country level. In this section we examine trends in poverty reduction in four MENA countries, using the data based on available household budget surveys.¹³ We then attempt to understand the extent to which selected aspects of globalization have affected income distribution and poverty in each country during the period that roughly coincides with the recent efforts at economic reform (1985-1999).

Trends in Poverty and Inequality: Egypt, Jordan, Morocco and Tunisia

Table 4 shows trends in the incidence of poverty for years in which household surveys were conducted during the period 1981/82 to 1998/99. Poverty measures are reported for urban areas, rural areas and overall for each country. The table lists two different poverty indices. The first, the headcount index, measures the percent of the population living beneath a national poverty line (based on food and non-food consumption) in survey years. We also report the poverty gap index, which measures in percentage terms how far the average expenditures of the poor fall short of the national poverty line.¹⁴

Based on the national definition, poverty increased in Egypt and Jordan and declined in Morocco and Tunisia from the mid-1980s to the late 1990s. Despite

¹³ The poverty analysis summarized in this section is based on Adams and Page (2001).

¹⁴ For instance, a poverty gap of 10 percent means that the average poor person's expenditures are 90 percent of the poverty line.

limitations in the data, it appears that the depth of poverty has increased in Jordan and Morocco and has remained stable in Tunisia. In Egypt overall poverty gap estimates were not reported in the summary data, but both the rural and urban data suggest that the depth of poverty has increased.

The data in Table 4 support our findings based on the aggregate, cross-country data that the incidence of poverty in the Middle East is low. The overall headcount index of poverty ranges from a high of 26.0 percent (Morocco) to a low of 3.0 percent (Jordan).¹⁵ Based on similarly derived, country-specific poverty lines, the headcount index of poverty for a sample of 12 Latin American countries varied from 75.5 percent (Bolivia) to 12.9 percent (Argentina) during the same period (Woden, 2000)

Table 5 shows the Gini coefficients of the distribution of expenditures and the share of income accruing to the bottom quintile of the expenditure distribution in the four countries. Measures of income inequality are relatively moderate. Overall Gini coefficients of inequality range from 0.350 to 0.430. The two Mashreq countries, Egypt and Jordan, have somewhat more equal income distributions than Morocco and Tunisia in the Maghreb. In the three countries for which rural-urban comparisons are possible rural expenditure distributions appear to be more equal than urban. A comparison with Latin America tends to support the assertion based on the aggregate data that MENA income distributions are relatively egalitarian in comparison with other developing countries. Gini coefficients of inequality for a sample of 12 Latin American countries varied from 0.440 to 0.610 during the same period (Woden, 2000).

Changes in the Gini coefficients show rising inequality in urban Egypt and substantial fluctuations in measured inequality in rural Egypt. Overall the data suggest that inequality at the national level may have increased, although the overall Gini coefficient is not reported in all survey years.¹⁶ In Jordan the overall Gini coefficient rose between 1986/87 and 1992 and then returned to its prior level in 1997. For Morocco there is no significant change in the overall Gini coefficient between survey years, but there is an apparent decline in inequality in urban areas. In Tunisia the large number of missing values makes it difficult to conclude much about changes in inequality, although the two data points available suggest that the income distribution may have become more equal in the late 1980s.

Data from the household surveys available to us also allow calculation of the income share of the bottom quintile group. In Egypt the urban quintile share remained constant between 1981/82 and 1995/96 while the rural share increased over the same

¹⁵ The national poverty lines reported in Table 4(old5) are not strictly comparable to the international poverty lines used in Part 1 of the paper. However, it is interesting to note that the headcount measures in Table 4 give estimates of poverty which lie midway between those generated by the international poverty lines of \$1.00 and \$2.00 per person per day. This gives us some confidence that the poverty trends reported in Part 1 reflect the underlying poverty dynamics in the individual MENA countries.

¹⁶ There has been considerable controversy over the validity of the 1997 survey for Egypt which was conducted by an independent organization and over its comparability with the earlier surveys conducted by the national statistical office, CAPMAS. We have nevertheless chosen to use the results, but comparisons should be interpreted with caution.

period. Both rural and urban income shares of the bottom quintile appear to have declined substantially between 1995/96 and 1997, although the magnitude of the change is large relative to normal changes in distributional measures. In Jordan the reduction in the share of the bottom quintile between 1986/87 and 1992 is consistent with the observed increase in inequality over the same period.¹⁷ Morocco and Tunisia show a sustained increase in the share of survey expenditures going to the bottom quintile, with the share of expenditures increasing at annual rates of 0.65 and 1.71 percent, respectively, from the first survey to the last.

Macroeconomic Adjustment, Growth, and Poverty Reduction

The period during which the household surveys were conducted—roughly from the mid-1980s to the late 1990s—began with the emergence of macroeconomic imbalances in each of the four economies. Each of the four undertook macroeconomic stabilization programs with the assistance of the international financial institutions (IFIs) in the late 1980s and early 1990s, and each succeeded at restoring macroeconomic stability by the mid-1990s. All were also seeking to address shortcomings in substantial subsidy programs that had become major, though ineffective, components of public expenditures and the social safety-net.

Egypt's period of economic growth ended in 1986, triggered by the unsustainability of its inward-oriented economic policies and a regional economic slowdown that was brought about by the decline in oil prices. By 1991, Egypt embarked on a difficult period of major stabilization in order to correct severe economic imbalances. Structural reforms designed to restore the economy to a growth path by opening it up to greater competition and decreasing the role of government in economic activities were also being put in place.

The stabilization program yielded good results. From 1991 to 2001, large internal and external balances were improved and inflationary pressures were contained. The overall budget deficit was reduced from 15.2 percent to 3.6 percent of GDP; the inflation rate fell from 15 percent to 3 percent; and the average current account balance during this period was 1.7 percent. On the structural side, deregulation, capital market reforms, and privatization improved the business environment somewhat. Gross domestic investment increased from 12 percent to 17 percent of GDP, and about half of the public enterprises were privatized. Efforts were also made to liberalize interest rates.

Still, the performance of exports and foreign direct investment remained poor. The protection afforded by high tariff rates and an appreciating currency discouraged the shift to exploit external markets. Recent growth has been driven by domestic rather than foreign demand, based on the accumulation of labor and capital rather than productivity growth. Further, despite modest gains in manufacturing, growth has come primarily from the expansion of non-tradeables (World Bank, 2001e).

¹⁷ Unfortunately, distributional data are not available for Jordan in 1997

In terms of subsidies, by 1980, 18 different commodities—including oil, sugar, lentils, frozen meat, fish and chicken, bread and wheat flour—were being subsidized and distributed through monthly quotas to households holding ration cards, and coverage was effectively universal. These subsidies were absorbing about 15 percent of total government expenditures. Gradual reforms focused on reducing the number of ration cards, reducing the number of subsidized products, reducing the amount of each product subsidized, and raising prices. Still, in 1992, 86 percent of the population continued to benefit from the subsidy programs. By 1995, 60 percent of the subsidy program went to bread and wheat flour, with the remaining 40 percent to oil and sugar. Total expenditures on the subsidy program had been brought down to 4.6 percent of government expenditures. While the subsidy program was costly because of its untargeted nature, it still provided an important safety net to the poor. In relative terms, since lower income groups spend a larger proportion of household budgets on food than higher income groups, the relative distributional impact on the poor has been important. Estimates from 1990-91 household survey data show that in Egypt, subsidized food as a share of total available calories per capita accounted for about 40 percent of the poor's daily diet, compared to about one quarter of total calorie consumption for the rich (Ali and Adams, 1996).

Jordan's economy was also hard hit by the fall in oil prices that led to a drying up of foreign capital inflow and workers remittances from the oil-rich states. By the late 1980s, Jordan faced a balance of payments crisis that was further exacerbated by the dislocations associated with the Gulf War. Since 1988/89 Jordan has made considerable stabilization and adjustment efforts. Initial results were promising. The fiscal deficit was reduced from a high of 18 percent of GDP in 1990-91 to 7.8 percent in 1995. Inflation was maintained in the 3.0 to 3.5 percent range. Sound monetary management helped build up foreign reserves from a low of less than two months of imports' coverage in the early 1990s to a high of over five months by 1996, and the current account remained essentially balanced. Further, fueled by an inflow of savings from returnees during and after the Gulf War, there were signs of renewed growth. But, the signs of a possible recovery reversed in 1997, as the construction boom that followed the Gulf War ran its course, and unfavorable regional developments -- including impediments to expansion of trade with neighboring countries -- affected the economy negatively.

