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**Labour demand and social dialogue:
Two binding constraints for
decent work for youth in the Arab Region**

Zafiris Tzannatos

Employment
and Labour
Market Policies
Branch

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Preface

The primary goal of the ILO is to work with member States towards achieving full and productive employment and decent work for all. This goal is elaborated in the ILO Declaration 2008 on *Social Justice for a Fair Globalization*,¹ which has been widely adopted by the international community. Comprehensive and integrated perspectives to achieve this goal are embedded in the Employment Policy Convention of 1964 (No. 122), the *Global Employment Agenda* (2003) and – in response to the 2008 global economic crisis – the *Global Jobs Pact* (2009) and the conclusions of the *Recurrent Discussion Reports on Employment* (2010 and 2014).

The Employment Policy Department (EMPLOYMENT) is engaged in global advocacy and in supporting member States in placing more and better jobs at the center of economic and social policies and growth and development strategies. Policy research and knowledge generation and dissemination are essential components of the Employment Policy Department's activities. The resulting publications include books, country policy reviews, policy and research briefs, and working papers.²

The *Employment Policy Working Paper* series is designed to disseminate the main findings of research on a broad range of topics undertaken by the branches of the Department. The working papers are intended to encourage the exchange of ideas and to stimulate debate. The views expressed within them are the responsibility of the authors and do not necessarily represent those of the ILO.

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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See <http://www.ilo.org/employment>.

Foreword

This paper by Zafiris Tzannatos, former Senior Employment Specialist of the ILO, argues that the main reason for the persistently high youth unemployment rates in the Middle East and North Africa has not been slow economic or “jobless” growth. Economic and employment growth in the decade until 2008 – but also since the outbreak of the recent financial crisis – were high. The author identifies slow productivity growth together with limited creation of quality jobs as main constraints to better youth employment outcomes in the region. All in all, it was more the demand for rather than the supply of labour that acted as a constraint.

Recent years have seen increasing levels of education and training among young Arabs, many of whom are now over-qualified for the types of jobs the economy creates. The end result has been low wages and precarious types of employment that did not meet the expectations of the increasingly-educated youth and the aspiring middle classes. Lacking voice, many educated and skilled Arabs voted with their feet through social protests. The absence of social dialogue did not help diffuse the situation over time.

Creating quality employment requires that structural imbalances in the fiscal, monetary, industrial, investment, financial, trade, business development and private sector areas are addressed. Of critical importance are policies that create incentives for investments with high and broadly shared social benefits. In turn, this will increase the demand for skills, productivity and wage, as well as improve other conditions of work.

The creation of more decent jobs would drive investments by jobseekers in education and skills that have been historically biased towards employment in the public sector. This would also avoid the continuing segmentation between the public and private sector, as well as between nationals and non-national workers in the presence of unmanaged migration. The labour market segregation between women and men requires measures both at the market and social spheres.

Addressing the above-mentioned issues is critical for sustainable and equitable economic growth in the Middle East and North Africa (MENA). This agenda should have quality jobs at its core. In turn, this requires a level playing field and transparent incentives for employers based on investments that create long term social benefits, including high-productivity employment and not just quick returns.

On the institutional side, an effective social dialogue is needed to define multi-pronged and balanced policies that are the results of negotiations between employer organizations and trade unions from one side and the government from the other. The author argues that unless labour demand and employment outcomes become central to the development agenda and employment is no longer seen as the main concern of just the Ministries of Labour, the education gains in the region will keep contributing little to productivity increases and the creation of decent jobs, especially for the young generation.

This paper is based on interventions by the author in several national and regional forums on youth employment that took place over the last years in the Middle East and North Africa. The comments provided by Iyanatul Islam, Makiko Matsumoto, Gianni Rosas and Dorothea Schmidt of the ILO’s Employment Policy Department are acknowledged with thanks.

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1. Introduction

John Pierpont Morgan who died almost 100 years ago (in 1913) but his company (JPMorgan) is one of the few that not only did not suffer from the 2008 crisis but has since come out stronger than before, once said "A man generally has two reasons for doing a thing. One that sounds good, and a real one." This quotation is applicable today once the word "man" is replaced by "person".

The relevance of this quote is that we all have many good reasons for doing all sorts of good things we are doing in the areas of development and utilization of human resources. More and better education is always preferred to the less and low quality education. If one does not have skills, then he or she is unemployable; and surely we should help the unemployed find jobs with various labour market programmes so we do not waste human resources, on the production side, and people – especially poorer ones - have a source of income, on the human side. All this sounds not only good but morally imperative. All these are the good reasons.

One can, however, argue that the real reason for doing all this is because we are failing to do two right things in the first instance: The two right things to do are, first, to create employment and, second, create employment that is acceptable to the citizens. Both are needed: Employment (created by employers – the labour demand side) and Acceptability (by citizens – the labour supply side).

What are then the conditions for creating acceptable employment and reducing unemployment? This is not the one million (or, now, billion?) dollar question. Economists have a road map for addressing this question. And there are plenty of lessons from the international experience of what works and why – as this paper tries to summarize.

It might be helpful to put the cart ahead of the horse and briefly list up front some diagnostics for the Arab labour markets:

1. The Arab region as a whole has not paid enough attention to the fact that people respond to incentives: People do what they want to do, not what others ask them to do
2. Unlike other regions that took advantage of the demographic transition when fertility was high, the youth bulge in the Arab world has been very much turned from a blessing into a problem: The youth is the solution – though only part of it
3. Though education and skills can always improve, this is not the primary reason that holds back job creation and productivity growth in the Arab world: In many respects, at least in some Arab states job seekers are over-educated for the kind of jobs that are being created by the economy
4. The prime determinant of employment creation and what type of employment is created depends on labour demand by employers: The labour market is almost always demand constrained and this is particularly relevant for the Arab labour markets
5. At the end, whether the economy creates adequate employment in terms of both quantity and quality would depend, first, on the macro, fiscal, monetary, industrial, trade, investment and business policies and, second, on the environment of how these policies are implemented in the presence or absence of weak governance, lack of transparency, reduced accountability and corruption. These issues are the main source of the labour market pains in the Arab world.

And the actions worth exploring as solutions to the labour issues in the Arab world can be summarized as follows:

1. The national visions as well as the macro and private sector development policies should put employment at the centre: Even fast economic growth can fall short of creating employment that is acceptable to job seekers
2. Still within the macro setting, migration is particularly relevant for the Arab labour markets; this applies to both emigration and immigration
3. Social dialogue and the associated with it collective bargaining are critical not only for specific sectors of the economy but also at the national level: Leaving aside the long standing position of the ILO on the merits of social dialogue, almost 10 years ago research carried out by the World Bank acknowledged the centrality of collective bargaining in shaping employment outcomes,³ and the IMF in a more recent publication⁴ argued that for economy-wide shocks wage setting mechanisms work best when allowing adjustment via centralized coordination”.⁵

So, what are the conditions that can contribute to a better development and utilization of human resources? Two propositions are helpful for answering this question. First, policy outcomes depend on the citizens’ reaction to them - and this can be different than the intentions of policy. Second, one needs to know what works and why: Empirical evidence is as critical for guiding the design of policies that would lead to successful outcomes.

2. What determines behaviour and outcomes?

The first condition for successful policies is that policy makers, practitioners, and analysts need to understand and recognize what determines behaviour. Two propositions regarding the determinants of behaviour are:

1. People react to incentives. The incentives can be materially or moral. For example, people can wait for getting an uncertain government job in the future rather than being employed today in a job that is not meeting their requirements. Similarly, people are prepared to even give up their lives for a high cause, such as to defend their country. This point needs no further elaboration.

³ *Unions and Collective Bargaining: Economic Effects in a Global Environment* by Toke Aidt and Zafiris Tzannatos, World Bank (Publisher), 2002.

⁴ “Cross-Cutting Themes in Employment Experiences during the Crisis”, Strategy, Policy, and Review Department, International Monetary Fund, October 8, 2010; See also “Regional Wage Differentiation and Wage Bargaining Systems in the EU” by Athanasios Vamvakidis. IMF Working Paper No. 08/43, 2008.

⁵ For similar conclusion but in the context of ordinary development, not just economic shocks, see “Trade Unions, Collective Bargaining and Macroeconomic Performance: A Review” by Toke Aidt and Zafiris Tzannatos, *Industrial Relations Journal* 39:4, 258 – 295, 2009.

2. People do not always react to incentives in a “predictable” way. What this means is that people can react to a policy in a different way than those who created the policy have in mind. This can be shown with an example from the Arab region: A policy reserving certain jobs for nationals in high immigration countries is expected to entice them to invest in skills that would enable them to do such jobs. Instead, this policy often leads to under-investment in skills as the reserved jobs are seen as an entitlement based on citizenship rather than on hard work and merit.

