

TOWARDS A NEW INTEGRATED LABOR POLICY IN THE ARAB WORLD

BY SAMI HALABI

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AT THE CENTRE OF THIS INTEGRATION POLICY WILL NEED TO BE AN “ARAB JOBS PACT” (AJP), AN AGREEMENT BETWEEN ARAB STATES THAT INTEGRATES REGIONAL LABOR POLICIES THROUGH SUPRANATIONAL MANAGEMENT

SUMMARY:

The status and nature of labor and employment across the region was one of the underlying causes of the Arab uprisings and remains a major problem today. Long overlooked or discarded as unrealistic before the current transition, the integration of labor markets in a manner that addresses the core issues at hand could form the basis of a region-wide response to region-wide problems. At the centre of this integration policy will need to be an “Arab Jobs Pact” (AJP), an agreement between Arab states that integrates regional labor policies through supranational management. This proposed AJP is based on five pillars: transitioning labor policy from national to supranational management, administering flows of labor between and within states, matching education with the skills needed for productive jobs, focusing investment on job-intensive sectors and enterprise development, and developing active labor market programmes.

INTRODUCTION:

From Tunisia to Bahrain, the uprisings that took place across the Arab states from 2010 onward have taken on different shapes and forms. Yet one of the underlying causes of the uprisings remains the status and nature of labor and employment across the region. Unemployment is undoubtedly at the core of labor and employment issues in the Middle East and North Africa; yet so too are long-standing systemic labor policy issues such as low-value added jobs, fractured labor migration policies, and dependency on public sector employment.

Long overlooked or discarded as unrealistic before the current transition, the integration of labor markets in a manner that addresses the core issues at hand could form the basis of a region-wide response to region-wide problems. At the centre of this integration policy will need to be an “Arab Jobs Pact” (AJP), an agreement between Arab states that integrates regional labor policies through supranational management.

This proposed AJP is based on five pillars: transitioning labor policy from national to supranational management, administering flows of labor between and within states, matching education with the skills needed for productive jobs, focusing investment on job-intensive sectors and enterprise development, and developing active labor market programmes.

COMMON PROBLEMS IN ARAB LABOR MARKETS:

The root of the decent work deficit in the Arab states is attributable to a combination of several labor market dynamics. First, less than half of the working age population actually participates in the labor market, principally because of low female labor market participation. Unemployment remains the highest of any other region at around 11 percent [see Figure].¹ Youth unemployment is also the highest in the world at around 28 percent on average and up to 40 percent in some countries.² Women face a particular struggle in Arab labor markets with participation rates between 20 and 25 percent and, among those, unemployment rests at around 20 percent.

EMPLOYMENT FIGURES IN THE ARAB REGION

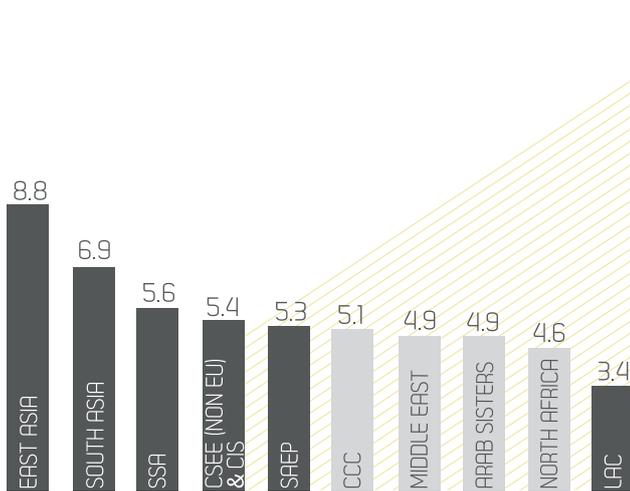
		2009	2010	2011	2012	2013*	2014*	2015*	2016*	2017*	2018*
LABOUR FORCE PARTICIPATION RATE		48	48.2	48.5	48.8	49	49.2	49.4	49.6	49.7	49.7
UNEMPLOYMENT RATE	TOTAL	10.4	10.07	11.3	11.5	11.5	11.5	11.5	11.4	11.4	11.3
	MALE	8.2	8.3	8.8	8.9	8.9	9	8.9	8.9	8.8	8.8
	FEMALE	18.9	19.8	20.9	21.3	21.2	21.1	21	20.09	20.8	20.7
	YOUTH	23.8	25	27	27.9	28.3	28.6	28.8	28.9	29	29.1
	ADULT	7	7.3	7.6	7.8	7.9	8	8	8.1	8.1	8.1
EMPLOYMENT ANNUAL GROWTH RATE TOTAL	TOTAL	2.9	2.7	2.2	2.5	2.4	2.4	2.4	2.3	2.2	2.1
	MALE	3	2.8	2.4	2.5	2.3	2.3	2.3	2.2	2.1	2.1
	FEMALE	2.5	2.6	1.7	2.4	2.8	2.8	2.7	2.6	2.5	2.4
	YOUTH	0.3-	1.5-	2.8-	1.8-	1.6-	1.4-	1.1-	0.8-	0.6-	0.3-
	ADULT	3.6	3.6	3.2	3.3	3.1	3	2.9	2.8	2.6	2.5
GDP ANNUAL GROWTH RATE		3.1	5.1	2.7	5.8	2.2	4.1	4.4	4.2	4.2	4.4