Jordan also had a very expensive, expansive food subsidy program that was absorbing 7.6 percent of government expenditures by 1990. At that time, due to the fiscal burden of the untargeted program, reforms were introduced that limited subsidies to a general subsidy on wheat and barley and coupons for sugar, rice and powdered milk. The more limited nature of the subsidized products brought costs down to about four percent of government expenditures in 1991. Subsequently, additional measures to contain costs were introduced, such as a maximum income cut-off that was put in place in 1994 and gradual price increases on wheat, barley, sugar and rice. In 1996, the general wheat subsidy was replaced by targeted, means-tested cash transfers. Despite inadequate targeting of the poor in absolute terms, the food subsidy scheme, as in Egypt, succeeded in relative terms. Bread, for example, represented 3.7 percent of spending in the average poor household, whereas the share was only 0.5 percent in the top decile.

Morocco's stabilization efforts have taken a somewhat different path. Faced with negative growth rates and large imbalances, its adjustment program started in 1983. The program was successful in correcting macro imbalances, with the budget deficit falling from 10.4 percent of GDP in 1984-85 to 2.7 percent in 1991-92. Similarly, the current account deficit dropped from 7.3 percent to 1.7 percent over the same period. Structural reforms over this period focused on reorienting the economy away from pervasive state controls to one that was moving to rely on market mechanisms. The economy responded with a period of positive growth in the latter part of the 1980s. However, by the early 1990s Morocco's performance had slowed, due in part to unfavorable external events including severe droughts. While Morocco continued to consolidate its stabilization efforts throughout the 1990s, growth performance remained poor—in fact virtually stagnating in real per capita terms throughout the decade of the 1990s. The slow growth reflects both increasingly rigid macroeconomic policies as well as slow speed of critical structural reforms.

In Morocco, until the mid-1990s, the food subsidy scheme was financed by cross-subsidization through import duties and via quotas and licensing controls on sugar and oil, a variable levy on bread and wheat grain as well as through direct budget transfers. During the first half of the 1990s, total food subsidies represented an average of five percent of government expenditures. However, off-setting these subsidies were substantial protections in the domestic agricultural sector. In fact, the net effect of producer protection and consumer subsidies was a taxation of consumers in 1991, 1992 and 1994. In 1996, a series of reforms were introduced which included eliminating the quotas and import licensing. The range of items available at subsidized prices and in unlimited quantities was also reduced to sugar, cooking oil and low-grade flour. However, border protections were also increased. Looking at the subsidy program alone, similar to in Egypt and Jordan, while inefficient in absolute terms, in relative terms it has been estimated that the poor benefited four times more than the rich.

Tunisia followed a state-led model of development until the mid-1980s when a coalition of factors—a poor crop year, growing financial imbalances, and the collapse of oil prices—came to a head. In 1987, Tunisia initiated a series of economic reforms aimed at maintaining a stable macroeconomic framework; improving resource allocations by gradually liberalizing prices, trade and investment control; and decreasing the emphasis on the public sector to free up resources for the private sector. After an initial period of adjustment with continued low growth rates, the results were impressive. The Tunisian economy has turned in sustained growth rates over 5 percent per year throughout the 1990s.

While universal subsidies had already been introduced in Egypt and Morocco in the 1940s, they were only introduced Tunisia, during the 1970s. Subsidized goods included cereals, cooking oil, sugar and milk, in addition to several non-food products. The goods were available to consumer, in unlimited quantities, and were subsidized through price controls set well below market levels. The subsidy program absorbed

significant fiscal resources, reaching 7.2 percent of total government expenditures by 1989. Whereas consumers obtained significant benefits from food subsidies, the institutional organization and the de facto monopoly control of production and distribution by various sector marketing boards also contributed to the high cost of the program. Although food subsidies were targeted to the poor in relative terms, self-targeting measures were introduced in an effort to channel benefits to low income groups, gradually leading to lower program costs. By moving to subsidize only inferior goods, quality differentiation was used to target the poor. These measure brought program costs down, with only little impact on distributional incidence. And, in fact, the relative gains from the reforms were even more important. The ratio of benefits accruing to the bottom quintile compared to the top rose from 5.3 to well over seven.

Table 6 presents average annual rates of real GDP growth in the four countries for the period 1980 to 1999, as well as changes in real GDP per capita between survey years. For three countries—Egypt, Jordan, and Tunisia—the impact of the adjustment programs of the late 1980s is evident in the deceleration in the rate of per capita income growth. The magnitude of the economic adjustment undertaken by Jordan is particularly striking; GNP growth per capita fell from 1.75 percent in 1980-84 to -4.83 percent in 1985-89 and remained negative throughout the 1990s. In Egypt income growth per person fell from nearly five percent in 1980-84 to less than one percent in 1990-94 before recovering to about 3.6 percent in 1995-99. Tunisia faced the shortest adjustment period. While per capita income growth fell from more than two percent to nearly zero between 1980-84 and 1985-89, it recovered to more than three percent on average for the decade of the 1990s. Morocco began the 1980s with five years of negative average per capita income growth (1980-84) followed by positive but decelerating income growth per person during the following 15 years.

In general, changes in growth of GDP per capita are reflected in changes in mean expenditures in the household surveys and in changes in the incidence of poverty. In Jordan, for example, a decline in real GDP per capita of nearly 19 percent between 1986/87 and 1997 is reflected in the 32 percent decline in mean survey expenditures and a nearly fourfold increase in the poverty headcount. In Morocco the agricultural cycle resulted in a highly volatile pattern of changes in GDP growth and poverty incidence. Between 1984/85 and 1991 real GDP per capita rose nearly 20 percent, very closely tracking the increase in mean survey expenditures of 21 percent and a substantial decrease in the poverty headcount. Between 1990/91 and 1998/99 per capita income growth fell to 0.37 percent and mean expenditures per capita from the household surveys fell by 13 percent; both the poverty headcount and the depth of poverty increased during the same period. Tunisia, a more steady economic performer, experienced a 13.4 percent increase in real per capita GDP between 1985 and 1995. This was roughly consistent with its increase in mean survey expenditures of 9.6 percent and falling poverty head counts.

The results for Egypt are a real puzzle. During the same interval (1981/82 to 1995/96) in which the mean survey expenditures for both rural and urban households declined by 13 and 9.5 percent, respectively, real GDP per capita reportedly increased by

37 percent. While there is no need for growth in mean household expenditures—as measured by the various household surveys—to track real per capita GDP growth at the national level perfectly, in general such large discrepancies are not to be expected (Dollar and Kraay, 2001).

To what extent were changes in the distribution of income also responsible for poverty dynamics in the four countries during the adjustment period? It is possible to decompose changes in poverty between household surveys into two components: a growth component (changes in expenditures) and a redistribution component (changes in the distribution of expenditures). Table 7 shows the results of the decomposition exercise for the three countries for which data exist: Egypt, Jordan and Morocco.

For Jordan and Morocco, changes in growth were far more important than changes in income distribution in determining total changes in poverty during the 1980s and 1990s, reflecting the essentially stable income distribution in the two countries. In Jordan where mean survey per capita expenditures fell by 32 percent between 1986/87 and 1997, leading to an 8.7 percent increase in the headcount index of poverty, the contraction of the economy alone would have resulted in a smaller increase in poverty (of about 6 percent) if not exacerbated by an adverse distributional impact. In Morocco mean survey per capita expenditures increased by 21 percent, leading to a 7 percent decrease in the headcount index of poverty. In this case falling inequality increased the poverty impact of growth modestly. In Egypt changes in mean survey per capita expenditure once again explain the bulk of the increase in poverty, but the redistribution components for both rural poverty and urban poverty are large relative to the change in poverty head counts (48 and 44 percent, respectively) and relative to the distributional impacts observed in Jordan and Morocco. The redistribution effects for rural and urban Egypt are also of opposite sign. This means that in urban areas the poverty impact of the fall in mean survey expenditure between 1981/82 and 1995/96 was substantially increased by a rise in urban income inequality. In rural Egypt during the same period falling inequality helped to offset the poverty impact of declines in household expenditures.

Trade Policy Reforms in Egypt, Jordan, Tunisia and Morocco

Egypt's merchandise exports amounted to less than 3 percent of GDP in 1999. Part of this low export level is a result of policies that have sustained substantial anti-export bias in the incentive structure. While average tariffs were reduced from 32 percent in 1988, they remain high by developing country standards: 28 percent compared to 18 percent for lower middle-income countries. Additional taxes and charges add another 3 percent. Further, the tariff structure is not uniform and discriminates against low-end, processed products (which would be more in line with Egyptian producers' capability), leading to significant tariff escalation. Effective tariffs for fully processed products are significantly higher than tariffs for semi-processed products and raw material with the consequence of diverting resources away from exports to import substitution sectors. Bureaucratic obstacles with customs procedures, administrative controls and quality controls not only give undue protection to domestic producers, but they also hurt Egyptian exporters who use imported inputs. The lack of access to internationally priced

inputs may help explain why Egypt has not become part of the new global pattern of production in which multi-national companies outsource the production of parts to other companies globally, despite its proximity to European markets and relatively low labor costs.

