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Understanding Sub-Saharan Africa's Extreme Poverty Tragedy

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Simplice A. Asongu[a,b] & Sara le Roux[a]

[a]Oxford Brookes Business School,
Oxford, OX3 0BP, UK.
Email: sle-roux@brookes.ac.uk

[b]Development Finance Centre,
Graduate School of Business,
University of Cape Town,
Cape Town, South Africa.
E-mails: asongusimplice@yahoo.com
/ asongus@afridev.org

Research Department

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Abstract

Motivated by a recent World Bank report on achieving of Millennium Development Goals which shows that poverty has been declining in all regions of the world with the exception of sub-Saharan Africa (SSA), this study puts some empirical structure to theoretical and qualitative studies on the reconciliation of the Beijing Model with the Washington Consensus. It tests the hypothesis that compared to middle income countries, low income countries would achieve more inclusive development by focusing on economic governance as opposed to political governance. The empirical evidence is based on interactive and non-interactive fixed effects regressions and 49 countries in SSA for the period 2000-2012. The findings confirm the investigated hypothesis. As the main policy implication, in order to address inclusive development challenges in the post-2015 development agenda in SSA, it would benefit low income countries in the sub-region to prioritise economic governance. Other theoretical and practical contributions are also discussed.

JEL Classification: D31; I10; I32; K40; O55
Keywords: Inclusive development; Middle Class; Governance; Sub-Saharan Africa; Beijing Model; Washington Consensus

1. Introduction

The positioning of this inquiry is motivated by three main contemporary challenges to African development, notably, the: (i) heartbreaking trends of extreme poverty in sub-Saharan Africa (SSA); (ii) growing role of the middle class in development outcomes and gaps in the corresponding literature and (iii) debates over the relevance of the two dominant models of development in African development policy.

First, an April 2015 report by the World Bank on the Millennium Development Goal (MDG) extreme poverty target has shown that, with the exception of SSA, poverty has been declining in all regions of the world (World Bank, 2015; Asongu & Kodila-Tedika, 2017; Tchamyou, 2018). The narrative maintains that 45% of nations in the sub-region were off-track from achieving the MDG extreme poverty target. This disturbing trend starkly contrasts with evidence that during approximately the same interval of increasing extreme poverty, the sub-region has been enjoying over two decades of growth resurgence that began in the mid 1990s (see Fosu, 2015a). The worrisome statistic has motivated a growing stream of literature devoted to understanding and solving SSA's poverty tragedy. Fosu (2015b, 2015c), motivated by the need to understand if Africa's recent growth resurgence is a myth or reality, has edited a plethora of studies assessing the role of institutions in Africa's development. Kuada (2015) has recommended a paradigm shift from 'strong economics' (or structural adjustment policies) to 'soft economics' (or human capability development) as means to understanding Africa's poverty tragedy. The narrative of Kuada (2015) on 'soft economics' for employment, poverty alleviation and inclusive growth in Africa accords with another stream of African development literature that has focused on the need to tailor foreign aid policies towards alternative channels in order to boost employment, reduce poverty and improve human resources (Page & Shimeles, 2015; Page & Söderbom, 2015; Simpasa *et al.*, 2015; Jones & Tarp, 2015; Jones *et al.*, 2015; Asongu *et al.*, 2016a).

Second, the role of the middle class is paramount in contemporary African development because of the benefits it has been associated with, notably: (i) historical perspectives that the middle class was essential in the development of Europe and North America (Landes, 1998; Adelman & Morris, 1997) and (ii) contemporary positions that the middle is essential in mitigating poverty (Easterly, 2001), improving social progress (Sridharan, 2004), good institutions (Birdsall, 2007a), innovation and entrepreneurship (Banerjee & Duflo, 2009), inclusive development (Birdsall, 2010), institutional reforms (Loyza et al., 2012) and promotion of democracy (Kodila-Tedika *et al.*, 2016). More specific contemporary middle class African development literature has focused on four main themes, namely, the: measurement of the middle class (Resnick, 2015a, 2015b; Cheeseman, 2015; Mattes, 2015; Shimeles & Ncube, 2015; Tschirley *et al.*, 2015; Thurlow et al., 2015); relationship between the middle class and economic growth (Tschirley et al., 2015; Handley, 2015); nexus between governance and the middle class (Mattes, 2015; Cheeseman, 2015; Resnick, 2015b) and the role of the middle class in debates between the relevance of the Washington Consensus (WC) versus the Beijing Model (BM) in African development (Asongu & Ssozi, 2016; Asongu, 2016b).