*Note: *2013 are preliminary estimates; 2014-18 are projections.*

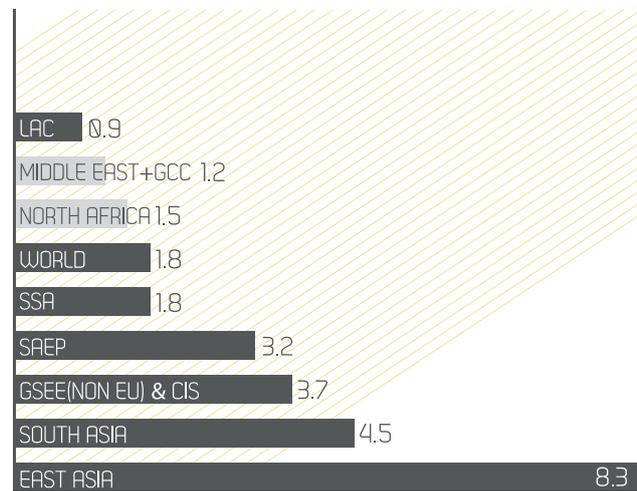
Source: ILO, Trends Econometric Models, October 2013; IMF World Economic Outlook Database, October 2013

Second, the productivity of jobs created is relatively low compared to other regions. In the decade leading up to the Arab uprisings, the region experienced relatively higher average economic growth of around 4.5 percent, albeit still lower than other developing regions [see Figure].³ Even so, economic growth was not jobless. In fact, the change in employment relative to the change in economic output in the Arab region was over twice as high as developing regions in Asia.⁴ Yet, the productivity of jobs produced was relatively low compared to these developing regions, meaning whatever jobs were created were not those that could add productivity gains to the labor market [see Figures].

◆ AVERAGE ANNUAL GOP GROWTH RATE % BY GLOBAL REGION 2000-2010



◆ AVERAGE ANNUAL PRODUCTIVITY GROWTH % BY GLOBAL REGION 2000-2010



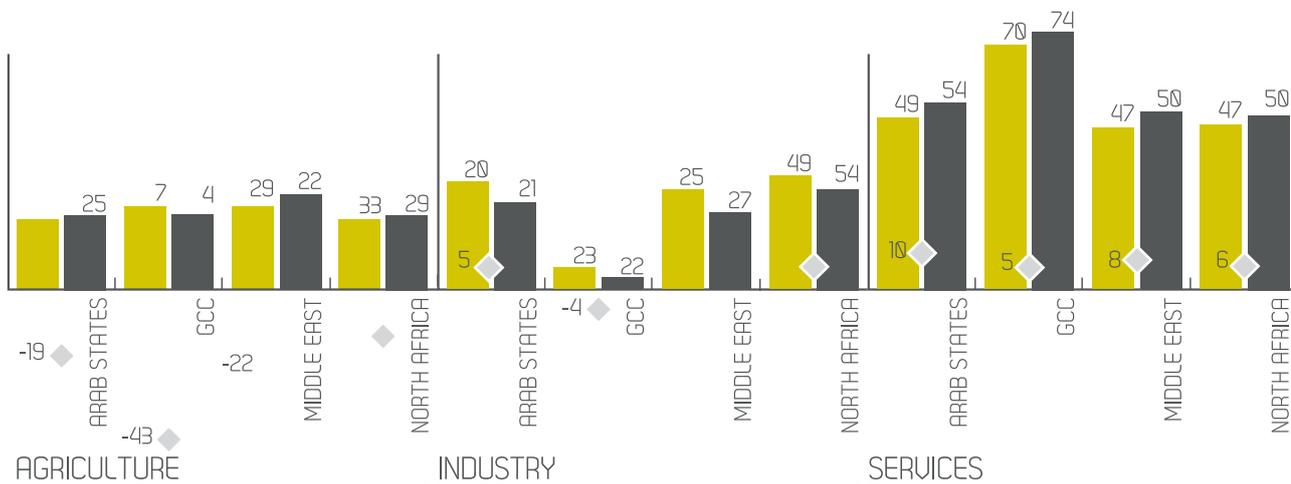
Source: ILO, IMF World Economic Outlook Database

ⁱAccording to the International Labor Organization, decent work is "a strategic goal for development that acknowledges the central role of work in people's lives. This includes work that is productive and delivers a fair income; provides security in the workplace and social protection for families; and offers better prospects for personal development and social integration, freedom to express concerns, opportunities to organize and participate in decision-making, and equal opportunity and treatment for all women and men."