Egypt's external competitiveness also suffered during most of the 1990s due to the appreciation of the average real effective exchange rate. At the beginning of Egypt's stabilization program, it pegged the exchange rate in nominal terms. The inflation differential between Egypt and its trading partners led to an appreciation of the Egyptian pound. In January 2001, the Central Bank implemented a new exchange rate policy that now nominally pegs to Egyptian Pound to the dollar but also allows it to float within a band. Under this "managed peg system", a central rate is established by the Central Bank based on the weighed average of all transactions over the previous three weeks. Dealers and banks are allowed to trade at rates 2 percent above or below the central rate.

Morocco, while a relatively open economy, continues to have high levels of protection that limit its international competitiveness and maintains a significant anti-export bias. By 1997, tariffs—including a flat surcharge of 15 percent on manufactured goods—averaged 40 percent, and imports on strategic agricultural products were subject to rates in excess of 100 percent. As a result, Morocco was producing agricultural goods in which it has little comparative advantage. After a period of relatively strong export growth in the late 1980s, performance deteriorated in the 1990s, and Morocco lost market share in most of its traditional segments. The exchange rate peg continued to lead to a real appreciation of the currency and deterioration in external competitiveness. Eventually, in April 2001, there was an effective devaluation of the currency by 5 percent in nominal terms.

In 1995, Tunisia become the first country in the region to sign a partnership agreement with the European Union, include provisions for a phased establishment of a free trade zone for manufactures over 12 year period. To meet the challenge of heightened international competition, Tunisia continues to try to strengthen its external competitiveness. However, the private sector remains hamstrung by complex incentives at the discretion of public officials, costly infrastructure, weak corporate governance, and lack of training an expertise of lawyers, judges and court staff to handle an ever increasing number of complex business legislation. Tunisia has made significant progress in implementing trade liberalization agreements with the EU and other trade partners in the Arab world, which has resulted in major decreases in tariffs for manufactured imports. Current account transactions are liberalized and restrictions on long-term capital flows (e.g. FDI) are minimal.

Jordan's external competitiveness is in part linked to factors outside its control including progress on the peace process between Israel and the Palestinian Authority, and the situation in Iraq, traditionally its largest trading partner. Further, the general slowdown in the Asian economies in 1996 damaged the appetite of foreign investors for emerging markets and negatively impacted Jordanian exports, particularly for its traditional exports of potash, phosphates and fertilizers. However, by 1999, passage of

some key economic laws, further reductions in tariffs, and increased efforts towards fulfilling requirements for accession to WTO led to some improvement. Reform efforts have focused on improving the legal and institutional framework including custom reforms, trade deregulation, measure to facilitate investment, and improvements to product standards.

Figure 9 illustrates trends in non-oil exports in the above four countries. It shows each country's non-oil exports as a percent of total world non-oil exports during the 1990s. From Figure 9, it is clear that all four countries have very low levels of non-oil exports, although Morocco performs better than the others. Further, we see no evidence of increased integration with the world economy, with the exception of a modest expansion of Morocco's share of exports in the last couple of years of the 1990s.

Migration and Remittances

Our aggregate data suggest that migration and remittances played an important role in channeling an increasing share of income to the poorest quintile of the distribution for the MENA region as a whole, and the individual country cases validate this observation. Table 8 shows levels of international worker remittances received in the four countries over the period 1980 to 1999. The data are incomplete in at least two ways: first, they show only those remittances which enter the official banking system, and thus they underestimate the very large (and unknown) amount of remittances which are sent home by migrants in other ways; and second, the data do not show us how these international remittances are distributed among different income groups of the population.¹⁸

Despite these problems, the data in Table 8 suggest that remittances have played an important role in poverty diagnostics in the four countries. For example, comparing remittance figures from the two years immediately before the oil bubble burst (1984 to 1985) with those of the last two years in the table (1998 to 1999) indicates that in Egypt the level of official remittances has fallen by 0.60 percent per year, while in Morocco and Tunisia they have increased by 5.61 and 6.80 percent, respectively. These patterns are reflected in the behavior of the income share going to the lowest quintile of the population—stable or declining in Egypt, but rising in Morocco and Tunisia. Jordan presents a particularly interesting case in that remittances fell dramatically during the period 1989-1992 (in response to the Gulf War) but rebounded substantially in the late 1990s. This pattern is consistent with the fall in the lowest quintile share observed in Jordan between 1986/87 and 1992, and with the apparent improvement in income distribution between 1982 and 1997.

¹⁸ To demonstrate conclusively the importance of international migration and remittances to the poor, we would need data on the amount of remittances which are received by the bottom 20 percent of the income distribution. Unfortunately, such data are not available for any MENA (or any other developing) country.

The individual country data suggest that the aggregate regional data may obscure important differences in the dynamics of the impact of migration on the poor in MENA, depending on the origin and destination of the migrant. As oil prices increased in the late 1970s, and the economies of the Persian Gulf countries boomed, poor people from Egypt (in particular) and Jordan (to a lesser extent) were able to find high-paying jobs in a variety of labor-intensive fields in Iraq, Kuwait and Saudi Arabia. The large-scale migration of these people abroad in turn put upward pressure on local wage rates for agricultural and other types of unskilled work. However, after 1985 when oil prices peaked and the Persian Gulf countries began to reduce their labor needs, the poor of Egypt and Jordan began to suffer both from the reduction in work opportunities abroad and also from the collapse in the wage rates paid to unskilled, uneducated workers at home. The poor of North Africa were more insulated from this “boom-bust” oil-cycle because the majority of them went to work in Europe. After oil prices began to fall in the mid-1980s, the poor of Morocco and Tunisia were still able to find jobs working abroad.

Real Wage Trends in Egypt and Tunisia

Ideally we would like to be able to connect changes in trade policy or in migration in each of the four countries to poverty outcomes via their impact on the employment and real wages of the poor. Unfortunately, real wage data are even more limited than income distribution data, and we have only limited information on the behavior of real wages for two countries, Tunisia and Egypt.

Table 9 shows trends in real wages for six economic sectors in Tunisia over the period, 1989 to 1997. The results show that real wages grew the fastest in agriculture, 8.1 percent per annum. In Tunisia, it is quite possible that the continued successful migration of rural people to Europe has sparked a rural labor shortage and this in turn has helped to fuel an increase in real wages in agriculture. The 1995 household budget survey in Tunisia found that the poor tend to work in agriculture, and the size of this real wage increase must have had a positive impact on the rural poor. Real wages in construction and non-tradable services also rose between 1989 and 1997, although not to the extent of the increases in agriculture. These wage trends may account for some of the observed overall rise in the share of income accruing to the bottom quintile in Tunisia.

Egypt, however, presents a very different story. Between 1980/81 and 1994/95 real wages fell dramatically in all sectors of the economy, including agriculture and construction (Table 10). Both the size and extent of these real wage declines are surprising, and may provide a clue to the origin of the divergence between observed changes in mean expenditures from the household surveys and GDP growth per capita, since they suggest a substantial rise in incomes accruing outside the household sector.

The decline in real wages has probably been a major source of the recent rise in urban and rural poverty in Egypt. According to the 1997 Egypt Household survey, the poor in Egypt are most likely to be employed in casual jobs in construction and agriculture.¹⁹ In the late 1970s and early 1980s, an investment boom (fueled by

¹⁹ Datt, Joliffe and Sharma, 1998.

remittances and public expenditure) led to rapid expansion of the construction industry. This in turn had an important indirect effect on the poor, as they were literally able to work their way out of poverty by helping to build new apartments and office buildings. However, as the pace of economic growth slowed, and the number of construction jobs declined, so did the level of real wages paid in this sector. Similarly, in the rural areas the large-scale migration of unskilled workers abroad in the late 1970s and early 1980s caused the real wages paid to casual agricultural workers to rise (Adams, 2000). However, after 1985 when international migration opportunities for poor, unskilled workers narrowed, real wages paid to agricultural workers fell by over 40 percent from 1985 to 1990 (Richards, 1994).

Did Trade Reform Affect Past Poverty Dynamics?

Despite the sustained, although moderate, pace of trade policy reforms in Egypt, Jordan, Morocco and Tunisia we have relatively little evidence concerning how trade policy reforms have affected poverty dynamics in the four countries. In part this is because the magnitude of the impacts on poverty outcomes of macroeconomic stabilization, migration and remittances have swamped any of the changes in real wages and employment that could be attributed to changes in resource allocation due to trade liberalization. It is also due to the lack of underlying household survey data and wage data that would permit analysis at the household level.

In general the relative price effects of the reforms has been to reduce the price of manufactures in terms of agricultural commodities, providing some positive impact on rural urban terms of trade. There is little evidence of significant employment shifts within manufacturing as a result of industrial restructuring, and with the exception of Tunisia's "offshore" manufacturing industries there has been little growth in employment in manufactured exports. Tourism has grown rapidly in the 1990s and is the largest services export of all four economies. Surprisingly, we can find little systematic evidence of the impact of tourism on wages by skill category and there are no studies of the origins of workers in the industry by income of household.

