

## Literature review

# Productivity, Investment in Human Capital and the Challenge of Youth Employment in the Middle East

*edited by Yasaman Parpinchee*

For an effective and comprehensive analysis of the issue of school-to-work transition in the Middle East is necessary to identify the socio-economic characteristics of the area. As said on ILO, *Youth: Pathways to decent work – Promoting youth employment, tackling the challenge*, 2005, in both developed and developing countries, a number of economic and social factors affect the transition into adult working life, including discrimination and social disadvantage as well as cyclical and structural trends in the economy. The legal status of youth can vary within a country for reasons such as marriage, voting rights, land rights, criminal offences, eligibility for military service or consent for medical services. Because these characteristics differ from country to country and vary within countries, they need to be taken into account in developing specific contextual policy measures.

For a specific picture of the historical economic and social development of the area, see the World Bank study, *Jobs, Growth, and Governance in the Middle East and North Africa. Unlocking the Potential for prosperity*, (2003). The study's introduction starts with the first half of the 20th century

when the standard of living for the vast majority of the population in MENA was extremely low. Health indicators were among the worst in the world, illiteracy was widespread, and inequalities in income and land ownership were pervasive. That situation brings MENA countries to embrace the *social contract* that as the World Bank said “was not sustainable” or able to build on the capacity of people to innovate and take initiative, critical for long-term productivity growth.

The overall development strategy, which included nationalization of private assets, state planning, industrial development through protected local markets, and redistribution through vast resources directed to social development and large-scale public sector employment, paid large dividends in the early period of modern development, when oil prices boomed.

In 1965/85 economic growth per capita averaged 3.7 percent a year, second only to growth in East Asia and Pacific. Many factors contributed to these gains, including rapid progress in early-stage industrialization; high levels of public employment and spending, especially on infrastructure; trade

protection for domestic producers; and rising oil prices that yielded large capital inflows, created jobs, and promoted remittance flows into non-oil-producing MENA states.

Rising oil revenues helped sustain the social contract in both oil-exporting and non-oil-exporting states. In the oil producers oil revenues permitted the creation of vast welfare systems that redistributed the oil wealth to citizens, though not to non-citizen migrant workers. In nonoil producers remittance income boosted household consumption, especially in rural areas. Loans, grants, and other forms of assistance from oil producers to nonoil producers increased government revenues and sustained redistributive commitments. The influence of the social contract meant that rapid growth was accompanied by dramatic gains in social indicators. Indeed, the development model adopted throughout the region was sustained by social achievements. A core attribute of the social contract materialized through programs for state provision of education, housing, health care, food subsidies, and other benefits.

Education gains were large. With oil windfalls permitting rapid accumulation of revenues, huge resources were channeled into social development. The achievements were vast. The average level of education of the adult population (ages 15 and older) rose from less than a year in 1960 to 3.5 years by 1985, the largest gain for any region. Adult illiteracy was reduced from 70% in 1970 to 47% in 1990. Poverty fell dramatically. Unprecedented levels of income growth with active social programs helped to dramatically reduce income inequality and poverty levels. By 1990 only 5.6% of the population in MENA lived on less than \$1 per day.

A statist model became predominant. These results had important political consequences. Underpinning these achievements was a model of state-led, centralized planning that worked through an array of channels. In part to redress rural inequalities, the state pursued a vigorous wave of agrarian reforms. A preference for state-led development over unpredictable markets guided governments during the late 1950s and early 1960s to move away from simply regulating private sectors to directly controlling production through sweeping nationalizations of private assets in industry, banking, insurance, and trade. That produced a dramatic expansion in the scale of the public sector. An uppermost

development priority was the establishment of a domestic industrial sector, realized through policies to protect local markets from global competition. Financial sectors were repressed and in most countries in the hands of government. Food sufficiency was another priority, pursued through combinations of production, consumption, and tariff measures to support agricultural production.

While this development model paid large dividends, there were also significant costs. Centralized and hierarchical governments emerged, with limited transparency. The model also created economies that had great difficulty adapting to economic change.

In fact, oil revenues relieved many governments of the need to tax. While popular among citizens, this reduced the governments' obligation to be accountable. Oil revenues also allowed governments to redistribute resources and to purchase legitimacy through public employment and broad access to cheap public services, including utilities, education, health, transport, housing, and fuel. Both limited taxation and mechanisms for redistribution muted most demands for accountability.

Labor markets became highly regulated. The region's development model had equally large implications for economic and social policy. An important element of the social contract was management of labor markets. Across the region government ministries and state agencies subjected labor management relations to tighter regulation, increasingly intervening in wages and working hours and procedures for hiring and firing.

