Structural Change, Resource Misallocation and Growth Dynamics in the MENA Region

Open Call for Proposals

Sub-theme 1: The Determinants of Structural Transformation in the MENA Region

The slow pace of structural transformation (i.e. changes in the allocation of labor and capital across different sectors) has been a notable feature of many developing countries, which partly explains their prolonged periods of low growth. It has been argued that the "growth accelerations" in some developing economies over the last two decades occurred due to a faster pace of structural transformation.[1] This was not necessarily driven by increased industrialization.[2] Such performance is partly attributed to changes in the allocation of resources across sectors, and partly due to a favorable price environment for commodity exporters.

Proposals under this sub-theme should seek to explore the determinants of structural transformation in the MENA region, and its subsequent impact on growth dynamics. This includes an assessment of the pace of structural transformation in the MENA region, and whether it is hindered by market imperfections or institutional factors. It also includes the role of exogenous forces (e.g. productivity growth across sectors) and the business environment (e.g. trade openness) in determining the pace of structural transformation. A related issue is whether the pace of structural change observed in the MENA region is efficient given some benchmark model of structural transformation. Pertinent issues in this context are related to the policy environment (e.g. trade policy, competition policy, and labor laws), price distortions affecting the relative prices of traded and non-traded goods, the role of the informal sector, among others. Firm- and sector-level data can be used to explore research questions pertaining to these issues.

Sub-theme 2: The Impact of Misallocation on Total Factor Productivity Growth

The efficiency of resource allocation across sectors varies considerably between countries, which tends to have a strong impact on growth in total factor productivity (TFP).[3] Proposals under this sub-theme should address the problems of measuring productivity losses due to allocative inefficiency, its impact on growth, and the policy drivers of enhanced allocative efficiency. Proposals should aim to identify and explain the recent trends in productivity growth in manufacturing and services. A key issue here is to establish whether or not industrial development has boosted aggregate productivity growth in the countries of interest.

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[1] See Diao, X., M. McMillan and D. Rodrik (2017), "The Recent Growth Boom in Developing Economics: A Structural Change Perspective," *NBER Working Paper No. 23132*, February.

[2] Latin America is a case in point. See the discussion in Rodrik, D. (2016), "Premature Deindustrialization," *Journal of Economic Growth 21*, 1-33.

[3] See Hsieh, C. and P. Klenow (2009), "Misallocation and Manufacturing TFP in China and India," *Quarterly Journal of Economics 124*, 1403-1448, and Buera, F. and R. Fattal-Jaef (2017), "The Dynamics of Development: Innovation and Reallocation," *Working Paper*.

Industries differ in the degree to which labor and capital are misallocated between firms and producers due to inter-firm differences in exposure to market distortions. This in itself could be traced to a wide range of industry-specific or economy-wide policy variables, which a successful proposal could identify. Other research questions relate to quantitative assessments of the impact of exogenous policy variables on TFP growth, whether productivity gains from reallocation (if any) were triggered by trade policy interventions, whether such gains have been larger in comparative-advantage industries/sectors than in the rest of the economy. Other potential research issues include estimating the component of industrial (or service sector) productivity growth that could be attributed to competition-driven churning,[4] as well as studying whether price distortions (e.g. due to energy subsidies) have significantly impacted allocative efficiency within and across sectors.

Under this sub-theme, proposals utilizing census-based enterprise data are particularly encouraged. In addition, proposals expanding the boundaries of the existing literature by looking at allocative efficiency within the services sector, as opposed to or in addition to the manufacturing sector, will be strongly considered.

Sub-theme 3: What Drives MENA Participation in Global Value Chains?

With a changing landscape in manufacturing processes, global value chains (GVCs) have become a key entry point for countries seeking to modernize their manufacturing sectors and benefit from growth in international trade. Proposals under this subtheme should focus on the identification and estimation of the effects of labor skills, natural resource endowments and geography on country participation in global value chains (GVCs).[5] Other research questions relate to estimating the impact of a country's natural resource endowments relative to the influence of other factors (e.g. geography), how skill gaps could constrain the participation of a county in manufacturing GVCs, the impact of other constraints such as transport infrastructure and other determinants of trade costs.

Other research questions of interest pertain to the role that labor market policies may have had in generating observed skills gaps and the mechanisms linking those policies to levels of schooling, how natural resource endowment could influence a country's participation in manufacturing GVCs directly and through its effects on skills formation and skills supply, and the specific behavioral mechanisms driving the interplay between the three variables (natural resource endowment, geography and the availability of skills) and their impact on participation in GVCs. There is also the question of identifying and measuring the effects of other aspects of the policy environment, namely, trade policy, competition policy and FDI policies in country participation in manufacturing or service GVCs.

Sub-theme 4: The Role of Economic Geography in Growth Dynamics

Following the theoretical literature on spatial agglomeration,[6] the distribution of economic activity across space, and its implications for economic growth and development was revisited with the emergence of

[4] See, for example, Melitz, M. and S. Polanec (2012), "Dynamic Olley-Pakes Productivity Decomposition with Entry and Exit," *NBER Working Paper No. 18182*, June.

[5] See Antras, P. and A. de Gortran (2016), "On the Geography of Global Value Chains," *Mimeo*, Harvard University.

[6] See Krugman, P. (1991), "Increasing Returns and Economic Geography," *Journal of Political Economy 99*, 483-499.

the "new economic geography" empirical literature.[7] Factors such as proximity to export markets, as well as suppliers of raw materials and capital goods can partly explain the variation in per capita income levels across countries.

The availability of firm-level data permits further depth in the analysis of the impact of economic geography on, for example, manufacturing export performance within and across countries.[8] Research issues under this theme include, but to not limited to, the use of firm- and sector-level data to study the impact of economic geography on growth dynamics in the MENA region. Submitted proposals may focus on country case studies and/or cross country comparisons.

[7] See Redding, S. and A. Venables (2004), "Economic Geography and International Inequality," *Journal of International Economics 62,* 53-82, and Redding, S. (2010), "The Empirics of New Economic Geography," *Journal of Regional Science 50,* 279-311.

[8] See, for example, Elbadawi, A., T. Mengistae, T. Temesgen and A. Zeufack (2008), "Economic Geography and Manufacturing Productivity in Africa: An Analysis of Firm Data," *Journal of Developing Areas 42*, 223-252.