◆
CRONY CAPITALISM IS RAMPANT AND LABOR POLICY HAS BEEN LARGELY DICTATED BY POLITICAL CONSIDERATIONS RATHER THAN PUBLIC INTEREST OR REAL MARKET FORCES

Third, crony capitalism is rampant and labor policy has been largely dictated by political considerations rather than public interest or real market forces.^{5,ii} Governments continue to rule over strategic sectors and there are significant barriers of entry for relatively more productive firms. Over the 20 years leading up to this decade, jobs have also shifted from the agricultural sector to the services sector [see Figure], however primarily to companies with links to the ruling party or regime. As a result, even though productivity should typically be higher in the service sectors than in agriculture, this was not the case in the Arab region where labor reallocation across sectors resulted in productivity losses [see Figure].

EMPLOYMENT SHARES AND THEIR CHANGES BY SECTOR, 1991-2010
◆ 1991 ◆ 2010 ◆ %CHANGE

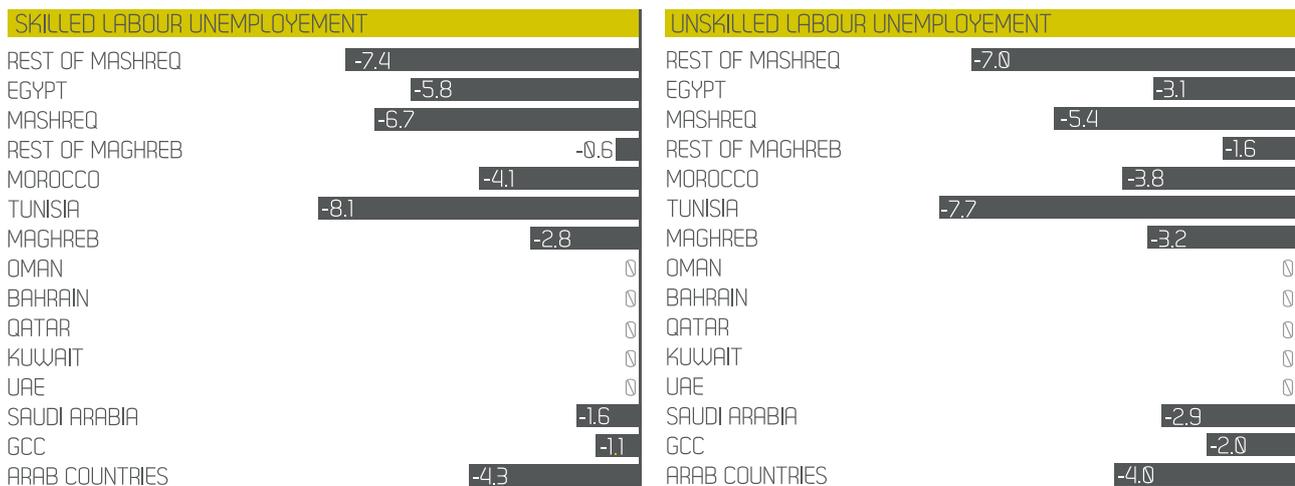


Note: (1) The world average shares for employment in industry and services are 22 and %43 respectively; (2) A decline in sector share does not mean that employment in that sector declined. For example, in last 20 years in MENA, employment in agriculture increased by 9 million, in industry by just over 14.
Sources: ILO (2011b and 2012).

ⁱⁱ According to the World Bank, in Tunisia the lower estimate of firms with direct links to Ben Ali firms accounted for 21 percent of private sector profits and sectors where they were active were subject to significant barriers to entry including government authorization and FDI requirements. In Egypt the military is estimated to control anywhere from 5 to 40 percent of the economy according to most estimates. And in the GCC, the government continues to rule over strategic sectors such as telecoms and transport and have significant market shares in private sector industries such as real estate and banking through government-related entities.

Finally, in the past, the benefits that integration of labor markets could have had on the Arab labor market have been forsaken in favor of narrower national interests. A more integrated labor policy as part of a larger integration platform in the Arab world could reduce unemployment levels for both skilled and unskilled labor up to 8 percent in some countries by 2020 [see Figure].

EFFECTS ON UNEMPLOYMENT OF A REFORM PACKAGE
TO STRENGTHEN ARAB ECONOMIC INTEGRATION(PERCENTAGE)



Note: The results reflect the relative variation between the levels projected for 2020 by the reference scenario and the proposed scenario.

Source: ESCWA stimulation using the MIRAGE model.

