“EMPLOYMENT CREATION, POVERTY REDUCTION AND SOCIAL INTEGRATION IN THE ARAB WORLD: THE UNFINISHED AGENDA”

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“PROTECTING ARAB FAMILY FROM POVERTY:
EMPLOYMENT, SOCIAL INTEGRATION AND INTERGENERATIONAL SOLIDARITY”
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Context

1980s : The lost decade

- Low oil prices, fiscal stress, old social contract reached its limits

1990s (depending on the country) till late 2000s:

Arab "renaissance" under "Economic reforms first, political later"

- Rapid (but uncritical) trade liberalization
- Financial deregulation (its effects are now known at least since 2008)
- Privatization (or denationalization?)
- Fiscal consolidation (eg food/ energy etc subsidies, rolling back of social protection, reduction in public services)
- FDI but in areas with low social returns
- No healthy bounce back of the private sector, including low rates of investment
- Lack of transparency, uneven playing field and opportunities
- Little "trickle down" (shares of wages/consumption in GDP significantly reduced)

Intra-regional diversity and aggregation

Common classifications

- High income – low income
- Oil-based – resource poor
- Labor sending , labor receiving, labor sending *and* receiving
- Secular or not
- Also differences with respect to land, population size, urbanization, water, education …
- MENA includes Iran, regional averages are typically population weighted

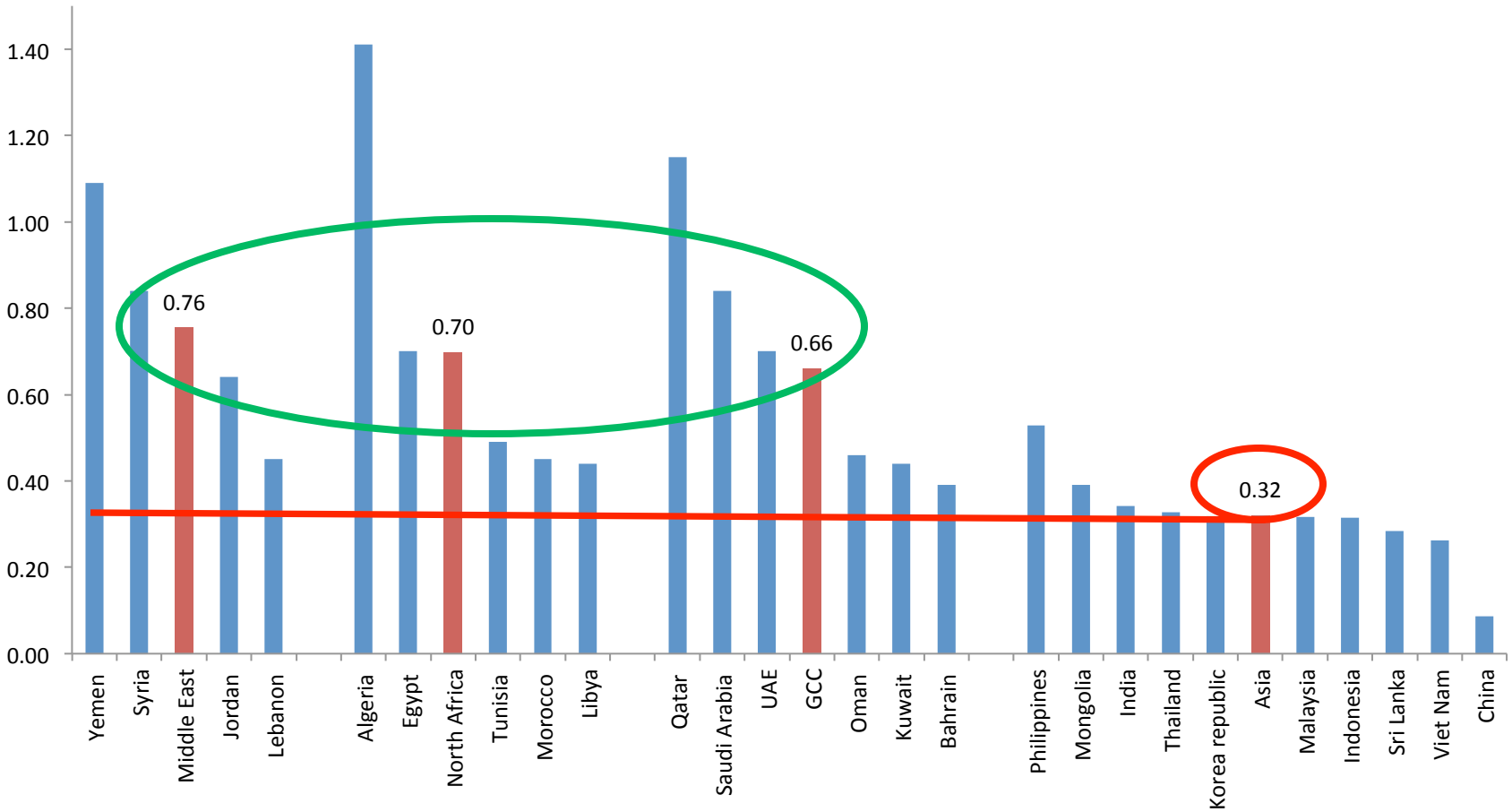
A better way of looking at the region?

- Exclude Iran from the Arab region
- Simpler grouping of Arab states: Maghreb – Mashreq – GCC
- Use unweighted country averages for the region (not population weighted estimates that unduly affect averages, for example, by including Saudi Arabia in the GCC or Egypt in the Middle East and/ or North Africa)

