

The Role of Economic Institutions and Macroeconomic Policies on Inclusive Growth: An Empirical Study in the ESCWA Region

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ABSTRACT:

Despite implementing several economic reforms and structural adjustment processes in various Arab countries, these efforts were not potent enough and policymakers were unable to enhance the standard of living in these countries. In fact, over the last seventeen years, the growth performance of the Economic and Social Commission of Western Asia (ESCWA) region as a whole was considered to be disappointing. The region suffered from the poor management of economic choices, weak governance and institutional frameworks, and corruption. As a result, inclusive economic growth in most of the ESCWA countries has not been readily implemented. Decades of prioritizing economic growth over inclusive growth and social equity have been the reason for high levels of wealth and income inequality in most of the ESCWA countries. This paper examines the role of economic institutions and macroeconomic policies on inclusive growth by generating a dynamic panel (GMM approach) for 16 of the ESCWA countries during the period between 2000-2016. Therefore, this paper aims to find out the determinants that widen the gap between economic and inclusive growth. The findings suggest that institutional variables (government effectiveness), financial deepening, government expenditure on health, years of schooling, and inflation have had a positive and significant impact on inclusive growth in the ESCWA region. In contrast, rule of law, and gross fixed capital formation have had a negative impact. The results suggest that inclusive growth implementation is all about governance with its overarching perspectives. Achieving good governance requires accountability, inclusiveness, and transparency within public affairs management.

Keywords: *ESCWA, Economic growth, Inclusive growth, Economic institutions, Macroeconomic policies*

INTRODUCTION

Globally, there is general agreement that economic growth has been a powerful engine in reducing absolute poverty but not relative poverty or inequality. Thirty years ago, various developing countries achieved fast economic growth alongside substantial absolute poverty reduction. Most of this reduction was attributable to rapid economic growth in the region (Zhuang, 2011).

There was a mixed consensus amongst donors, academics, and economists about the quality and capacity of growth which does not satisfy the needs of the poor. Despite the rise of

financial income amongst all population strata within most of these countries, (as a result of economic growth spells) inequality has also consequently increased. As a result, policymakers have finally realized that progress in attaining broad-based growth may only be possible if the contents of growth is altered towards boosting greater inclusiveness in the region (Zhuang, 2011).

The call for inclusive growth has fast become a new mantra in economic development policies (Lee, 2018). As a result of the rising inequality and poverty rate worldwide, there was a growing

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consensus on the need for socially-inclusive approaches to economic growth.

The Economic and Social Commission in Western Asia (ESCWA) was chosen as a sample because economic growth has not been inclusive for most of its countries and there appears to be a large gap between economic and inclusive growth. The ESCWA's lack of job creation has led to long spells of unemployment especially among youth and resulted in fluctuating income levels since the global financial crisis. Therefore, most of the inclusive growth within Arab countries has been considered to be sub-par for a prolonged period of time. Moreover, significant problems and challenges have hampered the way for inclusive growth and implementation of governmental policies for most of the countries in the region.

The ESCWA comprises of 18 Arab countries in western Asia; Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Mauritania, Oman, Palestine, Qatar, Saudi Arabia, Sudan, The Syrian Arab Republic, Tunisia, The United Arab Emirates and Yemen. The primary strength of this paper is that this study (based on the ESCWA countries) provides the reasons behind the existence of a large gap between economic and inclusive growth, which is in fact the cause of declining inclusive growth in the region. Additionally, the factors or determinants of inclusive growth in the ESCWA region are not widely studied and analyzed.

The aim of this paper is to contribute to this debate by focusing on economic institutions, macroeconomic variables as well as empirically analyze their impact on inclusive growth in the ESCWA countries. As a result, the researcher will answer the following question: what are the policies that could potentially help ESCWA countries foster both higher growth and greater equality as well as creating more jobs and increasing social safety nets?

The rest of this paper is structured as follows; in section two the researcher summarizes the definition and concepts of inclusive growth within the presented literature and depicts several studies with their findings. Section three presents the methodology, the model, the estimation techniques, and data sources. In section four the researcher presents the results obtained and displays a scenario analysis of these results. Finally, in section five the researcher presents the

conclusions of the paper as well as suggests recommendations in regard to the ESCWA region.