III. HOW WILL THE EUROMED AGREEMENTS AFFECT POVERTY OUTCOMES?

The Euro-Mediterranean agreements now in place for Egypt, Jordan, Morocco and Tunisia set a well-defined time frame (12-15 years) and intermediate steps leading to a free trade area between each of the Southern Mediterranean countries and the EU for non-agricultural products. Elimination of non-tariff barriers is set to take effect upon signing of the agreement, while tariffs are to be removed within 12 years. The EU continues its policy (in existence since the early 1970s) of granting free access to virtually all manufactured products exported by these countries and of providing limited preferential access for their agricultural exports. There is reciprocal right of establishment for investors. Morocco, Tunisia, and Jordan have also agreed to adapt their regulatory framework to approximate that in the EU in the areas of competition, government procurement, subsidies, and technical standards; and will strengthen

cooperation on migratory issues. The free-trade area is expected is expected by policy makers to generate significant long-term economic benefits for the region, but it will also involve transitional costs.

In recent years, a body of analytical research has considered the likely impact on Arab economies of the Euromed Agreements. One message that emerges clearly from this literature is that the static welfare gains from these agreements by themselves are likely to be small. This is because even prior to the agreements, Arab Mediterranean countries already had free access to European markets in almost all industrial products and raw material on a non-reciprocal basis.

Rutherford, Ruström and Tarr (2000) find that for Morocco significant welfare gains come only from the increased market access that stems harmonization and mutual recognition of standards, rather than from changes to traditional border measures. Brown, Deardorff and Stern (1997) run several scenarios with a CGE model and conclude that the static welfare benefits for Tunisia from the Euromed agreement will be small, although they postulate that over time, with capital mobility, the welfare gain would grow. Hoekman and Konan (2000) confirm these findings for Egypt. In their work, they find that the loss of tariff revenues will be about equal to efficiency gains. As summarized by Page and Underwood (1997), based on results from CGE modeling exercises for Tunisia and Morocco -- showing a 1.5 percent of GDP welfare gain for Morocco and 1.7 percent in Tunisia -- the cumulative effect over a ten year period would be to increase per capita income by about \$25 per person in Morocco and \$40 per person in Tunisia.

Little work has been done to look at the potential distribution of these modest welfare gains (and the adjustment costs as labor and capital shift away from uncompetitive sectors) across different income groups. On the consumption side most of the simulations show a fall in the relative price of manufactures and a rise in the relative price of agricultural commodities. In the absence of complementary domestic price reforms in agriculture in Morocco and Tunisia, this results in a rise in rents to agricultural landholders and labor. This would suggest a modest redistributive impact from urban to rural households, but the models are not informative with regard to the relative distribution of these gains among rural income groups.

On the production side, given the asymmetry of access offered by the Euro-Med agreements the major short term challenge faced by regional firms derives from the increased import penetration of European products into traditionally protected manufacturing sectors. While the FTA does not require that prices in MENA countries fall to international levels (hence the small welfare gains from the liberalization outlined above) the decline to European price levels and the increased quality and variety of goods will significantly increase competitive pressures faced by a number of existing manufacturing sectors.

It is difficult to estimate precisely the impact of the relative price change that MENA firms will face at the sectoral or individual firm level. At the aggregate level the reduction

in protection vis-à-vis European producers could exceed 10 percent. It will be substantially larger in specific lines of production in which tariffs and quantitative restrictions offer substantially greater nominal protection.

The simulation exercises for Egypt, Morocco and Tunisia outlined above give some indication of the sectors most likely to be affected by the Euro-Med agreements. These results are summarized in Table 11 which shows which sectors will most likely experience output growth or shrinkage once trade with the European Union is fully liberalized. While these results are not exactly comparable across models and countries, three distinct trends emerge. In general there are output gains in consumer products and light intermediates, particularly clothing. Wood products and footwear are also positively affected in the Tunisian case. Medium and heavy industries are generally projected to be negatively impacted (machinery, chemicals). These results suggest that there may be modest upward pressure on employment and real wages in light manufacturing which could have a positive impact on the welfare of poor households, in particular though increased women's labor force participation.

Overall agricultural output would tend to fall in all three economies, reflecting some import liberalization and limited access to the European market. In Morocco, where more disaggregated data is available, the simulation predicts that citrus fruits and vegetables output will grow as a consequence of the Euro-Med agreement. In Egypt there is little evidence that the Euro-Med agreements as they are currently structured will reverse the decline in real wages in agriculture, while in Tunisia the projected rise in agricultural rents may serve to underpin the rising trend in real agricultural wages.

In services the general trend points to output gains in Egypt (transport, tourism), Morocco (transport, construction) and Tunisia (financial, personal). The expansion of these activities may have positive impacts on lower income households to the extent that output gains are translated into increased employment and wages of unskilled labor.

If the existing agreements were to lead to substantially increased access to European markets for agricultural products and for those manufactured products currently subject to barriers--products in which the Southern Mediterranean countries have a comparative advantage, such as textiles and clothing--the benefits would be substantially higher. They would also tend to exhibit a "pro-poor bias" by raising labor market pressures in rural areas and for unskilled industrial labor.

III CONCLUSIONS

Clearly, it is difficult to attribute MENAs success in reducing poverty to the process of globalization described in the opening paragraph. Yet, in an important way

globalization was also largely responsible for poverty reduction in MENA. While lagging much of the developing world in terms of the growth of trade in manufactures and services, MENA was an “early integrator” into the global markets for capital and, especially, labor. International migration and official capital (aid) flows—driven largely but not exclusively by changes in the price of oil—were key factors in reducing poverty in MENA over the thirty year period from 1970 to 2000.

From 1970 to 1985 increases in the real price of oil produced rapid income growth in the oil exporting economies of the region that was transmitted to other MENA economies via workers’ remittances, and official capital flows. These factor movements benefited all groups, but they particularly benefited the poor of the labor-rich, oil-poor economies of the region, through an increase in work opportunities both at home (construction and public employment) and abroad for unskilled labor. This served in turn to funnel an increasing share of income to the bottom quintile group of the income distribution in MENA—in contrast to other parts of the developing world.

However, the ability of labor and capital movements to sustain poverty reduction in MENA may have run its course. During the period 1985-2000, as the real price of oil first fell and then largely stagnated, income growth in the oil exporters declined, limiting the scope of international migration opportunities for the poor. Official capital flows and remittances also declined limiting the growth of jobs in construction and the public sector. As employment opportunities—both at home and abroad—narrowed after 1985, so did the pace of poverty reduction outcomes in the MENA region.

To date we find little evidence that the trade policy reforms introduced in Egypt, Jordan, Morocco and Tunisia during the 1980s and 1990s have had much impact—positive or negative—on the poor. Where poverty has increased—in Egypt and Jordan—the poverty dynamics have been primarily driven by macroeconomic adjustments and changes in migration and remittances. In Morocco and Tunisia where poverty has continued to decline in the last 15 years, poverty dynamics have been driven again primarily by growth episodes and rising remittance income from migration to Europe.

We do not conclude, however, that greater integration into the world market for goods and services is irrelevant for future poverty reduction in MENA. Total factor productivity levels have shown a disturbing long-run downward trend in the region. Given the limited scope for further expansion of migration, future success in reducing poverty will depend importantly on increasing the overall rate of economic growth in the region and on an improvement in productivity. In light of the well documented relationship between trade—and especially export performance—productivity change, growth and poverty reduction, governments in the region will need to accelerate their efforts to reduce anti-export bias and promote non-traditional exports if MENA’s past success in reducing poverty is to be maintained.

For outward oriented growth to have maximum impacts on the poor, however, it will be important that MENA countries have access to major markets for the types of goods that are intensive in the use of unskilled labor – and in particular rural unskilled

labor. Agriculture and processed agricultural products are particularly important in this regard. Our assessment of the Euromed agreements indicates that without further concessions to MENA partners with respect to agriculture and those manufactures subject to non-tariff barriers, the Euromed agreements by themselves are unlikely to contribute significantly to growth in the demand for unskilled rural and urban labor. This places even greater urgency on the market access negotiations in agriculture and manufactures that are likely to take place under the proposed Doha, “Development” Round of the WTO.