The end result of policies may therefore be not only partly affected but can at times be dominated by unintended consequences. Quotas for nationals is a case in point.

Let me give you another example that combines two policies in action. One policy aims to entice people to engage in entrepreneurial activity by combining incentives for start-ups and the creation of SMEs, a reduction of red tape, the creation of a healthy business environment and so on. Another policy is to adopt more or less open immigration to keep labour costs low for activities nationals do not want to do.

These two policies, if combined, risk ending up with nationals initially obtaining a license for an activity and then subcontracting the running of the activity to migrant entrepreneurs, even when nationals would have liked to become entrepreneurs/employers in the first instance. The end result: The creation of a rentier class among nationals, no significant employment creation for national job seekers, and pressure on Government to hire more nationals because the employment conditions in the private sector resemble those that prevail in the countries of origin of migrants.

The answer to this is not to try to increase the employment of nationals with quotas and other administrative means, but through incentives both to job-seekers and employers. In other words, the same way migrants react positively to the incentives of migration and work in a country other than their own, the same way nationals react negatively to the disincentives created by open migration and do not want to work in their own country under conditions that migrants are prepared and by law allowed to work in the host country.

3. What determines policy outcomes?

The second condition for successful policies is to satisfy three criteria:

1. Policies should be able to meet the interests and advance the welfare of the people. It is not enough, and it is in fact sad, to be contented by seeing the youth struggling to maintain the same economic or social position of their parents! We cannot progress on this premise – each generation needs to do better than the previous one, as our parents did compared to our grandparents. Such an improvement was particularly visible in most high income countries after the Second World War till the 1970s as well as in many Arab countries after the mid-1970s. However, things started stalling after that for large segments of the population and inequality increased, and not only in the Arab world, following the adoption of economic policies that led us to the financial crisis of 2008 and proved to be ill conceived and short-sighted.
2. Policies should be compatible with the values of the citizens and the changes in these values over time. Policies and laws can move societies forward or hold them back. Therefore rather than create conflict, laws and regulations should be synchronized with values to create synergies towards nationally desired objectives. For example, today we hear a lot about “governance” (that includes corruption). Governance is a critical factor for stability and prosperity from narrow defined areas, such as the financial sector, all the way to whole countries – as the development experience suggests from Greece, with reference to its ongoing economic woes to Tunisia, one of the more educated, faster growing and until recently thought to be one of the more stable countries in the Arab region

3. Policies should respect the use of public money. For example, what is the real cost of a \$10,000 support to each of four aspiring young entrepreneurs to start-up a micro-business? The answer would depend on how many would survive: The true economic cost for each micro-business actually created may be as high as \$40,000, if it turns out that two of the micro businesses will fail and one would have been created any way.⁶ So, what initially appeared to be more or less a moderate and justified cost (\$10,000) can turn out to be four times higher. It is this higher amount that should be compared with alternative uses of public money, such as on education or health services to the needy.

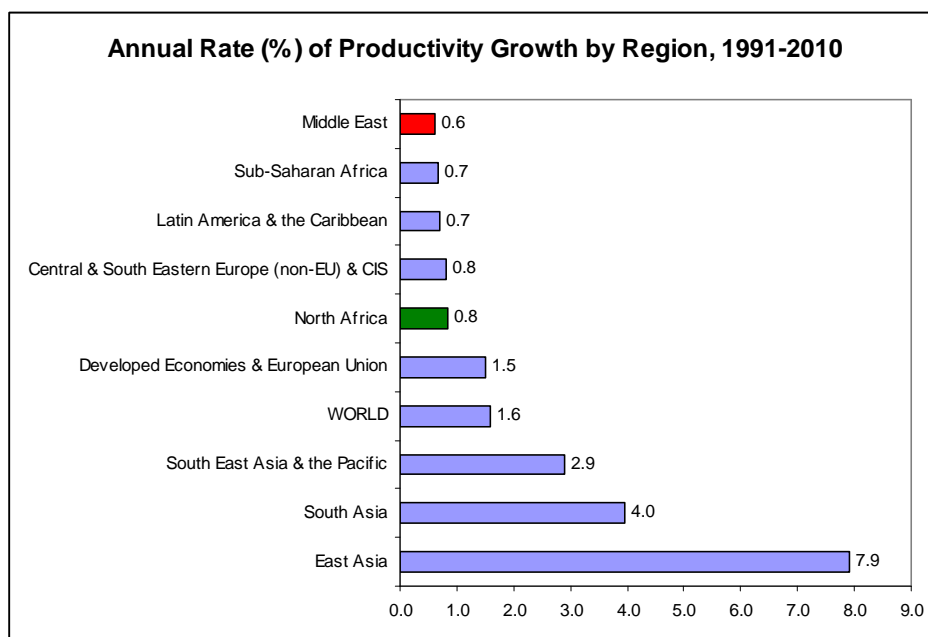
The consideration for good use of public money applies also to the countries that are blessed with oil resources the reason being what economists call “the oil-curse”: Since the 1980s, many of the more diversified economies in the Arab region have done better than some of the oil-rich economies.⁷ The reason for the oil-curse is that abundance can lead to waste and to neglect of the future which is precisely when the youth will be around. No country can ignore fundamental principles of economics and this is well known also among oil-producing countries as Sheikh Yamani, the former Saudi Oil Minister, said in 1973 during the first oil shock: “The stone age didn’t end because we ran out of stones.” Fiscal prudence alongside with respect for social conditions are fundamental preconditions for any successful economy and thriving society.

Either way, of relevance to the present discussion is improvements in productivity over time. Irrespective of the presence of oil or not in particular economies, Arab countries the Middle East and North Africa could have done better over time (Figure 1).

⁶ “Active Labor Market Programs: A Review of the Evidence from Evaluations” by Amit Dar and Zafiris Tzannatos, Social Protection Discussion Paper Series, No, 9901, The World Bank, 1999.

⁷ For example, since the mid-1980s and before the rise in the international price of oil in the early 2000s, per capita income in the non-oil Arab economies grew by 1.2 per annum compared to 0.8 per cent in the oil producers. See “The Policy Environment for Job Creation in the Arab Economies” by Zafiris Tzannatos, World Bank, Middle East and North Region and Mohammed Bin Rashid Al Maktoum Foundation, Dubai, 2008.

Figure 1: Low productivity growth in the Arab region⁸



4. How does this relate to the Arab world?

Surely every country and every region is different than others in many respects. However, not all differences are important. In fact, some of perceived dominant differences between the Arab region and other regions may not even be differences.

Take for example the high youth unemployment rates in the region and the policy emphasis on the youth-to-work transition. Is this an important regional difference from a labour market policy perspective? Surely, youth unemployment is an extremely serious issue for many important reasons – economic ones that deprive youth of income and depletes their parents' resources; social ones with all the social evils associated with unemployment and idleness; and political ones that need not be expanded further amidst the on-going uncertainties in the Arab region.

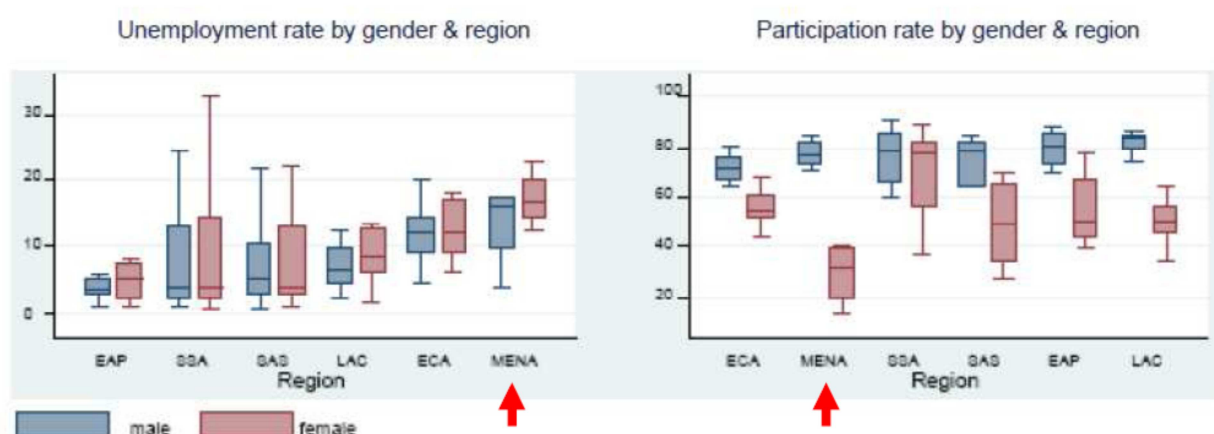
Before presenting some statistics on unemployment, one should note that benchmarking statistically the Arab region is not easy. It might not be an exaggeration to say that statistically the Arab region fares less well than the least economically developed world region, Africa. Africa has some excellent statistics partly due to the fact that a lot of international aid goes to African countries. International donors want to know how their money is spent for reasons ranging from accountability to their tax payers to advancing their own foreign policy interests. However, the information basis, if not accountability, for designing and implementing evidence-based policies is thin in the Arab region: The collection of timely and relevant data and, when such data exist, their availability to the wider community is limited in the Arab world.