Literature Review

Concepts and definitions regarding inclusive growth are contested amongst academics and researchers as a result of their controversial publications and mixed theories. Moreover, a wealth of literature and empirical analyses concerning the determinants of inclusive growth were highly disputed among scholars.

The usage of the term "inclusive" was initially brought forth in an essay written by Kakwani and Pernia (Kakwani and Pernia, 2000), which can be traced back to the turn of the century (Ranieri & Ramos, 2013). Ali and son (2007) consider growth to be inclusive if it increases social opportunity, which should be reflective of average opportunities available to the population and on how those opportunities are shared amongst them (ALI and Son, 2007) (Ganelli, 2020). There is no exact definition for inclusive growth but most scholars agree that inclusive growth goes beyond per capita income and ensures that economic growth sustains equal social and economic opportunities for all (GSDRC, 2015).

Not only has the argument revolving around the determinants of inclusive growth gained significant momentum but it has also been largely debated among researchers. It should be noted that theoretical analysis into inclusive growth is considered to be more abundant than empirical analysis. Several theoretical studies delved deep into various determinants, but the most prevalent and widely adopted determinants related to inclusive growth are the institutional variables, fiscal, monetary and structural policies, health, education, inflation, and social safety nets.

(Habito, 2009), (Ostry, Berg and Tsangarides, 2014), (Chaudhary and Sadaf, 2016), (Anand, Mishra and Peiris, 2013), (Balakrishman et al., 2013), (Khan, Khan, Safdar, Munir and Andleeb, 2016), (Aoyagi and Ganelli, 2015) have all studied the determinants of inclusive growth within different countries and different time frames. Their results were that conditional convergence (initial income), trade and productivity, education levels, redistributive fiscal policy, monetary policy aimed at macroeconomic stability by combating inflation

and volatility in income, years of schooling, education spending, industry employment, labor share, financial deepening, public investment, financial reform, government consumption, fixed investment, foreign direct investment (FDI), exports, and quality of governance are essential determinants of inclusive growth. While inflation and GDP volatility have a significantly negative impact on inclusive growth.

(Dolumbia, 2015) Examined various determinants of inclusive growth using a sample of 112 countries. The results revealed that only two features of governance (government effectiveness and the rule of law) have a significantly positive impact on inclusive growth. Additionally, the results showed that enriching human capital through expenditure on both the education and health sector, financial development, and infrastructure enhancement are main drivers that positively influence poverty reduction and inclusive growth. This result correlates with the conclusion reached by Levine (2005), who found out that financial development is positively linked to growth.

(Aslam and Zulfiqar, 2016), both studied inclusive growth determinants (in both the long and short term) on selected Asian countries. The results showed no short-term relationship of trade openness, GDP per capita, education, health, inflation, and umbrella of institutions to inclusive growth. However, the results did reveal that all the previous determinants are effective and foster inclusive growth in the long run.

(Oluseye, 2017) Has investigated the primary drivers and determinants of inclusive growth in Nigeria. According to the results, initial income, capital formation, FDI, government consumption, population growth, inflation, and governmental expenditure on education are all determinants of inclusive growth in Nigeria. All the previous determinants have a negative impact on inclusive growth (in the long run) except for FDI and initial income. Moreover, inflation is considered to have a positive impact on inclusive growth in the short-run but a negative impact in the long-run.

(Alekhina and Ganelli, 2020), have both studied six ASEAN countries and reviewed the impact of monetary, fiscal and macro-structural reforms on inclusive growth in ASEAN. Their results suggest that fiscal redistribution, female labor force participation, productivity growth,

FDI inflows, digitalization, and savings significantly drive inclusive growth.

Through reviewing previously conducted studies, the observation that most of them revealed a consensus regarding the factors that affect inclusive growth (either negatively or positively) became apparent. Therefore, it is these factors which decrease or increase the gap between economic and inclusive growth.

Consequently, it can be concluded that the general understanding in regard to the scope of literature in this subject matter is that the determinants of growth inclusiveness are, as mentioned before, supported by the empirical findings for most of the studies.