Public sectors began to swell. Beyond direct regulation of the workplace, labor markets changed dramatically with the nationalization of assets and direct state control of production. Public sectors became the dominant employers in many countries, and provided a particularly important source of employment for females in the region. Under state ownership, workforce regulations expanded to include job security guarantees, social security programs, relatively high public sector wages with generous nonwage benefits (such as family allowances), sharp restrictions on firing, and other policies intended to provide economic stability to organized labor and to redistribute collective wealth. The results were most extreme in the GCC economies, where governments became the employer of choice because of expectations of higher pay and more desirable working conditions. Oil revenues

were high enough that nationals entering the labor force could be hired almost exclusively by the public sector.

Women's participation in economic activity increased but remained low and constrained. Driven by dramatic increases in educational levels and improvements in health for women and reduction in fertility during the 1970s and 1980s female labor force participation rates increased significantly over the last two decades in MENA, but remained among the lowest in the world and well below what would be expected given education levels, fertility rates, and age structure characteristics.

While the overall macroeconomic performance of the economy may have dampened the demand for female labor, other economic constraints, such as wage discrimination and high unemployment rates, and social norms played a role contributed to this outcome. These constraints are reflected in constraining legal codes that continued to limit women's access to opportunity and to discourage women from entering the workforce.

Heavy protection and regulation of industry had substantial implications for investment and production, further affecting job creation and labor demand. Along with heavy import protection, the region's excess consumption of goods and services which are not traded internationally bid up their prices, making them more profitable than traded goods and services. Exchange rates, often overvalued and uncompetitive, provided also marked disincentives for the growth of tradable goods and services. Regulatory environments further discouraged private investment, reduced opportunities for trade, and impeded the development of export-oriented industrial sectors, creating significant obstacles to the integration of MENA economies into global markets.

The economic systems that had developed in MENA showed signs of cracking under stress. As early as the 1970s the high growth rates were becoming increasingly costly to achieve. Though investments were at record levels, with the rate of growth of physical capital per worker increasing by more than 80% in the 1970s over the 1960s, these investments were having increasingly smaller growth payoffs. Total factor productivity growth, which turned negative during the 1970s, was lower than in any other region of the world.

On this subject, read in chronological order R. Looney, P.C. Frederiksen, *An assessment of rela-*

*tive globalization in Asia during the 1980s and 1990s*, in *Journal of Asian Economics*, 2004, vol.15, pp. 267-285, carrying out an examination of the indices of globalization leading to say that for the studied period ('80s and '90s) the Middle East has been in a sort of vicious circle that has caused a slow decline of the globalization and productivity indices thereby reducing the gain of investments. For the analysis of socio-economic changes, see the Asian Development Bank (2005) and the ILO, *Realizing decent work in Asia* (2006) Report that point out an economic development during the twenty-first century that didn't lead to a proportional increase of decent work. Thus it's sufficient to observe the poor work rates on Arab countries that are around 36%. The World Bank on 2007, on the paper *Job creation in a era of high growth, Economic developments and prospects*, expressed a more optimistic opinion on that, drawing a less alarming picture than the one outlined by the two other international organizations: data presented show a decrease in unemployment from 14,3% in 2000 to 10,8% in 2005. The subsequent analysis of the economic situation made always by the World Bank, *Economic Developments and Prospects, Job creation in an era of high growth* on 2008 notes that in 2007 there has been a GDP growth in the area of about 3,8%, well above the 2,6% since 2006. Despite this increase in the percentage values this are anyway lower than any other developing region and for that reason the World Bank expects a continued focus on structural reforms to ensure continued progress leading to the area's competitiveness.

On 2008, the World Bank made another study, the *Middle East and North Africa Region, Economic developments and prospects*, but this one is focused on MENA region economic situation. Analyzing the factors that have been prominent in the global economic environment in 2007 and so far in 2008 (financial turbulence due to the sharp drop in market valuations of U.S. mortgage-backed securities, a continuing sharp rise in the price of oil and gas, and a surge in the price of staple) it explains that the subprime crisis has had no noticeable impact on the macroeconomic performance of the region. This is likely the result of the fact that high oil prices may have offset the contractionary effect of falling OECD growth rates following the crisis, that the financial markets in MENA are not closely integrated with those in the United States and Europe

and so may have escaped contagion, and that improvements in macroeconomic management in the region in recent years may have rendered them better able to cope with the crisis. The rise in oil prices has mixed effects because many of the countries in the region (such as Algeria, the Islamic Republic of Iran, and the GCC countries) are major net exporters of hydrocarbons. These countries have benefited greatly from the recent buoyancy in hydrocarbon prices. Still others, such as the Arab Republic of Egypt and the Syrian Arab Republic, are essentially self-sufficient and have not been affected much on the external balance side. Finally, those who are large net importers of hydrocarbons, such as Jordan, Lebanon, and Morocco, have experienced difficulties both in the balance of payments and in fiscal accounts.

