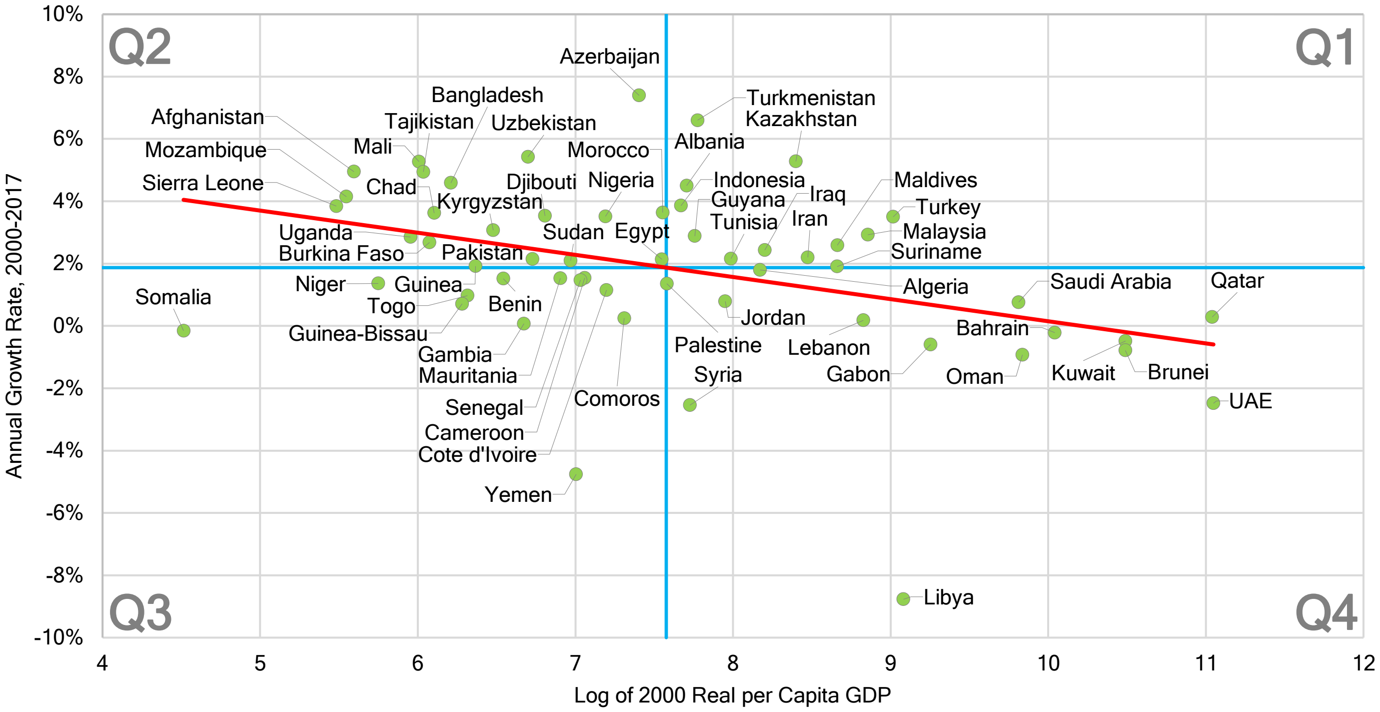
DID YOU KNOW?

2019-07

Income Convergence Across OIC Countries, 2000 - 2017



- **Income convergence** refers to the process by which low-income economies converge towards high-income economies through higher growth rates as they accumulate factors of production (labour, physical and human capital). In other words, as income rises, economic growth tends to slow across countries.
- The accumulation of factors of production, however, may not be enough to generate convergence at later stages of the development. In order to overcome the "**middle-income trap**", developing countries need to maintain high investment in research and development for high-value-added industries and in knowledge-based services.
- In the period 2000-2017, the OIC countries showed a tendency to converge at a speed of about 0.76% per annum, a highly significant rate at conventional significance levels. This suggests that poorer economies inclined to grow faster than richer economies across the OIC countries. The above figure shows this relationship as a scatter plot of the average annual growth rate of real per capita GDP between 2000 and 2017 against the log of real per capita GDP in 2000.
- The **right top quadrant** (Q1) represents the **outperformed economies**. The average growth rates of 12 OIC economies in this quadrant were above the average of OIC countries. In contrary to the normal expectations, their real per capita GDP values in 2000 were also higher than the OIC average. The top performers in the outperformed economies quadrant were **Turkmenistan**, **Kazakhstan**, **Albania**, **Indonesia**, and **Turkey** with an average growth rate of over 3% from 2000 to 2017.
- The **left top quadrant** (Q2) denotes the **catch-up economies**. These 19 OIC countries were observed to converge to higher-income OIC countries through higher growth rates during 2000-2017 period. The top performers in the catch-up economies quadrant were **Azerbaijan**, **Uzbekistan**, and **Mali** with average growth rate of over 5% in this period.
- The **left bottom quadrant** (Q3) displays 12 OIC economies whose real per capita GDP diverged from the OIC average.
- The **right bottom quadrant** (Q4) includes 14 OIC economies (mostly high-income) whose growth rates were lower than the OIC average as expected according to the absolute convergence hypothesis.
- Libya, Syria, and Yemen were deemed as outlier economies in this analysis due to the political instabilities in these countries.

Note: The red line shows the native relationship between average growth rate over 2000-2017 period and real per capita GDP in 2000. The horizontal and vertical blue lines indicate the relevant averages of OIC countries. The speed of convergence is found by the non-linear least square estimation method.

Source: SESRIC staff calculations based on data extracted on 28/01/2019 from the United Nations National Accounts Main Aggregates Database. Please visit **OIC Statistics (OICStat) Database** (http://bit.ly/2F7W8cv) for other indicators under the National Accounts category.