

Are Incomes of MENA Countries Converging?

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Abstract

One of the most important implications of Solow's growth model is the notion of convergence in which poor countries catch up to rich countries in levels of GDP after adjusting for different steady state parameters. This prediction sparked a large body of literature that applied both cross section and time series techniques to, mostly OECD, cross-country data in order to determine whether such economies exhibit convergence. In spite of the wide interest in investigating this topic among countries of other regions around the world, very little attention was given to testing for convergence among Middle East and North African (MENA) countries. This paper investigates income convergence among MENA countries by applying panel data unit root testing techniques to cross-country data to determine whether such economies exhibit stochastic convergence. This time series notion of convergence implies that per capita income disparities between converging economies follow a stationary process and is therefore said to hold if the existence of a unit root in relative per-capita incomes can be rejected. Using data of per-capita income differentials for 16 MENA countries, the paper looks for evidence of long run bivariate convergence between this sample of countries and the leading per-capita income of a base country. Convergence towards a number of potential leaders (targets) is investigated for the full panel as well as for the sub panel of the Gulf Cooperation Council (GCC) countries. This sub panel is of interest because the characteristics of the GCC economies have considerable similarities. This is a factor that should enhance convergence and encourage economic integration among these countries.

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