The sharp rise in the price of staple foodgrains such as rice and wheat has had different impacts on different countries. Low-income countries such as Djibouti and the Republic of Yemen, that are relatively big food importers in terms of the proportion of imports and consumption, have been at highest risk. In Yemen, food price inflation exceeded 20% in 2007, the highest in the region. Other risk factors include the extent to which food features in the spending patterns of the lowest-income groups in a country (countries such as Djibouti, Egypt, and Yemen have been the most vulnerable, because the bottom two quintiles of their populations spend more than 50% of their household budgets on food. Also, some countries have felt the pressure of food price increases directly in national budgets because they subsidize staple food-stuffs. Thus, countries such as Egypt, Iran, and Syria saw food subsidies claim shares of between 4% (in Egypt) and 8% (in Iran) of their budgets in 2007). The lack of contagion may also be attributable to weaker integration of MENA's financial sector with the financial sectors of the United States and Europe and to improvements in MENA's fundamentals over the past decade (including better fiscal and monetary management, more open regimes with more flexible exchange rates, and better debt and financial management, which has reduced exposure to international capital markets).

Though growth was not affected on average, the same cannot be said for inflation, which rose almost everywhere in the region in 2007 and continues to rise in 2008. The spike in 2008 is largely due to food price pressures. In the Gulf countries that

peg their currencies to the dollar, inflationary pressure has been exacerbated by the sharp fall in the value of the dollar relative to other hard currencies, such as the euro and the yen.

The same World Bank study, analyze also the change of different sources of growth roles for the MENA region over the course of the decade. During the early part of the decade, growth was pulled along largely by domestic consumption. Since then, the contribution of investment has been rising, and in 2007 this source accounted for more than 100% of real GDP growth. In addition, the contribution of government consumption to growth, which had increased over 2004/06, declined in 2007.

To do so they 'divide' MENA region in groups: RRLA (resource-rich, labor-abundant), RRLI (resource-rich, labor-importing), RPLA (resource-poor, labor-abundant).

Resource-rich MENA economies grew at 5.8% in 2007, up slightly from 5.7% the year before but at much less than the 6.5% average of a few years ago. The slower recent advance reflects several factors, including diminishing hydrocarbon revenues at the margin in the last year; the coming to fruition of several large public infrastructure investment programs; and a broader lack of investment funding targeted at the oil and gas sectors, which could carry benefits for producers as well as consumers over the medium term. Important among these is a fall in output of oil and related products across the resource-rich economies, with a few notable exceptions—Iraq and Bahrain. Owing to capacity constraints or to management of oil output to keep production in line with OPEC quotas, cuts in production amounted to 4.3% for all resource-rich economies in 2007, with the scaling back among labor-importing countries a sharper 4.6 percent.

Growth among the resource-rich, labor-abundant economies rose from 4.5% in 2006 to 5.7% in 2007.

Among the resource-rich, labor-importing economies, some five of seven oil exporters experienced a growth slowdown in 2007, in large measure linked to a drag on GDP from net exports, and very little growth in export volumes against continued double-digit gains in import demand (GDP growth for Saudi Arabia, Kuwait, the United Arab Emirates, Oman, and Libya retained firm tenor in the year but diminished from 2006 rates. Saudi Ara-

bia's GDP eased to 4.1% from 4.3% in 2006; the UAE had a more marked slowdown, from 9.4% to 7.7%; and Oman and Libya grew at 7 and 5.5%, respectively). An outlier among the group is Qatar, which had enjoyed near-double-digit GDP gains over 2004/06, and which sustained that growth over 2007.

In particular among oil exporters of the region, the RRLA group (excluding Iraq), experienced an increase in growth of 1.2 points in 2007 to 5.7 percent. GDP gains for the year were grounded in substantial fiscal outlays, funded from oil revenues. Private consumption benefited and advanced 5.2%, adding 2.6 points to GDP growth. Domestic investment, however, was the key driver for growth in RRLA countries, advancing at the fastest pace in 10 years (13.8%), and contributing 4.6 points to GDP growth.

In contrast to the moderate growth upturn for the RRLA group in 2007, activity among the RRLI countries, the GCC and Libya, dipped by 0.4% points, to 5.8 percent growth in the year. For a third year in succession, RRLI growth was supported by double-digit contributions from domestic demand, increasing from 10.7 points in 2006 to 12.1 points in 2007, with a shift over the past three years from consumption toward investment outlays. But as oil export volumes for this group experienced effectively zero growth in the year (revenue gains coming entirely from price increases), and with imports running at a strong 12% pace, the drag from net exports cancelled more than half of the stimulus from domestic demand.