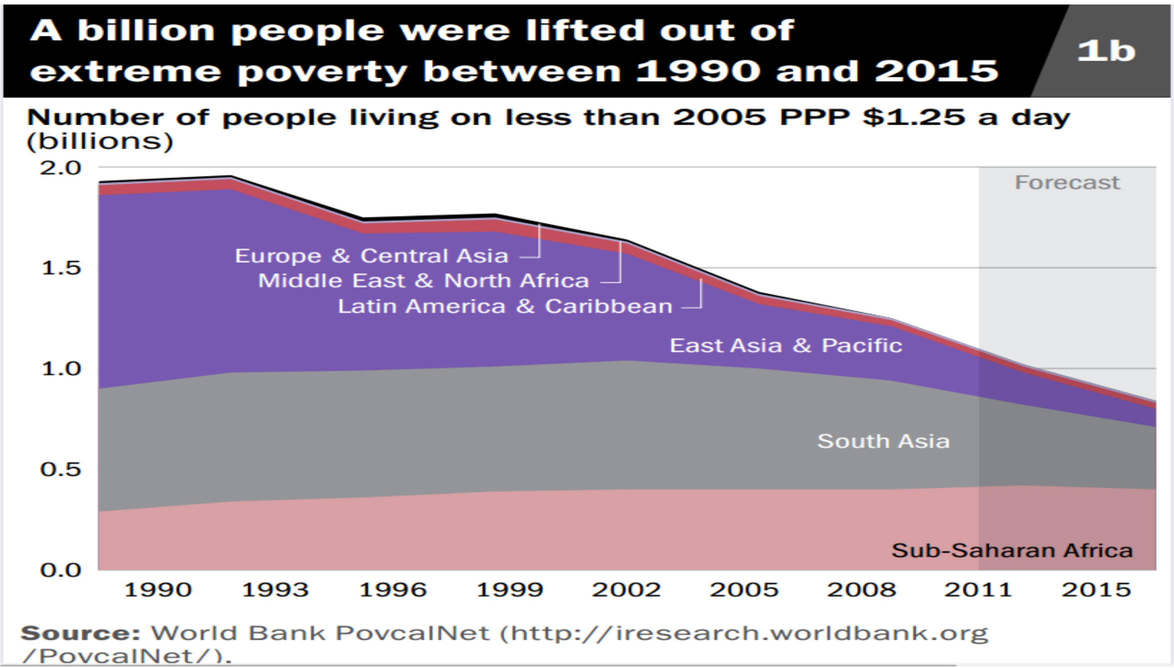
Third, the African middle class has been subject to a recent debate on the relevance of the two dominant development models for the continent's development. This growing stream of literature is consistent with the view that a burgeoning middle class is essential for a sustainable demand for political governance which is a priority of the WC. It is interesting to note that the priority of the BM is economic governance. Hence, the middle class has been used to reconcile the relevance of the WC and BM for Africa in the short-run and long-term respectively. In essence, the BM is defined as 'state capitalism, de-emphasised democracy and priority in economic rights' whereas the WC is defined as 'private capitalism, liberal democracy and priority in political rights' (Asongu, 2016b). The BM has delivered a middle class to China within a breathtakingly short spell of time. The middle class reconciles both paradigms in the perspective that Asongu and Ssozi (2016) have suggested that the Washington (resp. Beijing) model should be pursued as a long- (resp. short-) term development goal because only a burgeoning middle class may be required to sustainably demand political rights. Unfortunately, this interesting stream of qualitative and theoretical literature has not been substantiated with empirical evidence.

Noticeably, the above literature leaves space for improvement in the need for an empirical insight into the role of the WC and the BM in elucidating SSA's extreme poverty tragedy. The objective of this inquiry is therefore to fill the identified gap by investigating whether low income countries of the sub-region would achieve more inclusive human development by prioritising economic governance in place of political governance. Hence, the testable hypothesis is that, compared to middle income countries, low income countries would achieve more inclusive development by focusing on economic governance as opposed to political governance.

In the light of the above, three contemporary paradigm shifts motivate the inquiry. These are, the need: for a complementary framework that reconciles the two dominant development models (Asongu & Ssozi, 2016); to shift from 'strong economics' to 'soft economics' or human development as means to understanding the poverty tragedy of the continent (Kuada, 2015) and for shifts in macroeconomic policy that emphasise the middle class instead of outweighted outcomes of economic growth (Birdsall, 2007b).

Some stylized facts also motivating the study are briefly discussed. As apparent in Figure 1, from 1990, extreme poverty has been decreasing in all regions of the world with the exception of SSA. According to Shimeles and Ncube (2015), since 2000, the African continent has been experiencing a rise in middle class income. Accordingly, most of the countries that have enjoyed considerable growth in the middle class have equally experienced substantial growth resurgence during the same period.