Doing so dispels a few "myths" …

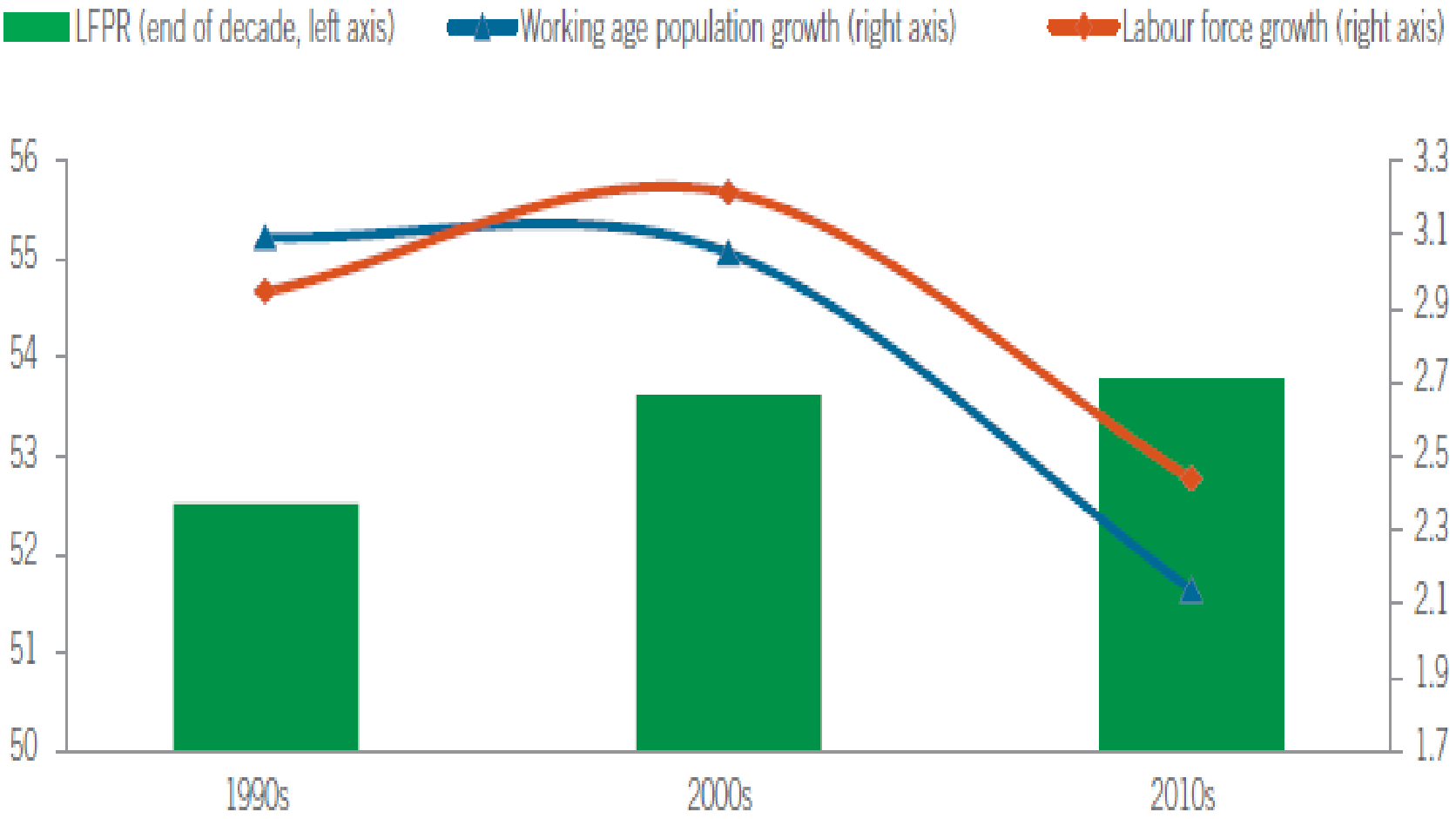
Myth 1: Economic growth was jobless

Employment-output elasticity, 2000-2010



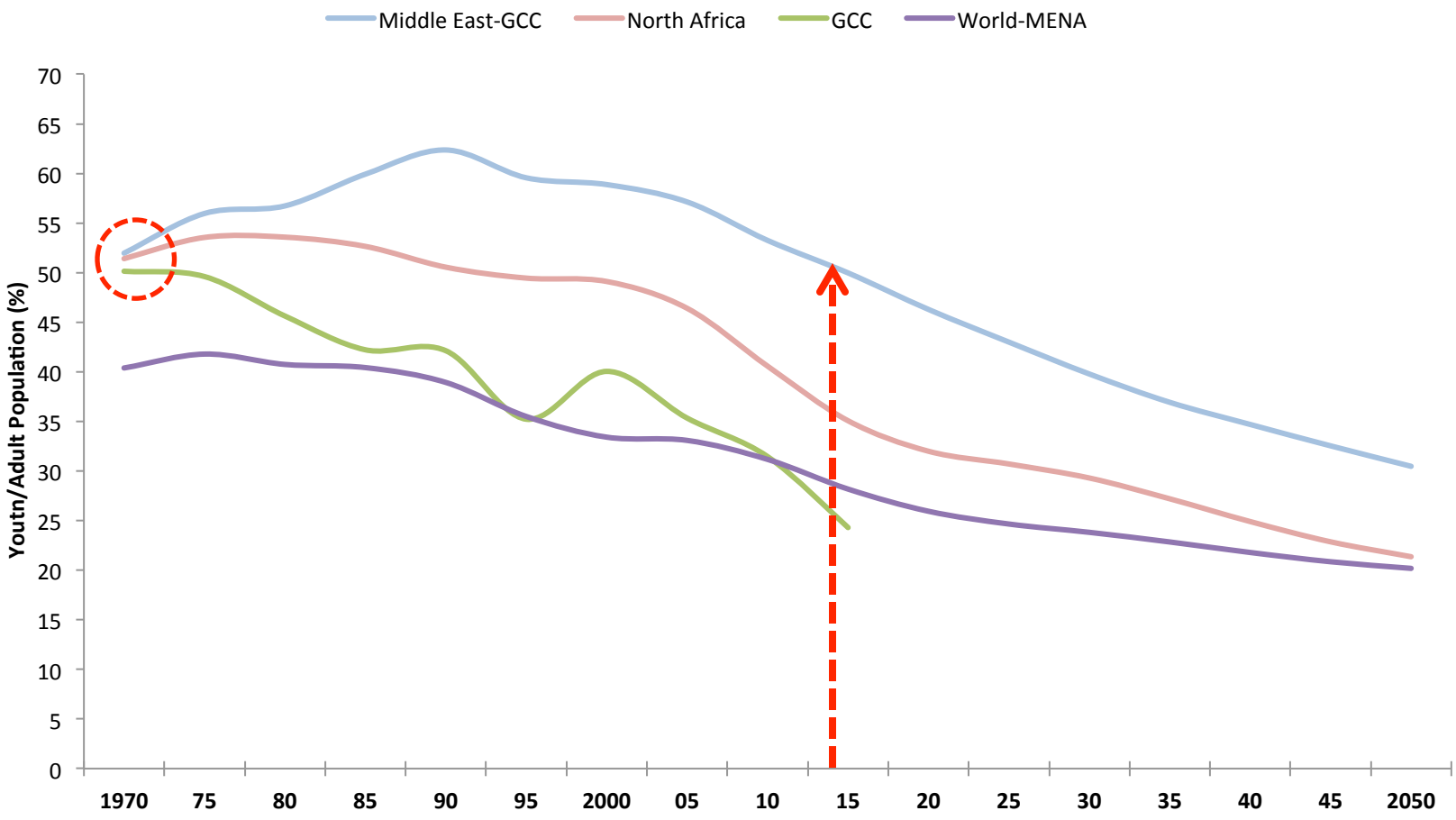
Myth 2: Too many people

Labor force trends, 1990s - 2010s



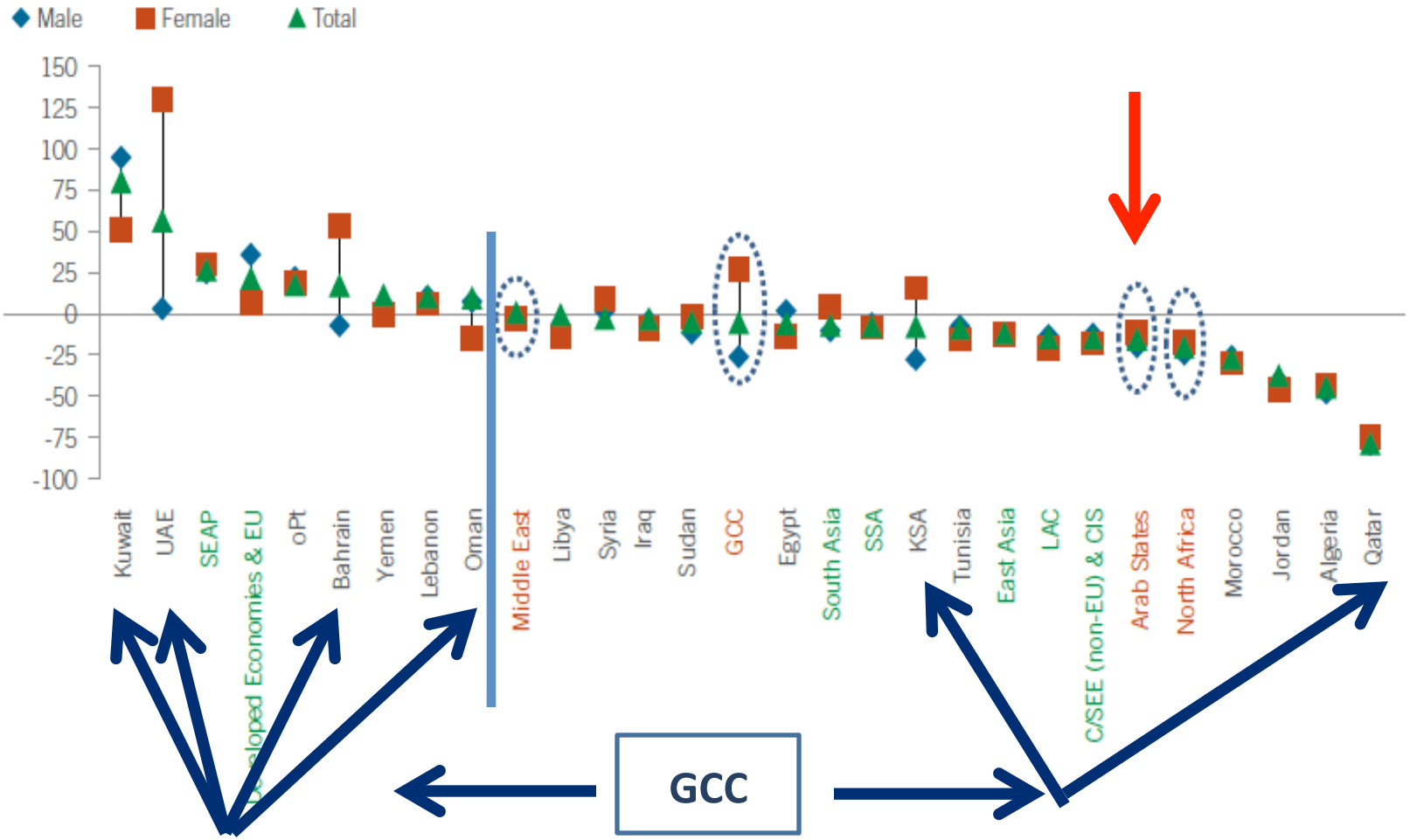
Myth 3: Too many youth

Ratio of youth-to-adult population



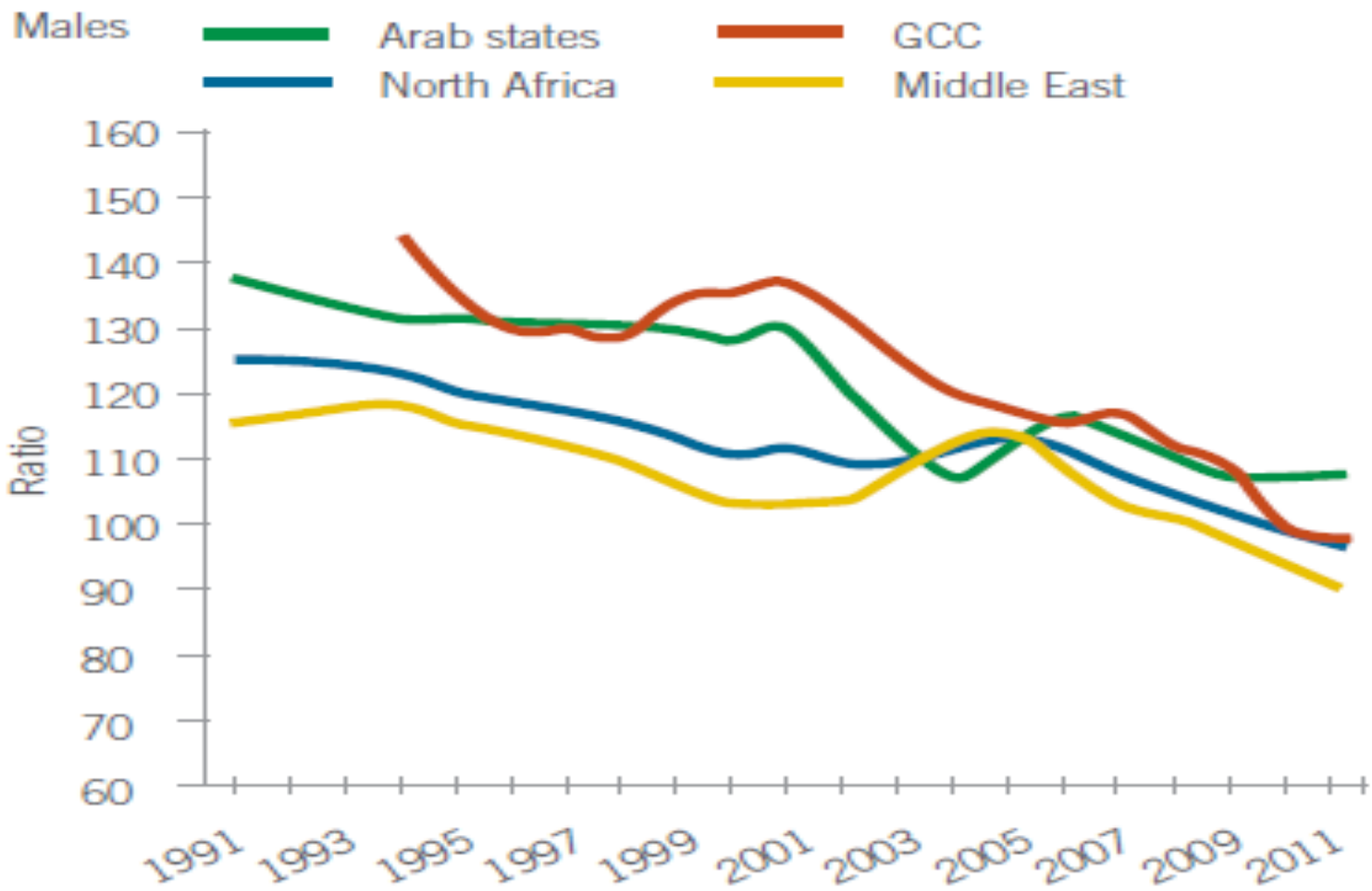
Myth 4: Unemployment did not decline (it did so for most countries, though unequally)

% change in total unemployment rate by country, region and sex, 1991-2010



Myth 5: Too many unemployed youth: (too many unemployed adults)

Ratio of youth-to-adult unemployment over time

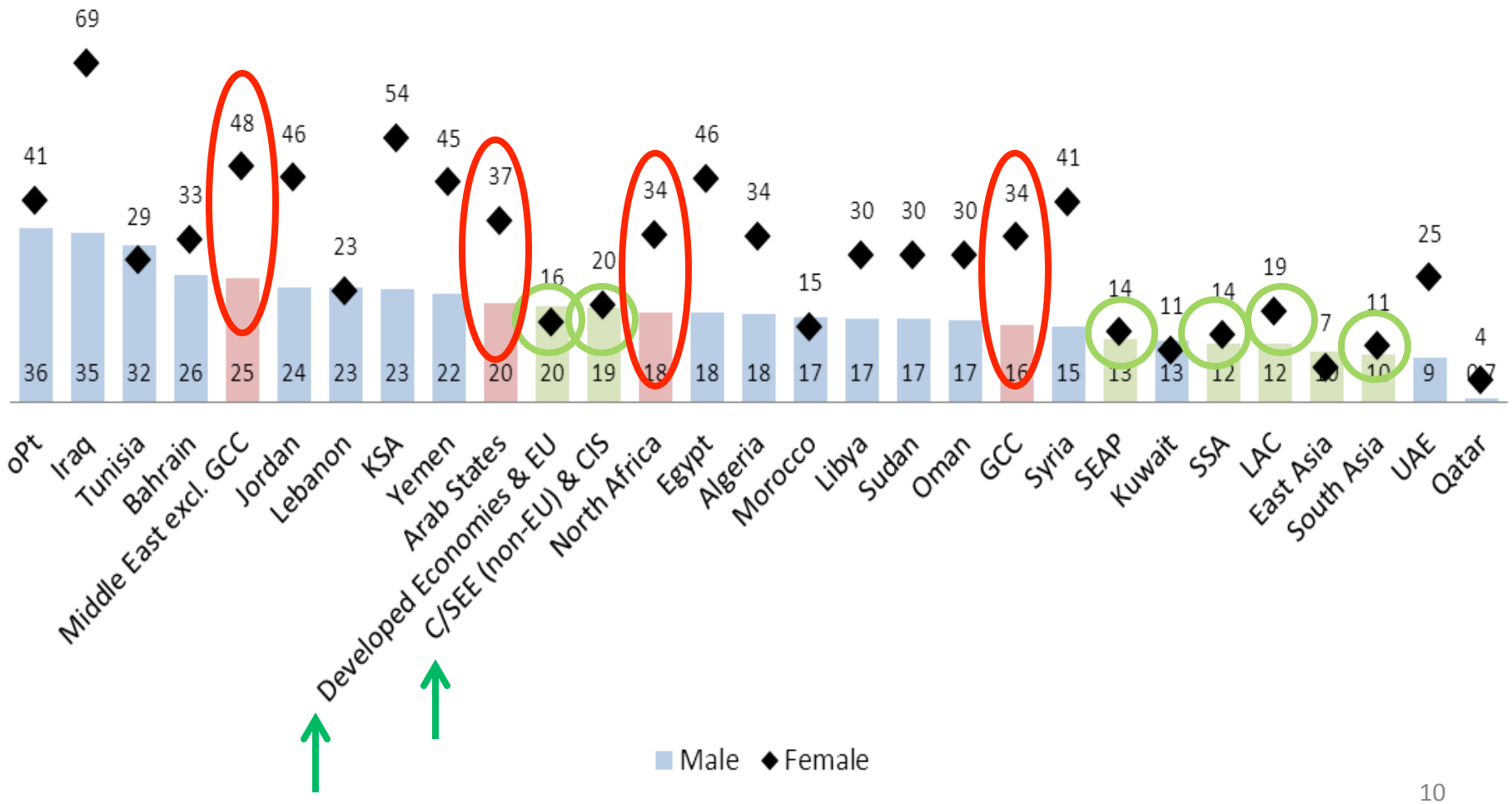


Surely youth unemployment is high but declined substantially compared to adult unemployment

		Youth Unemployment Rate 2011	
		Males	**Females**
GCC		15.7	32.8
North Africa		21.5	41.0
Middle East excl. GCC		26.1	43.9
Source: ILO (2012), Global Employment Trends			

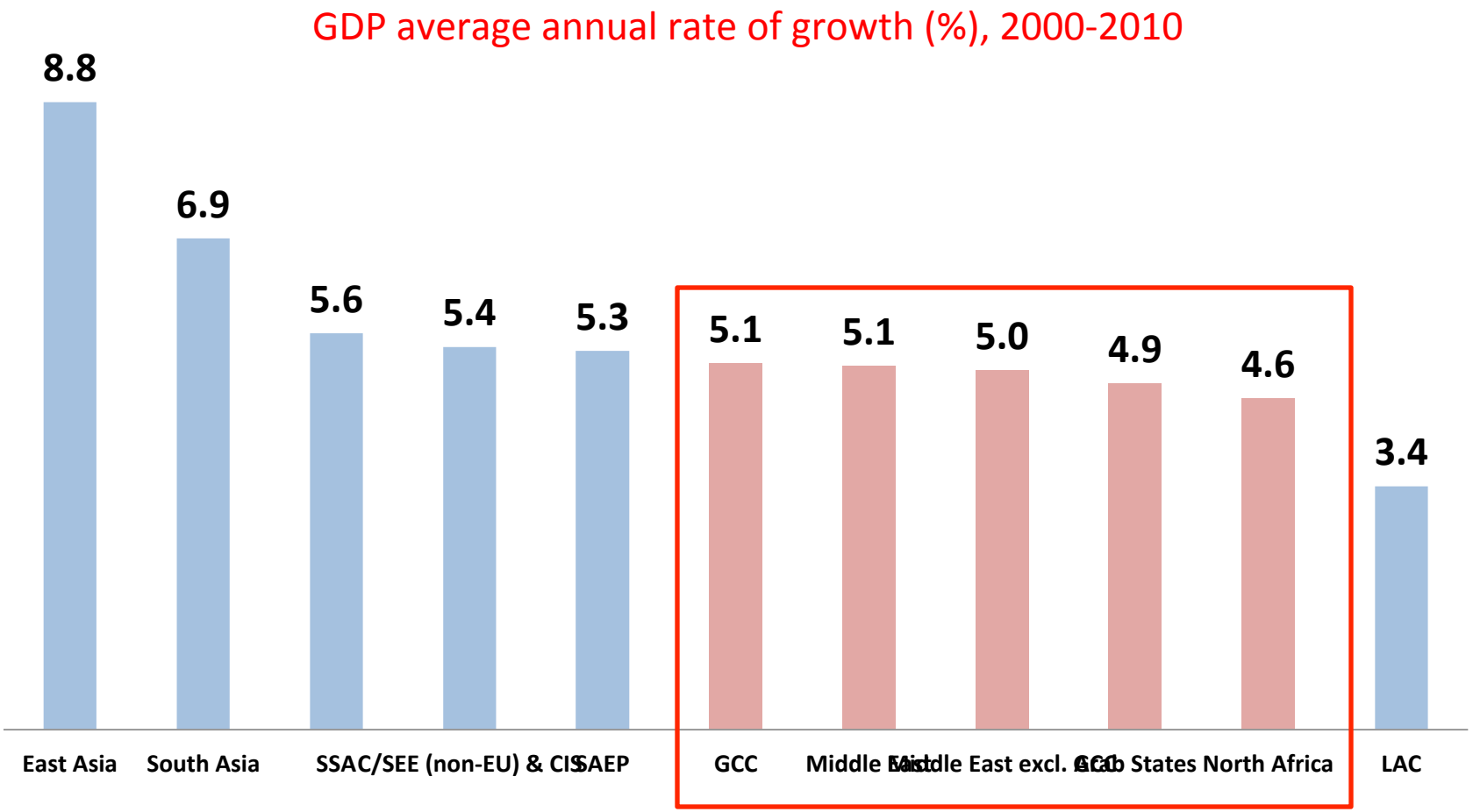
Youth Unemployment 2013 in
Greece 62%
Spain 56%
Italy, Portugal, Ireland 34-36%
France 26%

Youth Unemployment Rate by Gender (%), 2010 (mainly because of female unemployment)



The economy

Following the reforms of the 1990s, economic growth accelerated (though it remained low compared to other regions and therefore *per capita* incomes increased only slowly)

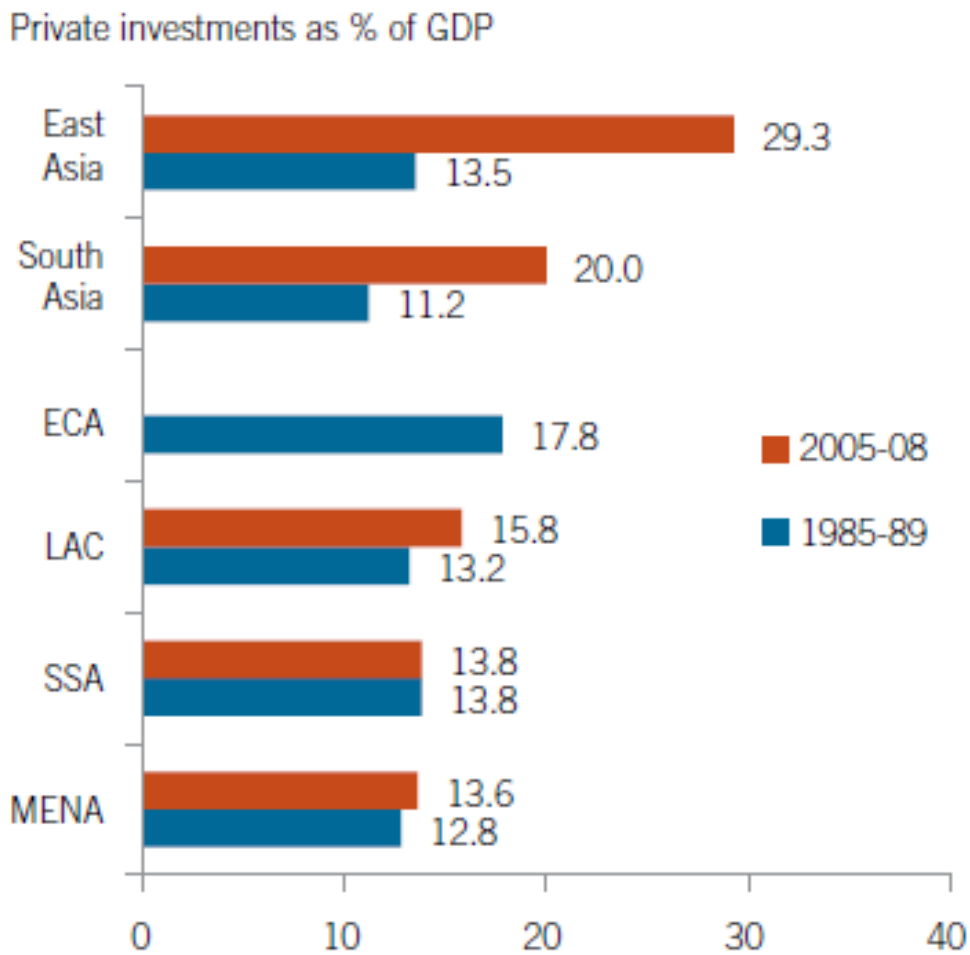


Economic growth was low because of:

- “Clubby” privatization” with quick returns to a few (but low social returns)
- Stagnant investment rates
- Low competition, no “even playing field”
- Low rate of new firm creation
- Constraint access to land
- Many other policy-induced impediments

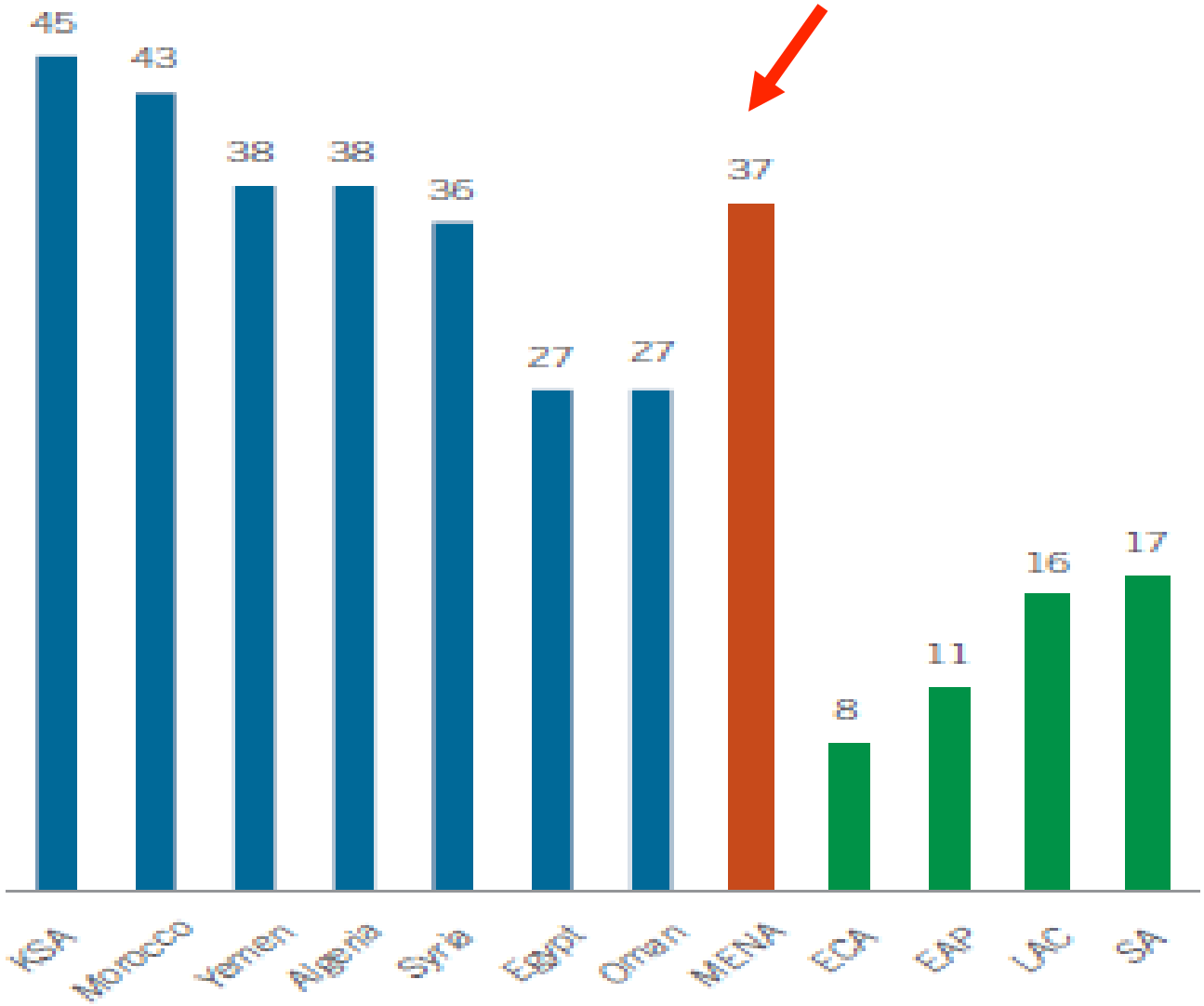
Stagnant private investment rates

Private investment as % of GDP



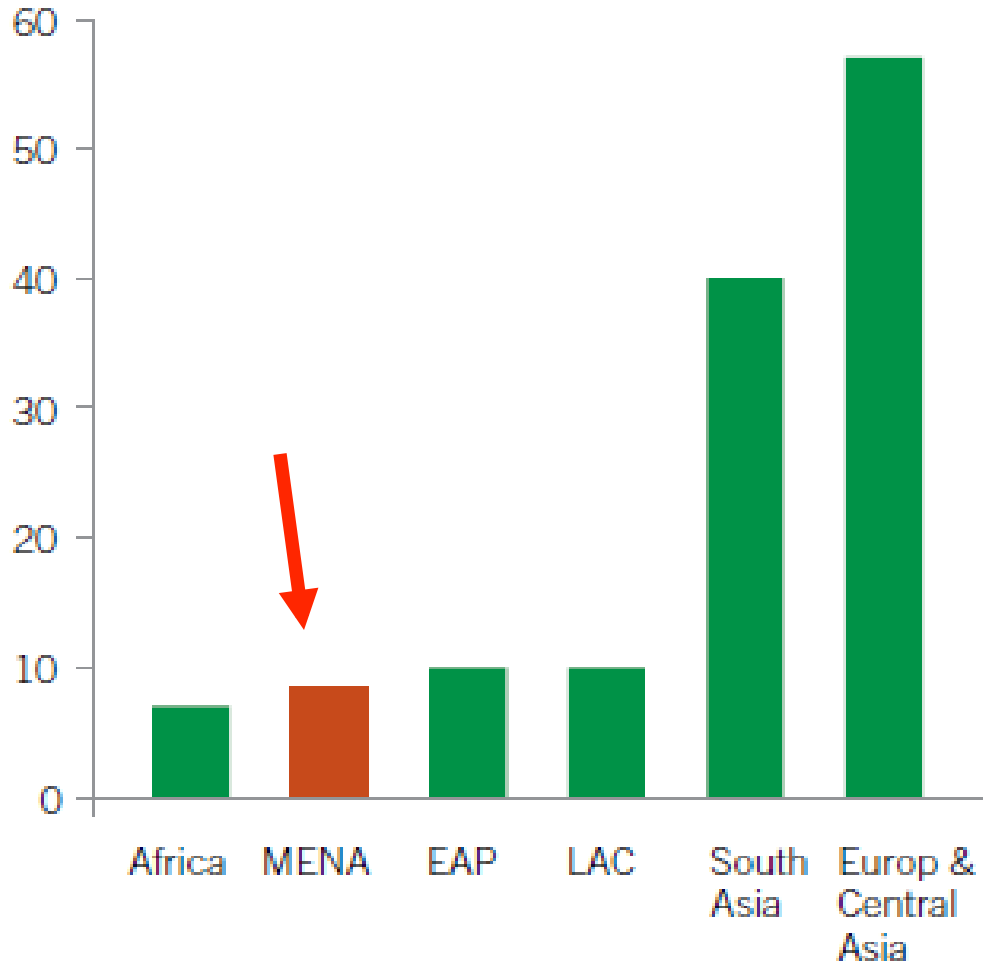
Constrained access to land

% o investors stating land as a severe constraint



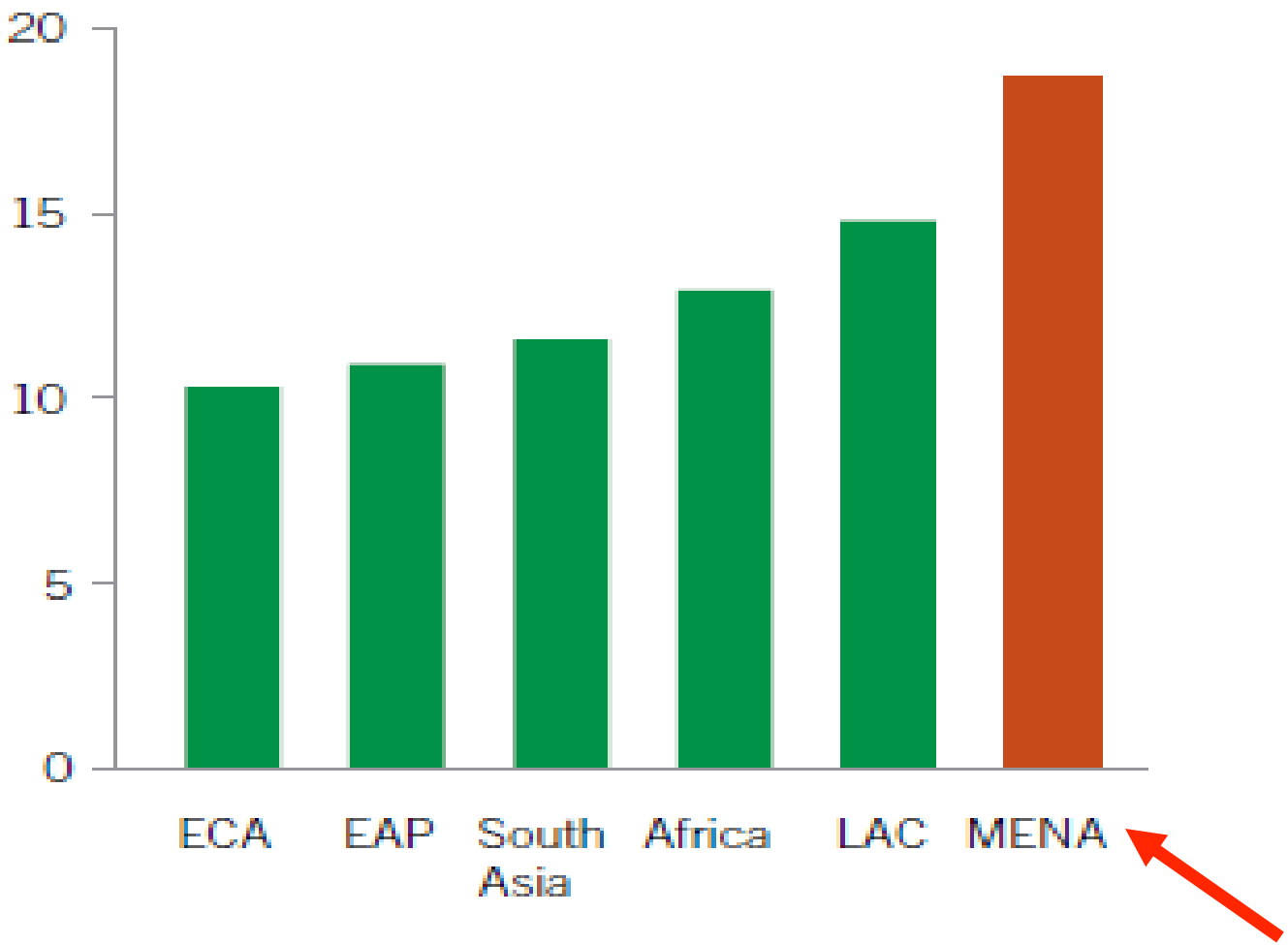
Low competition/few dominant firms

Median number of local competitors in industry



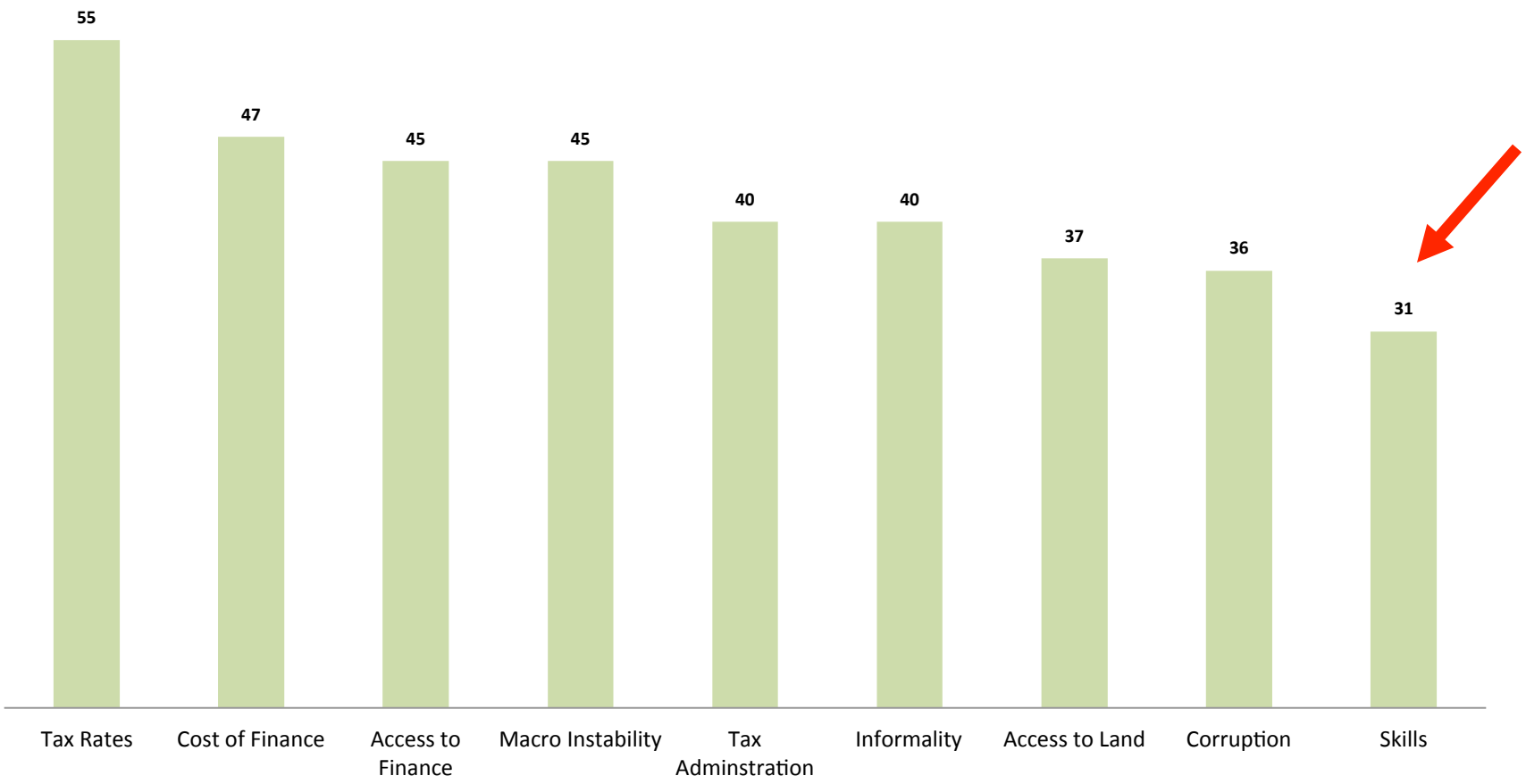
Low rate of new firm creation

Median age of manufacturing firms



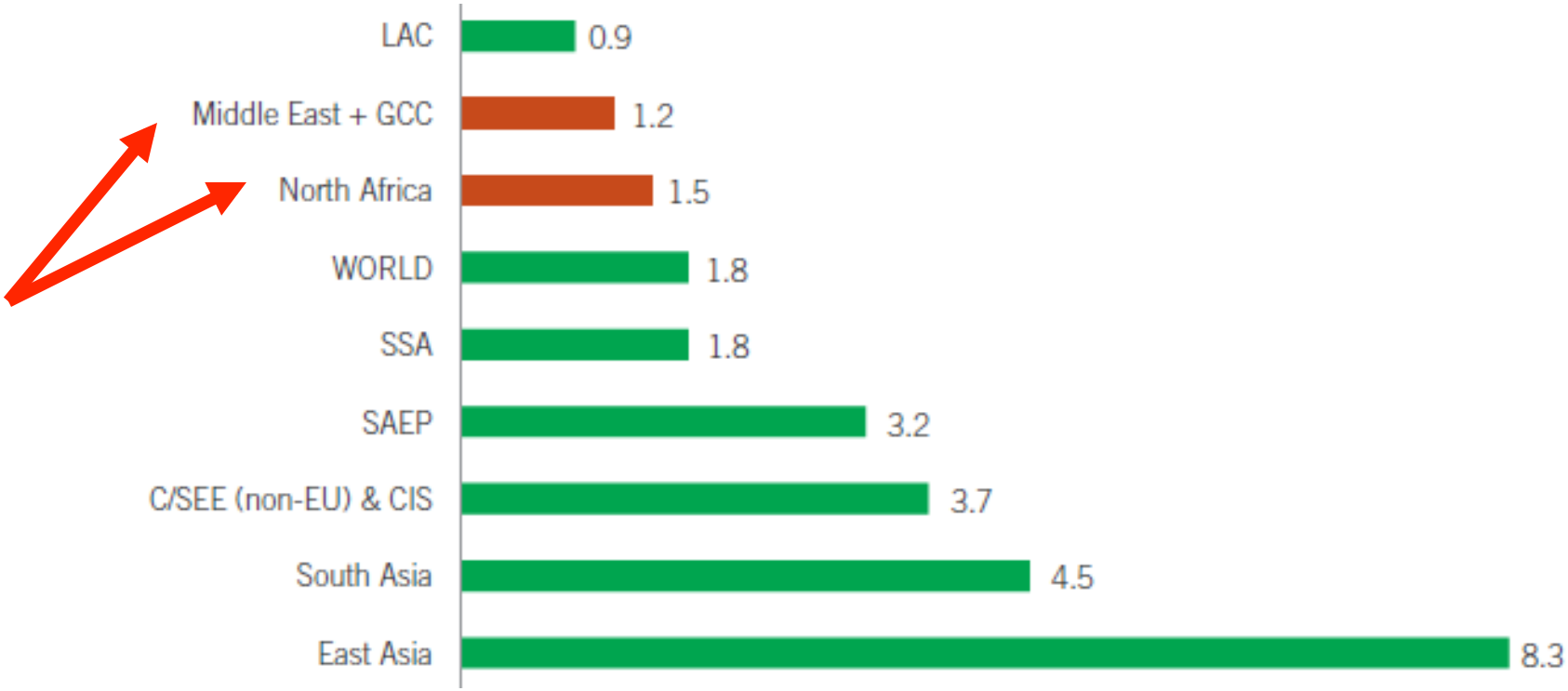