◆
A MORE INTEGRATED
LABOR POLICY AS PART OF
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UNSKILLED LABOR

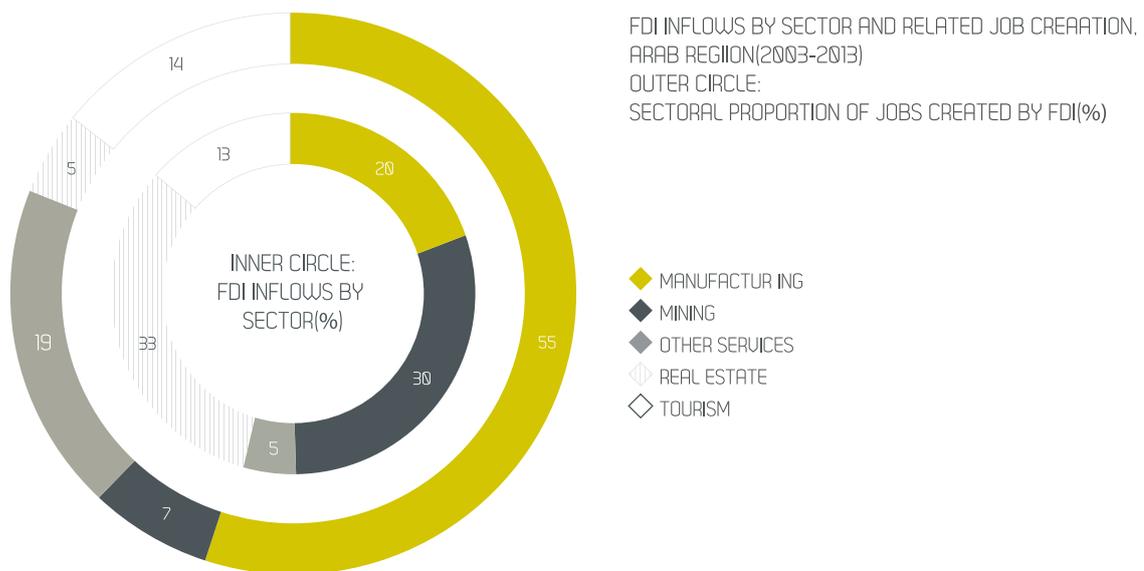
Several Pan-Arab agreements were penned during the 1960s and 1970s covering issues relating to labor mobility and priority for Arab over non-Arab workers.⁶ However, these agreements suffered from a lack of ratification and/or application by Arab states, particularly the capital-rich and labor-poor countries of the Gulf Cooperation Council (GCC).ⁱⁱⁱ When oil-prices dropped in the 1980s, GCC countries replaced many Arab workers with Asian ones.⁷ Intra-Arab labor policy is also typified by bilateral agreements between countries that are both sending and receiving nations (Lebanon and Jordan) and countries neighbouring them (Syria and Egypt).⁸

CRITIQUE OF ECONOMIC POLICIES:

PRIVATE INTERESTS TRUMP PUBLIC GOOD

SKEWED DECISION-MAKING THAT PRIORITIZE POLITICS OVER POLICY HAS RESULTED IN INVESTMENT DECISIONS THAT DO NOT NECESSARILY FAVOR JOB-PRODUCING SECTORS OF THE ECONOMY

Skewed decision-making that prioritize politics over policy has resulted in investment decisions that do not necessarily favor job-producing sectors of the economy. Relatively high-energy subsidies, which help wealthier consumers more than poorer ones as well as crowd out more targeted social spending such as health and education, coupled with low real interest rates, which favor borrowing by wealthier economic agents, mean much of private investment is funnelled to capital- rather than labor-intensive economic activities.⁹ In fact, two-thirds of the region’s Foreign Direct Investment between 2003 and 2010 went to mining and real estate, which create relatively fewer jobs than other sectors [see Figure].



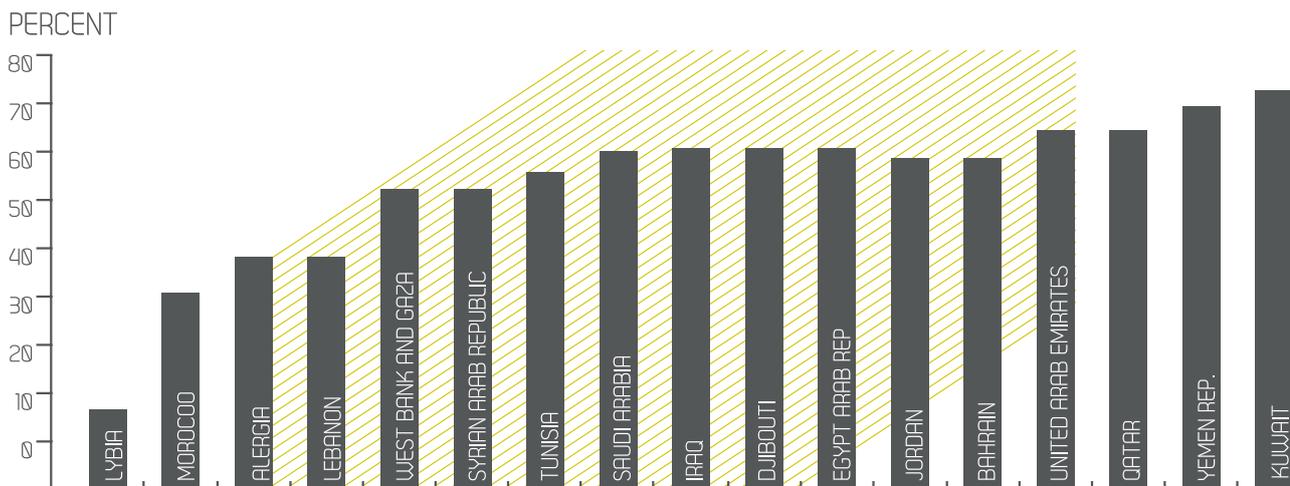
Source: International Labour Organisation