⁸ "Trends Econometric Models", Geneva, ILO October 2010.

Focusing on youth unemployment, according to the ILO's estimates, youth unemployment for all 22 Arab countries averages 24.7 per cent while the worldwide average is 12.6 per cent. Effectively, the unemployment rate in the Arab region is almost double the world average. However, we also know that the region has the highest unemployment rates despite its lowest labour force participation rates (Figure 2).⁹

The focus here is whether there is something special that affects youth unemployment in a different way than adult unemployment – other than by a factor. For example, in the Arab world youth unemployment is about 2.5 times higher than the overall unemployment rate (24.7 per cent compared to 10.2 per cent).

Figure 2: Regional unemployment and labour force participation rates, 2000s¹⁰



Notes: (a) The ends of the thin lines show the minimum and maximum values for each region; the rectangles show the range within which half of the observations fall (that is, the lower and upper quartile), and the line within the rectangles shows the median value within each region; (b) EAP represents East Asia and Pacific countries; SSA Sub-Saharan Africa; SAS South Asia; LAC Latin America and the Caribbean; ECA East Europe and Central Asia; and MENA Middle East and North Africa.

Let us compare these unemployment statistics to those in the UK.¹¹ At the end of 2010:

1. The unemployment rate for the 16-17 year-olds was a staggering 44.3 per cent
2. Youth (16-24) unemployment was 20.3 per cent
3. Graduate unemployment was 20 per cent¹²
4. The overall unemployment rate for youth and adults across the economy was 7.9 per cent.

⁹ In fact, the low participation rates in the Arab region are primarily due to the extremely low female labour force participation rates – see right panel in Figure 2.

¹⁰ Source: “A New Disaggregated Set of Labour Market Indicators Using Standardized Household Surveys from Around the World” by Claudio E. Montenegro and Maximilian L. Hirn. Background Paper for the World Development Report. The World Bank, 2009.

¹¹ Office for National Statistics (ONS) quoted in <http://www.bbc.co.uk/news/business-12223226>.

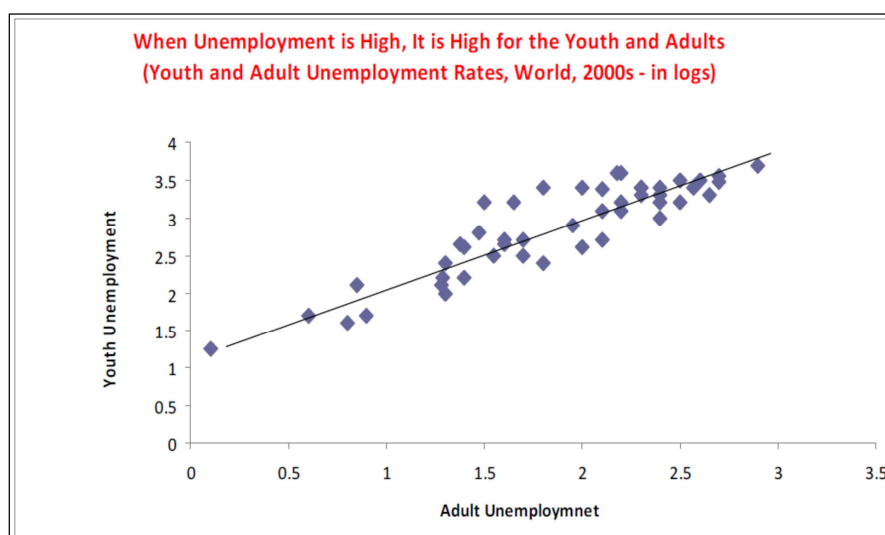
¹² Higher Education Careers Services Unit (HESCU survey quoted in <http://www.bbc.co.uk/news/education-11652845>.

All this shows that there is practically little numerical difference between unemployment rates in the UK and the regional rate for the Arab economies. In fact, the ratio of youth to total unemployment rate in the UK comes to 2.5 – which is exactly the ratio on average in the Arab region. Similarly, the total unemployment rate in the USA stood at 9 at the beginning of 2011 with the youth (18-25) unemployment rate at 19.¹³

4.1 The economy matters more than the demography

Let us expand the comparison of the Arab region with the UK and see how youth unemployment relates to adult unemployment across the world (Figure 3). What the figure suggests is that the youth unemployment rate in the Arab world may be the highest one in the world simply because the region's adult unemployment rate is also the highest in the world.

Figure 3: The relationship between youth and adult unemployment is almost linear (country observations)¹⁴



In fact, there seems to be more or less a constant relationship between youth and adult unemployment. Youth unemployment exists because the economy does not generate jobs, not because it does not generate employment for youth. In principle, adult workers and young workers are found side-by-side at the workplace: They complement each other. For example, hospitals have old experienced doctors and young ones. Offices have managers and young clerks. In fact, employment protection favours the older workers precisely because, if employers had a choice, they would most likely chose younger workers.

Before moving away from the issue of labour under-utilization, one can note one rather unique dimension of unemployment in the Arab region: Unlike elsewhere where unemployment affects those coming from lower income households and probably have

¹³ <http://www.project-syndicate.org/commentary/sachs176/English>.

¹⁴ "The Policy Environment for Job Creation in the Arab Economies" by Zafiris Tzannatos, World Bank, Middle East and North Region and Mohammed Bin Rashid Al Maktoum Foundation, Dubai, 2008.

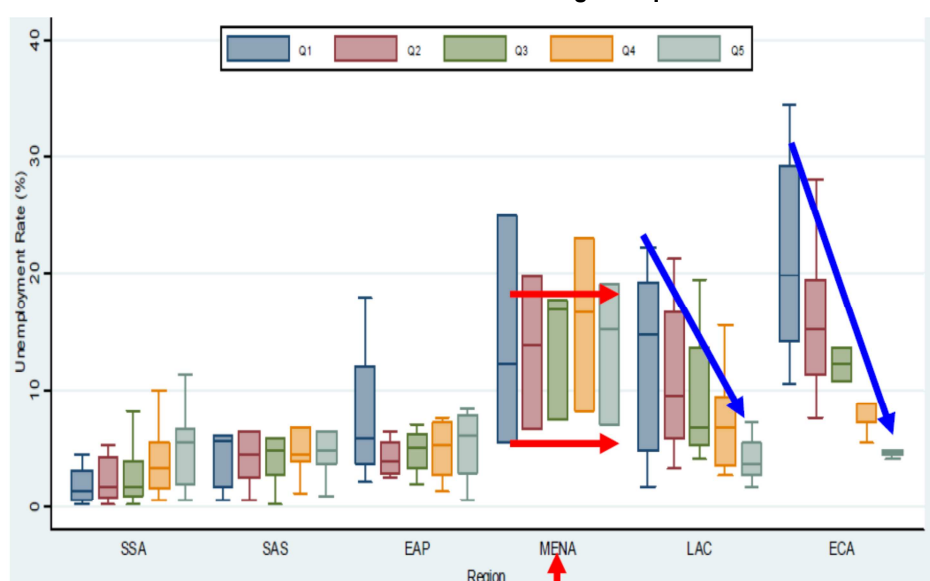
lower or inferior education than those in higher income households, in the Arab region unemployment affects more or less equally all income groups as Figure 4 indicates based on data from Egypt, Jordan and Morocco. While in Latin America and East Europe and Central Asia the unemployment rate declines as household incomes increase, there are no significant differences in the unemployment rates in the Arab countries included in the sample as one progresses from the lower income quintiles to higher ones.

4.2 And the willingness to pay for skills matters more than the availability of skills

Turning now to human resources development, surely more and better education is always preferred to less and lower quality education and more skills are preferred to fewer skills. To the credit of Arab Governments, education spending on education is among the highest in the world as a percentage of GDP and, in fact, the Arabs have made the fastest gains in education and human development indicators in the last 4-5 decades.¹⁵

Are inappropriate investments in and poor outcomes of the education and training system in the Arab region the prime cause for the high unemployment rates, especially among the youth and is it that the job seekers are unemployable or lack the willingness to be trained? Or is it employers who are not prepared to pay for more education and skills?

Figure 4: In MENA unemployment rates do not decline as household income increases from the lowest to highest quintiles¹⁶



Note: See notes to Figure 2.

¹⁵ *The Road Not Travelled: Education Reform in the Middle East and North Africa*. World Bank, MENA Region Development Report, 2008.