RESEARCH METHOD

To analyze and study the differences between both inclusive and economic growth, the researcher must identify the factors that are presumably responsible for the differences between the two types of growth. Therefore, this paper at hand adopts a panel analysis of the determinants of inclusive growth or the factors that lie behind economic-inclusive growth disparities for 16 countries in the ESCWA region from 2000 to 2016. Syria and Palestine are dismissed from the analysis due to lack of available data. In order to conduct aforementioned analysis, this paper applies the approach adopted by the World Economic Forum (WEF) to measure inclusive growth by using 12 indicators (see WEF inclusive growth report 2017).

The below variables are extracted from the most common determinants of several previous studies related to the determinants of inclusive growth (refer to literature review). Therefore, the linear form of the model specification related to the determinants of inclusive growth or the factors that are responsible for inclusive-economic growth disparity (which the present research endeavors to analyze empirically) are as follows:

$$IDIGDP_{it} = \beta_0_{it} + \beta_1 OV_{it} + \beta_2 IC_{it} + \beta_3 FD_{it} + \beta_4 Z + u_{it}$$

IDIGDP is the dependent variable which stands as a proxy in regard to the extent in which the economic growth of Arab countries is moving

toward inclusiveness. The IDIGDP variable reflects the ratio of IDI/GDP per capita; moreover, it is regressed upon main and control variables aimed at examining both the determinants of inclusive growth of the ESCWA countries and the factors which are responsible for the non-inclusiveness of the economic growth within these countries. OV, IC, and FD stand for Output Volatility, Initial Income, and Financial Deepening respectively. Where “Z” serves as a control variable and includes Rule of Law, Government Effectiveness, Domestic General Government Health Expenditure, Gross Fixed Capital Formation, Years of Schooling, and Inflation. u_{it} is the idiosyncratic error term. i stands for individual dimension (countries) and t for the period dimension (years), β_0 is the constant term, $\beta_1, \beta_2, \beta_3, \dots$ which are considered to be the parameters.

In this study, the relationship between the dependent variables (IDIGDP) and the explanatory variables appear to be dynamic. As a result, the researcher uses the lagged level of the dependent variable in the right-hand side of the regression as follows:

$$y_{it} = ay_{it-1} + bx_{it} + f_i + v_{it}$$

Where “a” must be between 0 and 1 in absolute terms, the statistical significance of the coefficient (a) proves the importance of dynamic effects (Marc Goergen, Noel O'Sullivan, Wissam Abdallah, 2015).

y_{it} is the gap between inclusive and economic growth. y_{it-1} is the gap between inclusive and economic growth of the preceding year. X_{it} is the set of main and control variables as aforementioned. f_i is the unobservable time-invariant, and v_{it} is the error term that is not serially correlated.

The relationship between the dependent and independent variables of this study could not be captured through static OLS or fixed-effects techniques. As such, the researcher needed to implement and apply a superior estimation technique that best suits our model and data rather than OLS /Fixed and Random effects methods. Generalized Method of Moments (GMM) technique would offer robust estimates compared to fixed- effect estimates and OLS. To apply this

method, the researcher carried out a final check by using the dynamic panel GMM model.

This study will comply with the same methodologies used by (Marc Goergen, Noel O'Sullivan, Wissam Abdallah, 2015) and (Ullah et al., 2018). This was achieved by using the dynamic panel 2-steps system GMM including the lagged levels of the dependent variable as an explanatory variable as well as the tested regressors and lagged internal variables as instruments. The model for the dynamic panel GMM is as follows:

$$\begin{aligned} IDIGDP_{it} = & \beta_0 + \beta_1 IDIGDP_{it-1} \\ & + \beta_2 IDIGDP_{it-2} + \beta_3 OV_{it} \\ & + \beta_4 IC_{it} + \beta_5 FD_{it} + \beta_6 Z \\ & + \mu_{it} + \varepsilon_{it} \end{aligned}$$

$IDIGDP_{it-1}$ is the one period lagged dependent variable (previous year of the ratio of IDIGDP). $IDIGDP_{it-2}$ is the two-period lagged dependent variable. μ_{it} is considered to be the country-specific fixed effects and ε_{it} represents the error term.