GDP growth eased from 6.3 percent in 2006 to 5.4 percent among the RPLA economies during 2007, though a severe drought suffered by Morocco reduced output growth there from a record 8.0% in 2006 to 2.3%, growth in Egypt, which reached a record 7.1% in 2007, is broadly based, with non-oil manufacturing and retail trade accounting for half of over-all output growth. The fastest-growing sectors include construction, Suez Canal traffic, communications, and tourism. Exports boomed, but still stronger import demand kept the contribution of trade to growth negative, while worsening the country's balance of trade. But for Egypt and other countries of the group, tourism, other services receipts, and burgeoning remittances continue to outweigh shortfalls on trade and help maintain current account surplus positions.

For the RPLA group, 2007 also marked a water-

shed for several countries in the area of finance. Fitch Agency raised Egypt's issuer default rating (IDR) to a positive outlook. Morocco was awarded investment-grade status for its sovereign bonds and quickly raised 500 million euros (\$685 million) at a low 55-basis-point spread above comparable European securities.

In Morocco and Tunisia, reforms are making headway in improving the business climate and increasing the competitiveness of the export sector.

In general the study stressed that as the global environment stabilizes by 2009 and 2010, MENA should be able to maintain growth momentum averaging 5.5%. Domestic conditions will vary markedly across the economies of the region, as will efforts at reform. Also, the flux of developments related to continuing tensions in Iraq, unsettled conditions in the Levant, and international disputes with Iran will affect not only the oil prices, but also global and regional investor confidence, and should be taken into account as a risk to any forecast.

Then it made some assumption on the GDP projections for MENA countries through 2010. These cover expected oil market conditions (oil prices are expected to decline gradually from \$100/bbl or more in early 2008, toward \$70/bbl by 2010. In real terms, the decline would amount to some 38 percent over the period), growth dynamics in export markets (in 2008 global growth will slow fairly sharply, as the effective cost of capital stays high for financial institutions, firms, and households alike. This suggests that the RPLA economies will see diminished growth in goods exports, as well as other critical revenue flows, including tourism, other services receipts, and worker remittances sourced from the expatriate labor force in Europe), developments in finance (though difficult to appraise in the wake of the U.S. subprime crisis and its spillovers to other financial market segments, it appears clear that policy interest rates and global rates will be lower than would otherwise be the case. Lower global rates will be favorable for those countries with adjustable-rate debt outstanding, and will cut the costs of new debt issuance and of rollovers: with the possible exception of a decline in the U.S. currency, for MENA economies these are generally favorable developments), and non-oil commodity prices (continued escalation in cereals prices could extract a heavy toll on MENA external accounts as well as fiscal

positions over the next years).

The newest study on this theme was made on January 2010 by the Sylatech Group that presented its second report on young people's perception about job creation and the business environment in their respective countries. This time the work was focused on young Arabs. *The Sylatech Index: Voice of young Arabs*, starts with the country scores and divides the Middle East area in three groups of countries: the high-income group, the middle-income group and the low-income group.

This kind a working methodology is a clear symptom that Middle East area can't be analyzed as a unique area and after a general introduction is necessary to analyze single States or group of countries. The ILO paper, *Global employment trends for youth*, 2006, also argued that in general young people as a group are not homogenous. There are certain subgroups that, in addition to being young, face other disadvantages that make it even harder for them to find a decent job: young women have even more difficulties finding work than young men; the unemployment rate tends to fall with age in most countries; education can be a 'boon or a hindrance', depending on the economic conditions of the country and as a last factor that ILO notes is that the poorer is the parents the more likely it is that the children will be unemployed.

As said by the Middle East and North Africa World Bank, in the report *Decentralization and Local governance in MENA: a survey of policies, institution and practices*, of 2007, with the notable exception of Morocco a recurring pattern observed in all countries in the region is the complex and cumbersome legal and regulatory framework governing sub-national or local government sector. To give just one example, Jordan has some 43 different laws and regulatory ordinances concerning municipalities. Many of these laws contradict one another, overlap, or otherwise contribute to a confusing set of signals to principal actors at the local level with regard to organizational mandates and associated linkages between investment planning, financing, and budgeting for operations and maintenance, among other areas. In many MNA countries, the two upper tiers of sub-national governments – Governorates, Provinces, Prefectures – are de facto deconcentrated units of the central governments (except in WBG) that are led by appointed governors and either have only an appointed executive council or include also an elected council,

which only has a consultative function. This governance structure is supplemented by a cluster of deconcentrated functional or service units at the local/regional level (agents of the line ministries or state-owned service enterprises) that constitute the backbone of the public service systems. In the best cases, such agencies bring important scale efficiency gains, but as largely technocratic and centrally-directed service providers, they can also undermine the ability of local governments to respond to the needs of their constituencies in ensuring local services are provided.