Probability of finding a given constraint to investment

Business, investment and enterprise Surveys, MENA 2000s



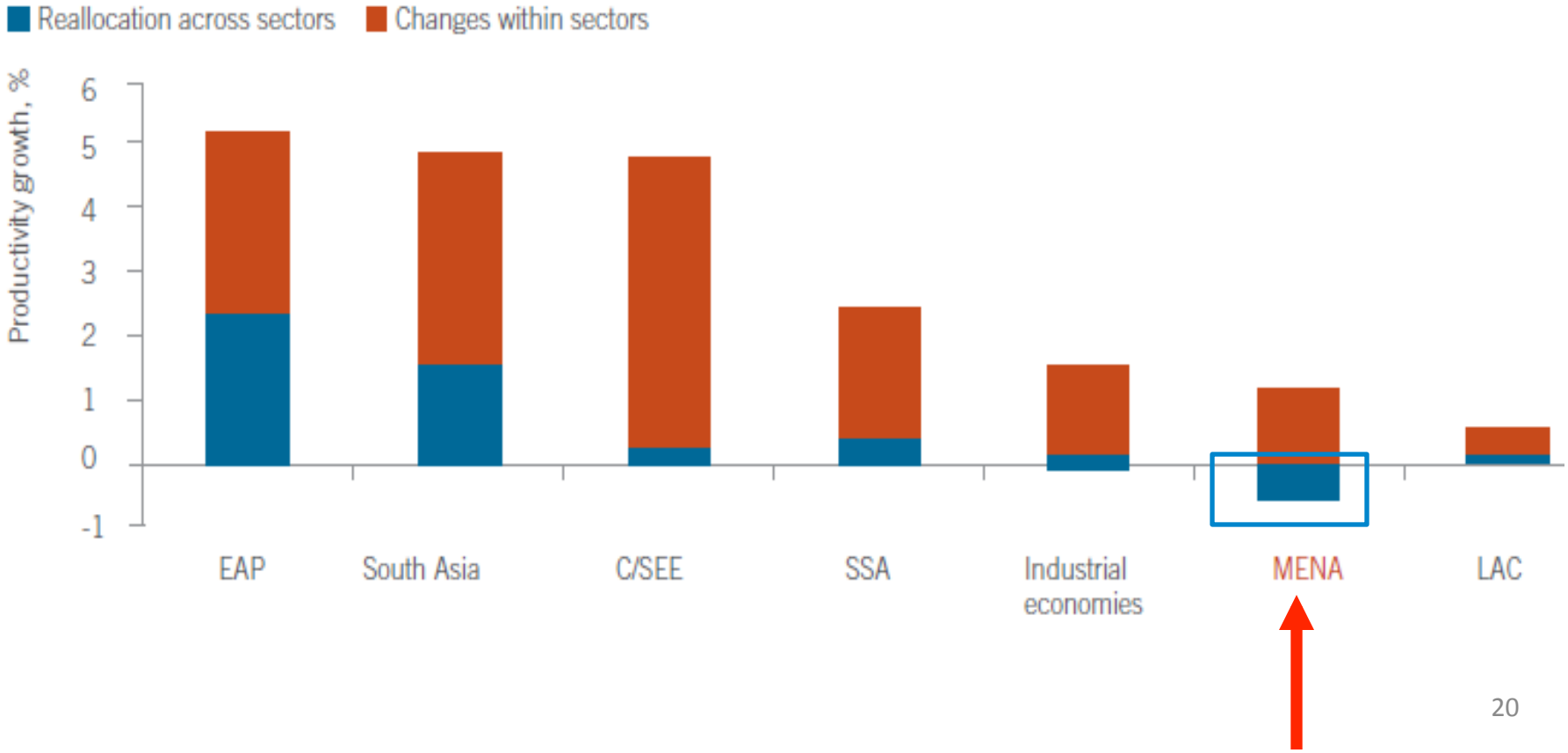
Low productivity growth

Average annual productivity growth (%), 2000 - 2010



Employment creation in low productivity sectors

Components of labor productivity growth 1999-2008

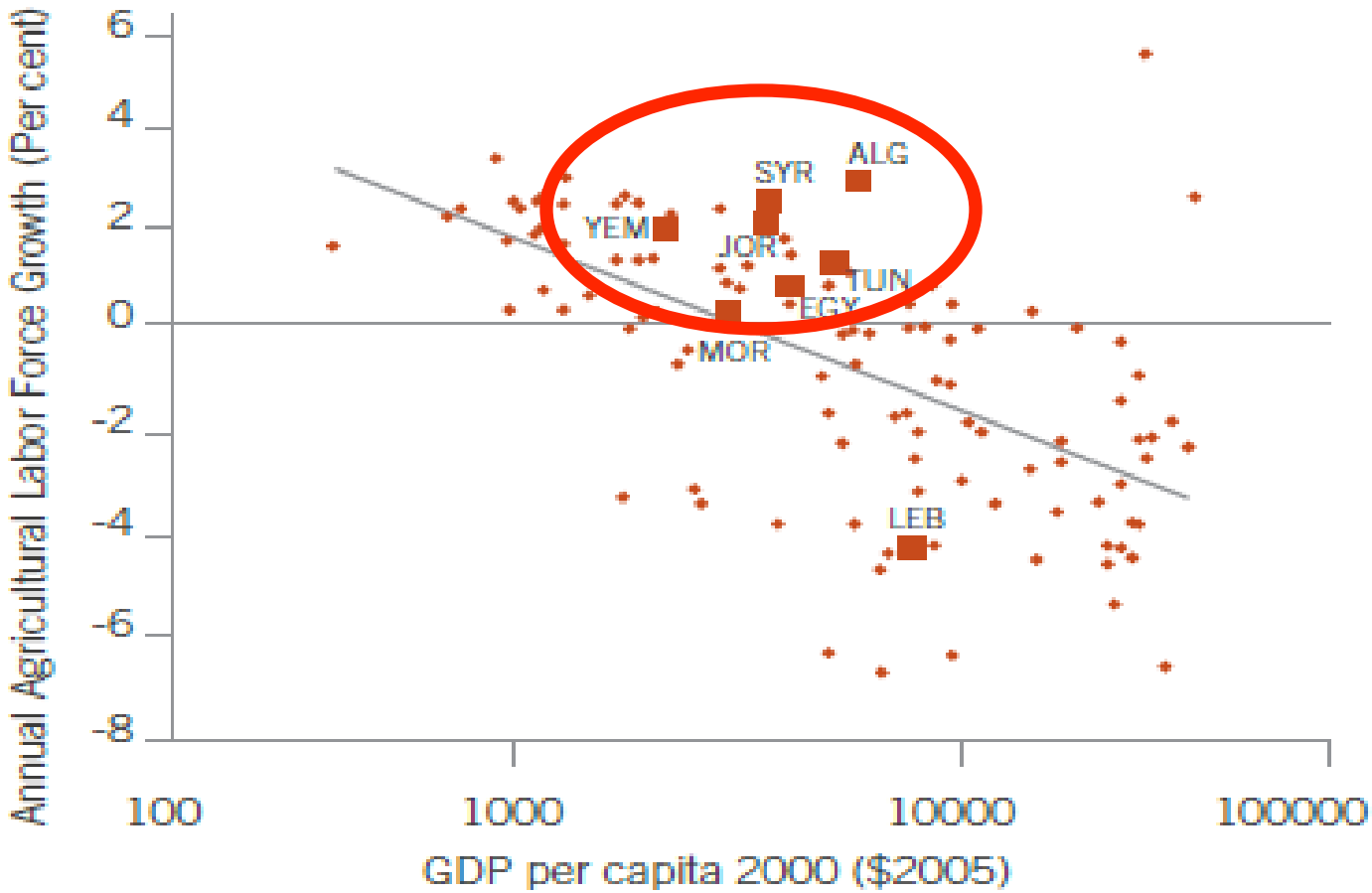


What does this kind of economy imply for employment?

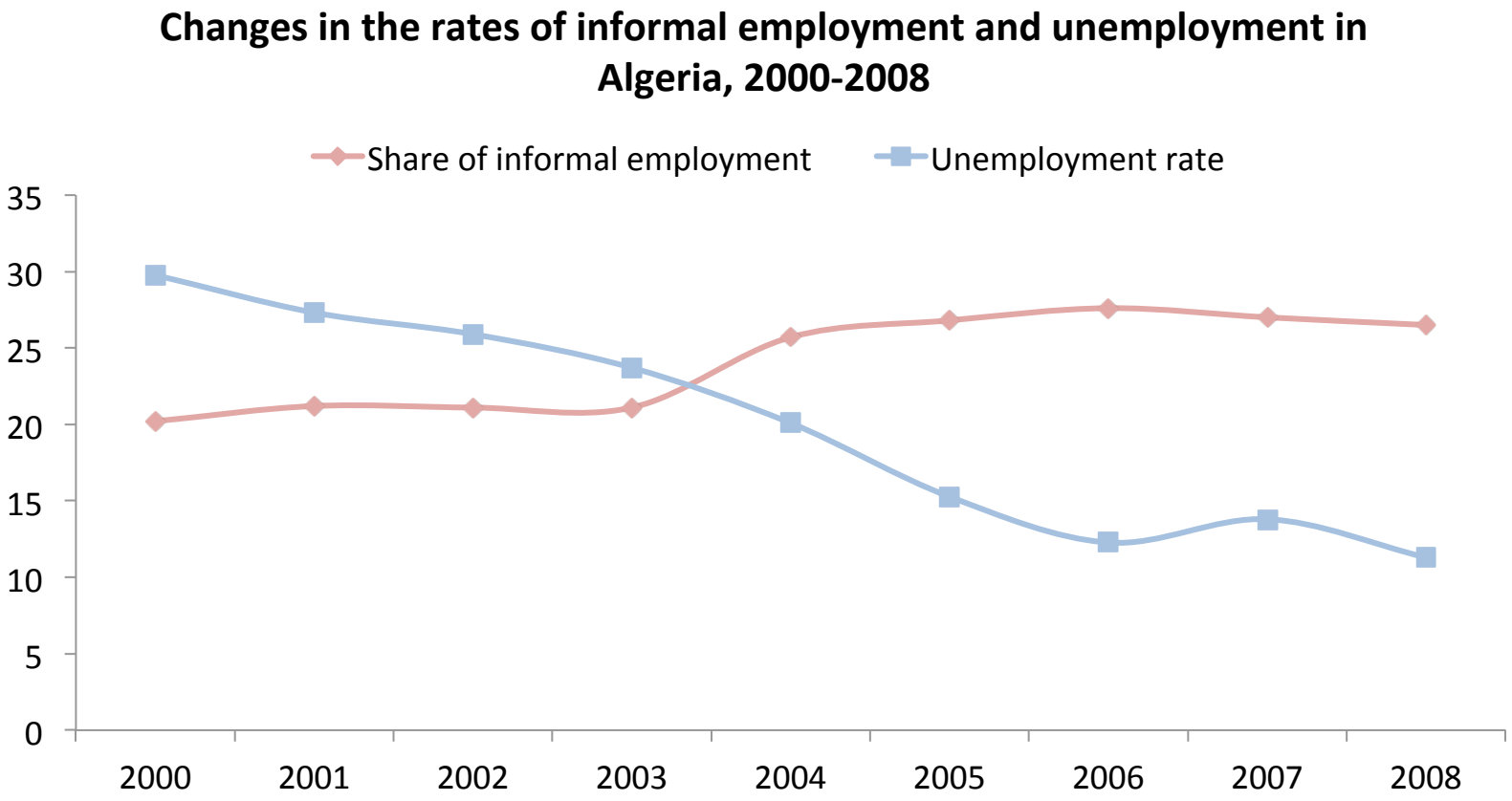
No decent employment

In relation to income, high rates of labor absorption in agriculture

Annual growth 1995-2005 by country per capita income

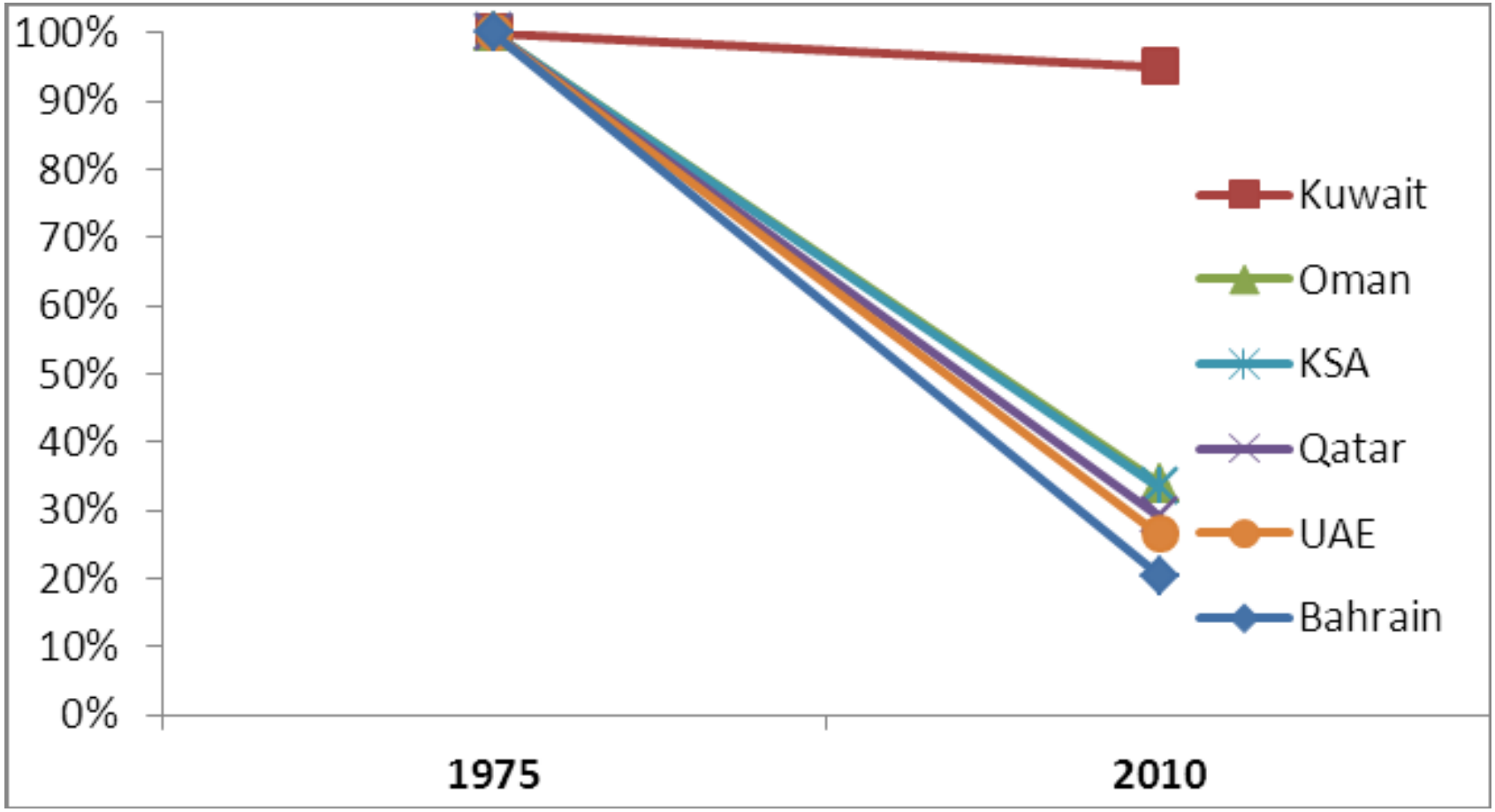


Employment creation was not formal



Ratio of National/Migrant Workers, GCC 1975-2010

(Index 100=1975)