The data is collected from the World Bank, ESCWA, IMF, World Development Indicators (World Bank), The Global Burden of Disease Data Base (Institute For Health Metrics And Evaluation), Credit Suisse Global Wealth Databook 2016, The Standardized World Income Inequality Database, Labor Market Database (International Labor Organization), PovcalNet (WB), World Health Organization, Global Finance, The Shift Project Data Portal, United Nation Data, Global Wealth Report, and finally the Worldwide Governance Indicators (WB).

RESULTS AND DISCUSSION

The purpose of this section is two-fold; first, it intends to reveal the results of the variables in regard to the aforementioned econometric model in the methodology chapter, the estimation techniques used, and the procedures and methods. Second, it analyzes the outcome of each variable. In order to provide an inclusive conclusion, this section discusses the results obtained in the light of previously conducted research and some theoretical approaches displayed in the literature chapter.

Table 1: Descriptive Statistics

Statistics	IDIGDP	FD	IC	OV	DGGHE	ROL	YOS	GOVEFF	GFCF	INF
Mean	2.25	43.41	30884.2	5.12	307.967	-0.288	6.58	-0.242	23.71	5.470
Median	2.35	41.54	12007	2.83	159.503	-0.066	6.8	-0.126	22.59	3.278
Maximum	3.89	105.18	124024.6	70.38	1825.43	0.849	10.8	1.509	61.46	53.231
Minimum	0.87	1.26	2319.22	0.26	3.0542	-1.838	1.2	-1.97	2.91	-10.067
Standard Dev.	0.75	27.16	33256.1	9.74	359.775	0.7257	2.34	0.752	8.42	7.330
Skewness	-0.25	0.180	1.295	5.24	1.54914	-0.522	-0.325	-0.259	1.38	2.635
Kurtosis	2.02	1.99	3.603	32.549	5.090	1.963	2.137	2.343	6.896	13.587
Observations	272	272	272	272	272	272	272	272	272	272

Source: Researcher Calculations

Descriptive Statistics

Table 1 is the depiction of a statistical table which includes the variables under examination. The table shows the different types of statistical measures that appears important to start with before displaying the empirical results.

The results show that the mean and median are too similar in comparison to the other variables under examination. The growth rate (average) for the dependent variable is 2.25. Moreover, 43.4, 30884, 5.122, 6.58, and 23.711 for the main variables of the study which are FD, IC, OV, and GFCF, respectively. Most of the variables have a low standard deviation, which implies low variations and consistency of data. However, in certain cases, it would be possible for some variables who have a large range (compared to other countries in the sample) to also have large standard deviation values. This is presumably due to significant variations of the values between countries. As such, it is apparent that this is in fact the case with two of the variables in the study, namely- initial income (GDP per capita), and domestic general government health expenditure per capita variables.

The measures of skewness demonstrate that only four of the variables are negatively skewed (such as ROL) whilst all the remaining are

positively skewed (such as IC) which indicates that the distributions at hand have a long right tail. In the latter positive case, the mean is greater than the median. Additionally, the kurtosis, showed that none of the examined variables within the series are normally distributed, although IC is very close to normal.

Dynamic Panel GMM Model

As Roodman (2006) has demonstrated, GMM is used when certain assumptions exist in the study such as the nature of the relationship between variables are dynamic. Therefore, this suggests that the gap between inclusive and economic growth may be affected by previous gaps. In other words, this depends on its own past realizations. Moreover, some regressors are endogenously determined and may not necessarily strictly exogenous, which is the case in this research study.

GMM would correct for the three types of endogeneity (omitted variables, simultaneity, and measurement error), as claimed by Blundell and Bond. GMM model removes endogeneity by transforming the data internally in which the past value of a certain variable is subtracted from its present value, this gives GMM models more efficient estimates (Ullahet.al., 2018).