¹⁶ Source: "A New Disaggregated Set of Labor Market Indicators Using Standardized Household Surveys from Around the World" by Claudio E. Montenegro and Maximilian L. Hirn. Background Paper for the World Development Report. The World Bank, 2009.

The evidence suggests that the more important factor is that there is no demand for skills: If anything, there is an over-supply in the labour market of educated jobseekers. This does not deny the many merits education has outside the labour market, and merits are rarely in oversupply. This over-supply can be inferred from a series of labour market indicators.¹⁷

1. If there were a scarcity of educated jobseekers, then those youth who actually possess higher levels of education should face lower unemployment rates. However, in most regional economies the educated youth have higher unemployment than the less educated;
2. Moreover, the wages of educated workers in the region are not much higher than the less educated relatively to the education wage premium seen in other regions.¹⁸ This indicates that labour demand in the region is not enthusiastic about more educated workers and this can be a reflection of ills outside the education system, such as lack of competition in the private sector, use of low-wage and labour-intensive techniques, dominant position of the public sector in the labour market or migration – as argued below;
3. Finally, the Arab region has one of the highest rates of educated and skilled emigration, including in high income countries, with sophisticated and skills demanding production requirements (see below). This and the previous two observations on educated unemployment and low rates of return to education imply that young people may well have qualifications to work and be productive but there is no work available in their own countries, which matches their aspirations.

The above-mentioned considerations point to the need to pay more policy attention on the labour demand side, that is, on the creation of jobs rather than the creation of skills. It is the macroeconomic envelope and the development framework that are in need of changing.

4.3 Education and skills can improve but where are the incentives?

Education outcomes can certainly improve as, on average, Arab students perform less well in standardized international examinations than countries of other regions. An examination of the within the Arab region differences among countries that participated in international comparative studies of student performance is illuminating (see Table 2).

How can one explain the substantial intra-regional differences with respect to students' education achievement? Can there ever be something innate among Kuwaitis or Qataris or Saudis that prevents them from doing better in education?

¹⁷ A more detailed empirical analysis is required to assess the relative influence of labor supply and labor demand upon employment/unemployment in the region.

¹⁸ The Arab region generally has low private returns to education averaging 5.5 per cent. By comparison, rates of return in lower and middle income economies average 9.4 per cent. Moreover, over the past two to three decades, rates of return to education seem to have been declining within the Arab region as evidenced from multiple year observations, for example, in Morocco (from 16 to 7.9 per cent) and Tunisia (from 8 to 4.4 per cent). *Ibid.*

It is paradoxical that students from these countries of the Gulf Cooperation Council (GCC) are not performing at least as well as other Arabs in view of the fact that education spending in these countries is high, access is free and universal, and students are often paid to continue with their education.

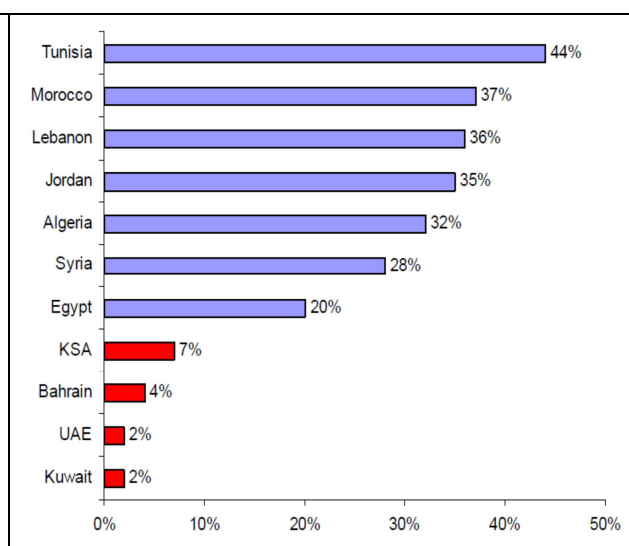
The most likely answer comes from what has been mentioned before, i.e. incentives. On the one hand, employment is more or less an entitlement in the GCC as it is based more on citizenship than merit: hence, the incentive to invest in education is low. On the other, citizens in other Arab countries face low wages, high unemployment and fewer prospects for employment in the public sector: they have an incentive to do well in their studies either to place themselves in a better position in the country or to be able emigrate. Compatible with this view are the rankings of countries reported in Figure 5 that shows that young people in the GCC have the lowest willingness to emigrate.

Table 2: Student achievement in mathematics and science international country rankings

Rank	Country	Score
1	Chinese Taipei (First)	598
<i>INTERNATIONAL AVERAGE</i>		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

Figure 5: Education achievement is lowest when there are no incentives to emigrate (per cent of youth who desire to emigrate permanently)



Source: The Silatech Index: Voices of Young Arabs: November 2010, Silatech, Qatar, 2011.

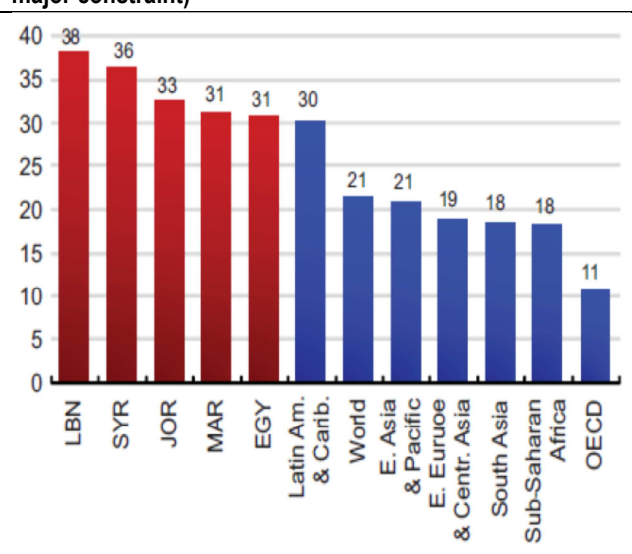
What about the labour demand side? Figure 6 shows that employers in the non-oil Arab countries consistently state that they do not find jobseekers with the required skills. This is not unexpected as skilled emigration from these countries is particularly high (see Table 3). Obviously, employers in these countries are not prepared to pay higher wages for the skills the emigrants take away. In fact, Arab employers do not even seem prepared to train (see Figure 7). There can be little doubt about the willingness of GCC employers to train as they access to practically an unlimited pool of workers having all kinds of skills from many low income countries. This is not a phenomenon only in the oil-rich countries. As discussed below, employers in some other countries (e.g. Lebanon and Jordan) have access to and do employ large numbers of migrant workers though they are located in low-income labour-sending countries.

**Table 3: The educated tend to leave their countries
(high-skilled emigration rates to the OECD and GCC countries,
2000s in per cent)**

	Total 44 receiving countries	OECD countries	GCC COUNTRIES
	(1)	(2)	(3)
Lebanon	45.3	43.9	3.2
Yemen	31.3	6.0	28.1
Morocco	19.1	18.6	0.7
Tunisia	13.2	12.6	0.6
Iraq	11.5	10.9	0.4
Jordan	11.3	7.4	4.3
Algeria	9.7	9.5	0.3
Egypt	8.3	4.7	3.9
Syria	7.9	6.2	1.6
Bahrain	6.0	5.1	0.9
Qatar	2.3	2.1	0.2
Saudi Arabia	1.1	0.9	0.1
United Arab Emirates	0.9	0.7	0.1
Oman	0.5	0.4	0.1

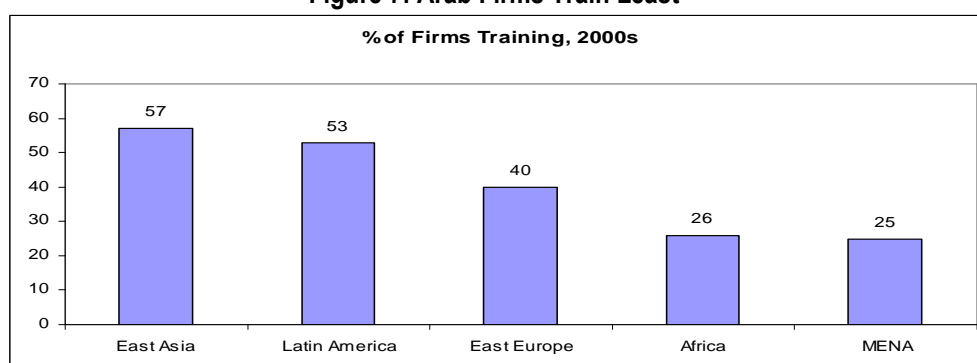
Source: Labor Migration from North Africa: Development Impact, Challenges, and Policy Options, The World Bank, MENA Region, January 18, 2010.