Even in Jordan, national economic policies did not benefit much the nationals

Employment growth (number), 2000-2009

Public Sector	125,196
Private Sector	**190,150**
Other Sectors	-3,139
Total Jordanians	312,206
Total Non-Jordanians	**225,128**

Note: Non-Jordanians include only those with official work permits
(e.g. the figures exclude domestic workers and undocumented migrants)

Education and Skills

- Is it high reservation wages of job seekers or low wages paid by employers?
- Is it mismatch between education and work requirements?
- Is it because inequality of education opportunities?
- Is it because “there are no skills” or because “there is not demand for skills”?
- Why the educated are unemployed, enjoy a low wage premium and emigrate?

% of employers reporting inadequately educated workforce

- 12% or more in Germany, Switzerland, Austria

- 14% in the GCC
- 9% in other oil-producing MENA economies
- 5% in Tunisia and Egypt
- 3% in Lebanon

Source: World Economic Forum 2012

If there were demand for skills, the firms would provide training: In MENA they do not

Still there are three areas where education can and should increase

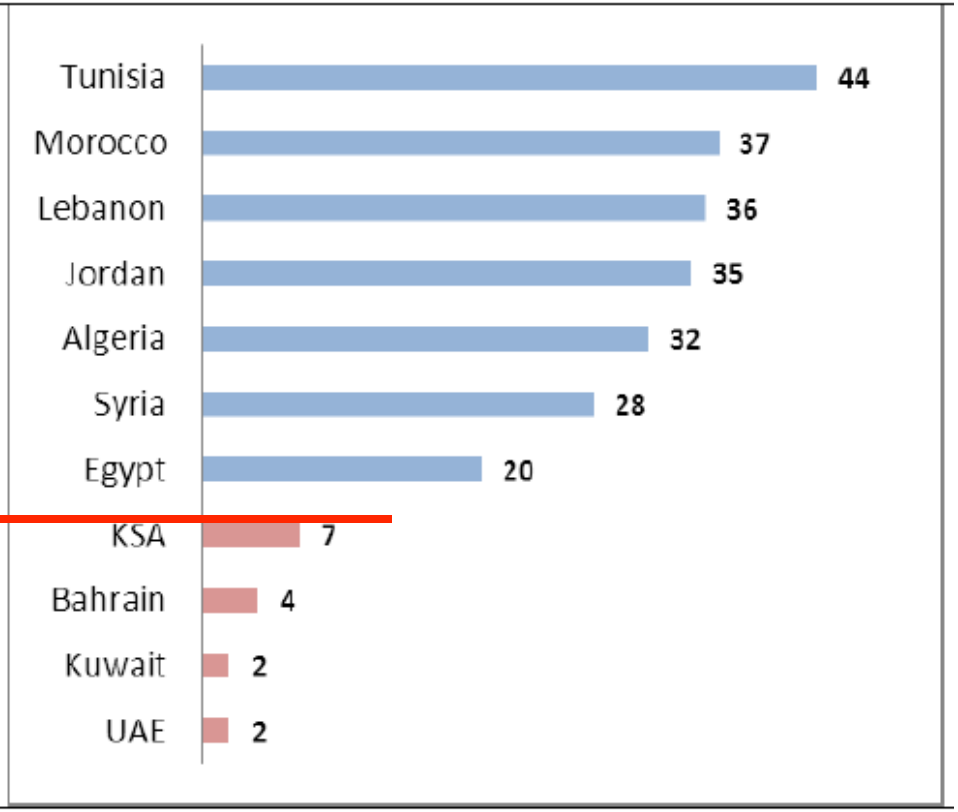
1. Education achievement should be increased

Student achievement in mathematics TIMSS 2007: international country rankings

Rank	Country	Score
1	Chinese Taipei (1st)	598
	International Average	**451**
28	Lebanon	449
31	Jordan	427
32	Tunisia	420
37	Syria	395
38	Egypt	391
42	Oman	372
45	Kuwait	354
47	Saudi Arabia	329
49	Qatar (Last)	307

Source: Third International Mathematics and Science Survey (TIMSS), 2007

Education achievement is lowest when there are no incentives to emigrate (% of youth who desire to emigrate permanently)

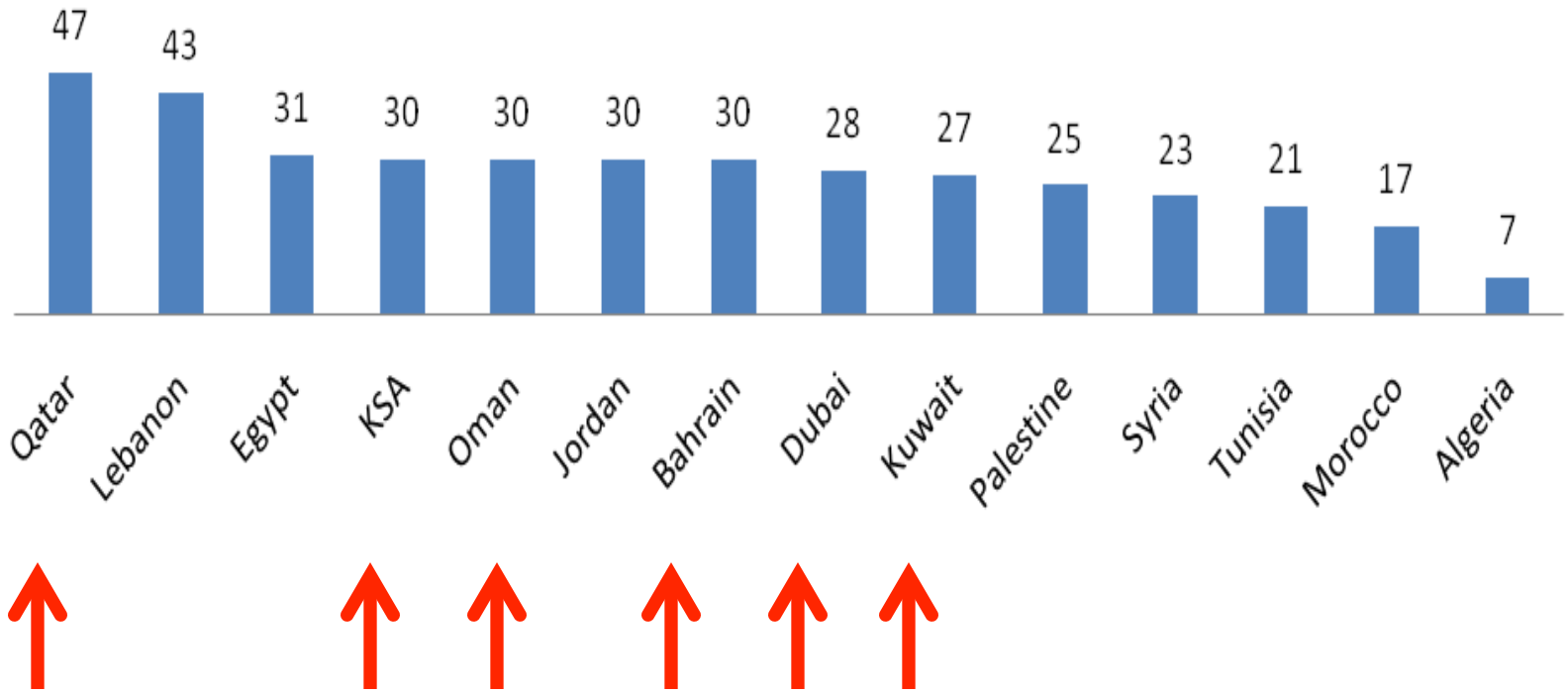


Source: "The Silatech Index: Voices of Young Arabs: November 2010", Silatech (Qatar)

2. Inequality of education opportunity should decrease

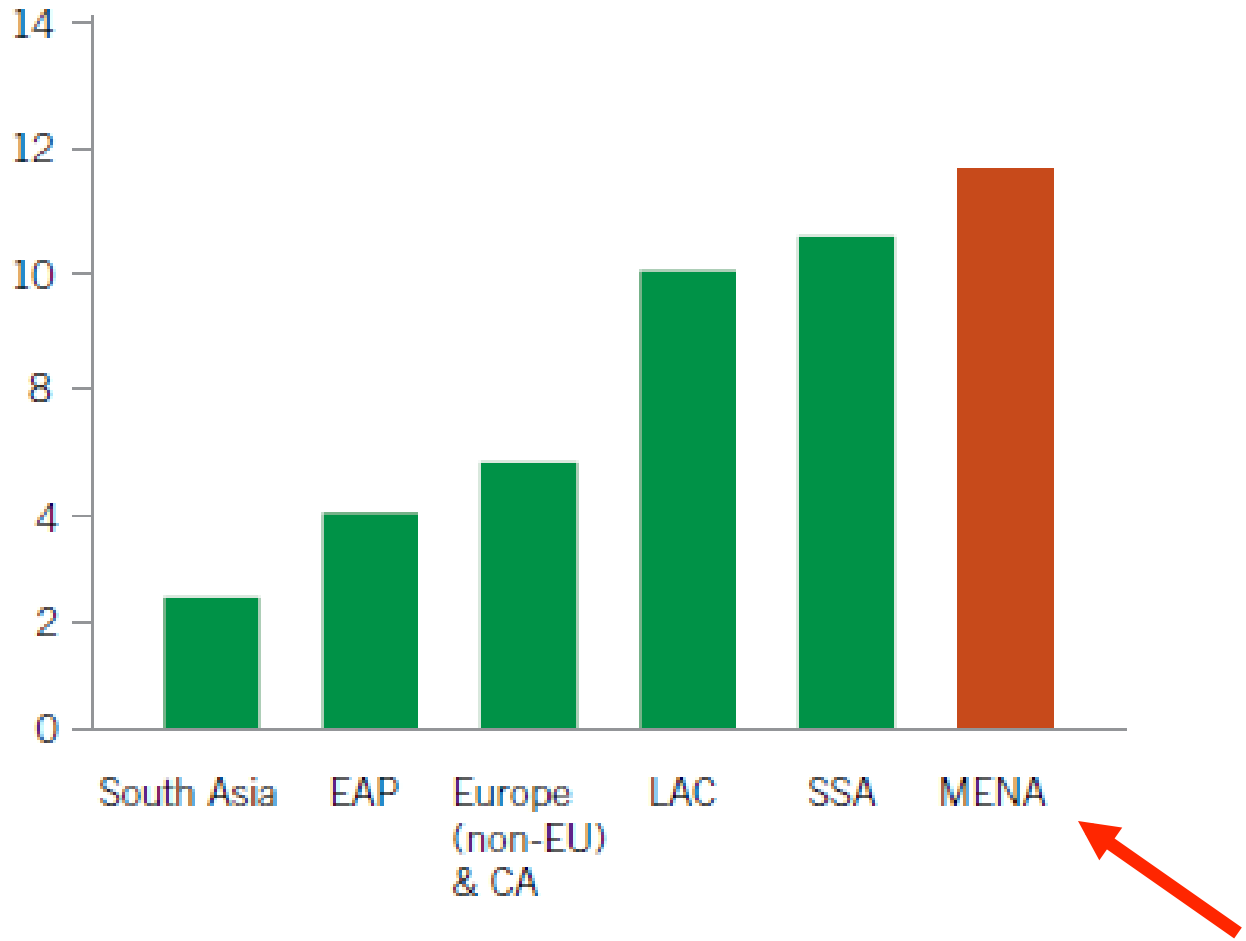
Difference in science scores between students from the lowest and highest quintiles
TIMSS 2007

Source: Djavad Salehi-Isfahani, Nadia Belhaj-Hassine and Ragui Assaad (2012), Equality of Opportunity in Education in the Middle East and North Africa. Economic Research Forum. Cairo