Table 2: Estimation Results Using Dynamic Panel, Two-Step System GMM
Dependent Variable: IDIGDP

Equation	Coefficient	Std. Error	z	p-value	
IDIGDP(-1)	-0.320973	0.123576	-2.597	0.0094	***
IDIGDP(-2)	-0.0331672	0.172358	-0.1924	0.8474	
CONST	2.45599	0.952057	2.580	0.0099	***
OV_3	-0.00278426	0.00315200	-0.8833	0.3771	
GFCF_3	-0.0318493	0.00587673	-5.420	<0.0001	***
Inf_3	0.0159897	0.00458340	3.489	0.0005	***
FD_3	0.00544628	0.00323988	1.681	0.0928	*
GOVEFF_3	1.11879	0.468982	2.386	0.0171	**
YOS_3	0.135848	0.0812293	1.672	0.0944	*
ROL_3	-1.19052	0.302698	-3.933	<0.0001	***
DGGHEPC_3	0.000474435	0.000157051	3.021	0.0025	***

Source: Researcher Illustrations

Post-Estimation Tests

Sargan over-identification test: Chi-square (129) = 14.6502 [1.0000]

Test for AR (1) errors: z = -2.84492 [0.0044]

Test for AR (2) errors: z = -0.855178 [0.3925]

Wald (joint) test: Chi-square (10) = 499.805 [0.0000]

The absence of unified tests and formal protocol makes it important for researchers to test GMM results for more robustness via the Sargan (1958) test and Hansen (1982) J-test. This is done in order to examine the overall validity of the instruments. Moreover, Arellano-Bond as well as the Wald test (Ullah et al., 2018) can be implemented for autocorrelation and significance of the model.

The previous model uses a two-step system GMM with 2 lags of the dependent variables to control for second order serial correlation. The initial income variable is removed from the study due to strong collinearity. The variables are lagged 3 since the first and second lags gave inconsistent estimations in regard to autocorrelation. Additionally, there is no availability for first and second order serial correlation in the model (see AR (1), AR (2)). As a result of AR (1) being significant, the researcher

rejected the null of first order serial correlation as well as identifying that AR (2) is not considered significant. This is due to the fact that it showed that we fail to reject the null of no second order serial correlation. The Sargan test is not significant as it failed to reject the null of valid instruments. Therefore, it can be concluded that the instruments used in this model are valid (Table 2).

In regard to the Wald test, the results show that the test is significant which indicates that the model and the variable used are efficient and meaningful. The valid results of the previous tests and (unlike the First Difference GMM results), System GMM estimates of the lagged dependent variable remain within the range of the estimates of Fixed Effect (Neri Salvadori, Pasquale Commendatore, Massimo Tamberi, Edward Elgar, 2009). It can therefore be concluded that the two-step system GMM is the most reliable estimator which gives consistent and unbiased estimates.

The estimates revealed that all the examined regressors are significant and therefore have either a positive or a negative impact on the inclusive-economic growth gap. This does not include output volatility which has shown to be insignificant. As observed, gross fixed capital formation and rule of law has a significantly negative impact, whereas inflation, financial deepening, government effectiveness, government expenditure on health, and years of

schooling have a positive impact on our examined dependent variable.

The results reveal both a slightly positive and negative impact of some of the variables. Among these variables is government expenditure on health and years of schooling. The findings of this study show their slightly positive (as well as statistically significant) impact on inclusive growth. This means that having access to better health and well educated work-force would foster inclusive growth in the ESCWA region.

Financial Deepening (credit to private sector) also has a slightly significant impact on inclusive growth in the examined region. Better access to financial resources, effective, well-functioning financial system (which provides financial services such as saving mobilization) and better capital allocation would consequently help improve the standards of living for the poor (Kheir, 2018). Given the importance and the significantly positive impact of FD on inclusive growth, access to credit in the Arab countries has always been a constraint. It is of utmost importance to note the complexity and restricted procedures of opening businesses as well as the lack of adequate rights protection for investors and enforced contracts. The reality is funding deficiency exists, inadequate financing at the early stage of an enterprise development is a significant obstacle for the sustainability and the rate of innovation of an enterprise (OECD, 2006).