Table 1. Incidence of Poverty in Developing World
Using International Standards of \$1.00 or \$2.00 Per Person Per Day, 1987-1998

Region and Income Per Capita, 2000	1987		1990		1993		1996		1998	
	\$1.00	\$2.00	\$1.00	\$2.00	\$1.00	\$2.00	\$1.00	\$2.00	\$1.00	\$2.00
East Asia and Pacific (\$1030)	26.6	67.0	27.6	66.1	25.2	60.5	14.9	48.6	14.7	48.7
Europe and Central Asia (\$2300)	0.2	3.6	1.6	9.6	4.0	17.2	5.1	19.9	3.7	20.7
Latin America and the Caribbean (\$4035)	15.3	35.5	16.8	38.1	15.3	35.1	15.6	37.0	12.1	31.7
Middle East and North Africa (\$1975)	4.3	30.0	2.4	24.8	1.9	24.1	1.8	22.2	2.1	29.9
South Asia (\$450)	44.9	86.3	44.0	86.8	42.4	85.4	42.3	85.0	40.0	83.9
Sub-Saharan Africa (\$515)	46.6	76.5	47.7	76.4	49.7	77.8	48.5	76.9	48.1	78.0
World	28.3	61.0	29.0	61.7	28.1	60.1	24.5	56.1	23.4	56.1

Sources:

World Bank, World Development Report 2000/01: Attacking Poverty (Washington, DC: 2001), Table 1.1;
World Bank, Global Economic Prospects and the Developing Countries (Washington, DC: 2000), Table 1.8b.

Table 2. Growth, Distribution and Poverty Reduction in Developing MENA, 1975 – 2010

	1975 – 79	1980 – 84	1985 – 89	1990 – 94	1995 – 99	2000 – 10 (projected)	2000 – 10 (projected)
Average Growth Of Income Per Capita	3.83	2.68	1.37	1.39	2.23	1.38	1.70
Average Gini Coefficient	0.425	0.409	0.394	0.379	0.364	--	--
Average Share Of Bottom Quintile	7.33	7.71	8.10	8.48	8.87	--	--
Poverty Headcount at \$1/Person/Day	12.4	10.1	4.3	2.2	2.0	1.9	1.3
Poverty Headcount at \$2/Person/Day	57.3	44.1	30.0	24.5	26.0	27.2	14.7
Per Capita Income of Lowest Quintiles (1970 – 74 = 100)	75	164	208	155	202		

Sources: Author's calculations based on David Dollar/Art Kraay data set (2001); and World Bank, World Development Indicators Database.

Table 3: Share of construction in value added

Country	1980s and 1990s		
	1980s	1990s	Change
Algeria	13.7	10.5	-3.2
Egypt, Arab Rep.	5.0	5.0	0.0
Jordan	7.6	5.1	-2.5
Morocco	5.9	4.7	-1.2
Syrian Arab Republic	5.9	4.1	-1.8
Tunisia	5.2	4.5	-0.8
<i>Unweighted Regional Average</i>	7.2	5.6	-1.6
World Average	5.6	5.7	0.1

Source: World Bank World Development Indicators, as reported to World Bank SIMA database.

Table 4. Incidence of Poverty in Egypt, Jordan, Morocco and Tunisia, 1981/82 to 1998/99

Country And Survey Year	Urban		Rural		Overall	
	Headcount Index (%)	Poverty Gap Index (%)	Headcount Index (%)	Poverty Gap Index (%)	Headcount Index (%)	Poverty Gap Index (%)
Egypt						
1981/82	18.2	3.5	16.1	3.1	17.2	NA
1990/91	20.3	4.3	28.6	4.5	25.0	NA
1995/96	22.5	4.9	23.3	4.3	22.9	NA
1997	22.5	5.6	24.3	6.4	23.5	6.7
Jordan						
1986/87	2.6	NA	4.4	NA	3.0	0.3
1992	12.4	3.1	21.1	5.1	14.4	3.6
1997	10.0	2.1	18.2	4.0	11.7	2.5
Morocco						
1984/85	17.3	NA	32.6	NA	26.0	NA
1990/91	7.6	1.5	18.0	3.8	13.1	2.7
1998/99	12.0	2.5	27.2	6.7	19.0	4.4
Tunisia						
1985	4.6	NA	19.1	NA	11.2	NA
1990	3.5	0.7	13.1	3.2	7.4	1.7
1995	3.6	0.7	13.9	3.1	7.6	1.6

Notes: NA is not available.

Sources:

- Egypt: Calculations from 1981/82 to 1995/96 Surveys in Institute of National Planning, Egypt Human Development Report, 1996 (Cairo: 1996), Table 2.7 Calculations from 1997 Survey in Richard Adams, Jr., "Evaluating the Process of Development in Egypt," International Journal of Middle Eastern Studies 32 (2000), Table 4, Page 263.
- Jordan: Calculations from 1986/87 Survey in World Bank, Hashemite Kingdom of Jordan: Poverty Assessment (Washington, DC: World Bank, 1994), Table 3.9. Calculations from 1992 and 1997 Surveys in Radwan Shaban et. al., Poverty Alleviation in Jordan: Lessons for the Future (Washington, DC: World Bank, 2001), Table A111.1a.
- Morocco: Calculations from 1984/85 and 1990/91 Surveys in World Bank, Kingdom of Morocco: Poverty, Adjustment and Growth (Washington, DC: World Bank, 1994), Vol. II, Table 6. Calculations from 1998/99 Survey in World Bank, Kingdom of Morocco: Poverty Update (Washington, DC: World Bank, 2001), Vol. II, Tables 5, 6.
- Tunisia: Calculations from 1985 and 1990 Surveys in World Bank, Republic of Tunisia Poverty Alleviation (Washington, DC: World Bank, 1995), Vol. I, Tables II.1 and II.3). Calculations from 1995 Survey in World Bank, Republic of Tunisia: Social Conditions Update (Washington, DC: World Bank, 2000), Vol. I, Table 1.

Table 5. Distribution of Expenditures and Expenditure Share of the Lowest Quintile in Egypt, Jordan, Morocco and Tunisia, 1981/82 to 1998/99

Country and Survey Year	Gini Coefficient of Expenditure			Percentage of Survey Expenditure Going to Lowest Quintile Group	
	Urban	Rural	Overall	Urban	Rural
Egypt					
1981/82	0.322	0.275	NA		
1990/91	0.340	0.360	NA	8.4	10.2
1995/96	0.331	0.235	NA	8.4	11.3
1997	0.385	0.321	0.350	5.4	6.6
Jordan					
				Overall	
1986/87	0.362	0.319	0.361	7.3	
1992	0.406	0.330	0.400	6.0	
1997	0.371	0.305	0.364	-	
Morocco					
1984/85	0.405	0.317	0.397	8.3	
1990/91	0.377	0.312	0.393	9.3	
1998/99	0.377	0.316	0.395	9.1	
Tunisia					
1985	NA	NA	0.430	6.7	
1990	NA	NA	0.400	7.2	
1995	NA	NA	NA	7.8	

Notes: NA is not available.

Sources:

Egypt: Calculations from 1981/82 to 1995/1996 Surveys in Institute of National Planning, Egypt Human Development Report, 1996 (Cairo: 1996), Table 4.5 Calculations from 1997 Survey in Richard Adams, Jr., "Evaluating the Process of Development in Egypt," International Journal of Middle Eastern Studies 32 (2000), Table 7.

Jordan: Calculations from 1986/87 Survey in World Bank, Hashemite Kingdom of Jordan: Poverty Assessment (Washington, DC: World Bank, 1994), Table 3.8. Calculations from 1992 and 1997 Surveys provided by Radwan Shaban (private correspondence, September 2001).

Morocco: Calculations from 1984/85 Survey in World Bank, Kingdom of Morocco: Poverty, Adjustment and Growth (Washington, DC: World Bank, 1994), Vol. I, Table 1.3. Calculations from 1990/91 and 1998/99 Surveys in World Bank, Kingdom of Morocco: Poverty Update (Washington, DC: World Bank, 2001), Vol. 1, Table 3.

Tunisia: Calculations from 1985 and 1990 Surveys in World Bank, Republic of Tunisia Poverty Alleviation (Washington, DC: World Bank, 1995), Vol. I, page 8.

Table 6. Average Annual Growth Rates of Real GDP in Egypt, Jordan, Morocco and Tunisia, 1980 to 1999

Country	Average Annual Growth Rates (percent)					Annual Growth Rate of GDP per Capita Within Period	
	1980-84	1985-89	1990-94	1995-99	Overall	Country/Period	Rate
Egypt						Egypt	
Real GDP	7.46	3.94	3.12	5.48	5.00	1981/82-1990/91	2.99
Real per capita GDP	4.87	1.48	0.97	3.59	2.73	1990/91-1995/96	2.70
						1995/96-1997	2.24
						1981-1996	2.76
Jordan						Jordan	
Real GDP	5.67	(-1.22)	5.28	2.24	2.99	1986/87-1992	(-3.07)
Real per capita GDP	1.75	(-4.83)	(-0.41)	(-0.86)	(-1.09)	1992-1997	0.49
Morocco						Morocco	
Real GDP	1.84	3.82	3.06	1.94	2.66	1984/85-1990/91	2.73
Real per capita GDP	(-0.37)	1.69	1.14	0.21	0.67	1990/91-1998/99	0.37
Tunisia						Tunisia	
Real GDP	4.57	2.54	5.03	5.17	4.33	1985-1990	0.49
Real per capita GDP	2.06	0.09	2.97	3.78	2.22	1990-1995	1.69

Sources: GDP growth rates from International Monetary Fund, International Financial Statistics Yearbook (various issues).
Population growth rates from World Bank, Live Database.