3. Education of managers should increase, too!

% of managers who have not completed secondary education



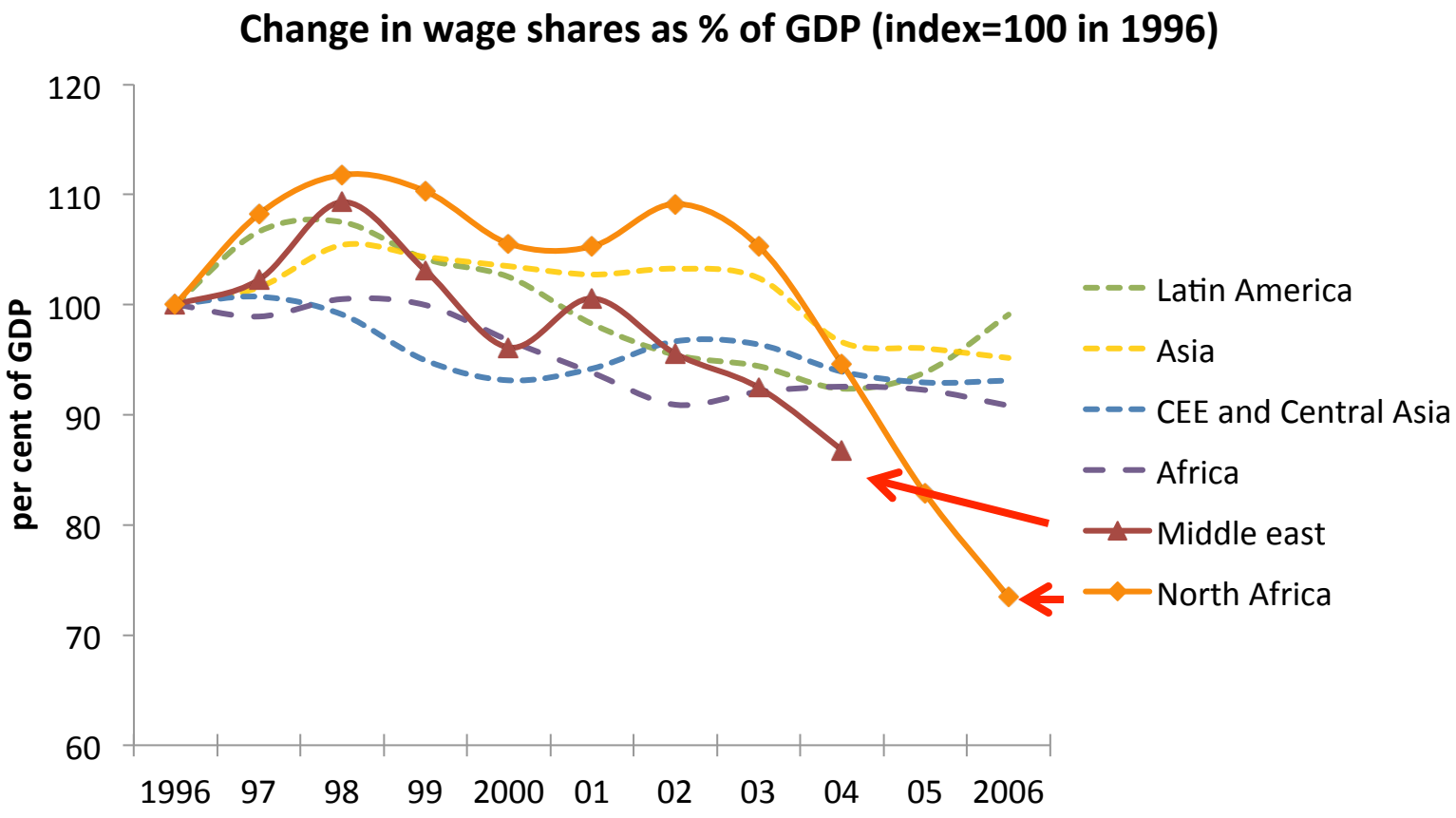
The social side

Human development

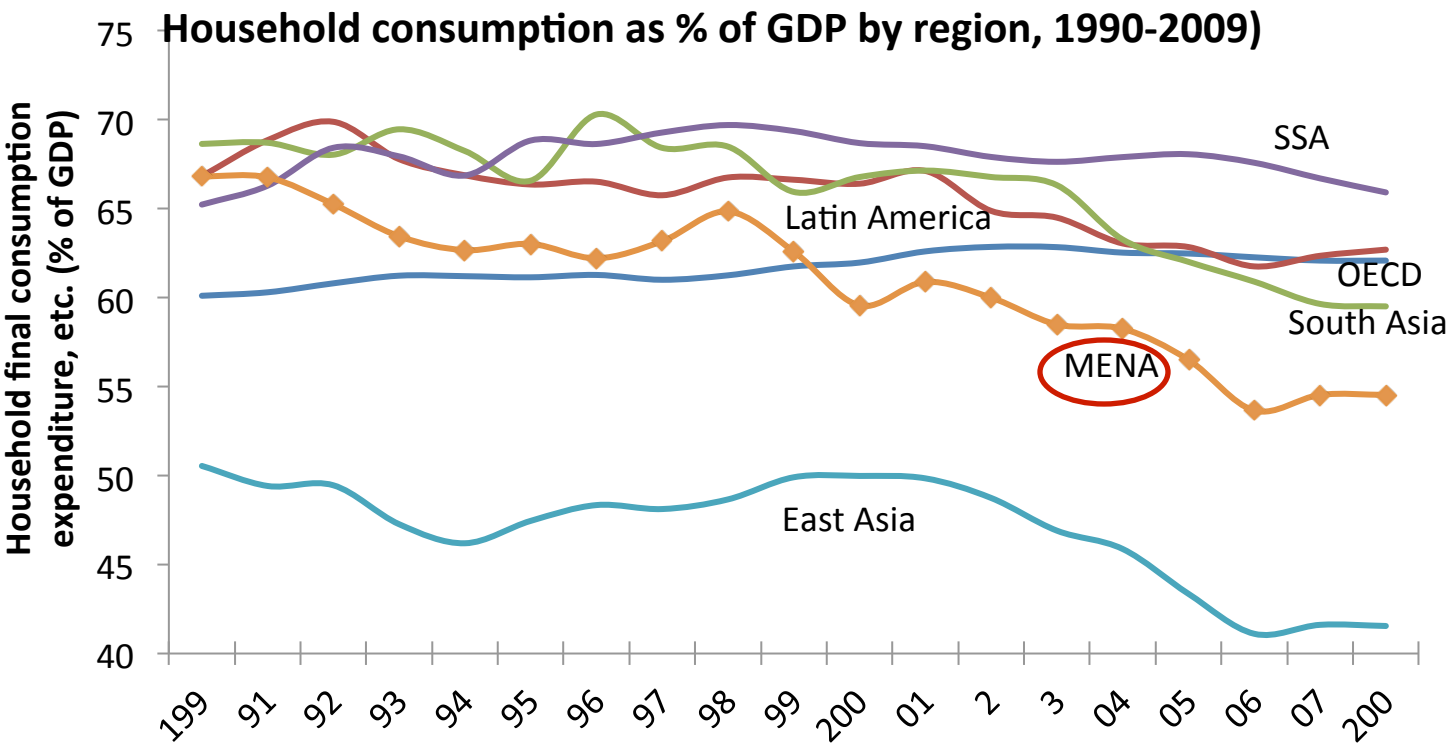
and

social protection

Despite increasing employment and employment-to-population rates, the share of wages in GDP in the Arab region declined fastest



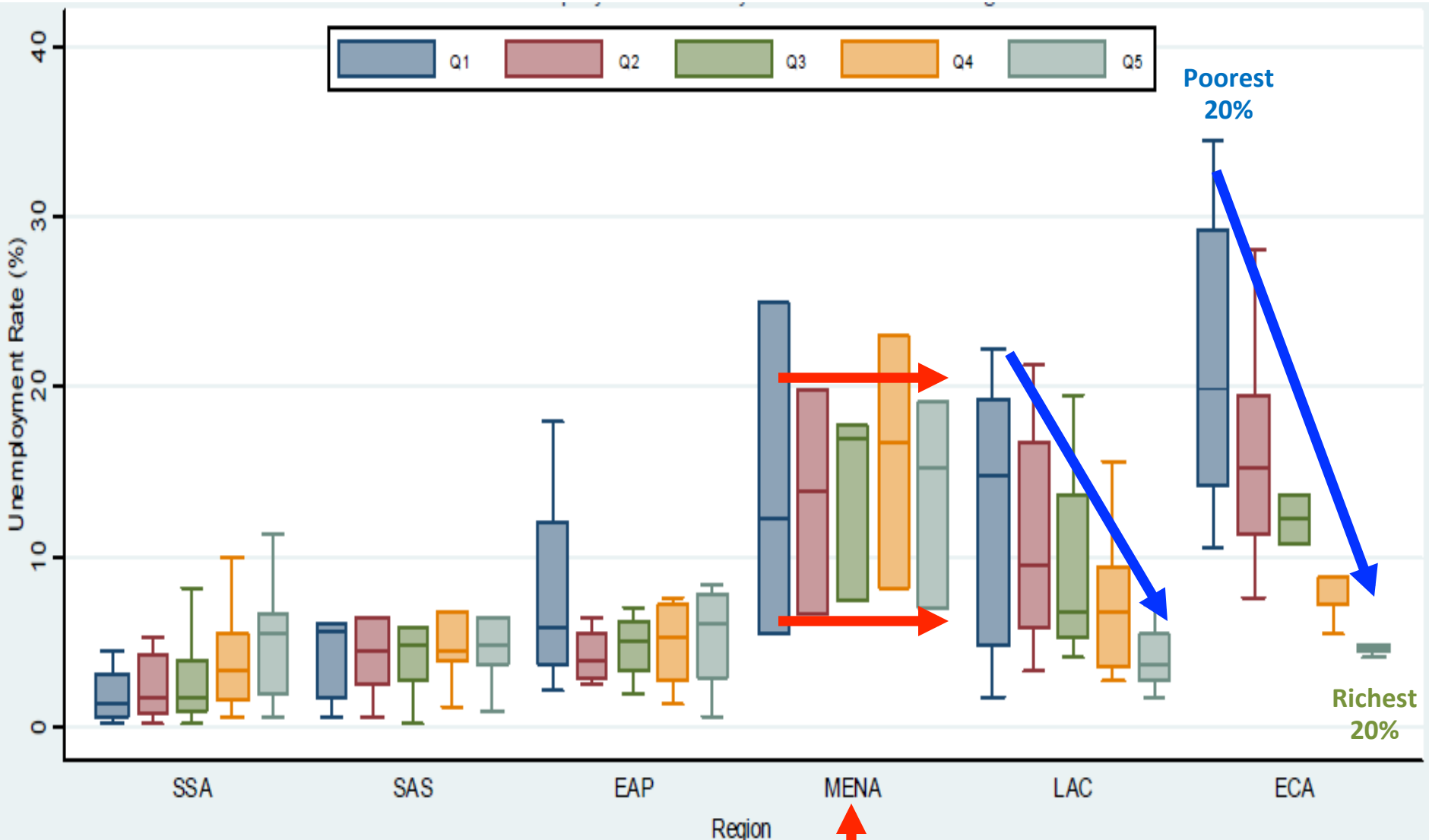
Similarly, household consumption declined as % of GDP



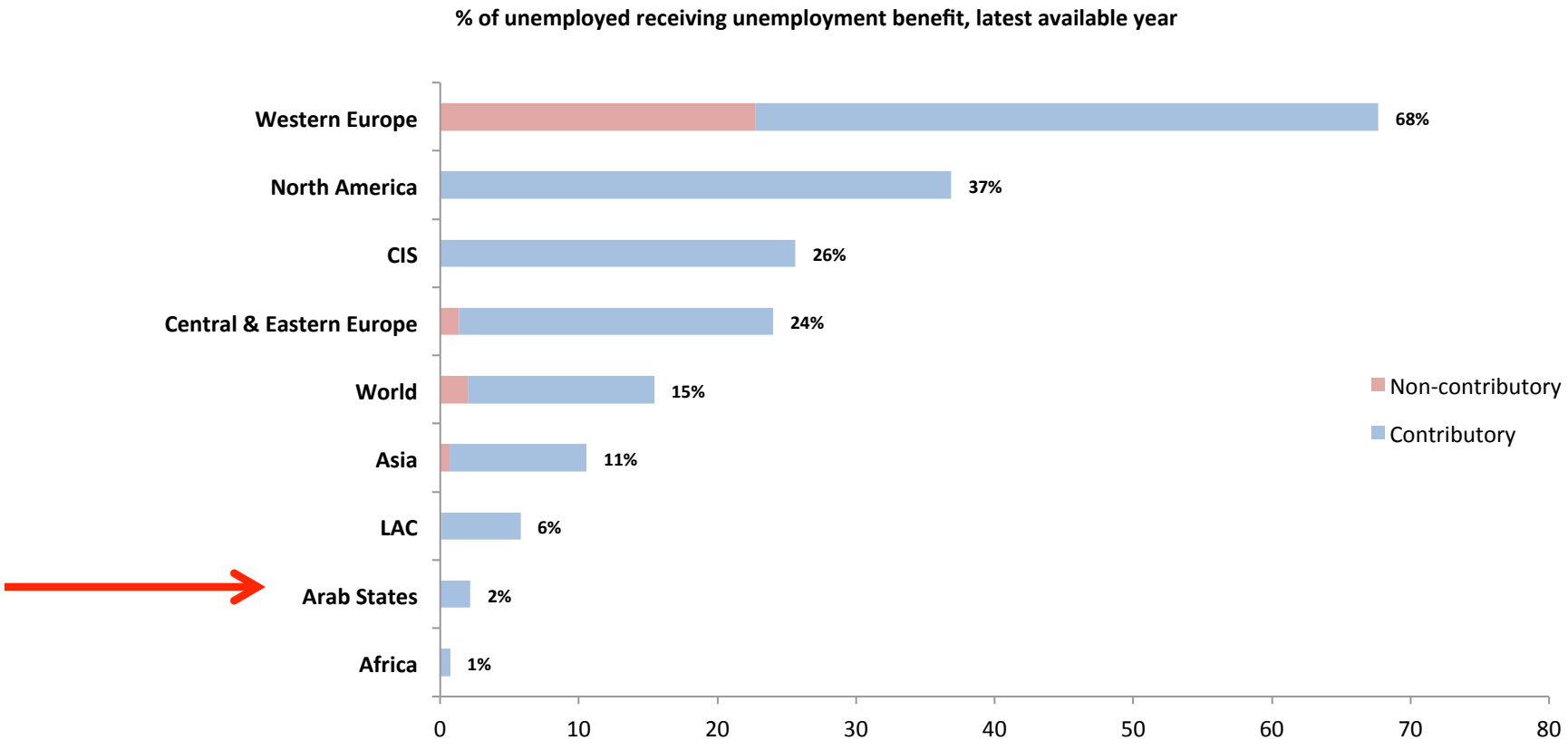
In some ways, the figure is in line with the observation that micro surveys in the region are not properly sampled

In MENA unemployment rates do not decline as household income increases

Spread of unemployment rates by income quintiles, 2000s

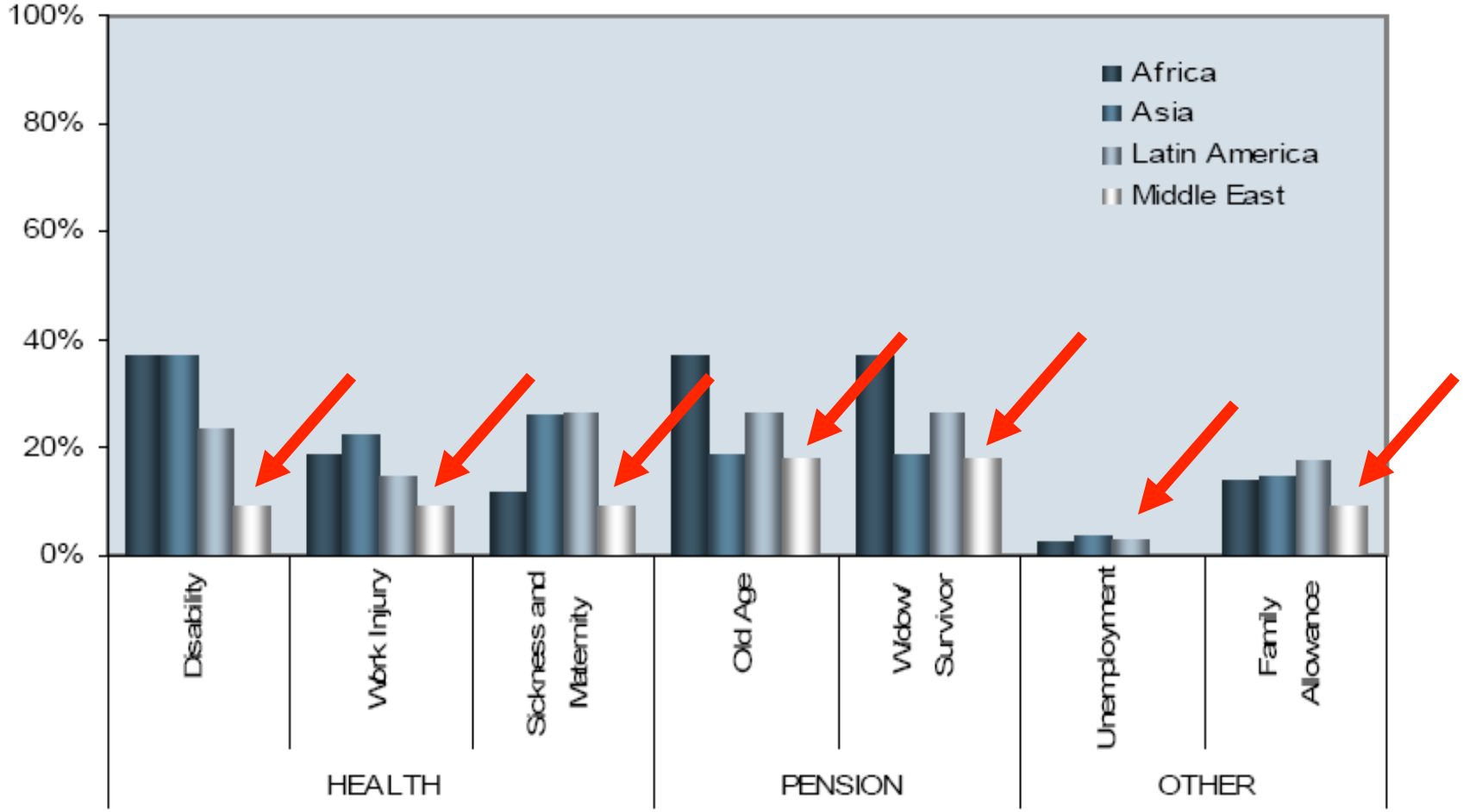


Before the financial crisis and the Arab Spring, few Arab countries provided unemployment benefits