OVER-BLOATED AND RELATIVELY INEFFICIENT PUBLIC SECTORS ARE STILL THE LARGEST EMPLOYERS IN THE REGION

At the same time, over-bloated and relatively inefficient public sectors are still the largest employers in the region and most national social insurance schemes are restricted to public employees.^{10, 11} Because of such benefits and the job security the public sector offers, the sector has become the employer of choice for Arab jobseekers, particularly youth and females [see Figure].¹²

Another cause and consequence of the public sector employment issue is the Arab government's reliance on such employment as a tool to elicit patronage as well as public acquiescence to autocratic rule.¹³ This is especially the case in the oil-rich GCC states which maintain a contradictory policy: GCC states have an expressed policy of moving nationals into private sector employment, but boosted incentives and salaries for public sector employees after the onset of the Arab uprisings.¹⁴

PREFERENCE FOR PUBLIC SECTOR EMPLOYMENT AMONG YOUTH AGES 15-34 IN SELECTED MENA ECONOMIES, 2010



Note: MENA - Middle East and North Africa

Source : Based on Gallup World Poll Survey 2010.

ⁱⁱⁱ Since the 1970s there have been no notable implemented agreements on integrated Arab labor policy.

YOUTH EMPLOYMENT CRISIS OPPORTUNITY

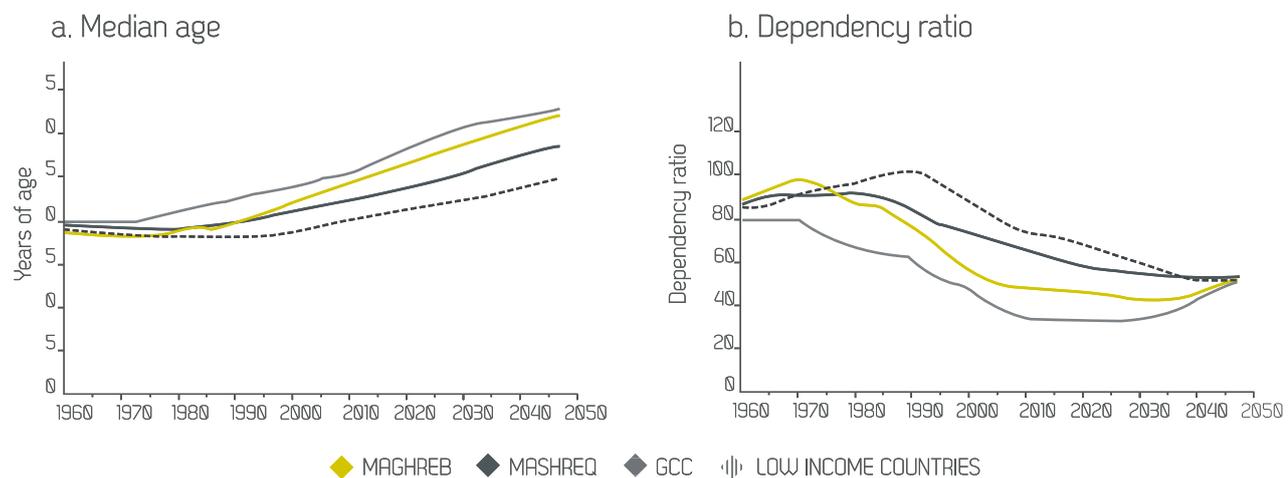
Over the medium-to-longer term, as Arab youth continue to enter a job market that is unfit to absorb them, problems will only exacerbate. Today, the demographic profile of youth in the Arab region is a youthful one. Around 60 percent of Arabs are below 25 with the median age of 22.¹⁵ In addition, the Arab region will need to add around 51 million jobs by 2020 just to keep job rates at their current level.¹⁶

However, if youth and women's employment are raised to the global average, 58 million jobs can be added along with an average increase of 20 percent in GDP per capita income levels.¹⁷ And there is demographic room for such progress to occur.

After the surge in fertility during the 1980s and 1990s, the Arab world is now becoming older. Thus, in the next 20 to 30 years the working age population will mushroom while those dependent on them will fall [see Figure]. This represents a once-in-a-generation opportunity to turn the youth employment crisis into a demographic dividend, a demographic status where there are more working taxpayers and less dependents spurring economic growth.