Table 7. Decomposition of Changes in Poverty Into Growth and Redistribution Components

Country And Years	Growth Component	PERCENTAGE OF CHANGE DUE TO			Total Change in Headcount Index of Poverty (%)
		Redistribution Component		Residual	
Egypt, 1981/82-1995/96					
Urban	46.5	44.2		9.3	+4.3
Rural	156.1	-47.6		-8.5	+8.2
Jordan, 1986/87-1997					
Overall	72.4	16.1		11.5	+8.7
Morocco, 1984/85-1998/99					
Overall	-84.3	-12.9		-2.8	-7.0
Tunisia, 1985-1995					
Overall	NA	NA		NA	-3.6

Note: NA is not available.

Table 8. Official Worker Remittances Received, in Egypt, Jordan, Morocco and Tunisia, 1980 to 1999 (in Millions of U.S. Dollars; Nominal Terms)

Year	Egypt	Jordan	Morocco	Tunisia
1980	2,071	610	810	245
1981	1,850	875	859	303
1982	2,461	1,082	769	372
1983	3,666	1,109	916	359
1984	3,963	1,236	872	317
1985	3,212	1,022	967	271
1986	2,506	1,183	1,398	361
1987	3,604	938	1,587	486
1988	3,770	895	1,303	544
1989	4,254	627	1,336	488
1990	5,527	565	2,006	599
1991	4,054	448	1,990	570
1992	6,104	844	2,170	531
1993	5,664	1,040	1,959	446
1994	3,672	1,093	1,827	629
1995	3,226	1,244	1,970	680
1996	3,107	1,544	2,165	736
1997	3,697	1,655	1,893	685
1998	3,370	1,543	2,011	718
1999	3,235	1,664	1,938	761
Annual percent change, 1980- 82 to 1997-99	+2.86	+3.83	+5.27	+5.16

Notes: Data record only those worker remittances which enter the official banking system, and therefore tend to underestimate the total level of official and unofficial remittances received in any given year.

Sources: International Monetary Fund, Balance of Payments Statistics Yearbook (various issues).

Table 9. Trends in Real Wages in Tunisia, 1989 to 1997

Sector	Average Annual Growth in Real Wages (percent)		
	1989-94	1994-97	1989-97
Agriculture and Fisheries	+5.7	+12.3	+8.1
Manufacturing	-2.0	+0.0	-1.3
Non-Manufacturing	+3.0	+0.9	+2.2
Construction	+5.2	+0.1	+3.2
Tradeable Services	-3.1	-5.0	-3.8
Non-Tradeable Services	+0.2	+6.3	+2.4
Total	+0.2	+2.7	+1.1

Source: World Bank, Republic of Tunisia: Social Conditions Update (Washington, DC: World Bank, 2000), Vol. 1, Table 5.

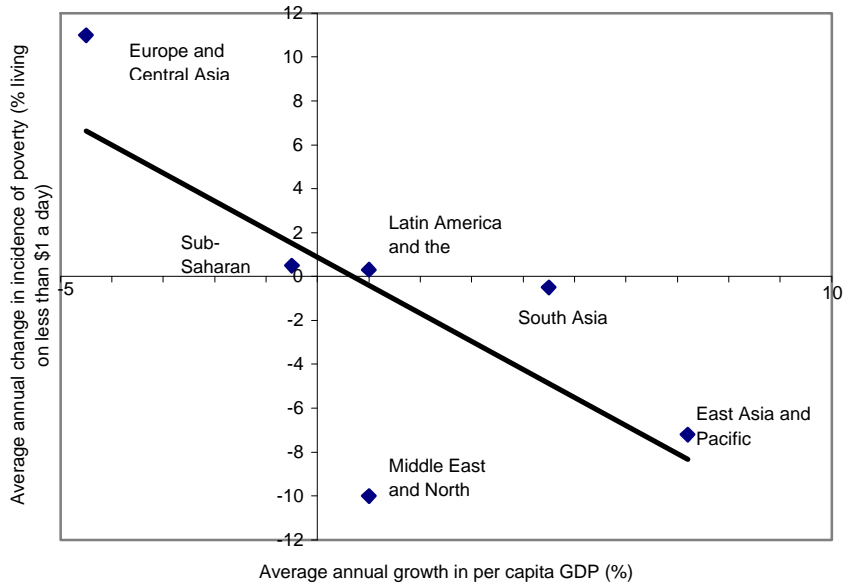
Table 10. Index of Real Wages¹ in Egypt, 1980/81 to 1994/95 (1985=100)

Sector	80/81	81/82	82/83	83/84	84/85	85/86	86/87	87/88	88/89	89/90	90/91	91/92	92/93	93/94	94/95
Agriculture	60.2	57.7	130.8	119.3	107.0	100.0	88.2	85.5	81.6	75.0	72.0	66.3	65.8	67.0	68.6
Industry	99.8	113.5	131.4	118.9	107.0	100.0	85.0	80.5	76.1	57.6	52.2	69.8	65.0	65.0	68.4
Petroleum	78.8	80.5	114.8	110.5	104.8	100.0	87.0	82.7	77.8	70.7	69.1	63.5	55.7	79.2	57.8
Electricity, and gas	69.2	69.3	97.6	98.9	100.1	100.0	84.2	79.4	75.9	69.8	68.8	67.9	66.0	66.2	67.6
Housing and construction	64.4	62.1	135.3	121.4	107.9	100.0	85.0	80.1	75.4	82.1	77.1	70.2	65.8	63.2	63.3
Transportation, and communications	60.2	84.4	122.7	113.9	104.5	100.0	86.5	81.5	77.8	89.2	85.8	77.7	58.4	55.9	55.2
Finance and trade	98.7	96.7	124.8	114.7	104.2	100.0	87.0	89.6	84.2	81.3	79.4	73.6	68.9	69.2	70.9
Other services	82.3	130.7	110.8	108.8	104.8	100.0	85.0	82.4	76.6	68.6	66.3	55.8	57.3	58.2	62.0
Total	80.4	87.4	120.0	113.0	104.9	100.0	86.4	84.3	79.7	73.6	70.9	66.4	64.4	65.3	67.8

Sources: CAPMAS data, as reported in International Labor Office, "Job Creation and Poverty Alleviation in Egypt: Strategies and Programs," draft report (Geneva: August 1997), Table 2.4.

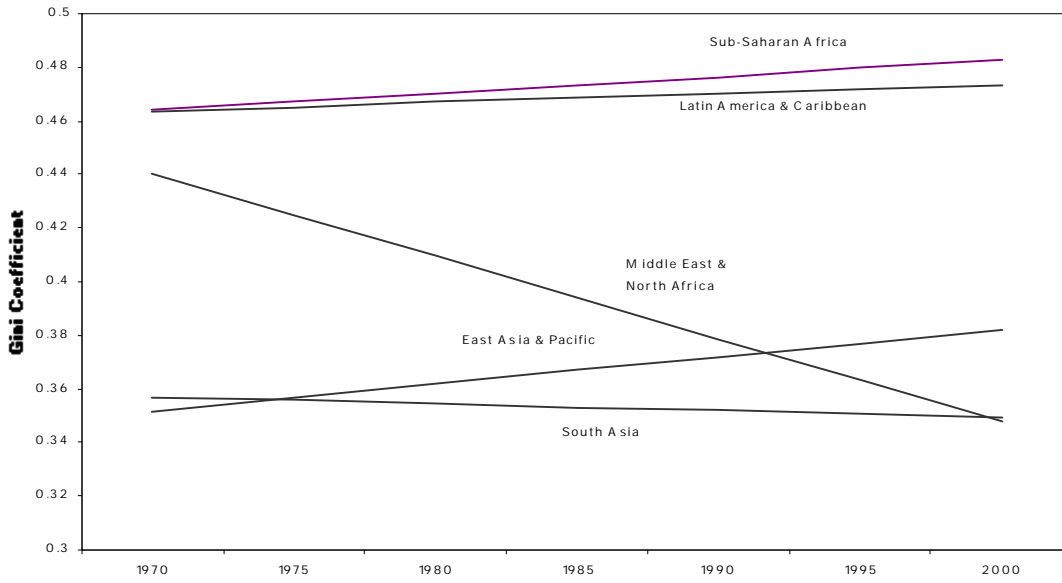
Notes: ¹ Real Wage Index = average annual wage per employee/consumer price index.