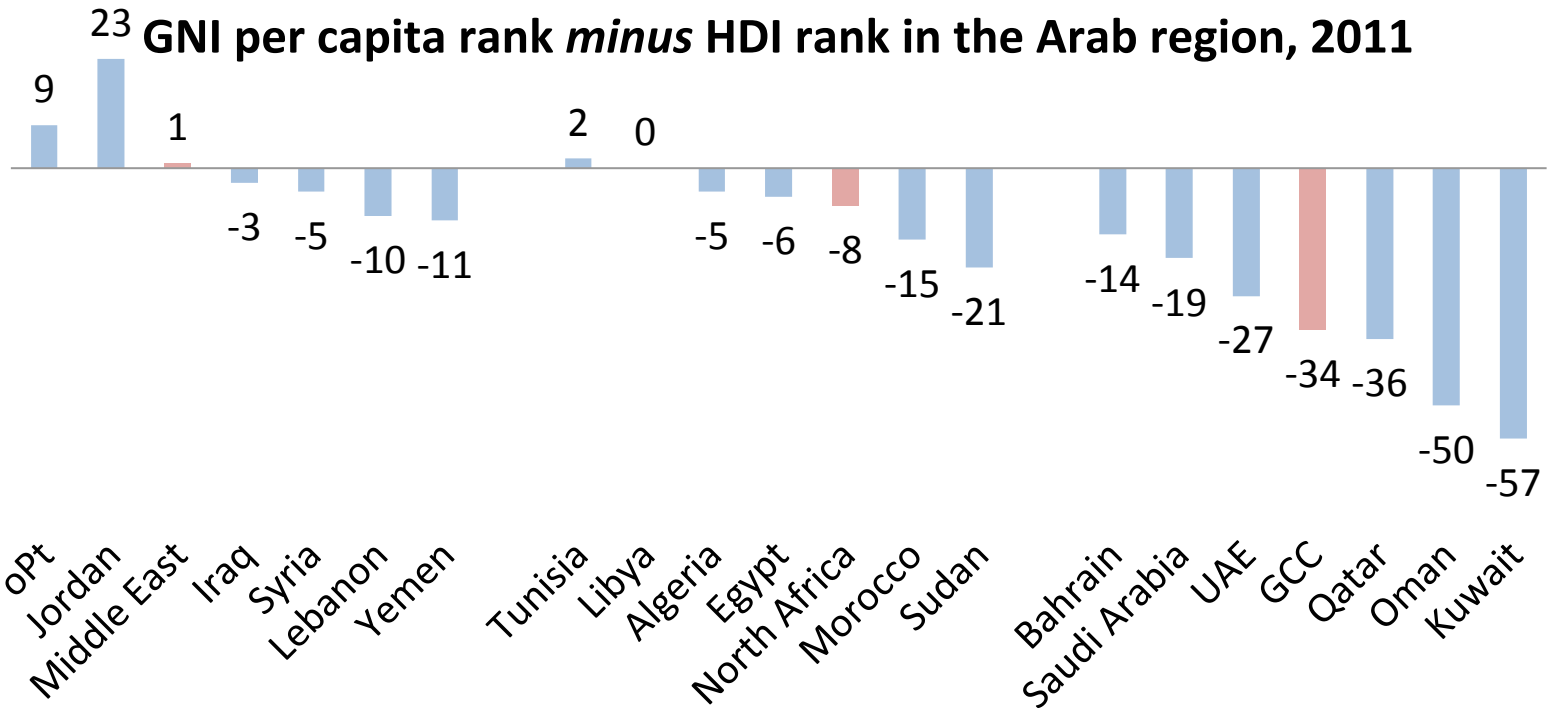


Low social protection (and increasingly privatized)

% of informal workers covered by social protection



Human Development Index

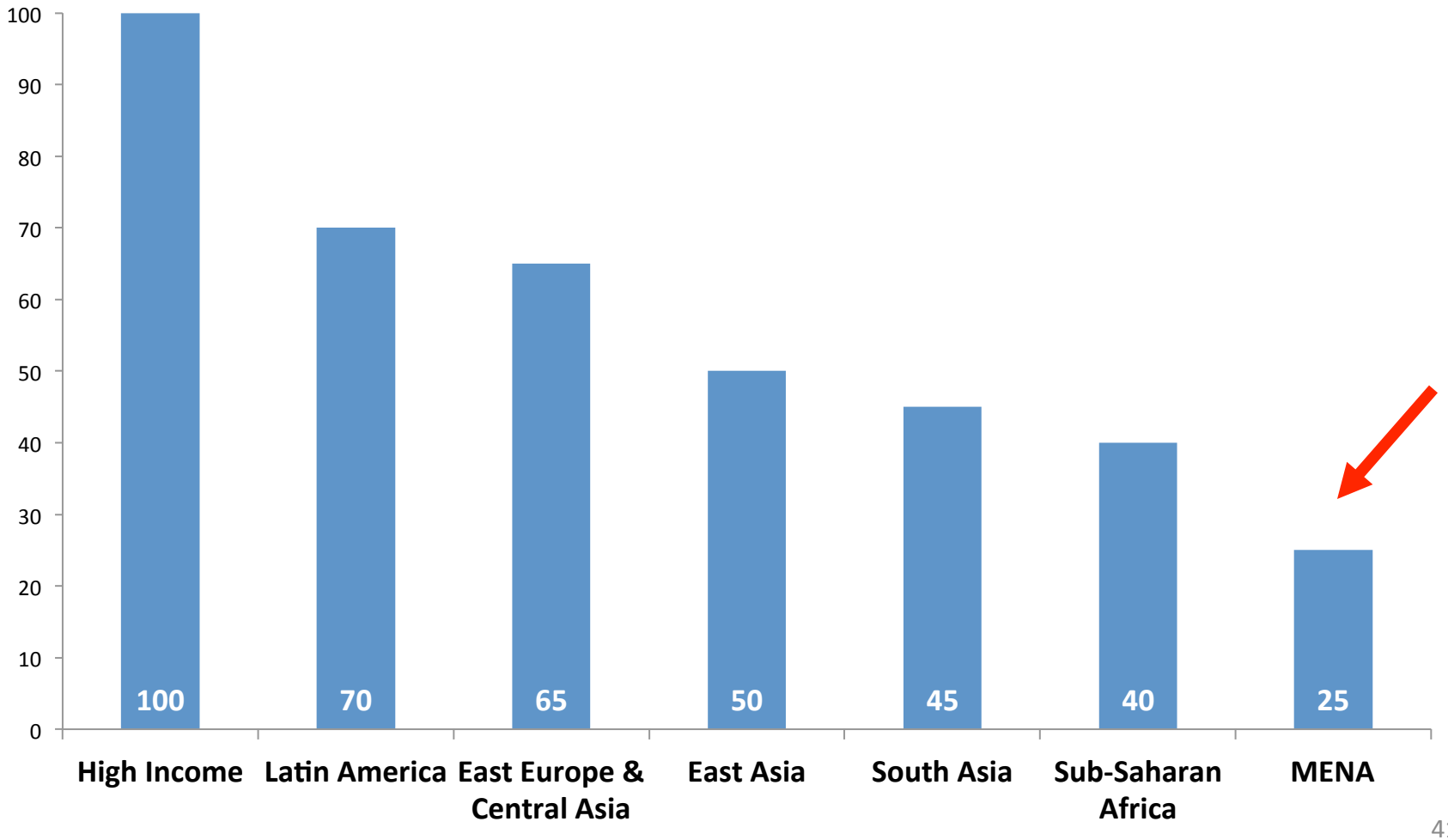


Despite gains, all but three Arab countries score less on the HDI compared to per capita income