That's why the study states that it is hard to predict and difficult to track down where and how decisions are effectively made, and that answers to such institutional issues cannot be adequately addressed for each country in a regional review given the broad range of different circumstances in each country.

Country studies revealed that sub-national reform programs in MNA-8 (Egypt, Iran, Jordan, Lebanon, Morocco, Tunisia, West Bank and Gaza and Yemen) countries have mainly focused on organizational changes (restructuring, training, updating job descriptions), while still retaining extensive control by the central government (internal accountability). The current control mechanism and the decision making structure have resulted in a situation where the actual responsibility for the local service delivery in most cases still remains with the central government. Thus, many of the reforms so far have ignored or not taken full advantage of incentive structures or instruments.

Perhaps due to their common colonial legacy, several of the MNA-8 countries have similar intergovernmental systems and regulatory structures. For the most part, they are unitary countries with a highly hierarchic, intergovernmental system involving three-tiers of government—central, intermediate and local. A unique regional feature in most MNA-8 countries is that, in addition to their sub-national government system, there is a set of powerful and fairly independent networks of deconcentrated functional units—line ministry agencies or state-owned public service enterprises that operate in parallel to local governments (LGs), which in some instances tend to marginalize or undermine the roles and responsibilities of LGs as service providers.

The situation in WBG and Iran warrant special mention. In WBG, the role of the central govern-

ment at the local level is rather nominal despite the fact that both council members and executive officers have until very recently been appointed by the Ministry of Local Government. Most Palestinian municipalities and village councils have been in operation for quite some time—in some cases dating as far back as the 19th century (when the areas were under Ottoman rule), and in most other cases well before the creation of the Palestinian Authority (PA, which was established in 1994 after the signing of the Oslo Accords). From the very point of their creation, newly established central ministries were placed in a position of trying to define their roles and authority relative to the pre-existing local bodies, other traditional providers of public services such as NGOs and donors that frequently interacted directly with local governments and NGOs. Today, following a major PA reform effort launched in December 2004, most local councils are elected by direct popular vote.

In Iran, LGs are defined by law as —non-governmental organizations. They have a limited and somewhat outsider role vis-à-vis the deconcentrated government agencies that operate at the local and regional levels. At the same time, Iranian LGs have elected mayors and local councils—in fact, local elections are considered to be the freest in the country where candidature is not subject to scrutiny by higher level bodies. Iranian LGs also deliver some key local services as well as raise significant amounts of local resources.

For a more detailed analysis of the Middle East Gulf area market read G. Gonzalez, L.A. Karoly, L. Constant, H. Salem, C. A. Goldman *Facing Human Capital Challenges of the 21st Century Education and Labor Market Initiatives in Lebanon, Oman, Qatar, and the United Arab Emirates*, RAND, 2008. On that RAND's report are presented the area's unemployment rates, starting with the distinctive labor market element: the employees category is mainly composed by non-citizens. In this sense, we can look as an example the UAE and Qatar data: the UAE population is composed by almost 4,3 million of people, of which 78% non citizens that also constitute the 91% of workforce; Oman is populated by 800,000 people of which 81% are foreigners representing also the 88% of workforce. The official unemployment rates is around 5%, with almost a clear division on the labor market: foreigners are employed mainly in the services sector both in positions that require lower

qualifications than in those on high skills; instead citizens are employed in the public sector, which the oil boom has led to the development of a single class of citizens, the ruling one, not supported by the working class.

Exception to this situation are the Oman and Lebanon. Oman on a total of 2,5 million population, has a representation of foreign labor force smaller than the above countries: 24% of the population and the 49% of the workforce. This is largely due to the fact that Oman is not a major power exporter of oil and other natural resources, therefore does not have a public sector that could support its own citizens, reason why the unemployment rate is significantly higher than the other States range: 13%.