Figure 1: Comparative regional poverty levels



By 2010, the middle class had risen to about 34% of the population on the continent, representing approximately 350 million people. In 1980, the middle class population was 126 million, which accounted for 27% of the population. According to the International Comparison Program (ICP), for the year 2005, compared to other regions of the world, the middle class of Africa increased twofold. In 2008, annual consumer spending on the continent which is traceable to the middle class for the most part stood at 680 USD billion. Assuming Purchasing Power Parity (PPP) with base year 2008, the amount represented about 25% of the continent's GDP.

The remainder of the study is organised as follows. The data and methodology are covered by Section 2. Empirical results, discussion and implications are presented in Section 3. Section 4 concludes with future directions.

2. Data and Methodology

2.1 Data

The study investigates a panel of 49 countries in SSA with data from World Development Indicators for the period 2000-2012. The start-year is consistent with a recent phase of a rising African middle class (Shimeles & Ncube, 2015), while the end year is due to constraints in data availability. The inclusive development dependent variables is the inequality adjusted human development index (IHDI). This is in line with recent African inclusive development literature (Asongu *et al.*, 2015).

In order to increase room for policy implications, nine unbundled and bundled governance indicators are used. Accordingly, six governance variables from Kaufmann et al. (2010) are bundled into three more governance variables in order to articulate the concept of governance, namely: (i) political stability/no violence and "voice and accountability" for political governance; (ii) government effectiveness and regulation quality for economic governance; and (iii) corruption-control and the rule of law for institutional governance.

The classification of income groups is in accordance with the World Bank's categorisation of income levels. These are: high income, \$12,276 or more; upper middle income, \$3,976-\$12,275; lower middle income, \$1,006-\$3,975 and low income, \$1,005 or less (Asongu, 2014, p. 364).

Four main control variables are selected, namely: remittances, private domestic credit, foreign direct investment (FDI) and Gross Domestic Product (GDP) per capita growth. The selection of these variables is consistent with recent inclusive development literature (Mlachila *et al.*, 2017; Seneviratne & Sun, 2013; Anand *et al.*, 2012; Mishra *et al.*, 2011). In line with the underlying literature, positive linkages are expected between the control variables and the IHDI. Accordingly, Mlachila *et al.* (2017) have established positive relationships between inclusive growth and the last-three control variables while remittances are also intuitively expected to increase inclusive human development because they are destined for consumption purposes for the most part (Ssozi & Asongu, 2016).

The definitions and sources of variables are provided in Appendix 1. Appendix 2 discloses the summary statistics, while Appendix 3 provides the correlation matrix. It is apparent from the summary statistics that the means of variables are comparable and from standard deviations or corresponding variations, reasonable estimated nexuses would emerge. The objective of Appendix 3 is to control for multicollinearity. The high degrees of substitutions that are apparent among governance indicators are tackled by employing governance variables in distinct specifications.

2.2 Methodology

2.2.1 Principal Component Analysis (PCA)

As apparent in the correlation matrix, the governance indicators are characterised by high degrees of substitution. While principal component analysis (PCA) has been used in contemporary African development literature for the purpose of limiting concerns of multicollinearity and over-parameterisation (Tchamyou, 2017), its application in this study is also for conceptual clarification. The PCA is used to clarify the notion of 'governance' in adopted variables. For instance, while there are "voice and accountability" and political stability indicators, there is no political governance variable *per se*. Given that the previous-two are constituents of political governance, PCA can be used to bundle the constituent indicators into a composite measurement called 'political governance'.

The PCA is a statistical strategy that is employed to reduce a set of highly correlated indicators into a smaller set of uncorrelated variables called principal components (PCs). These PCs constitute a substantial variation of information in the initial dataset. The criterion used to retain PCs is from Kaiser (1974) and Jolliffe (2002). The authors have recommended that only PCs with an eigenvalue that is higher than the mean should be retained.

Economic governance which consists of government effectiveness and regulation quality represents the capacity of the government to formulate and implement policies that deliver public goods. Political governance consisting of political stability and voice and accountability is the election and replacement of political leaders. Institutional governance that is represented by the rule of law and corruption-control denotes the respect by the state and citizens of institutions that govern interactions between them. As shown in Table 1, economic governance (*Ecogov*), has an eigenvalue of 1.878 and represents about 93.90% of information in the constituent indicators, notably: government effectiveness and regulation quality. In the same vein: political governance (*Polgov*) and institutional governance (*Instgov*) respectively have: eigenvalues of 1.671 and 1.861, respectively and variations of 83.50% and 93.0%, respectively. The obtained PC-augmented regressors provide robust estimates. For the purpose of brevity and lack of space, the interested reader can refer to Asongu and Nwachukwu (2016a, 2016b) for insights into the efficiency, consistency and inferential validity of PC-augmented regressors.