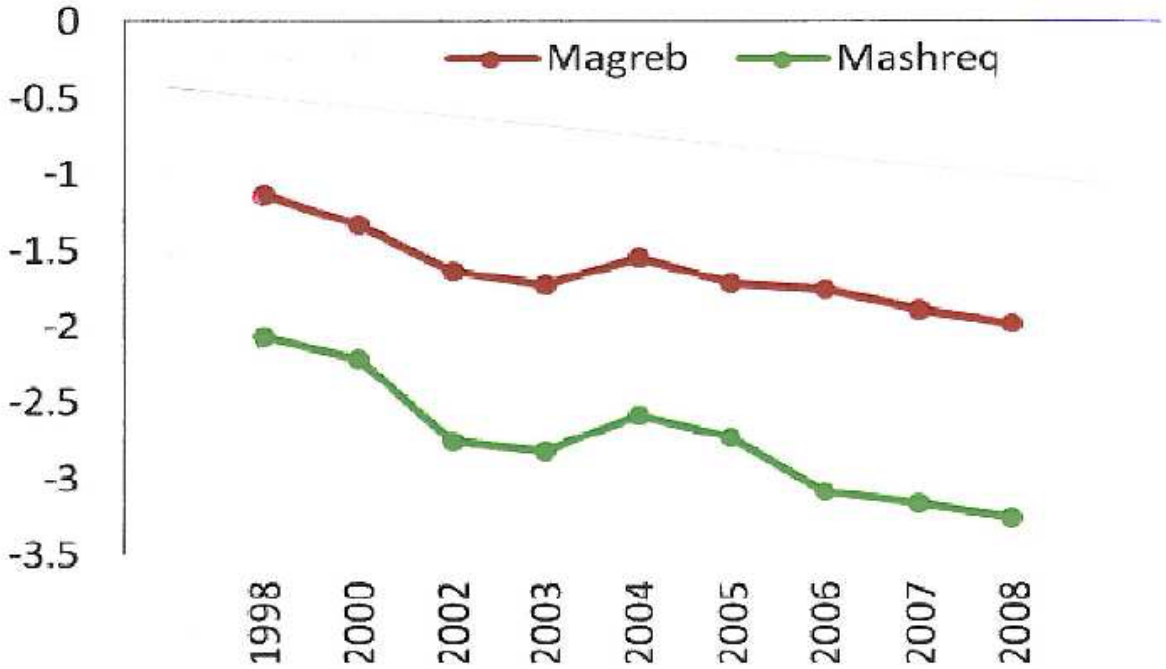
The political economy side

Low public accountability, 2000s

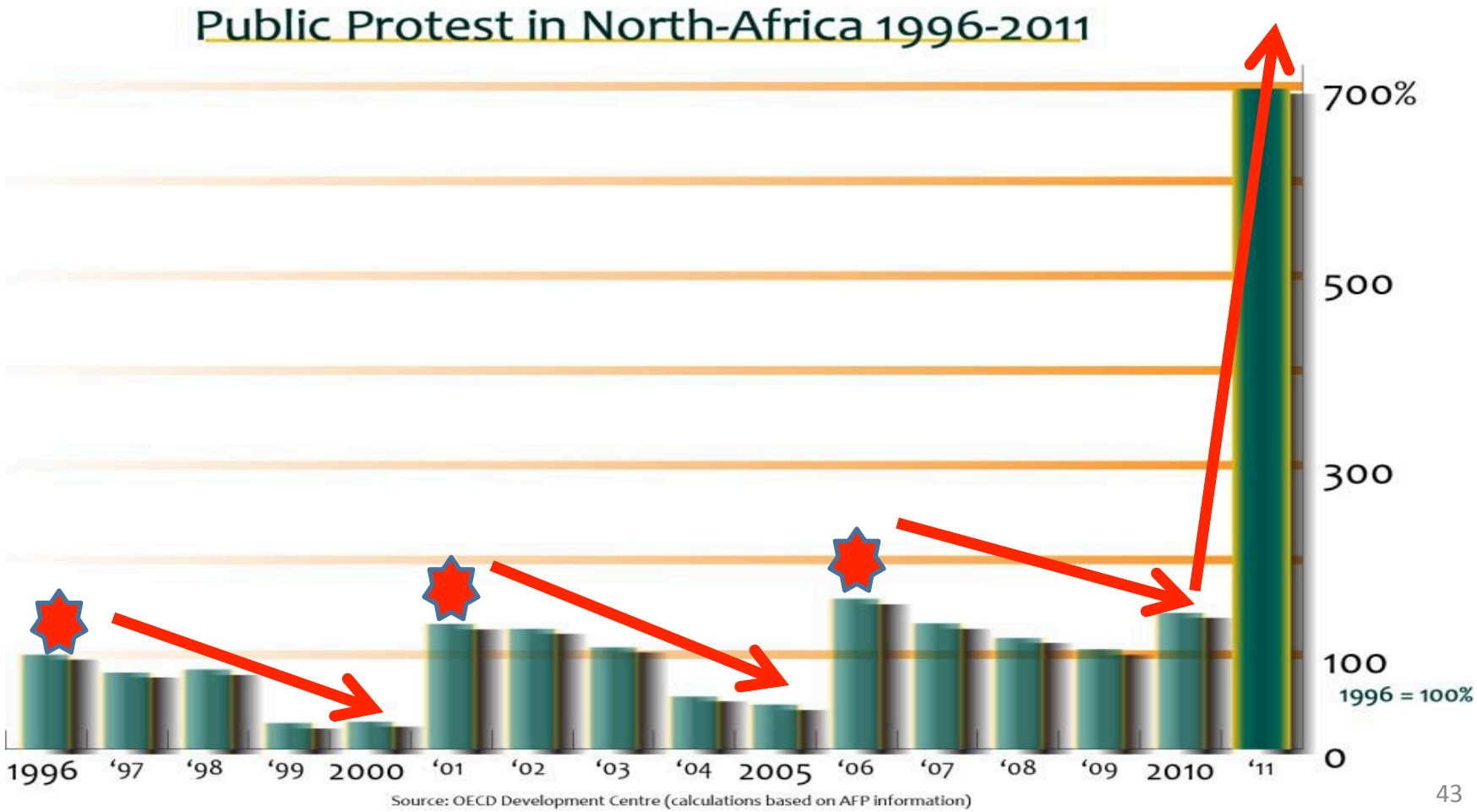
Index, 100 = high



Voice and accountability declining over time

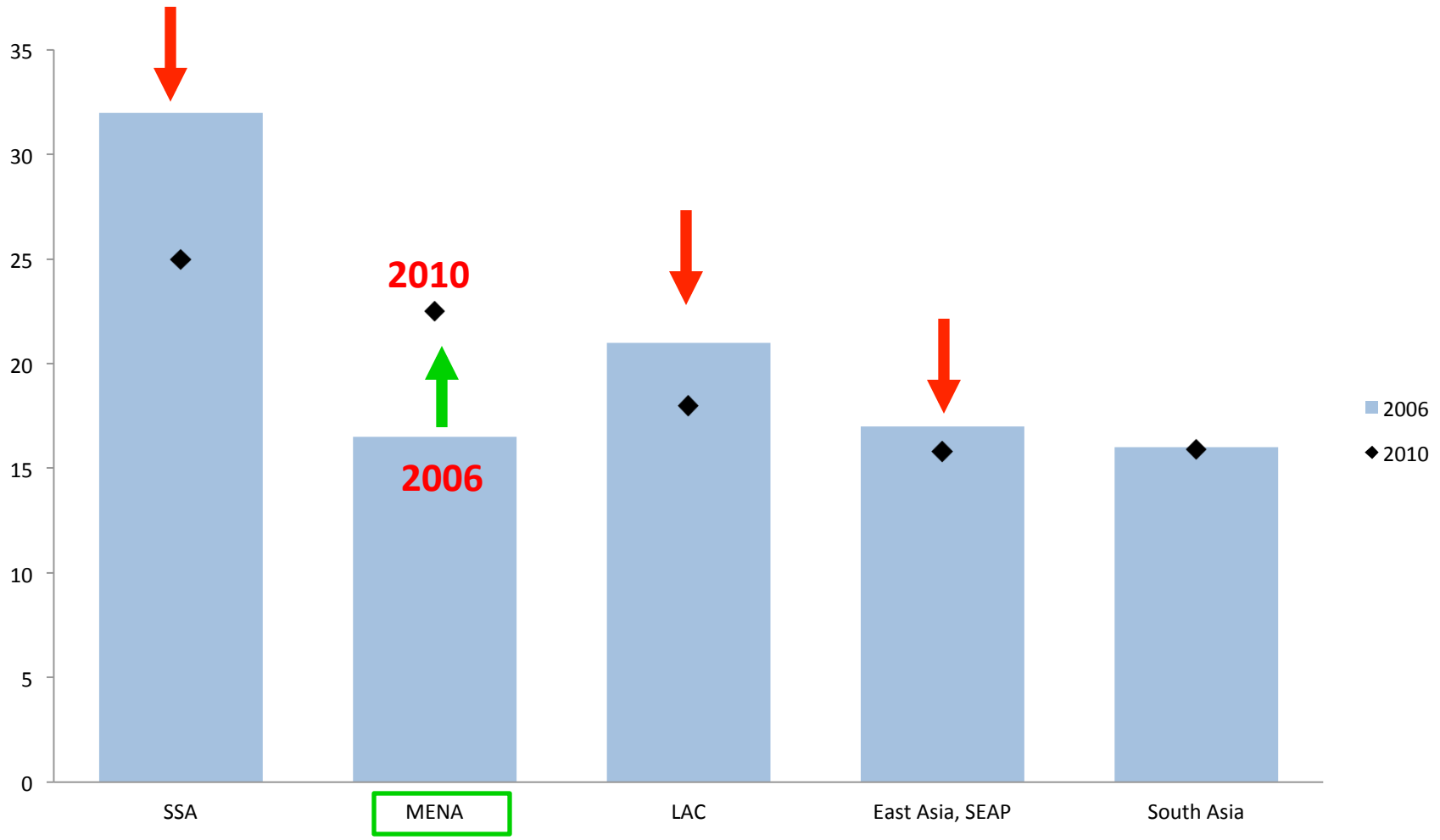


Initial protests were suppressed but kept coming back with added force

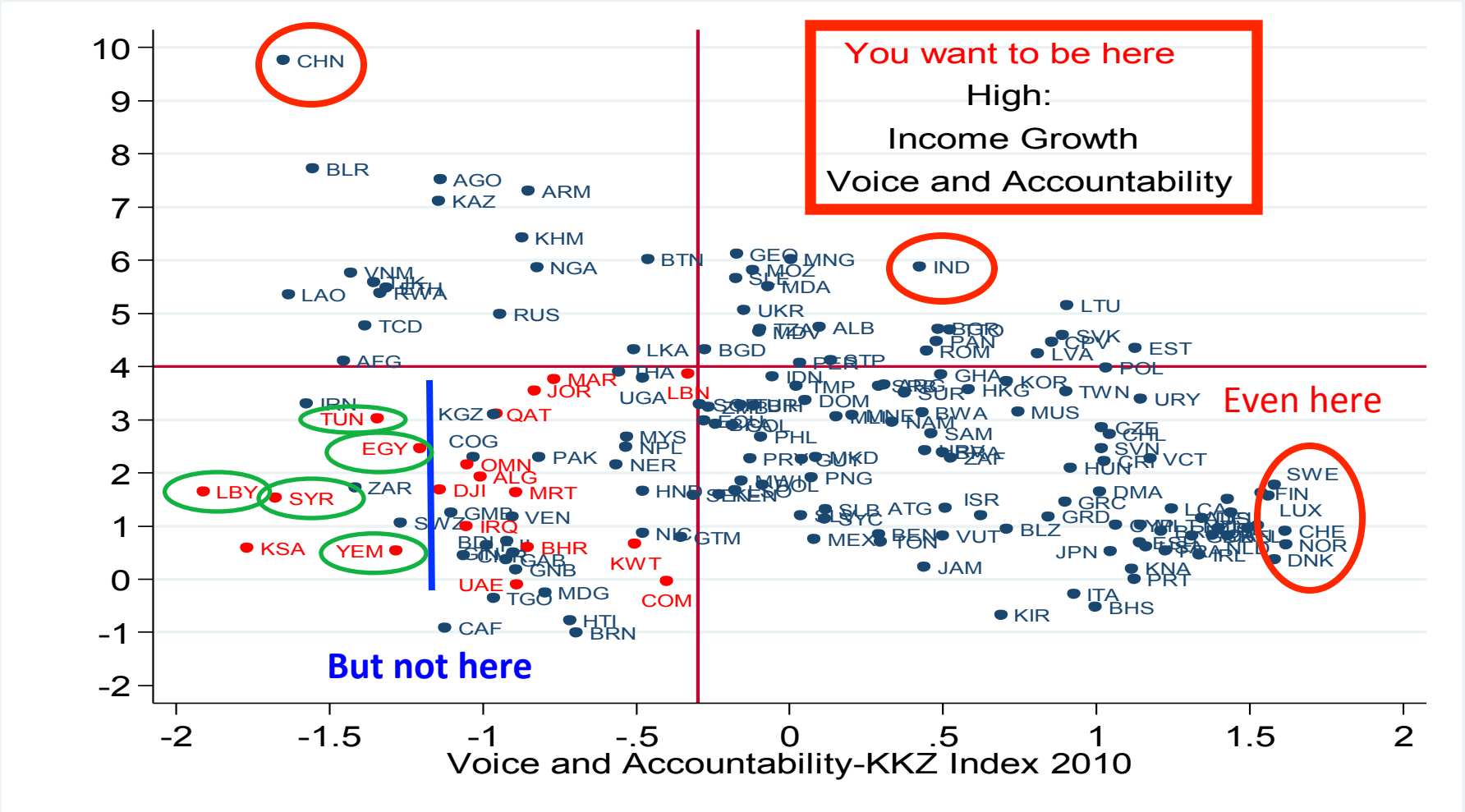


Citizens' pessimism was on the rise

Change in expectations about standard of living



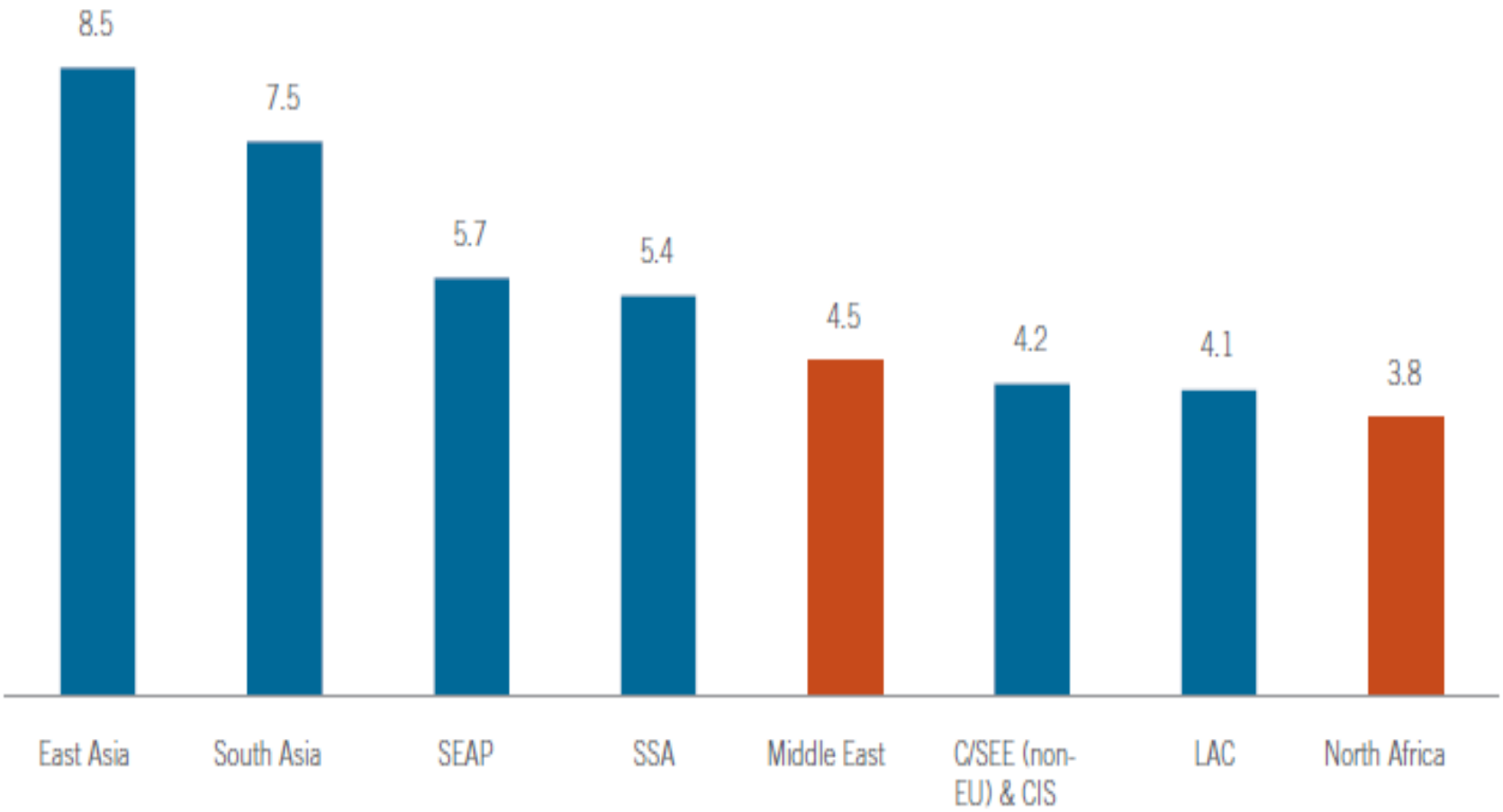
Citizens in Arab Countries Have Seen Slow Increases in Incomes and Have Had Low "Voice"



Prospects

Low future economic growth, almost half of what would be required to reduce unemployment

Projected annual GDP growth (%) till 2015

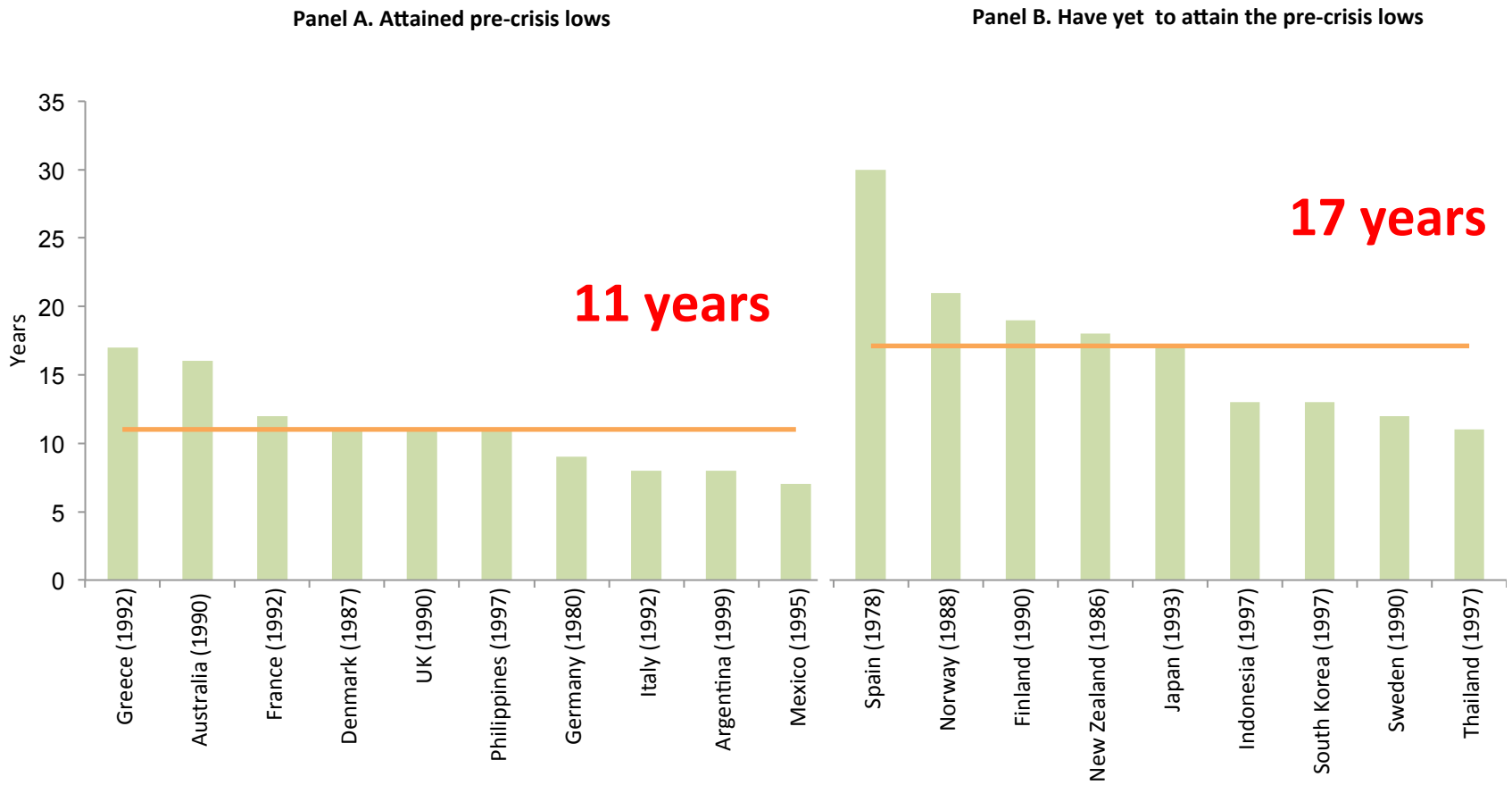


There is still a lot of slack

- 34% youth inactivity rate (excl. students and migrants)
  - 24% male and 45% female
- Female labor force participation rate 26 % (world average 51%)
  - Regional male rate on par with world average
- Unemployment has increased since 2010
  - It usually takes years to reduce unemployment

How long does it take to bring unemployment down to pre-crisis levels?

Time taken for youth employment to recover from earlier crises, in years



Summary

1. Growth has been slower than other developing regions Growth focused on low-value added service activities resulting in poor productivity growth and an increase in informal sector employment
2. Growth and increased employment were not matched with increasing shares of wages and household consumption hence poverty did not decline significantly despite stagnating inequality
3. Poorly designed social protection and the rolling back of the state from the social sectors increased insecurity, while adult unemployment proved to be more resilient than the more visible youth unemployment.

End Result: greater expectations (particularly among youth) and increasing sense of insecurity in the presence of weak citizen voice and low Government accountability

Policies

General policy directions

- Economic policies
  - Macro, fiscal, industrial, trade, finance, investment, competition, business …
  - Need transparency, level playing field in the private sector and accommodating policy effects on the social sectors
- Promotion of participatory and inclusive dialogue
  - perhaps one of the biggest gaps compared to other regions…
- Social protection
  - move away from expensive benefits for public and private formal sector workers, insiders etc;
  - examine distributional impacts of policies – e.g. untargeted subsidies unemployment insurance, maternity benefits, old age pensions …

Specific policies

- Improved migration management
- Better design employment policies
- Increase education quality and reduced inequality in opportunity
- Better statistics, effective monitoring and evaluation of policies