◆ THIS REPRESENTS A ONCE-IN-A-GENERATION OPPORTUNITY TO TURN THE YOUTH EMPLOYMENT CRISIS INTO A DEMOGRAPHIC DIVIDEND

WORKING AGE POPULATION COMPARISON



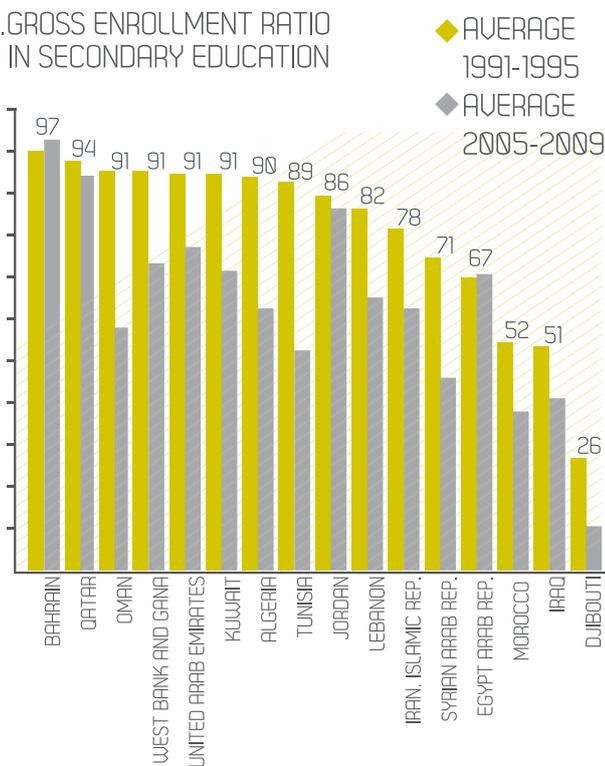
Note: MENA- Middle East and North Africa, GCC- Gulf Cooperation Council

Source: UN Population Information Network 2007

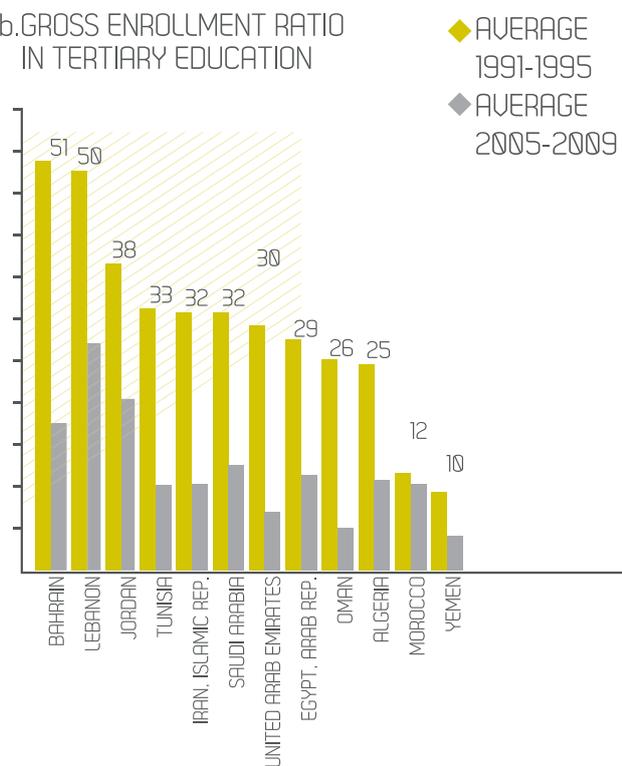
MISMATCH:

The prevalence of low-skilled, low productivity jobs and high unemployment rates are also a direct result of a policy mismatch that has resulted in millions of Arabs who are unqualified or overqualified for the market. On the surface, education indicators in the region have improved over the past few decades. Gross enrollment in primary school has increased nearly three-fold between 1970 and 2000¹⁸ while secondary and tertiary enrolment have also significantly improved [see Figure].

a. GROSS ENROLLMENT RATIO IN SECONDARY EDUCATION



b. GROSS ENROLLMENT RATIO IN TERTIARY EDUCATION



Note: MENA= Middle East and North Africa.

Source: Ed Stats (database).