Table 1: Principal Component Analysis (PCA) for Governance (Gov)

Principal Components	Component Matrix (Loadings)						Proportion	Cumulative Proportion	Eigen Value
	VA	PS	RQ	GE	RL	CC			
First PC (Polgov)	0.707	0.707	---	---	---	---	0.835	0.835	1.671
Second PC	-0.707	0.707	---	---	---	---	0.164	1.000	0.328
First PC (Ecogov)	---	---	0.707	0.707	---	---	0.939	0.939	1.878
Second PC	---	---	-0.707	0.707	---	---	0.060	1.000	0.121
First PC (Instgov)	---	---	---	---	0.707	0.707	0.930	0.930	1.861
Second PC	---	---	---	---	-0.707	0.707	0.069	1.000	0.138

P.C: Principal Component. VA: Voice & Accountability. RL: Rule of Law. R.Q: Regulation Quality. GE: Government Effectiveness. PS: Political Stability. CC: Control of Corruption. Polgov (Political Governance): First PC of VA & PS. Ecogov (Economic Governance): First PC of RQ & GE. Instgov (Institutional Governance): First PC of RL & CC.

2.2.2 Estimation technique

A fixed effects (FE) empirical strategy is adopted in order to control for the unobserved heterogeneity. The corresponding panel FE model is as follows.

$$IHD_{i,t} = \partial_0 + \partial_1 G_{i,t} + \partial_2 IL_{i,t} + \partial_3 GIL_{i,t} + \sum_{h=1}^{4} \omega_h W_{h,i,t-\tau} + \eta_i + \varepsilon_{i,t} \quad , (1)$$

where $IHD_{i,t}$ is the inclusive human development of country i at period t; ∂ is a constant; G, Governance (*political, economic* and *institutional*) ; IL, income levels; GIL, interaction between Governance (G) and income levels (IL); W is the vector of control variables (*GDP per capita growth, Foreign direct investment, Remittances* and *Private domestic credit*); η_i is the country-specific effect and $\varepsilon_{i,t}$ the error term. Given that interactive regressions are involved in the specification, the study is consistent with Brambor *et al.* (2006) in involving all constitutive terms into the specifications, unless in cases of perfect multicollinearity.

3. Empirical analysis

3.1 Presentation of results

Table 2 presents the FE results. The table is structured in three panels: Panel A for the full sample, Panel B for low income countries and Panel C for middle income countries. The following findings can be established. (1) For the full sample, only the rule of law increases inclusive human development. (2) Economic governance and its constituents (regulation quality and government effectiveness), the rule of law and institutional governance, increase inclusive human development in low income countries. (3) Only voice and accountability is significant in decreasing inclusive development in middle income countries. (4) The significant control variables display expected signs. It follows from the findings that the investigated hypothesis is confirmed: contrary to middle income countries where the effect of economic governance is not significant, in low income countries, economic governance drives inclusive human development.

Table 2: Inclusive development and governance (Non interactive regressions)

Dependent Variable: Inequality Adjusted Human Development (IHDI)

Panel A: Full Sample

	Political Governance			**Economic Governance**			**Institutional Governance**		
	Political Stability (PolS)	Voice & Accountability (VA)	Political governance (Polgov)	Government Effectiveness (GE)	Regulation Quality(RQ)	Economic Governance (Ecogov)	Corruption-Control (CC)	Rule of Law (RL)	Institutional Governance (Instgov)
Constant	**0.404*** (0.000)**	**0.406*** (0.000)**	**0.405*** (0.000)**	**0.414*** (0.000)**	**0.412*** (0.000)**	**0.403*** (0.000)**	**0.404*** (0.000)**	**0.424*** (0.000)**	**0.404*** (0.000)**
PolS	-0.001 (0.749)	---	---	---	---	---	---	---	---
VA	---	0.003 (0.717)	---	---	---	---	---	---	---
Polgov	---	---	-0.00009 (0.985)	---	---	---	---	---	---
GE	---	---	---	0.015 (0.171)	---	---	---	---	---
RQ	---	---	---	---	-0.011 (0.266)	---	---	---	---
Ecogov	---	---	---	---	---	0.008 (0.135)	---	---	---
CC	---	---	---	---	---	---	-0.001 (0.869)	---	---
RL	---	---	---	---	---	---	---	**0.027*** (0.008)**	---
Instgov	---	---	---	---	---	---	---	---	0.006 (0.194)
GDPpcg	**0.001*** (0.000)**	**0.001*** (0.000)**	**0.001*** (0.000)**	**0.001*** (0.000)**	**0.001*** (0.000)**	**0.001*** (0.000)**	**0.001*** (0.000)**	**0.001*** (0.000)**	**0.001*** (0.000)**
Credit	**0.002*** (0.000)**	**0.002*** (0.000)**	**0.002*** (0.000)**	**0.002*** (0.000)**	**0.002*** (0.000)**	**0.002*** (0.000)**	**0.002*** (0.000)**	**0.002*** (0.000)**	**0.002*** (0..000)**
Remittances	0.0002 (0.569)	0.0002 (0.534)	0.0002 (0.558)	0.0002 (0.573)	0.0002 (0.626)	0.0002 (0.625)	0.0002 (0.622)	0.0001 (0.811)	0.0003 (0.410)
FDI	**0.0006** (0.014)**	**0.0006** (0.015)**	**0.0006** (0.015)**	**0.0005** (0.017)**	**0.0005** (0.027)**	**0.0005** (0.026)**	**0.0006** (0.015)**	**0.0005** (0.037)**	**0.0005** (0.019)**
Adj. R^2(within)	0.227	0.227	0.227	0.233	0.231	0234	0.227	0.247	0.232
Fisher	**15.70***	**15.70***	**15.67***	**16.16***	**15.99***	**16.25***	**15.68***	**17.51***	**16.11***
Countries	39	39	39	39	39	39	39	39	39
Observations	310	310	310	310	310	310	310	310	310