For a detailed analysis of the first aspect, see ILO study, *Realizing decent work in Asia*, 2006, in [www.ilo.org/public/english/standards/relm/rgmeet/14asrm/dgrealizing.pdf](http://www.ilo.org/public/english/standards/relm/rgmeet/14asrm/dgrealizing.pdf) and the World Bank study, *Expanding Opportunities and Building Competencies for Young People A New Agenda for Secondary Education*, 2005, in [sitere-sources.worldbank.org/EDUCATION/Resources/278200-1099079967208/Expanding\\_Opportunities\\_Secondary.pdf](http://sitere-sources.worldbank.org/EDUCATION/Resources/278200-1099079967208/Expanding_Opportunities_Secondary.pdf); both argued that the geographic area's occupation is highly dependent on the public sector. In fact they have high percentage of public work, to think that Kuwait has 93% of public workers and in Saudi Arabia the percentage is 79%, that compared to the word average, 27%, makes the situation very clear. Meanwhile, in the region private business are generally in the hands of third countries. The international organization also argued that the fact that Governments continue to provide jobs, while maintaining a high standard of living, cause a lack of direct incentives to private companies and so jobs in the private sector, already opposed by excessive bureaucracy.

For in-depth analysis concerning Oman, Libya, Qatar and United Arab Emirates see G. Gonzalez, L.A. Karoly, L. Constant, H. Salem, C. A. Goldman *Facing Human Capital Challenges of the 21st Century Education and Labor Market Initiatives in Lebanon, Oman, Qatar, and the United Arab Emirates*, RAND, 2008 that place Qatar at one end (with a large public sector and a strong dependence on oil) and Lebanon at the other end (with a strong private sector and a diversified economy).

Importing employees is a result of low labor force

participation by the citizens population. The study of citizens participation rates in countries as Oman, Qatar and the UAE makes clear the concept described above: the presence of male citizens and female labor force are respectively at 15 and 40 points lower percentage than foreigners' one. In this sense see G. Gonzalez, L.A. Karoly, L. Constant, H. Salem, C. A. Goldman *Facing Human Capital Challenges of the 21st Century Education and Labor Market Initiatives in Lebanon, Oman, Qatar, and the United Arab Emirates*, RAND, 2008. Each State has put in place different policies to address the specific issue in question. A typical case is represented by the Oman's Sultanate that in order to promote the citizens employability established more than 17 sectoral committees, composed by members from the private sector, public one, from the Commerce and Industry Chambers, with the goal to strengthen the private sector and the role of the Government on training and employment. Based on the recommendations of these committees, the Ministry of Economy sets new targets for *Omanization*.

In shaping the youth employment situation in the Middle East we must take into account the fundamental data difference between young men and young women. In this direction see the Report of the World Bank 2005 that identified a very low percentage of women in the labor market: data are around 5,1% and 5,8% and the motivation is found in their lack of professional competence, probably leading to social and cultural expectations. For in-depth analysis of the Islamic Republic of Iran see Rostami-Povey, Elaheh, *Trade Unions and Women's NGOs. Diverse Civil Society Organizations in Iran.*, in: Eade, D. and Leather, A., (eds.), *Development NGOs and Labor Unions. Terms of Engagement*. Kumarian Press, pp. 303-319, Singerman, *Bargaining with Fundamentalism: Women and the Politics of Population Control in Iran* in Reproductive Health Matters, November, 1996; Singerman, *Volunteer Health Workers in Iran as Social activists: Can 'governmental non-governmental organizations' be agent of Democratization?*, in Occasional Papers No. 10. WLUML. 1998, that stressed the importance of social norms existing in Iran (and in the most of the Islamic States) that tend to inhibit women's position in the society through the *hejab's* imposition (veil with which women must cover their head and neck), separation between men and women in schools,

workplaces and other public spaces, factors that cause a significant differences between male and female youth situation. In the same direction is developed the works of Abu Nasr, Julinda, Nabil F. Khoury, and Henry T. Azzam, *Women, employment and development in the Arab World*, Ed. Berlin; New York: Mouton Publishers, 1985 that motivate the limited participation of women in the workforce in the Arab world, arguing that the family's honour depends on women's conformity to the 'modesty codes' of sex segregation, parents supervision before marriage, and rigid roles in which women must stay.

The ILO, on 2005, identified (on *Youth: Pathways to decent work- Promoting youth employment, tackling the challenge*) as factors that affect youth employment those which influence job creation, which encompasses aggregate demand and economic growth; those which impact on working conditions, such as legislation, regulations and the business cycle; and those which address employability, including education and training, work experience and labour market services as well as the capacity of institutional structures to integrate youth into the growth process.