**Figure 6: And employers complain while students do
better in education (per cent of firms stating skills as a
major constraint)**



Source: Source: World Bank, Enterprise Survey Results quoted from IMF (2010) Regional Economic Outlook: Middle East and North Africa.

Figure 7: Arab Firms Train Least¹⁹



Taken together, there is little labour policies can do to solve this vicious circle. Surely labour policies can have an effect but only at the margin as the overall employment level is set by the broader economic and development policies, including migration. Note that migration policies are included as part of the broader economic policies. Migration policies are often included under the Ministry of Labour that has, in many cases, only an administrative oversight of migration whose size and type is determined by what the economic, finance and planning ministries decide to do, what investors want to do and what employers actually do. This issue is examined next.

¹⁹ "Investment in Job Training: Why Are SMEs Lagging So Much Behind?" by Rita K. Almeida and Reyes Aterido, World Bank, Policy Research Working Paper 5358, 2010. MENA group includes Algeria, Egypt, Jordan, Lebanon, Morocco, occupied Palestinian Territories, Oman and Syria.

5. How to create employment that is acceptable to citizens?

From an economic policy perspective, the following observations are relevant for creating decent employment.²⁰

First, the total number of jobs depends on the health of the macroeconomic environment. There has to be employment creation in the first instance in order to have decent employment. If the fiscal, monetary, financial, industrial, trade, investment and business policies are not well thought, there is only that many jobs that an economy can generate - and not necessarily decent ones. For example, in many cases mega-projects have very weak linkages with small and medium-sized enterprises and little direct impact on employment irrespective of whether such projects have a substantial economy-wide benefit in the long run (e.g. in sectors such as water, energy).

Similarly, investment policies may pay more attention to the short-term and thus attract foot-loose and speculative activities. Trade can be distorted by protectionism and subsidies that serve the interests of a few who benefit from them at the expense of the general population and the business development can be hampered by red tape – if not outright corruption. Of course, it is always tempting for countries, both in the Arab region but also everywhere else, to have some trophy projects.

Monetary, financial and fiscal policies can obviously boost labour demand. This is known from cross-country evidence and country-specific experience. Inadequate access to finance and inadequate investment in infrastructure can seriously curtail private sector development and hence employment creation (many international surveys make that abundantly clear).²¹ Ensuring greater access to finance is a core issue in monetary and financial policies, while ensuring adequate investment in infrastructure is a key aspect of fiscal policy, especially because it impinges on resource mobilization. It would be fair to say that the conventional macroeconomic framework, with its emphasis on inflation targeting and fiscal consolidation, has not paid sufficient attention to these key issues. Again, some regional economies are struggling with fiscal austerity and having to target low, single digit inflation.²²

²⁰ In more precise terms ILO defines employment as *decent* when it satisfies some minimum conditions in the areas of pay and employment conditions, social protection, labour standards and social dialogue. These areas are inseparable, interrelated and mutually supportive though they can be pursued as per country conditions and priorities to be achieved through the application of international labour standards.

²¹ *Recovery Patterns, Growth and Employment Potential, with Specific reference to Global Jobs pact Integrated Approach Countries*. ILO: Governing Body 309 Session, Geneva, November 2010.

²² See collection of papers in *From the Great Recession to Labour Market Recovery* by Iyanatul Islam and Sher Veric (eds.). ILO/ Palgrave Macmillan, 2011.

The resource allocation between traded and non-traded sectors, hence labour demand, can be further affected by the exchange rate policies and the management of the capital account. Policies in these areas can create much needed policy space to promote employment creation. Yet, many countries in the region did not take the opportunity to use the exchange rate to influence structural transformation.²³

A second observation is that, within the total labour absorption capacity created at the macro level, employment can increase and the labour market can function more smoothly, if the right labour policies and institutions are in order. With respect to labour policies and programmes, one can mention the plethora of active labour market programmes (ALMPs) such as employment services, wage subsidies, training for jobseekers or the unemployed who were previously employed, public works, micro-enterprise development programmes, and programmes targeted to specific groups – such as young people, women, persons with disabilities – or to certain geographical areas.

The international experience with these programmes is widely known and need not be covered again here.²⁴ One aspect that should be taken into account revolves around the programmes in the region that have been evaluated and the number of them that have been adjusted in view of the evidence from these evaluations.

The answer to this aspect is that very few programmes in the region underwent rigorous evaluation. Programme and project evaluations are very rare in the Arab region though practically all these programmes are present in all the countries in the region and have been in operation for many decades. Yet, despite the heavy emphasis placed on active labour market programmes, neither has employment creation accelerated nor has unemployment been reduced to any significant extent.²⁵

Still within the realm of the labour market but unlike active labour market programmes that usually apply to specific areas and can therefore have limited effects, employer and worker representation in the form of freedom of association and social dialogue can have economy-wide implications. In fact, social dialogue is a critical condition for how the macro economy functions. Surely the labour law can usefully regulate the labour market but, when it starts affecting the interests of employers or workers, it may lead to bankruptcies among employers or industrial unrest by workers. The end result is conflict in the labour market, if not the society. Thus, there is a need to deflate tensions and develop mechanisms for social dialogue that would lead to conflict resolution in a way that is acceptable to both employers and workers. The effectiveness of social dialogue increases with the representativeness of the employers' associations and trade unions.²⁶

²³ However, there has been some reconsideration of this thesis towards a more balanced approach to capital controls, see “Recent Experiences in Managing Capital Inflows - Cross-Cutting Themes and Possible Guidelines”. IMF Policy Paper: 2011 March.
<http://www.imf.org/external/pp/longres.aspx?id=4542>

²⁴ “Active Labor Market Programs: A Review of the Evidence from Evaluations” by Amit Dar and Zafiris Tzannatos, Social Protection Discussion Paper Series, No, 9901, The World Bank, 1999.

²⁵ Of course, one can argue that the situation could have been worse had it not been for ALMPs. However, a counterargument can be that ALMPs can benefit only a few as they usually have high costs.

²⁶ “Unions and Microeconomic Performance: A Look at What Matters for Economists (and Employers)”, by Zafiris Tzannatos and Toke Aidt, International Labour Review. 2006, Vol. 145, No. 4, 257-278.

A third observation is that it is mainly the type of jobs that are created that lead to investments in human resources, rather than investments in human resources that lead to job creation. Once the macro-economy and various sectoral policies create opportunities for productive types of jobs that require more skills, jobseekers will have the incentive to make the appropriate investments in their human capital to get these jobs. This causation runs against the more common thinking that in figurative terms goes as follows: if only young people became more educated or received more training or benefitted from micro-loans and so on, then unemployment will be reduced. This thinking is faulty for two reasons.

First, the total number of jobs in an economy is primarily driven by the demand for labour especially in the short run: it depends on what employers actually do in pursuing profit opportunities and not (unfortunately) on what job seekers would like to do for satisfying their needs.

Second, the type of jobs that exist is also primarily determined by employers and it is the expectation of what type of jobs will be created that drives the incentive of jobseekers to invest in certain skills. Both the number and type of jobs that are created depend primarily on the employment envelope that is shaped by the macro, industrial, trade, financial, investment and business environment.

A relevant point here is the attempt by some governments to “vocalize” education at the secondary level or reduce access to university because there is high graduate unemployment. In some cases the response is vocal and in others it is silent.

The vocal response comes from employers in the region who consistently state in business surveys that they do not want to employ graduates from vocational training centres. When skills are needed, employers typically prefer to do the training themselves as they cannot afford to rely on the slow response from public training centres. Thus the answer to the employability of the youth is not merely to expand pre-employment training but to support employer-driven training that is based on actual job requirements and whose costs can be met, at least partially, by the employers themselves.

The silent response comes from jobseekers who “snob” vocational education and training despite various incentives for attending. The arguing here is not for abolishing vocational education and training. The point is that vocational education and training, and education more generally, should satisfy the conditions mentioned earlier which mean that it should increase employability in jobs that employers are prepared to create and pay for and which jobseekers want to do.

These remarks lead to the fourth, and final, observation. If the labour supply falls short of the demand for workers and the skills the workers have, employers would face three choices: (i) to provide training themselves, (ii) to pay higher wages for skills that are in short supply, or (iii) tap the supply of migrant workers, if they can. Migration is key for understanding the functioning of the Arab labour markets, as discussed next.

6. The key role of migration in the region

Understanding migration can help dispel the myth that Arab young people are unemployable. As mentioned earlier, the region has one of the highest rates of skilled emigration.

More importantly for the present discussion is that many countries in the Arab region have policies that allow for more or less open low-skilled immigration. Leaving aside administrative problems – in the sense that some migrants are admitted to a country as “unskilled” to avoid regulatory restrictions and then are engaged in activities other than those under which they were admitted, uncontrolled or mismanaged migration policies depress the wages – incentives for nationals to get a job – in their national labour markets. This creates a low-wage economy which does not contribute to the creation of jobs that are acceptable to the values and aspirations of nationals.