MORE PUPILS HAS NOT TRANSLATED INTO MORE JOBS DUE TO A SERIOUS MISMATCH BETWEEN THE RELEVANCE AND QUALITY OF EDUCATION AND JOB MARKET REQUIREMENTS IN THE REGION

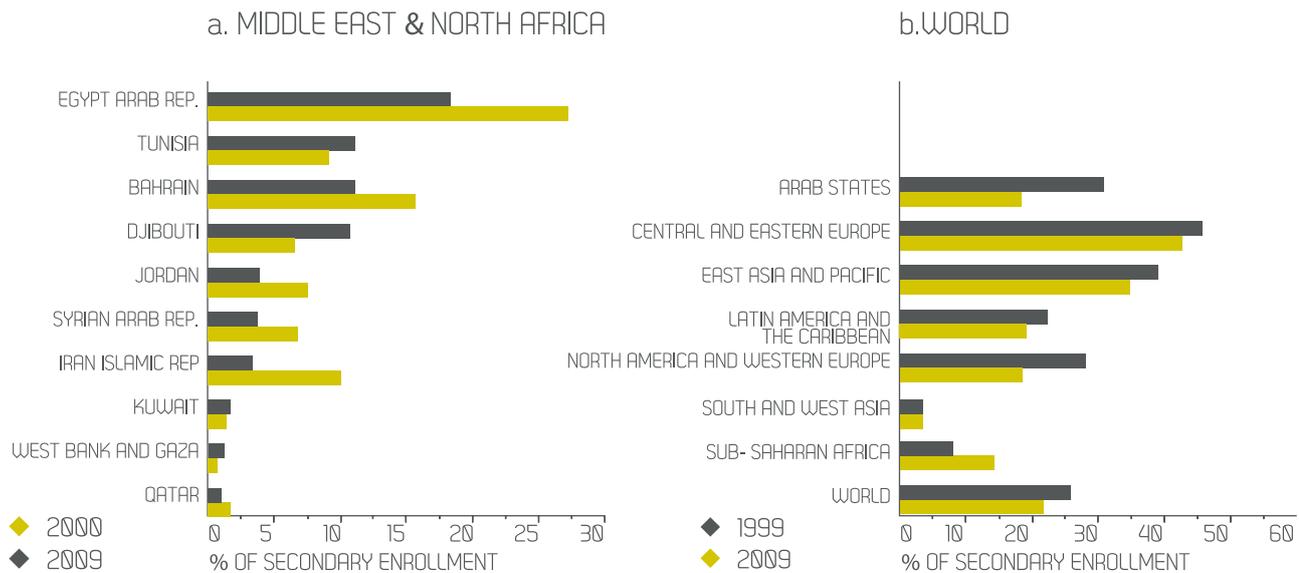
However, more pupils has not translated into more jobs due to a serious mismatch between the relevance and quality of education and job market requirements in the region. More than half of students in primary and lower secondary schools are not meeting the minimum requirements of international standardized tests, well below the international median.¹⁹

In terms of skills mismatches, the quantitative extent is difficult to measure. However, several facets continually emerge to explain the prevalence of mismatches and low relevance of both hard (job-related, technical) and soft skills (creativity, communication, problem solving). The first is an information failure on the part of the private sector vis-à-vis the educational and vocational training sector;

the second is the shaping of education and training to fit public sector employment; and the third is the systemic failure of the training and education systems, which focus on examination scores instead of skills acquisition and impose rigid learning and career tracks on students.²⁰

As a result, learning becomes highly stratified and tertiary education becomes elitist with wide disparities in access between rich and poor.²¹ At the same time, vocational training has become regarded as low-quality and enrolment rates have fallen [see Figure]. Even if tertiary education is accessed, university graduate unemployment remains relatively high, and at times higher than that of non-graduates. As a result, many graduates opt to work in jobs below their qualification levels, emigrate or enter the ranks of the long-term unemployed.^{iv}

ENROLMENTS IN TECHNICAL AND VOCATIONAL TRAINING
IN MENA AND WORLDWIDE, 1999, 2000, 2009



Source: World Bank edstats, UNESCO 2011

^{iv} There are no available figures on a region-wide basis but country-level figures such as those for Tunisia and Egypt show such an occurrence. However, the ILO and the Arab Labor Organization also attest to this phenomena without offering concrete figures.

POLICY RECOMMENDATIONS:

AN ARAB JOBS PACT

Failure to make progress on Arab integration and common markets has been the result of a lack of political will to give up sovereignty due to fears of increased competition and compensation of potential losers, such as government-related entities.²² While Arab governments can continue to impose barriers to trade, the supply and demand dynamics of labor in the region greatly limit their ability to stem labor migration, especially in oil-rich capital-intensive states with relatively low native populations. The reality of Arab labor market dynamics, compounded with the urgent need to address unemployment and decent work deficiencies, should provide renewed impetus for supranational management of Arab labor policy.

As such, labor policy integration should be used as a litmus test to show that supranational management can be beneficial to all. International precedence is already being set with the announcement of a common labor market for certain professional occupations with the Association of Southeast Asian Nations Economic Community to be launched in 2015.²³

Such action in the Arab region will require political action where countries sign onto an Arab Jobs Pact (AJP). The AJP would constitute a binding pan-Arab labor policy that manages labor policy around five key pillars: transitioning labor policy from national to supranational management, administering flows of labor between and within states, matching education with the skills needed for productive jobs, focusing investment on job-intensive sectors and enterprise development, and developing active labor market programs.