Figure 1: Poverty Reduction and Growth, 1985 - 1999



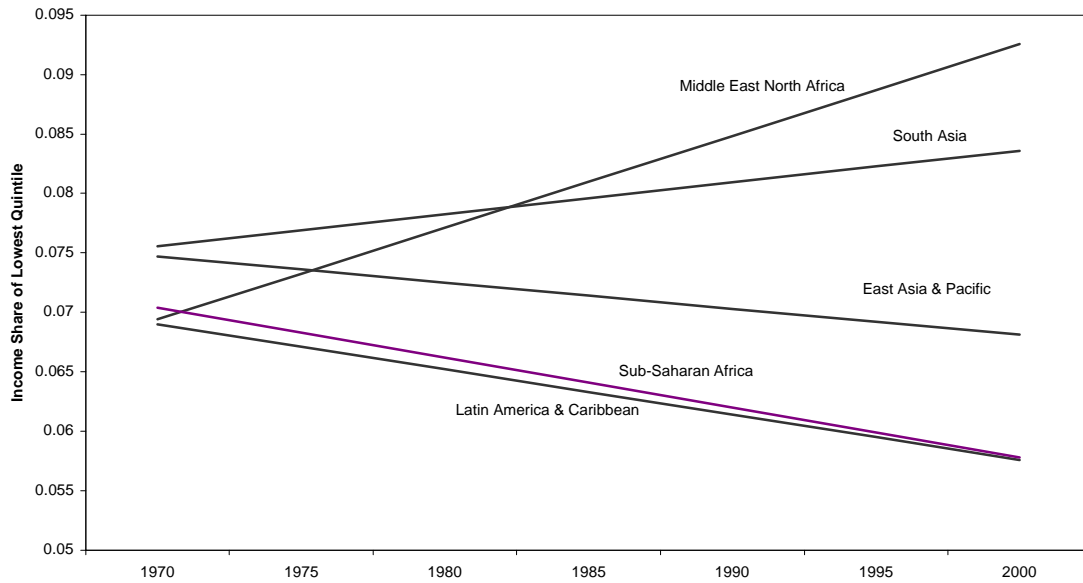
Source: World Bank, World Development Report 2000/01: Attacking Poverty (Washington, DC: 2001), Figure 3.4.

Figure 2a: Gini Coefficient by Region, 1970-1999



Source: Author's calculations based on David Dollar/Art Kraay dataset (2001).

Figure 2b: Income Share of Lowest Quintile by Region, 1970-1999



Source: Author's calculations based on David Dollar/Art Kraay dataset (2001).

Figure 3: Poverty Total Factor Productivity and Mean GDP Per Capita, 1970-1999

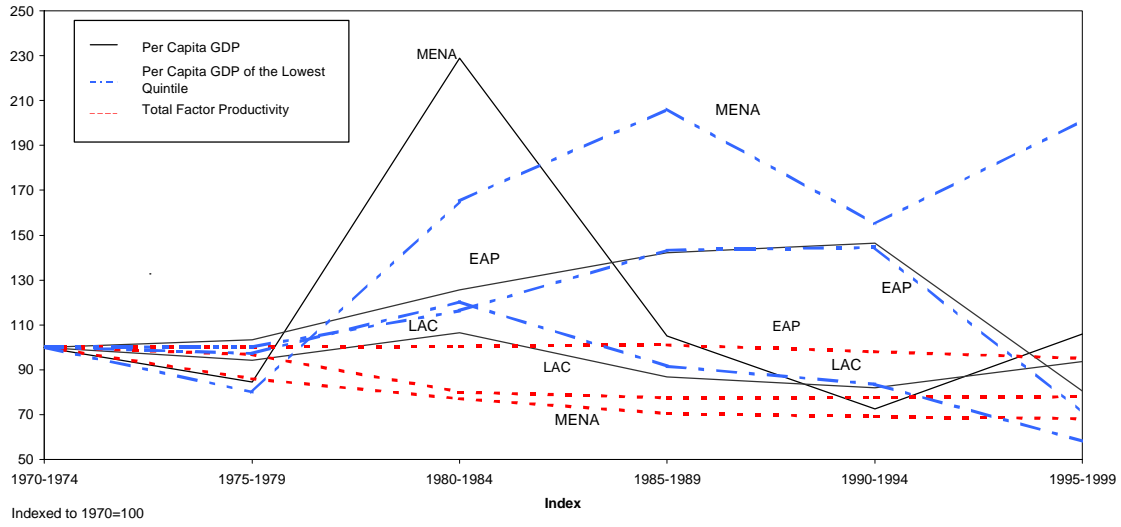


Figure 4 : Changes in Real Trade Ratios

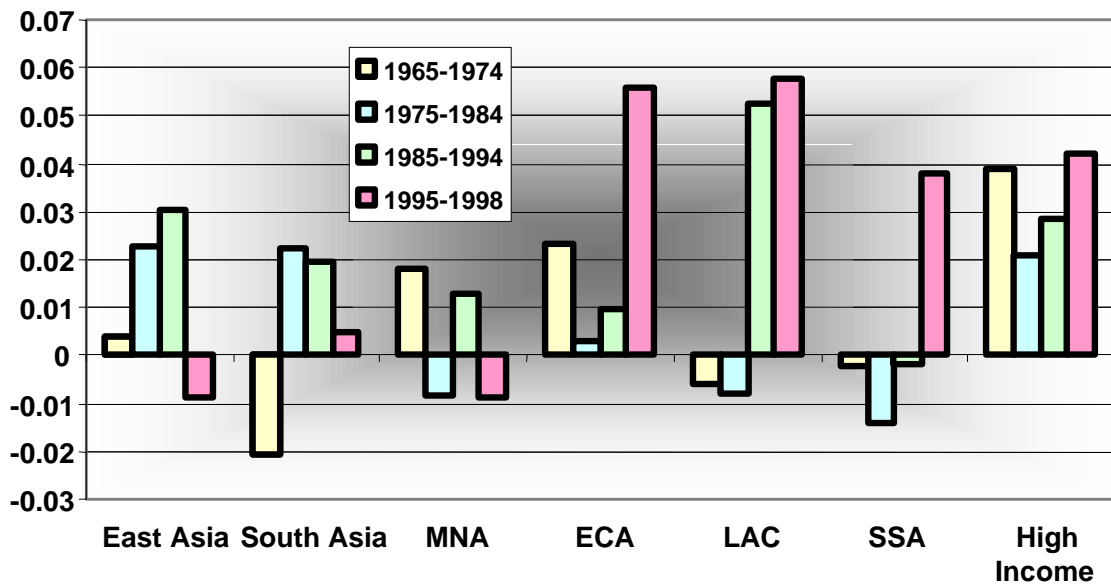
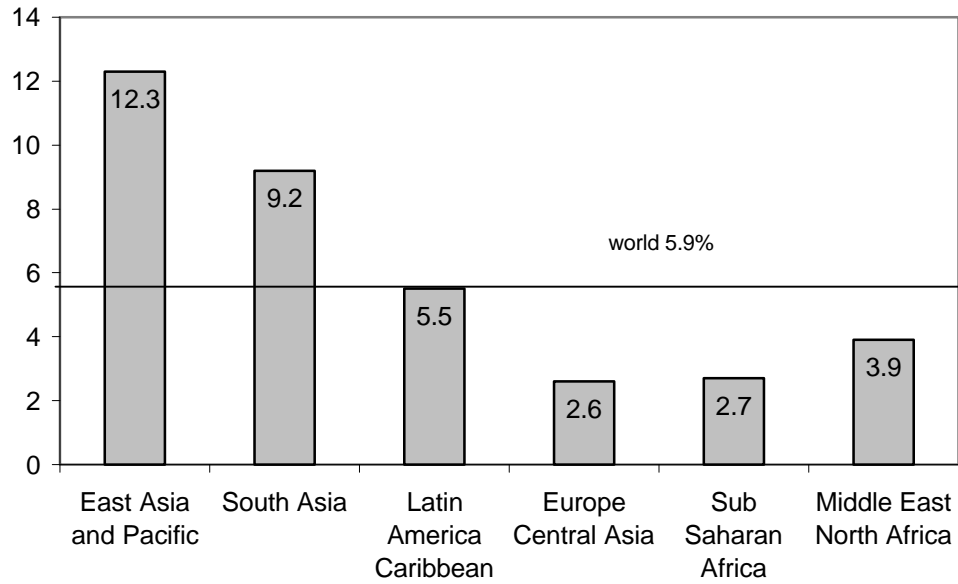
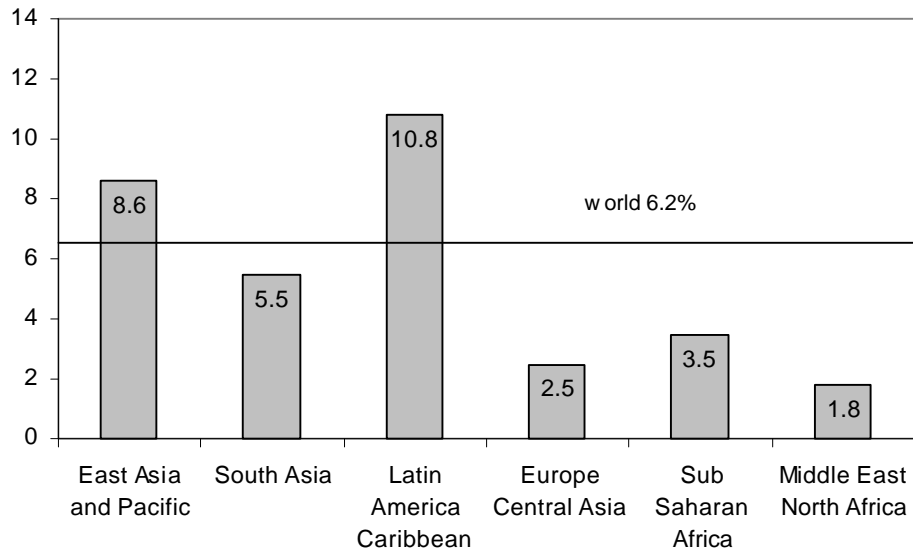