The dynamics of more or less open immigration for low skilled workers lead to a vicious circle as follows:

- immigration at low wages for migrant workers induces the use of labour-intensive techniques in the private sector;
- labour-intensive techniques lead to low labour productivity;
- low labour productivity leads to low wages, also for nationals, in the private sector;
- low wages increase the incentives for nationals to seek employment in the public sector;
- the government tries to accommodate the concerns of the nationals and increases employment in the public sector;
- in such an environment, there are few incentives for nationals to really invest in human capital – beyond credentialism;
- this results in low productivity also in the public sector due to low skills, over-supply and under-employment;
- as a result, the economy is locked into a low-productivity equilibrium;
- low productivity means that low wages prevail – and the attractiveness of immigration increases; and
- the vicious circle continues.

This line of argument should not lead to an accusation against employers. Employers, likewise workers, react to incentives. If the law allows migration, then employers see it as their right to make use of migrant labour. Having 5, 10 or even 20 of migrants who are also gradually absorbed into the national economy and society is not uncommon in migrant receiving countries outside the Arab region. However, it is a different issue when migrants take up most of the jobs, especially in the private sector, and are treated as temporary workers at times under significantly lower-wage levels and employment conditions than those that apply to national workers. In this case, the nationals face not only low wages but also employment conditions that are prevalent in the country of origin of migrants but hardly acceptable by nationals in their own country.

It may not be an exaggeration to say that migration policies are perhaps the single most important issue in the GCC economies. However, this is also the case in some other countries in the region. For example, Jordan had a stellar performance in terms of GDP growth since 2000 with an annual growth rate averaging 7 per cent until the financial crisis. This high rate of economic growth created substantial employment that increased almost by 50 during this period.

Yet this was not enough for reducing unemployment among Jordanians: The unemployment rate remained stubbornly constant during the last decade hovering around 13 per cent. This was so because labour demand during that period favoured more the hiring of low-wage migrants than nationals (see Table 4 which data do not include all migrants). Had it not been for many Jordanians to be absorbed by the public sector (or continue to emigrate particularly in the booming GCC economies), unemployment would have increased despite fast economic growth and substantial employment increase.

Table 4: Levels of employment growth in Jordan 2000-2009²⁷

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 permits from the Ministry of Labour. It excludes, for instance, domestic workers and other undocumented migrants.

The Jordanian case brings the messages that policies pursued at the macro level, and more often than not outside the purview of the Ministry of Labour, are critical for employment creation and, when coupled with certain migration policies, jobseekers end-up with the short end of the stick. In fact, even employers may fare no much better in the longer run.

How sustainable is a model that does not reduce unemployment and, when it does, it does so at wages that are out of tune with the aspirations of citizens, let them be in Jordan, Lebanon or any GCC economy? The recent social and political unrest in the region may have to do something with this.

Migration is becoming increasingly relevant for the labour market, and not only for those in the Arab world. This is expected in an era of globalization and greater integration of the world economy. Moreover, it is an issue of human rights. Here one should add a new dimension to the debate. Traditionally, and justifiably, migration has attracted attention when the rights and welfare of migrant workers are violated, at times bluntly. Looking at rights in a broader context, migration policies should also respect the rights of nationals: they should improve the welfare of the citizens and be in line with their aspirations and values.

Beyond the risk of violating the rights of citizens, unmanaged immigration coupled with lack of protection for migrants, can lead to segmentation of the labour market and, as discussed in the next section of this paper, inequality in the society. The labour market is in the first instance segmented between nationals and migrants, jobs that the migrants are not allowed to do and jobs the nationals do not want to do. This leads to an additional segmentation between the public sector and the private sector by the resulting preference of nationals to be employed in the public sector. In turn, this creates fiscal pressures due to an expanding public sector in addition to over-employment and low productivity that can have adverse effects on the quality of public and social services.

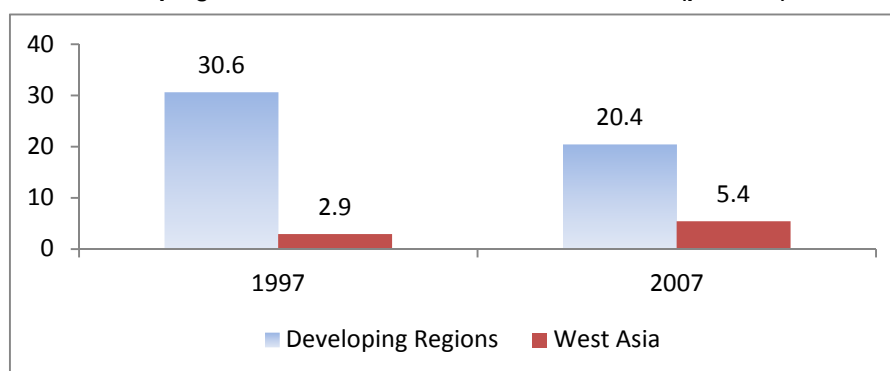
²⁷ Department of Statistics, Hashemite Kingdom of Jordan quoted in *Global Jobs Pact Country Scan: Jordan*. ILO (2010).

Unmanaged immigration can also accentuate inequality by giving employers access to low-wage migrants and thus increasing their profits while it restricts the options for nationals and thus reduces their incomes from employment.

Though the data require more analysis, Figure 8 indicates that while the share of working poor has been declining globally, it might have increased in the Western Asia region.²⁸ At the level of economy, productivity is restricted because employers chose labour-intensive and unsophisticated techniques which may in turn induce nationals to invest in education fields that are less demanding. There can be other effects such as citizens may then opt for “credentialism”, that is, they invest in getting the minimum level or least demanding type of education that would just satisfy the criteria for getting a job in the public sector.

Inequality has many ill effects. Without referring to the recent developments in the region, the empirical links between inequality, let alone increasing inequality, and social outcomes are well established. As an example, a recent book on *The spirit level: Why more equal societies almost always do better* (Wilkinson and Pickett, 2010) finds that greater inequality is associated with more crime, higher infant mortality, fatter citizens, shorter lives, more teenage pregnancies, more discrimination and, in fact, less innovation. An underlying factor for these ills is the feeling that inequality violates the fundamental human principle of fairness. The statistics and analysis of the book can be debated for long and, in fact, the book has a cautious title. The qualification “almost always do better” is in order as things may work well even in the presence of rising inequality at least for some time. For example, inequality has increased substantially in China in the last couple of decades, yet it has been associated with phenomenal rates of economic growth and reduction in poverty. Of course, nobody would argue a better world will be a more unequal one. This is one issue mentioned at the beginning of the paper: policies must be in line with the values of the citizens.

Figure 8: Proportion of employed people living below \$1 a day (ppp) in developing countries and West Asia, 1997 and 2007 (per cent)²⁹



²⁸ The Economic and Social Commission for Western Asia (ESCWA) includes the 6 GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) as well as Egypt, Iraq, Jordan, Lebanon, the Occupied Palestinian Territory, the Sudan, the Syrian Arab Republic and Yemen.

²⁹ “Survey of Economic and Social Developments in the ESCWA Region, 2009-2010”, Economic and Social Commission for Western Asia, Beirut, February 2010 (draft) based on “The Millennium Development Goals Report 2010”, United Nations, New York, 2010, and ILO data.

7. Summary and some policy issues

The paper started with the quotation that "A man generally has two reasons for doing a thing. One that sounds good and a real one." Following this quotation, it sounds a very good reason to say, for example, that education must improve and labour policies pursued to reduce unemployment and help the young people. But this has been said and done, and not only in the Arab world, for decades.

However, more often than not, the real reason for unemployment is omitted: this is when economic policies do not create employment. This is not the fault of employers. Employers react to incentives and do create employment. But jobs should also be acceptable by the nationals. It is not the fault of workers either: a well-functioning labour market must respect the labour-demand side (the employers) as well as the labour supply side (the jobseekers and existing workers). Employment must be decent in line with the values of citizens and the level of income of their country.

This paper started with the observation that, given that people react to incentives and – at times – in an unpredictable way, policies should satisfy three criteria: (i) be able to advance the interests and welfare of the people, (ii) be compatible with values of the citizens and the evolution of values as they change over time, and (iii) respect the use of public money.

What are then the conditions for creating decent employment in the Arab world? This is discussed below after a cautionary note on the diversity within the Arab region.