Several empirical studies provided fairly convincing evidences that the relation between inflation and economic development is nonlinear in nature (Khan M. , 2013). At low levels of inflation in the Arab countries, the relationship between both variables can be positive or non-existent, while at higher rate it becomes negative. As a result, one can estimate the threshold level of inflation at which the relationship switch from positive to negative. Estimates of the threshold by which inflation starts to significantly hurt development varies amongst studies. There is clear evidence that inflation above 10 % will start to hurt development, where at the same time zero percent does not help inclusive growth (Khan M. , 2013). Khan (2013) used an average of the empirical estimates for several available studies for different regions of the world, he found out that inflation should be kept in the 3 to 6 % range in regards to avoid the adverse growth and development effect. Empirical estimates for

MENA countries showed that the effect of inflation on economic development turning negative at 6 to 8 percent (Khan M. , 2013).

Consistent with the previously mentioned, the researcher calculated the average rate of inflation in the ESCWA region for the period 2000-2016. The inflation rate in the region was 6.2 %, which seems that inflation did not significantly hurt inclusive growth in the ESCWA region during that period. Therefore, policymakers in the ESCWA region should start to worry about the adverse effect of inflation on inclusive growth at a rate higher than 8%. These estimates confirm the positive relationship between inflation and inclusive growth obtained in this study.

The last variable is gross fixed capital formation. The results reveal a negative effect of this variable on inclusive growth with little significant impact. Therefore, it appears that net investments are not significant in fostering inclusive growth within the ESCWA region, nor do the efforts performed by the government belonging to ESCWA countries to build a sufficient scale of capital equipment. A sufficient scale is of utmost importance because it increases the productivity of mining, industry, agriculture, and construction of schools, hospitals, railways, roads and so forth. In other words, the creation of economic and social overhead capital that would break the vicious circles of poverty is fundamental for economic development, and it is only possible with a rapid rate of capital formation in the ESCWA region. (Emmanuel Nkoa ONGO, 2014). Romer (1986), Lucas (1988), Romer (1990) and Barro (1990) have reconsidered the positive impact of GFCF on growth by adding other factors such as; human capital, infrastructure, and research and development which accelerate GFCF and increase its impact on growth (Emmanuel Nkoa ONGO, 2014).

From the results presented in this study, it seems that some of the ESCWA countries' fixed investments structures are not oriented towards economic development sectors, or in other words these investments do not contribute to enhance development and sustainability. It appears that the ESCWA countries suffer from several problems and obstacles that hinder the positive aspect that fixed domestic investments could play on employment and poverty. These problems and obstacles are directly related to the poor

management of growth and development policies and weak investment strategies that lead to the existence of negative impact of investment on inclusive growth.

The imprudent investment policies and lack of governmental monitoring conditions on informal sectors within some of the ESCWA countries have resulted in various domestic fixed investments to be unproductive and inefficient, this is especially in regard to the development agenda. Therefore, the larger the share of domestic fixed investment, the lower the growth rate of the economy. The type of investment is very important for generating economic development, such as the quality and efficiency of the investment within both the private and public sector. Emara and Jhonsa (2011) and Nabli (2007) have linked the cause of low capital efficiency of countries within the MENA region in particular to the fact that most countries in the region offer an unfriendly environment and insufficient support to private investments (Abdelbarya and Benhinb, 2019).

The results of the previous five variables are in line with previous studies conducted by Levine (2005), Anand and et al., (2013), Balakrishnan et al., (2013), Aoyagi and Ganelli (2015), Khan and others (2016), Aslam and Zulfiqar (2016), Ibukun Cleopatra Oluseye and et al. (2017), Ibukun Cleopatra Oluseye et al. (2017).

Nevertheless, what was observable in the estimates of this research paper was the significant role that only two of governance institutional variables (government effectiveness and rule of law) play, either positively or negatively on inclusive growth. The results indicate that a 1 unit increase in the rule of law decreases inclusive growth and increases inclusive-economic growth disparity in the ESCWA region by 1.19 unit.

The results of this study has confirmed that the rule of law has an adverse effect on inclusive growth which confirms that institutional quality in the Arab World is inferior and faces many challenges and problems as noted by many scholars such as; Hall et al. (2010), Jalilian et al. (2007), Nabli (2007), and Ahmad and Marwan (2012) (Abdelbarya and Benhinb, 2019). The World Bank's worldwide governance indicators provide evidence of the misrule and mismanagement applied by many of the governments belonging to these countries.