				Panel B: Low Income Countries					
Governance	-0.005	0.008	-0.00009	**0.043*** **	**0.029** **	**0.024*** **	0.001	**0.038*** **	**0.016** **
	(0.424)	(0.359)	(0.987)	**(0.003)**	**(0.039)**	**(0.002)**	(0.882)	**(0.004)**	**(0.042)**
Adj. R^2(within)	0.300	0.301	0.297	0.334	0.316	0.337	0.298	0.333	0.315
Fisher	**13.93*** **	**13.99*** **	**13.75*** **	**16.26*** **	**14.98*** **	**16.52*** **	**13.75*** **	**16.24*** **	**14.94*** **
Countries	24	24	24	24	24	24	24	24	24
Observations	191	191	191	191	191	191	191	191	191
				Panel C: Middle Income Countries					
Governance	0.001	**-0.048** **	-0.013	-0.022	-0.017	-0.012	-0.007	-0.0008	-0.003
	(0.892)	**(0.010)**	(0.205)	(0.172)	(0.301)	(0.151)	(0.477)	(0.965)	(0.584)
Adj. R^2(within)	0.178	0.232	0.191	0.193	0.186	0.194	0.182	0.177	0.180
Fisher	**4.29*** **	**5.98*** **	**4.68*** **	**4.74*** **	**4.55*** **	**4.79*** **	**4.41*** **	**4.28*** **	**4.36*** **
Countries	15	15	15	15	15	15	15	15	15
Observations	119	119	119	119	119	119	119	119	119

*, **, ***: significance levels of 10%, 5% and 1% respectively. GDPpcg: Gross Domestic Product per capita growth rate. FDI: Foreign Direct Investment. Control variables used for the regressions in Panel A are included in the regressions of Panels B-C.

3.2 Robustness checks with interactive regressions

Table 3 presents robustness checks using interactive regressions. Whereas all constitutive terms are included into the specifications (Brambor *et al*., 2006), the low income countries (in Panel A) and middle income countries (in Panel B) are omitted in the estimation output because of perfect multicollinearity. Hence, in the absence of unconditional effects from income levels, the findings of Table 2 are further assessed based on the marginal effects of income levels, instead of net effects. There is increasing (resp. decreasing) marginal effects from low (resp. middle) income countries in Panel A (resp. B). With the exceptions of political stability, political governance and corruption-control for which marginal effects are not significant, there are consistent positive and negative impacts from low income and middle income countries respectively. Moreover, the effect of low income in the governance-'inclusive development' nexus is likely to be U-shape while the impact of middle income in the governance-'inclusive development' relationship is likely to be Kuznets or hump shape. It follows from the robustness checks that the investigated hypothesis is also confirmed because low income countries induce increasing returns of economic governance to inclusive human development while middle income nations induce decreasing returns of economic governance to inclusive human development.

Table 3: Inclusive development and governance (Interactive regressions)