7.1 Not one-size fits all

Policies need to be country specific as economic and labour market differences between countries within the Arab world are greater than the average differences between the Arab region and other regions of the world. Some countries have significant oil and gas reserves. Others, such as Syria and Yemen, known reserves are being exhausted, while a number of them have no oil at all. Some other countries have water resources (Egypt, Iraq, and Lebanon) with others having very little water (the GCC countries, Jordan, and Yemen). Agriculture is an important part of the economy of some countries – such as Yemen, Egypt, and Morocco, while in others (e.g. Jordan and Lebanon) the service sector accounts for more than 50 per cent of GDP. Industry, including the energy sector, accounts for most of the GDP in the countries of the Gulf Cooperation Council (GCC) and manufacture is a significant driver of the economy of Syria, Jordan, and Egypt. The region's countries differ widely in terms of population size as well – from fewer than one million in Bahrain and Djibouti to more than 25 million in Algeria, Iraq, Morocco, and Saudi Arabia and nearly 75 million in Egypt. Per capita income ranges from less than \$1,000 per year in Yemen to more than \$80,000 per year in Qatar.

The Arab economies are also at different stages of demographic as well as socio-political transition. The former can be shown by the significant differences in their fertility rates that have been generally associated with a significant decline in early marriage among women. There has been a corresponding reduction in population growth. The share of young people in the population is slowly decreasing in many countries in the region, and the growth in the working age population (people aged 15 to 64) has also slowed down. For example, the share of the youth population varies from 30 per cent in the GCC countries to 21 per cent in the Maghreb and 11 per cent in the Mashreq. Population growth rates range from one per cent yearly in Lebanon and Tunisia to around 3 per cent in Jordan, the occupied Palestinian territories and Yemen while in labour-receiving countries, such as Qatar and the United Arab Emirates (UAE), the population was growing at a rate of 6 per cent per annum before the financial crisis.

The Arab countries are also at different stages of economic and governance reforms, including the level and sophistication of social dialogue, while many are in a fragile political state or are experiencing conflict while the effects of the financial crisis of 2008 are still not known with certainty.³⁰

So each country has to assess its own situation. However, there are some questions, in effect, conditions that would be useful to be discussed openly.

7.2 What are the answers?

How many countries have a development strategy where employment is at the centre? Surely, most Arab countries have education strategies prepared by the Ministry of Education and also strategies for the labour market prepared by the Ministry of Labour but how do these fit into the industrial, trade, investment and business strategies that are prepared separately by other ministries?

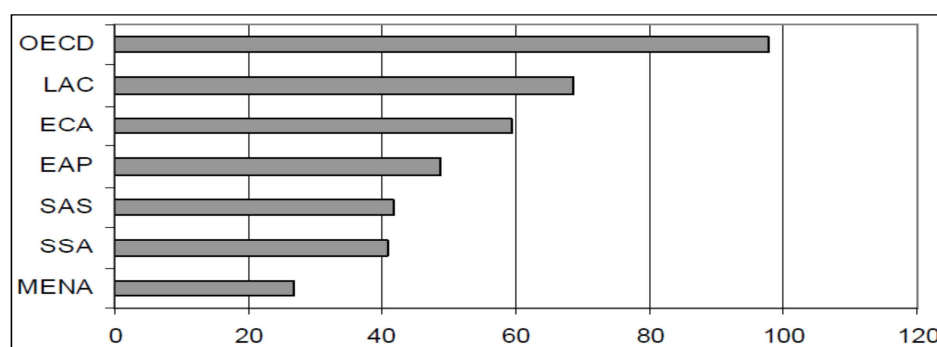
Effectively, employment is determined mainly by the economic and planning ministries and then in many cases the Ministry of Labour is left to deal with the task of reducing unemployment. This Ministry should be a key player in assessing the employment impact of policies.

How much of human resources development, from education to pre-employment skills and lifelong education and training, is demand driven? Under the current policies, employers have little incentive to train or offer higher wages to the more educated who remain unemployed or face emigration. Moreover, employers are little involved in setting the type and quality of training offered by public training centres. They see their role more in terms of “keeping out-of-school” youth also “out of the streets” or as an alternative to “higher education that produces unemployed graduates”.

How accountable is the public sector and is the private sector profit-seeking on a level playing field or rent-seeking? The regional accountability of governments is low (see Figure 9) while “clientelistic” practices have historically secured benefits for a minority of citizens at the expense of the majority of the population. Have the governments in the region at least managed to provide good public services affordable by the majority of the population or have the reforms led to the privatization of education, health, water and other social services that became accessible to only a few?

³⁰ “The Global Financial, Economic and Social Crisis and the Arab Countries: A Review of the Evidence and Policies for Employment Creation and Social Protection” by Zafiris Tzannatos, ILO, Regional Office for the Arab States, Beirut 2009.

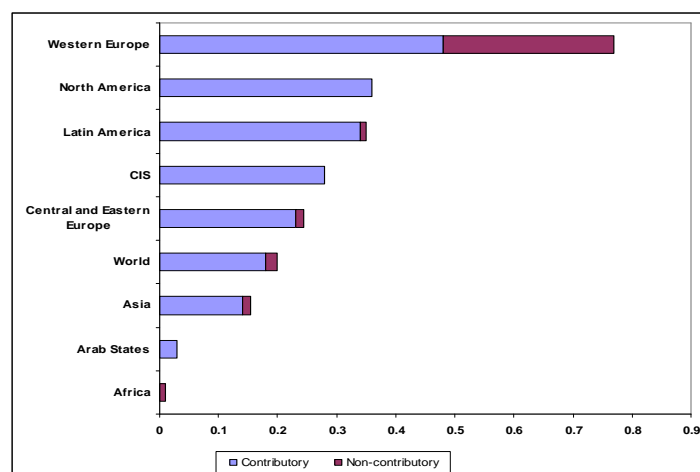
Figure 9: Index of public sector accountability, mid-2000s³¹



Note: 100 = Highest accountability

Even when accountability is high, are workers adequately protected and therefore prepared to support economic reforms that create societal gains but imply costs for them and their families? The share of wage workers in total employment in the world is 47 per cent, but in North Africa it is 49 per cent reaching 62 per cent in the Middle East. The Middle East and North Africa have the highest unemployment rates. Yet, the share of unemployed workers in the Arab region with unemployment benefits is lowest with the exception of Sub-Saharan Africa where the share of wage workers in total employment is only 23 per cent (see Figure 10). Can workers be expected to accept low wages when the social wage is low in the absence of accessible public services and lack of social protection?

Figure 10: Share of unemployed with unemployment benefits to total unemployment, 2008³²

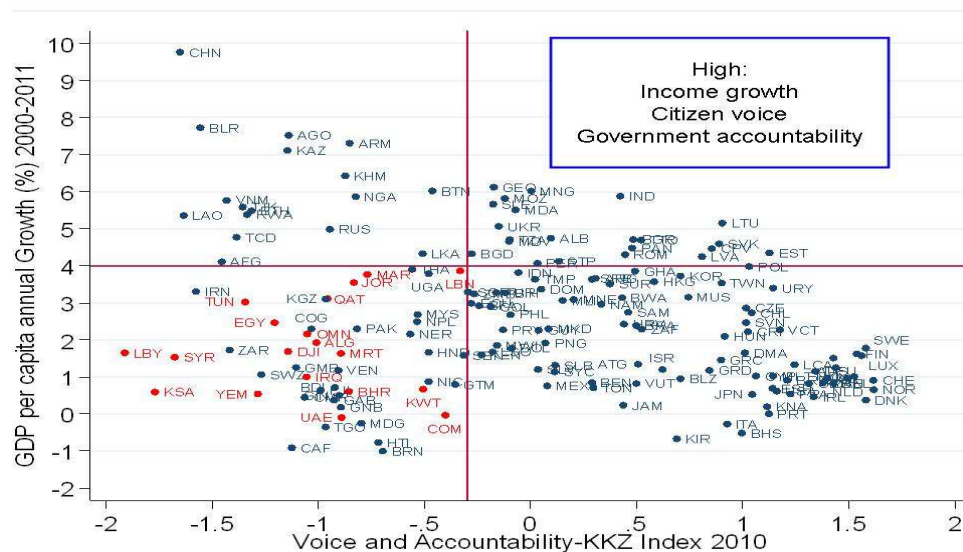


³¹ *Economic Developments and Prospects: Oil Booms and Revenue Management*. The World Bank, Washington, 2005.

³² Weighted by labour force. Source: ILO (2009) *Protecting people, promoting jobs: A survey of country employment and social protection policy responses to the global economic crisis*. Report prepared for the G20 Leaders Summit, Pittsburgh, 24-25 September 2009. Geneva, 2009.

How much can the business environment and industrial relations improve in the absence of social dialogue? The constraints from lack of voice, free media and transparency and the resulting reduced accountability and at times corruption cannot be overrated. In fact, even successful economic periods, as the Tunisian case was considered to be till very recently, can come to an abrupt end if there are no mechanisms for dialogue that would diffuse tensions and lead to successful conflict resolution. The statistical association depicted in Figure 11 is indeed impressive at face value: all 17 Arab countries are located in the South-West area of this figure.