It is worth mentioning that several problems hinder the rule of law in the Arab World. This is the case where wealthy people have their power and influence over the law. Unfortunately, the presence of a connection between politics and the judiciary (where in this case politics can potentially control the judiciary system as well as the existence of corruption and the use of connections – *Wasta*) leads to an unfair social and economic environment governed by flawed laws and regulations. For instance; in some of the ESCWA countries such as Saudi Arabia, the laws are not fully codified, therefore the decisions that are taken by individual judges would be unfair and inconsistent (al-bab.com, 2019).

Therefore, based on the previous facts and according to the obtained results, it is apparent that the legal and judicial system implemented in ESCWA countries are not oriented towards sustained and inclusive development, and rather the law doesn't sustain both marginalized and bottom lined population groups. These laws are not well designed to tackle issues related to equity, fairness, and property rights. Inadequate institutional and legal frameworks, poor court systems, increased likelihood of crime and violence, less confidence and less adherence to the rules of society, as well as poor quality of contract enforcement have all contributed to negatively affect inclusive growth in the ESCWA region. Consequently, applying legal conditions in the Arab countries of the ESCWA does not result in a positive dimension in regard to inclusive growth prospects.

The results of this study correlate with the results obtained by Dumbia (2013), who found out that only two features of governance (government effectiveness and the rule of law) have a significant impact on inclusive growth. However, what was not expected and in fact contradicts the positive result suggested by Dumbia, is the significantly negative impact of the rule of law on our dependent variable.

Although many scholars have had faith in regard to the role of the implemented laws which form the basis of socio-economic development, many others have relied on the opposite, contradictory results. There are various empirical studies which have concluded that a country's institutional efficiency reinforces growth in developed countries, but to the contrary has a negative impact on developing countries (Asli

Özpolat, Ferda Nakipoglu Ozsoy, Ayse Bahar, Gulsum Gunbala Guven, 2016).

In addition to the aforementioned, the obtained results for the rule of law coincided with the results obtained by Londregan and Poole (1990); Helliwell (1992); Bienen et al. (1993); Alesina and Perotti (1994); Alesina and Rodrik (1994); Alesina et al. (1996); Sachs and Warner (1997); Chong and Calderon (2000); Chang (2003); Yaprakli (2008); Fabro and Aixalá (2009); Fabro and Aixalá (2009); Valeriani and Peluso (2011), Ilic (2014); Dimick (2016). Some of these studies have tested the impact of the rule of law on the development of developing and under-developed countries and essentially found evidence that institutional quality variables such as rule of law is not sufficient for poor countries. Moreover, the results in this regard were not statistically meaningful. Amongst some of these studies have tested democracy which considered to be one perspective in regard to the rule of laws. Moreover, among these studies also, some tested growth under Sharia Law, and some tested the impact of rule of law on income inequality and found no statistically significant impact of the former on the latter.

The results of this study also match those of Cox, who states that there is weak evidence regarding the impact of the rule of law on poverty alleviation (Christina, 2013).

In regard to the government effectiveness variable, the index shows an important finding given that it is a unique measurement of government effectiveness. The results show strong significant positive evidence of the impact of government effectiveness on inclusive growth in the ESCWA region. The results of this study resemble the results of Dombia (2018), Habito (2009), and Aslam and Zulfiqar (2016).

In particular, a 1-unit increase in government effectiveness causes a 1.11 unit increase in inclusive growth and therefore decreases inclusive-economic growth disparity in the ESCWA region by 1.11 unit. Consequently, this result reveals that building effective institutions and promoting an effective government by better delivering public services could be important to making growth inclusive in the ESCWA region. It is widely known that a particular country's efficiency in its public services has a direct impact on poverty. As a result, this country would therefore have an efficient health care system,

better educational system, protecting the most vulnerable and marginalized members of society, reducing child mortality rate, as well as curbing environmental degradation. (MCC, 2016).