	Dependent Variable: Inequality Adjusted Human Development (IHDI)								
	Political Governance			**Economic Governance**			**Institutional Governance**		
	Political Stability (PolS)	Voice & Accountability (VA)	Political governance (Polgov)	Government Effectiveness (GE)	Regulation Quality(RQ)	Economic Governance (Ecogov)	Corruption-Control (CC)	Rule of Law (RL)	Institutional Governance (Instgov)
	Panel A: Low Income Countries								
Low Income (LI)	na	na	na	na	na	na	na	na	na
Governance	0.004	**-0.038****	-0.007	-0.023	-0.016	-0.012	-0.005	0.0009	-0.002
	(0.625)	**(0.043)**	(0.505)	(0.162)	(0.313)	(0.146)	(0.639)	(0.959)	(0.769)
Governance*LI	-0.009	**0.051****	0.009	**0.068*****	**0.048****	**0.038*****	0.008	**0.040***	**0.021***
	(0.443)	**(0.016)**	(0.458)	**(0.002)**	**(0.022)**	**(0.001)**	(0.615)	**(0.068)**	**(0.050°**
Adj. R^2(within)	0.229	0.244	0.229	0.259	0.246	0.264	0.228	0.257	0.243
Fisher	**13.16*****	**14.31*****	**13.13*****	**15.46*****	**14.43*****	**15.87*****	**13.07*****	**15.28*****	**14.22*****
Countries	39	39	39	39	39	39	39	39	39
Observations	310	310	310	310	310	310	310	310	310
	Panel B: Middle Income Countries								
Middle Income (MI)	na	na	na	na	na	na	na	na	na
Governance	-0.004	0.013	0.001	**0.044*****	**0.032****	**0.025*****	0.003	**0.041*****	**0.019****
	(0.488)	(0.157)	(0.739)	**(0.002)**	**(0.019)**	**(0.001)**	(0.797)	**(0.001)**	**(0.020)**
Governance*MI	0.009	**-0.051****	-0.009	**-0.068*****	**-0.048****	**-0.038*****	-0.008	**-0.040***	**-0.021***
	(0.433)	**(0.016)**	(0.458)	**(0.002)**	**(0.022)**	**(0.001)**	(0.615)	**(0.068)**	**(0.050)**
Adj. R^2(within)	0.229	0.244	0.229	0.259	0.246	0.264	0.228	0.257	0.243
Fisher	**13.16*****	**14.31*****	**13.13*****	**15.46*****	**14.43*****	**15.87*****	**13.07*****	**15.28*****	**14.22*****
Countries	39	39	39	39	39	39	39	39	39
Observations	310	310	310	310	310	310	310	310	310

*, **, ***: significance levels of 10%, 5% and 1% respectively. Control variables used for the regressions in Panel A of Table 2 are included in the regressions of Panels A-B in Table 3. na: estimates omitted from regression output because of perfect multicollinearity.

3.3 Further discussion and implications

3.3.1 Investigated hypothesis and nexus with the literature

The investigated hypothesis has been validated with the outcome of the empirical analysis. Accordingly, it has been established that ‘low income’-driven economic governance contributes more to inclusive human development compared to the effect of ‘middle income’-driven economic governance. Therefore, from an economic governance perspective, the findings run counter to a strand of the existing literature which maintains that the middle class improves governance standards for positive social outcomes (Resnick, 2015a; Easterly, 2001; Birdsall, 2007a). The findings from an economic governance standpoint accord with the pessimism of Rodrik (2015) who is of the stance that the growing African middle class may not play a crucial role in the strengthening of governance structures for inclusive development.

The findings support the stream of literature sympathetic to the view that some middle classes may fail to demand better economic governance for inclusive development because they may have interests in specific markets and state resources (Poulton, 2014). Hence, an

African middle class can stifle good economic governance exclusively to protect its own interest.

Recent cases of African low income countries that have influenced economic governance in the demand for better inclusive development include: the Burkina Faso protest that has led to the popular overthrow of President Blaise Compaoré in 2014; Benin's Red Wednesday in 2013 and Zambia's Black Friday in 2013.

3.2.2 Theoretical and practical contributions

Theoretical and practical contributions can be discussed in three main strands, notably: (i) lessons from China for Africa's extreme poverty tragedy; (ii) evolving role of South-South relations and the imperative for multi-polar development strategies and (iii) changing narratives in the conception of 'rights'. These are engaged in the same chronological order below.

First, the validity of the investigated hypothesis has considerable poverty alleviation implications for SSA in the post-2015 development agenda. China has substantially decreased its poverty over the past decades. The spectacular degree by which such poverty alleviation has been achieved with the Beijing model is an eloquent testimony that the Beijing development model holds special lessons for SSA as a short-term development strategy. It follows that in the light of the Beijing model, a focus by low income countries in SSA on economic governance, instead of political governance as means to inclusive human development, would go a great way to alleviating the poverty tragedy of the sub-region. Accordingly, the Chinese model is complementary to the Washington model. China's development lesson of putting economic rights before political rights cannot be overlooked by SSA because in the aftermath of independence in the 1960s, China and countries in the sub-region were almost at the same threshold of development. However, while China decided to chart her own course of development by prioritising economic governance, SSA took to prescriptions of the Washington Consensus that prioritise political governance (Asongu, 2016). Today, differences in development between China and SSA are self-evident, with the former helping the latter on many development fronts. In light of this explanation, it is apparent that in order to address the post-2015 African extreme poverty challenges, low income countries in SSA will benefit substantially in terms of inclusive human development if they prioritise economic governance over political governance in the short term. This recommendation is made within the framework that the Washington Consensus is a long-term development model.