Figure 11: Arab countries have low citizen voice and government accountability³³



Why are we expecting that young people be what the majority of us have failed to, i.e. entrepreneurs? Surely entrepreneurship should be fostered and promoted vigorously but even in the most advanced and competitive labour markets, self-employment and innovation are not something that would directly reduce unemployment to any significant extent, despite the disproportionately beneficial effect they can have on the economy. Aren't we asking too much of young people while we provide them with few incentives?

How many countries have accurate and timely statistics for conducting policy relevant analyses? How many evaluations have been conducted on the many labour market policies and programmes in the region? How many of these policies and programmes have been adjusted on the basis of such evaluations? And, more broadly, how often have the results of labour studies influenced the macroeconomic and broader development agenda of a county?

³³ The Kaufmann-Kraay- Zoido Lobaton index is a subjective one that takes into account freedom of expression, freedom of association, and free media as well as the perceptions of citizens regarding the extent to which they are able to participate in selecting their government. See Daniel Kaufmann, Aart Kraay and Pablo Zoido-Lobato (1999), "Governance Matters". World Bank, Policy research Working Paper No. 2196 and <http://info.worldbank.org/governance/wgi/index.asp>. Economic growth rates are from International Monetary Fund (2011), World Economic Outlook Database.

7.3 Can the answer be young people?

Finally, we should stop looking at the young people as being the problem. They are educated, energetic and innovative. And there are not too many of them: there are too few jobs.

It is the development model that must change to become more productive, more equitable, and more sustainable. There are many examples where countries took advantage of their young population, the so called demographic window of opportunity which we also call the youth bulge. It happened in Europe after the Second World War and, more recently in Latin America and especially East Asia. In East Asia economists estimated that the demographic “dividend”, the benefits of having a young and educated population, contributed to a much as one-third of its growth between 1965 and 1990. And this was a period of fast economic growth. As the first table showed, East Asia did not create much employment in the last decade despite its continuing fast growth. But total unemployment there is much lower than that of the Arab region. And youth unemployment is three-time lower than in the Arab region.

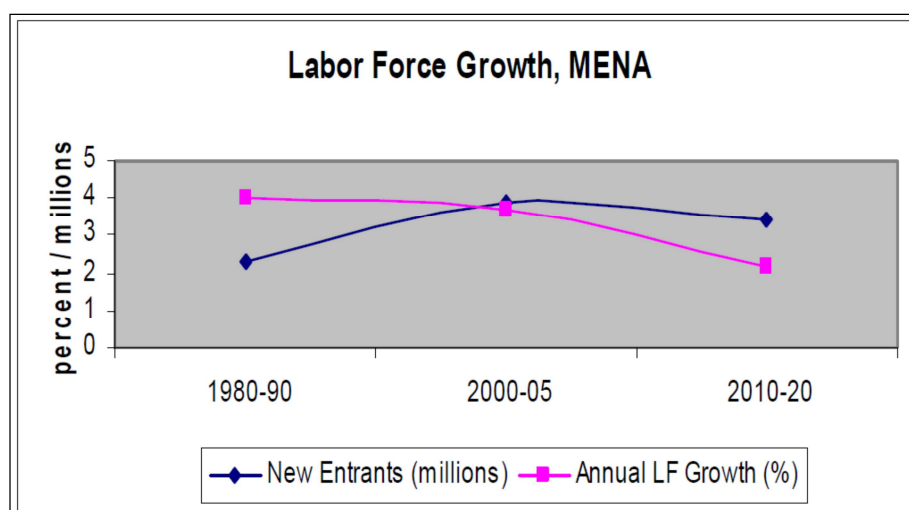
The demographic window of opportunity is closing fast in the Arab world. This window opened in the mid-1990s and is expected to close around 2045 more or less at the same time in most Arab countries (see Figure 12).

There are several aspects to this window of opportunity. First, because new entrants to the labour force are better educated than existing workers, they will improve the quality of the labour force and are likely to be more productive as well as more adaptable to changing jobs throughout their working lives.

Second, the increasing labour force participation rates and the resulting increase in the number of potential workers versus pensioners and children (thus lowering the dependency ratio) will enable governments to reform their currently unsustainable social insurance schemes.

Finally, low dependency rates should also cause individual savings and investment to increase.

Figure 12: The demographic window of opportunity has started closing³⁴



³⁴ “The Policy Environment for Job Creation in the Arab Economies” by Zafiris Tzannatos, World Bank, Middle East and North Region and Mohammed Bin Rashid Al Maktoum Foundation, Dubai, 2008.

8. Concluding remarks

It is not that the challenge is not huge, though it is as Figure 13 below indicates. But since many other countries and regions have managed to lower unemployment and increase productivity over time, there is no reason why the Arab region and its economies cannot meet the challenge.

Fundamental to meeting the challenge would be a shift in the way solutions are conceptualized and implemented. Solutions based on the labour supply side have provided limited results in terms of employment creation and productivity growth. It is therefore time to look at the other side of the labour market.

If the discussion of this paper is correct, the binding constraint for making productive use of the increasingly educated Arabs lies on the labour demand side. The low skill, low productivity, low wage economies will not be transformed into high skill, high productivity, high wage economies by just increasing and improving schooling, vocational education and training and tertiary education.

What is needed is to change the incentives for employers to demand more skills and be prepared to pay higher wages. This would require the right industrial, trade, investment and migration policies that would result in productivity gains.

As indicated earlier, productivity gains have been smallest in the Arab region compared to other regions since the onset of globalization and many governments in the region were described as “extractive”: Economic policies favoured a small circle of the political and economic elites that prevented the play within the private sector and between the private and public sectors. This created conditions that were less than competitive and the resulting oligopolistic (if not outright monopolistic) structures relieved the pressure for seeking solutions in the area of higher productivity instead of perpetuating rent-seeking behaviour.³⁵

Thus, the “new politics” in the Arab region following the Arab Spring would require “new economics”. However, the process will be a long one. For now, one can only speculate what the region would have looked like, if the regional economies had followed a more balanced labour-centred development model that would have led to higher productivity and wages instead of the one that was actually adopted and led to inequality and justifiably increasing sense of unfairness and eventually anger.

³⁵ Ahmed Galal and Hoda Selim (2012), “Economic Development in the Arab Region: A Tale of Oil and Politics” in *Handbook of Development Thought*. Economic Research Forum. And Ishac Diwan (2012), “A Rational Framework for the understanding of the Arab Revolutions”. Mimeo: Harvard Kennedy School.

Public institutions have to be reformed to become effective and genuinely pro-business favouring the creation of profit opportunities over the pursuit of economic rent by those who are now seen by many as the establishment's elites.³⁶ What came to be considered strong economic growth in the region over the course of the last decade or two is now known to have given rise to inequality and also a sense of unfairness. Under a series of reforms and economic adjustment, the move away from state-owned enterprises toward a private sector-led model favoured in many cases investors who were willing to do deals with the elites while the booming real estate sector, construction, financial and banking sectors usually benefited only a tiny minority that left even the middle classes behind.³⁷

Countries blessed with oil focused at least in part in activities, such as creating financial centres, real estate, airlines, industrial parks and aluminium smelters whose long term benefits are still to be assessed but apparently did rather little so far for reducing unemployment of their nationals who are still blamed for not having skills. In turn, the "need" for relying more and more on immigration kept increasing.

Perhaps all can be summarized in the observation that the region failed to compete on a global scale: "By 2003 the Arab countries had fewer manufactured exports than the Philippines, though Egypt and the Philippines have a similar population".³⁸

This does not deny there are pockets of excellence and more than justified hope. But in a globalizing world, it does not matter how fast one moves but how much faster is the move compared to others. The Arab jobseekers, workers, employers and citizens have waited for too long to regain the position they once had in the world. In order to regain this position, more is required than just focusing just on the young population, the unemployed or the Ministry of Labour. The development model in the region needs to be reconsidered by paying more attention to employment creation and the transparent and equitable governance of the economy. This would require putting labour demand at the centre of economic policy. This is the binding constraint. Following the recent political and social developments in the region, the removal of the constraint may not be possible without effective social dialogue that would allow voices to be heard and would also increase government accountability.

³⁶ Daron Acemoglu and James A. Robinson (2012), *Why Nations Fail: The Origins of Power, Prosperity and Poverty*. Crown Publishers.

³⁷ See the debate with new ideas for a post-crisis macroeconomic framework in "IMF Triggers Debate on Crisis Lessons", March 8, 2011.
<http://www.imf.org/external/pubs/ft/survey/so/2011/RES030811A.htm>.

³⁸ Marcus Noland and Howard Pack, (2007), *The Arab Economies in a Changing World*. Peterson Institute: page 103.

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