CONCLUSION

Inclusive growth means a level of overarching growth which addresses equity and equality of social and economic opportunities in addition to job creation. This type of growth is broad-based and benefits every segment of society, including the poor, middle-income groups, near-poor, and even the wealthy (Traore, 2019). The concept of inclusive growth is ambiguous with no unified or universally agreed definition amongst academics and researchers. While economic growth is easy to define and straightforward to measure, the specification of what makes it inclusive is strongly debatable and controversial. Additionally, what are the determinants of inclusive growth is another contestable issue amongst researchers, where many of them shared common determinants.

This paper investigates the determinants of inclusive growth in the ESCWA countries, and at the same time it depicts the factors which are the cause of the economic-inclusive growth gap. To achieve our goal, the author uses the WEF approach to measure inclusive growth for 16 of the ESCWA countries for the duration 2000-2016. The dynamic panel, two-step system GMM estimation technique is used by Gretl software. The author tests nine determinants which are initial income, government effectiveness, rule of law, gross fixed capital formation, general government health expenditure per capita, output volatility, years of schooling, inflation and financial deepening.

Arab countries have failed to address and deploy human capital issues efficiently despite the high levels of education that these countries enjoy. This is due to the incursion of the public sector which distorts incentives as well as the existence of excessively strict and extremely tight regulations on the labor market governing the industry compared to other developing countries (Abdelbarya and Benhinb, 2019). In fact, many authors argue that the educational system within Arab countries is oriented only to the needs of the public-sector jobs whereas the required skills to improve the development of private businesses are not sufficiently available. Many scholars have

emphasized the significant role that education attainment plays on development (Abdelbarya and Benhinb, 2019).

In this study, both variables related to general governance and investments are statistically significant which means that the effect of institutions could move through investment channels and impact inclusive growth positively. This is only possible if ESCWA countries enhance the quality of their governance given the negative impact of both variables on inclusive growth.

The influence of the quality of governance on inclusive growth runs primarily through its impact on the investment climate of the domestic private businesses (Nabli, 2007). Adequate governance would produce a better business climate for investment and inclusive growth as well as promote endeavors which foster effective implementation of the economic policies.

The conclusion reached by this study is that institutional variables matter for inclusive growth in the Arab Countries and there is an urgent need for it especially after the Arab spring. An established regulatory regime which promotes instead of constraints growth is urgently needed for good governance in the region. The market practices as well as the function of the economy play a key role to determine a country's ability to foster an effective regulatory institution.

The results suggest that inclusive growth implementation is all about governance with its overarching perspectives. Achieving good governance requires accountability, inclusiveness, and transparency in the public affairs management (Nabli, 2007). Better governance mechanisms would improve economic policies which in turn lead to better economic growth and development.

The challenge in regard to Arab countries is that they should strive to achieve better governance. Moreover, they need to strengthen and sustain the capacities, mechanisms, and incentives for what is considered to be more inclusive and accountable public institutions as well as fight for equality and equal participation of all Arab citizens in the society. Governments in Arab countries should apply efficient rules and laws, property rights, more efficient and less corrupt public administration and government.

Consequently, the outcome in the ESCWA region depicts that economic growth should be

complemented with effective governmental policies, better rule of law which can benefit all the population and more oriented towards promoting inclusive growth, transparent public administration as well as effective enforcement of the legal system. Furthermore, inclusive growth requires macroeconomic stability by low inflation less than 8 % for both the short and the long run, better investments climate to encourage fixed domestic investment, better business regulations, and effective implementation of governmental policies and institutions which allows all the population to benefit from economic growth. Moreover, to this improvement in the educational skills of the labor force and better health and financial services would be key for fostering inclusive growth in the region. Additionally, for the ESCWA region to achieve high and sustained economic growth that leads to significant job creation will only come if the countries of the region reform their economies to be more market-oriented, as well as give the private sector a leading role. In summary, it can be concluded that designing a development regime in the Arab world is not only possible but is also within reach. Given the famous slogan of the Arab Spring revolution "bread, freedom and social justice" which captures the demands and essence of economic, social, political integrity for Arab citizens. Without the aforementioned reforms, the goals of the uprisings would be threatened to be unsuccessful.

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