The ultimate aim of the AJP will be to replace unilateral and disparate national labor policies with a long-term coordinated common policy framework. This framework would ensure that the region can move from one where low-value added and low-productivity jobs are replaced by high-value, high-productivity jobs in all Arab countries. Eventually, the AJP will open the door to a common Arab labor market that resembles that of the European Union.

PHASED AND CONSENSUAL IMPLEMENTATION

To be feasible, the implementation of the AJP cannot be realized in isolation of wider economic policy. Many countries in the region do have national economic development strategies and those who do, do not have an expressed policy of integration or labor migration management aside from attracting more high-skilled expatriates.²⁴

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Thus there is an opening as well as an urgent need to employ a regional strategy to gradually increase the existing flow of labor between and within Arab nations to move workers to higher-value added jobs in sectors that achieve the strategic economic development plans of each nation. This flow of labor, however, will have to be phased and cannot occur overnight. The transition will also have to incorporate elements that counter replacement migration, which is especially the case for countries experiencing a 'brain drain' such as Lebanon and Jordan.

JOB-INTENSIVE SECTOR FOCUS

On a sector-level, there also needs to be a particular concentration on increasing the added value of labor-intensive sectors such as agriculture and (non-oil derivative) manufacturing, as well as synergies between them. Investments in manufacturing have already proven to produce the greatest proportion of jobs per dollar while agriculture constitutes around 31 percent of the Arab workforce and only accounts for 16 percent of GDP.²⁵

Expanding investment in job intensive sectors, however, will need to be a two-pronged: on the one hand stressing small-and-medium enterprise development which account for and produce proportionately more jobs than larger enterprises,²⁶ as well as large enterprise development to produce economies of scale that can compete in global markets.

Such a strategy provides an incentive for Intra-Arab capital investment, particularly from the relatively richer countries to the poorer ones. Oil rich and labor-scarce GCC countries already make strategic and politically motivated investments across the Arab world and, with respect to agricultural development, have an incentive in making strategic food security investments.²⁷ Accordingly, countries that are seeking FDIs will need to offer preferential terms to Arab investors under the umbrella of the AJP.

MATCHING SKILLS AND EDUCATION

Alongside the development of key sectors under the AJP, workers, and youth entering the job market, will need to have market relevant skills to meet these ambitious ends. Because the AJP is a pre-planned strategy it will be easier to incorporate its objectives into educational and training frameworks across the Arab world. In this manner, productivity can be increased from the bottom up.

^v The recent transfer of billions of dollars after the overthrow of the Muslim Brotherhood is a case in point. See M. Lynch, *Money to Meddle, Foreign Policy*, 2013 for analysis.



◆
THE RELEVANCE OF
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INSTRUCTION

However, the AJP needs to go beyond curricula to create the learning environment where market-relevant skills can meet the demands of a more productive economy. AJP member states will need to reform their education systems to move away from stratified career-track learning. The relevance of both education and vocational training will need to be improved by enhancing information exchange between the private sector and educational instruction, as well as adapting curricula accordingly. Career pathways from vocational training to tertiary education also need to become a clear coordinate of policy in order to both reduce the elitism of tertiary education and improve the status of vocational training.

In addition, AJP member states should adopt accelerated Active Labor Market Policies, such as apprenticeships, effective job centers, labor exchanges, training schemes and employment subsidies. Such programmes also need to include specific programmes to activate unemployed youth, the working poor and the long-term unemployed.

ARABS OVER ASIANS

In order to facilitate the transfer of labor across the region, many of the existing jobs performed by migrants from outside the Arab world will need to be replaced by Arab labor. This policy is not a discriminatory one; it merely aims to reverse trends over the last century where intra-Arab labor employment has fallen from 70 percent of migrants to around 25-40 percent, by replacing high-skilled jobs held by non-Arabs with Arabs.^{vi} However, to be successful, such a transfer will need to take into account other elements of the AJP and provide attractive long-term residence and remuneration packages for high-skilled workers.²⁸ By doing so, labor productivity can also be increased from the top down.

^{vi} Already scenarios have been run in the GCC that shows this can be achieved in three to five years while ensuring full employment of nationals.

However, for these to be effective on a pan-Arab level, such a transfer will need to take into account other elements of the AJP and will likely not be implemented in such a short timeframe. See: *Intra-Regional Labor Mobility in the Arab World*, International Organization for Migration, Cairo, IOM, 2010 and moved to the end of the previous sentence.

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CONCLUSION:

Through the AJP, the Arab region can transition to an effective and equitable combined labor market that is planned based on national interests and market forces to affect a high-productivity job creation within and across sectors in different countries. To do so, however, policies that address long-standing systemic issues need to be combined with the interests of all workers in the region so that there may be a mutually beneficial transfer of labor and productivity. Only once this is achieved, will the Arab region be able to overcome its latent fear and political hesitance to further integrate its markets and move towards its natural place in the global economy.

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