Second, the short-term focus on the Beijing model clearly aligns with the growing South-South relations that are being led by China. The need for multi-polar development strategies is crucial for contemporary development because the power architecture with which the Washington Consensus was framed has lost legitimacy. In essence, entrenched dissatisfaction about the political-priorities of Bretton Woods institutions have resulted in the creations of the New Development Bank, Contingency Reserve Fund and Asian Infrastructure Investment Bank that are destined to complement respectively, the World Bank, the International Monetary Fund and Asian Development Bank. In essence, these new financial institutions led by China aim to focus on prioritising economic rights in complement to Bretton Woods institutions.

Third, validation of the investigated hypothesis can also be understood in the light of conceptions of ‘rights’, namely: the ‘right to vote’ (or political rights) versus the ‘right to basic needs’ (economic rights). Political rights (or political governance) have been recently established to be more endogenous to economic rights (or economic governance) in Africa (Anyanwu & Erhijakpor, 2014). Hence, economic rights should be short-term priorities while political rights should be long-run priorities. Within this framework, low income countries should prioritise economic governance over political governance (at least in the short-term). When a burgeoning middle class has been attained through inclusive human development, the demand for political rights is very likely to be sustainable and effective because members of the middle class would no longer be concerned about basic human needs like food and shelter.

The above inference extends to a setting where African and developed countries are compared. For instance, while Libya (which is not sampled in this study) was a middle income country prior to Western invasion in 2011, it was a lower income country by Western standards. The country prioritised economic governance over political governance. The Western intervention from a coalition of countries sympathetic to the Washington Consensus was primarily on the premise that the political rights of Libyans were more relevant than their economic rights in the development of the nation state. Today, the aftermath of the military intervention is self-evident: the citizens of Libya do not have the political rights they sought before the overthrow of Gaddafi. In essence, it is difficult to object to the fact that: (i) the citizens of Iraq are far worse-off than they were under the regime of Saddam Hussein prior to US invasion in 2003 and (ii) Libya today is also far worse-off than it was under Colonel

Muammar Gaddafi in 2011. These narratives should not be understood as concurring with the governance policies of Saddam Hussein and Muammar Gaddafi. In fact, what the examples aim to articulate is the fact that had the West attenuated her priority for political governance with ideals of the Beijing model, Iraq and Libya might not be so worse-off today.

4. Conclusion and further research directions

Motivated by a recent World Bank report on achievement of Millennium Development Goals (MDGs) which shows that poverty has been declining in all regions of the world with the exception of sub-Saharan Africa (SSA), the purpose of this study has been to complement a recent stream of literature devoted to elucidating SSA's extreme poverty tragedy. To this end, the study put some empirical structure to theoretical and qualitative studies on the reconciliation of the Beijing Model with the Washington Consensus. This study has tested the hypothesis that compared to middle income countries, low income countries would achieve more inclusive development by focusing on economic governance as opposed to political governance. The empirical evidence is based on fixed effects regressions and 49 countries in SSA for the period 2000-2012. Nine bundled and unbundled governance indicators are used, namely: political governance (consisting of voice and accountability, and political stability); economic governance (entailing government effectiveness and regulation quality) and institutional governance (encompassing corruption-control and the rule of law).

The findings have confirmed the investigated hypothesis because in non-interactive regressions, contrary to middle income countries where the effect of economic governance is not significant, in low income countries, economic governance drives inclusive human development. Using interactive regressions, the hypothesis is still confirmed because evidence of increasing (resp. decreasing) marginal effects of economic governance is apparent in low (resp. middle) income countries. It follows that, the effect of low income in the 'economic governance-'inclusive development' nexus is likely to be U-shape while the impact of middle income in the 'economic-governance-'inclusive development' relationship is likely to be Kuznets or hump shape.

As a main policy implication, in order to address inclusive development challenges in the post-2015 development agenda in SSA, it would benefit low income countries in the sub-region to prioritise economic governance (or the formulation and implementation of policies that deliver public commodities). Other theoretical and practical contributions have been discussed. Future studies would enrich the literature by engaging country-specific studies to investigate whether the established linkages withstand further empirical scrutiny within country-specific settings.