Figure 5a: Average annual growth of exports of goods and service 1990-1999



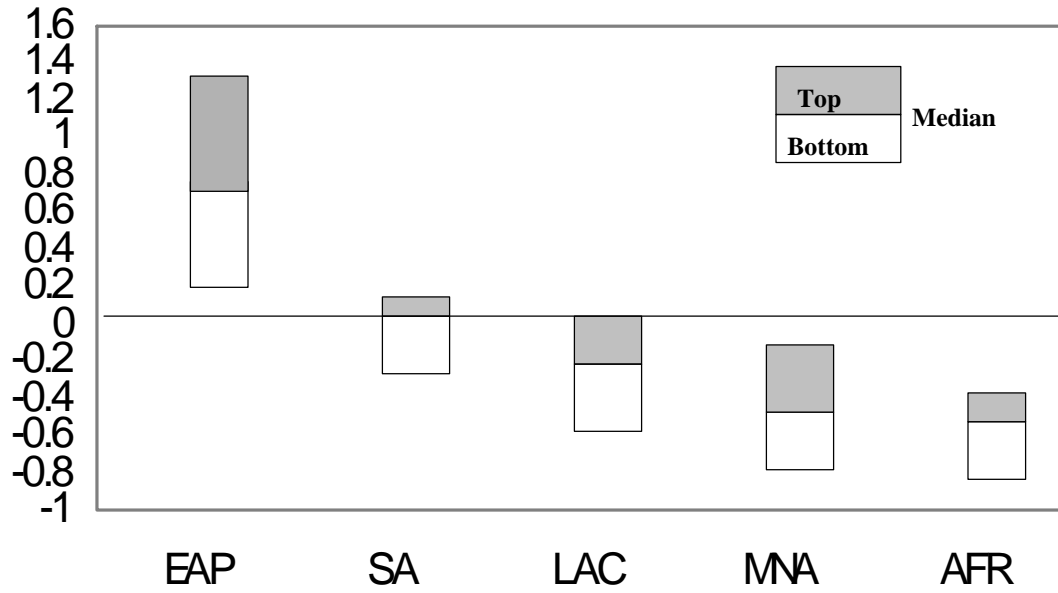
source: Global Economic Prospects 2002, Figure A3.5b

Figure 5b: Average annual growth of imports of goods and service 1990-1999



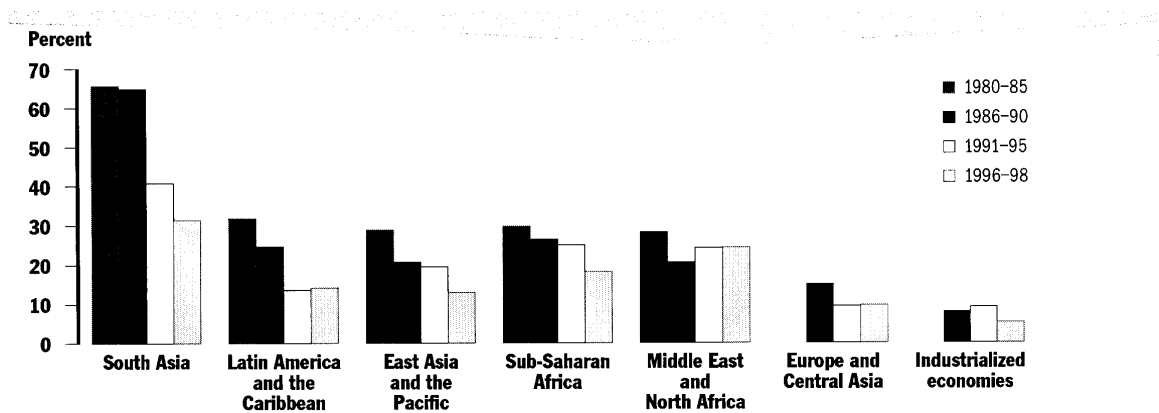
source: Global Economic Prospects 2002, Figure A3.6b

Figure 6: Speed of Integration



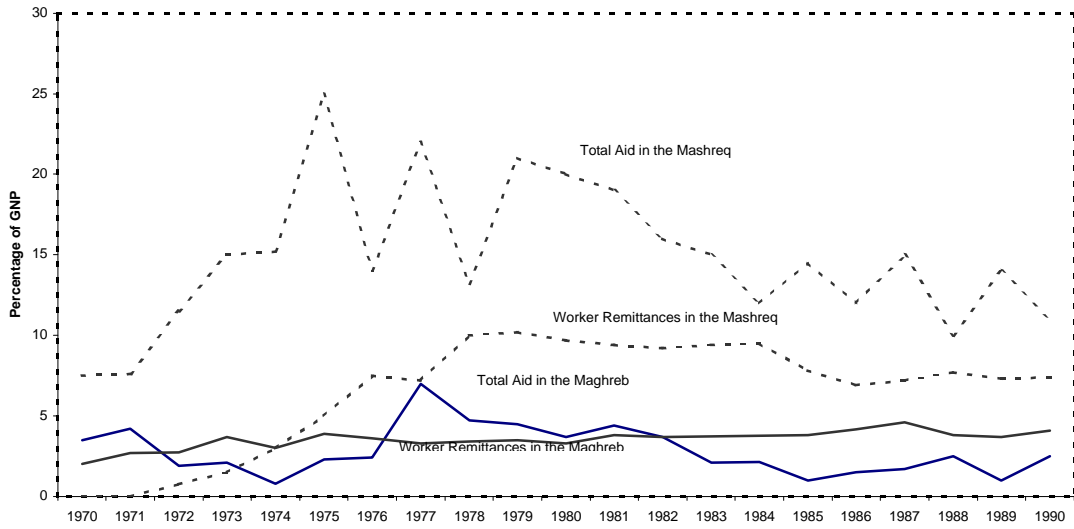
Source: World Bank Staff Estimates

Figure 7: Tariffs



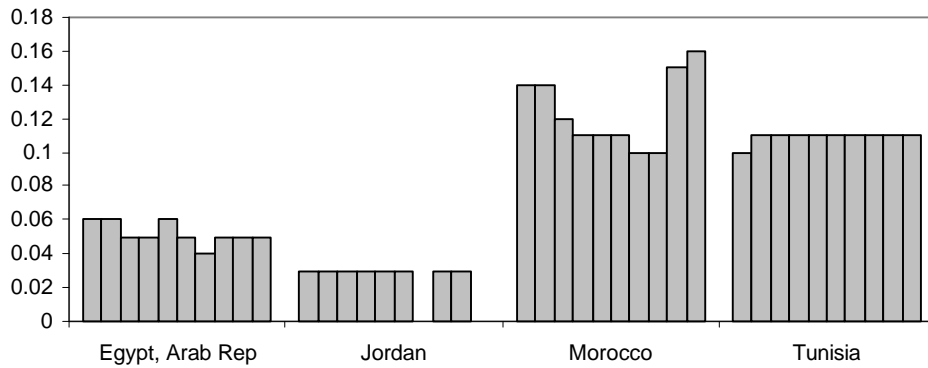
Source: World Bank (2001a).

Figure 8: Total Aid and International Worker Remittances in the Maghreb and Mashreq, 1970-1990



Source: John Page, "From Boom to Bust and Back? The Crisis of Growth in the Middle East and North Africa," in Prospects for Middle Eastern and North African Economies, ed. N. Shafik (New York: St. Martins Press, 1997), Table 12

Figure 9: Non-oil exports as a % of World Exports 1990-1999



source: World Bank central database

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