There is a sizeable body of literature identifying aggregate economic activity as a major determinant of the level of youth employment. (see ILO: *Employing youth: Promoting employment-intensive growth*, 2000). As new entrants to the labour market, young workers lack the specific training or seniority that buffers older workers from swings in market conditions. Their employment is highly dependent on the state of the economy. Many developing countries are unable to generate adequate growth rates in GDP and enough employment and income-generating opportunities to absorb the majority of their labour force. Slow growth of the formal economy is particularly responsible for the high rate of youth unemployment, especially among youth with higher educational qualifications, in developing countries. Studies indicate that not only has economic growth been inadequate relative to labour force growth but it has also remained highly volatile. Solutions to youth unemployment are inextricably linked to the difficulties countries face in reducing overall unemployment which, in turn, is linked to overall economic growth. It is argued that raising levels of aggregate demand will reduce both adult and youth unemployment, but will have twice as high an impact on



the young than on older age groups.

In Asia, as elsewhere in the world, the effects of high unemployment are particularly evident in relation to the younger population group. On this subject read N. Kabbani, E. Kothari, *Youth Employment in the MENA Region: A situational Assessment*, World Bank's Working Paper, September 2005, that analyze the MENA's labor market in order to identify factors that contribute to the persistence of high rates of unemployment and *jobless* among young people on the region and which identifies the factors that influence the current employment situation of youth, high pressure, the growth rates of female labor force participation, and the rigidity of the labor market that could clash with the first two.

One of the main challenge that the Middle East labor market has to face is the need to create decent jobs for the growing number of young people in the area. On *Fourteenth Asian Regional Meeting* (2006) Asian labor market experts have argued, talking about 'demographic gift', that population dynamics are a great opportunity, where these are managed effectively.

Otherwise, the growth will be not a 'gift', but just another factor to take into account in the planning of employment policies. That is what happened in Asia: in 2006 the ILO found that Asia covers the 48% (41,6 million) of unemployed youth of the world, here the youth unemployment percentage is at least thrice higher than an adult. On that aspect read also the ILO paper, *Global employment trends for youth*, 2006; the study prove that in the MENA *employment-to-population ratio* increase between 1995 and 2005: the region is noteworthy given the growth of the young population of over 30% during this period that the labour market has had to accommodate. But at the same time the region still had the lowest youth employment-to- population rate at 29,7% and at the same time the highest regional unemployment rate in 2005, with 25,7%.

To a further study on youth unemployment in the Middle East see Saheli-Isfahani, Navtej Dhillon, *Promoting Youth Inclusion in the Middle East: Towards a frame work for policy research*, Middle East Youth Initiative, October 2007, which states that in the Middle East young people face a multi-dimensional exclusion that can't be reduced to a labor market mere condition, but must take in account education, employment, family education elements, inherently interdependent. That's why

youth have difficulties to cancel uncertainty linked to any decision on this points, staying in a *wait hood* situation, that means unproductive period.

There are several effects related to the high unemployment rate, the first is represented by rates of immigration. That point is analysed by the World Bank in a Report of 2005, saying that a high rate of Middle eastern young people completes his studies and professional training abroad. Indeed despite the barriers put up to young Arabs after the September 11/2001, has been recorded an 6% increase of young people who goes to study in the United States. The major young exporter was the Islamic Republic of Iran which recorded an output of 285,000 young people directed in Europe and elsewhere in the Middle East. The World Bank (Department for Human Capital Development), on September 2007, in the report *Youth- An Undervalued Asset: Towards a new agenda in the Middle East and North Africa, Progress, challenges and way forward*, continued to analyze this factor and concluded that in and out immigration is critical (in 2000 there were 9 million migrants from MENA countries to OECD States and another 3,5 million to the GCC States) , with young people (aged 15 to 24 years) representing the major players on the phenomenon and they earn higher incomes and thus contribute to the growth of human capital and investment of their own States, as World Bank emphasizes.

On that argument is interesting also the last Sylatech Group study, of January 2010, *The Sylatech Index: Voice of young Arabs*, that notes that "the most likely individuals to express a desire to migrate permanently are those who are the most educated, are already employed, and aspire to start their own businesses". The young desire percentage to leave is 26% and, as the authors says the "action on their desires could potentially have a tremendous effect on many countries' ability to innovate and compete in the global marketplace".

On this see also the World Bank, *Middle East and North Africa Region, Economic developments and prospects*, of 2008. The World Bank said that the MENA region is more integrated in the global economy through labor mobility than through trade and investment. MENA's share of global trade flows is below 5%, and the region receives an even lower share of global FDI flows. However, about 16%of all remittances paid out to migrants in the world originate in the MENA region, essentially

the GCC countries, and 10% of global remittances are received by residents of MENA countries. However MENA's share in remittances has come down significantly since the 1990s, at a time when remittances to India, China, Mexico, and the Philippines have increased exponentially.