Appendices

Appendix 1: Definitions and sources of variables

Variables	Signs	Definitions	Sources
Inclusive development	IHDI	Inequality Adjusted Human Development Index	UNDP
Political Stability	PolS	"Political stability/no violence (estimate): measured as the perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional and violent means, including domestic violence and terrorism".	WDI
Voice & Accountability	VA	"Voice and accountability (estimate): measures the extent to which a country's citizens are able to participate in selecting their government and to enjoy freedom of expression, freedom of association and a free media"	WDI
Political Governance	Polgov	First Principal Component of Political Stability and Voice & Accountability. The process by which those in authority are selected and replaced.	PCA
Government Effectiveness	GE	"Government effectiveness (estimate): measures the quality of public services, the quality and degree of independence from political pressures of the civil service, the quality of policy formulation and implementation, and the credibility of governments' commitments to such policies".	WDI
Regulation Quality	RQ	"Regulation quality (estimate): measured as the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development".	WDI
Economic Governance	Ecogov	"First Principal Component of Government Effectiveness and Regulation Quality. The capacity of government to formulate & implement policies, and to deliver services".	PCA
Corruption-Control	CC	"Control of corruption (estimate): captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests"	WDI
Rule of Law	RL	"Rule of law (estimate): captures perceptions of the extent to which agents have confidence in and abide by the rules of society and in particular the quality of contract enforcement, property rights, the police, the courts, as well as the likelihood of crime and violence"	WDI
Institutional Governance	Instgov	First Principal Component of Rule of Law and Corruption-Control. The respect for citizens and the state of institutions that govern the interactions among them	PCA
GDP per capita	GDPpcg	GDP per Capita growth rate	
Private Credit	Credit	Private credit by deposit banks and other financial institutions (% of GDP)	WDI
Remittance	Remit	Remittance inflows (% of GDP)	WDI
Foreign investment	FDI	Foreign Direct Investment net inflows (% of GDP)	WDI
Middle Income	MiddleI	Lower and Upper Middle Income Countries ($1,006 or more)	Asongu (2014, p. 364)
Low Income	Low I	Low Income Countries ($1,005 or less)	

UNDP: United Nations Development Program. WDI: World Development Indicators. GDP: Gross Domestic Product

Appendix 2: Summary statistics

	Mean	SD	Min	Max	Obs
Inequality Adj. Human Development	0.721	3.505	0.129	0.768	485
Political Stability	-0.543	0.956	-3.323	1.192	578
Voice & Accountability	-0.646	0.737	-2.233	0.990	578
Political Governance	0.000	1.292	-3.440	2.583	578
Government Effectiveness	-0.771	0.620	-2.450	0.934	577
Economic Governance	0.002	1.367	-4.049	3.807	577
Regulation Quality	-0.715	0.644	-2.665	0.983	578
Corruption-Control	-0.642	0.591	-1.924	1.249	579
Rule of Law	-0.741	0.662	-2.668	1.056	578
Institutional Governance	0.0002	1.364	-3.588	3.766	578
GDP per Capita growth	2.198	5.987	-49.761	58.363	608
Private Domestic Credit	18.551	22.472	0.550	149.78	507
Remittances	3.977	8.031	0.000	64.100	434
Net Foreign Direct Investment Inflows	5.332	8.737	-6.043	91.007	603
Low Income	0.632	0.482	0.000	1.000	637
Middle Income	0.367	0.482	0.000	1.000	637

SD: Standard deviation. Min: Minimum. Max: Maximum. Obs: Observations. Adj: Adjusted.

Appendix 3: Correlation Matrix (Uniform sample size: 310)

Governance Variables									Control Variables				Dep. Vble	
PolS	VA	Polgov	GE	RQ	Ecogov	CC	RL	Instgov	GDPpcg	Credit	Remit	FDI	IHDI	
1.000	0.688	0.923	0.653	0.625	0.674	0.692	0.777	0.763	-0.011	0.279	0.032	-0.018	0.411	PolS
	1.000	0.914	0.774	0.734	0.779	0.683	0.810	0.775	0.113	0.452	0.042	-0.010	0.361	VA
		1.000	0.775	0.753	0.789	0.748	0.863	0.837	0.053	0.396	0.041	-0.015	0.421	Polgov
			1.000	0.877	0.972	0.836	0.897	0.900	0.118	0.543	0.020	-0.152	0.584	GE
				1.000	0.965	0.799	0.856	0.860	-0.0001	0.532	-0.076	-0.192	0.512	RQ
					1.000	0.845	0.906	0.909	0.064	0.555	-0.036	-0.177	0.568	Ecogov
						1.000	0.851	0.962	0.053	0.469	-0.196	-0.104	0.519	CC
							1.000	0.961	0.070	0.471	0.079	-0.084	0.507	RL
								1.000	0.064	0.489	-0.062	-0.098	0.534	Instgov
									1.000	0.029	0.026	0.172	0.077	GDPpcg
										1.000	-0.095	-0.082	0.536	Credit
											1.000	0.122	-0.043	Remit
												1.000	-0.026	FDI
													1.000	IHDI

PolS: Political Stability. VA: Voice & Accountability. Polgov: Political Governance. GE: Government Effectiveness. RQ: Regulation Quality. Ecogov: Economic Governance. CC: Corruption-Control. RL: Rule of Law. Instgov: Institutional Governance. GDPpcg : GDP per capita growth rate. Credit: Private domestic credit. Remit: Remittances. FDI: Foreign Direct Investment. IHDI: Inequality Adjusted Human Development Index. Dep. Vble: Dependent Variable.

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