Specifically on regional integration, this has also advanced more through people mobility-migration-than through other means (on that see also Fawzy S., *The Economics and Politics of Arab Economic Integration*, 2003). Migration has helped alleviate skills shortages and replenish demographic gaps, while alleviating poverty and labor market pressures in migrant-sending countries. Oil wealth has been distributed throughout the region through migration and remittances, rather than through investment and trade (on the same idea is Yousef T., on *The Changing Role of Labor Migration in Arab Regional Integration*, in *The Future of Arab Economic Integration: Trade, Migration and Capital Markets*, Arab Monetary Fund, 2005).

Talking about the intraregional migration trends, the same World Bank study relieves that economic migration from the MENA region took off in the mid-1960s, driven largely by the need for labor in Western Europe and the GCC countries. The rapidly growing economies of France, Belgium, Germany, and Holland, among others, needed additional workers to meet their construction needs during the industrial boom. Labor shortages were met by actively recruiting workers in labor-abundant countries in southern Europe, the Maghreb, and Turkey.

An equally strong migration boom occurred in the Gulf region. As the oil price shocks of 1973 and 1979 boosted national income in the GCC countries, the recruitment of foreign labor accelerated sharply. During these years of oil bonanza, most workers were recruited from other MENA countries, especially Egypt, but also Yemen, Jordan, Syria, and the West Bank and Gaza. However, since labor demand outstripped supply from Arab sending countries, there was also a significant inflow of workers from South and Southeast Asia. Arab workers tended to occupy more of the skilled positions, while Asian workers mainly filled the unskilled jobs (on that see also Johansson, S., and C. Silva-Jauregui, *Migration and Trade in MENA: Problems or Solutions?*, Middle East and North Africa Working Paper No. 40. World Bank, 2004). The impact of these migration flows is readily seen

in remittance movements.

Oil economies outside the GCC also recruited foreign workers. Migrants from Egypt and the Maghreb, mainly Tunisia, went to work in Libya. Egyptian workers also went to Iraq, partly replacing the male labor force enlisted in the military forces.

As oil prices reversed in the mid-1980s, labor demand fell, and Arab migrant workers faced increased competition at two ends of the skill spectrum. At the high end, GCC countries restricted access to public administration jobs for foreigners and put pressure on the private sector to hire nationals. At the unskilled end, Arab workers were replaced by South and Southeast Asian workers, in part because of the latter's willingness to work for lower wages and with poorer working conditions and to come without families, which is an implicit guarantee of voluntary return. The first Gulf war also led to forced return migration. More recently, two forces have influenced intraregional migration flows. The second Gulf war in 2003 and its aftermath prompted massive displacement within the region but also some expulsion from the GCC of migrants from countries supporting Iraq. In addition to these politically motivated flows, the recent phenomena of high growth and falling unemployment in the MENA region are affecting migration as well. One outcome is that migration flows have regained pace in recent years, with the share of migrants in the population of MENA countries reaching 7% of the population in 2005. Moreover, the trend appears to be accelerating: the migrant population increased by 3.3 million people between 2000 and 2005.

Despite the recruitment slowdown and episodes of return migration over the 1990s, the available data show that some 4.5 million migrants from MENA countries are still in the GCC and other Arab countries. This number exceeds the number of migrants living in European countries. And with the exception of the sending countries from Maghreb, MENA migrants are overwhelmingly living or working (or both) in other MENA countries. Thus, economically motivated migration within the region remains important.

Another effect is represented by the cost that the society has to face, due to the unemployment, inactivity, teenage pregnancy and Middle Eastern young people migration abroad. On chronological order see the ILO, *Youth: Pathways to decent*

*work- Promoting youth employment, tackling the challenge of 2005* that states in general that a prolonged unemployment in early life may permanently impair employability, earnings and access to quality jobs. Furthermore, patterns of behaviour and attitudes established at an early stage persist later in life. For governments, youth unemployment means that investments in education and training are wasted, that they have a reduced taxation base and higher social welfare costs, and that their voter support among young people is weakened. For employers' organizations, youth unemployment and underemployment means that young people have less to spend on products and services, and that personal savings are reduced for investment in business, resulting in loss of production. For workers' organizations, youth unemployment means loss of potential membership to secure improved rights, protection and working conditions. 8 Moreover, high and rising unemployment levels among youth may be a source of social instability, increased drug abuse and crime.

The costs of neglecting youth can be measured in terms of depletion of human and social capital. There is a loss of opportunities for economic growth, which increases as this cohort ages without gaining experience in the workforce. More difficult to quantify are the costs of societal instability and endemic conflict.

For a deeper study on this subject see Jad Chaaban Welfensohn, *The Cost of Youth Exclusion in the Middle East, Middle East Youth Initiatives*, 2008, in [www.shababinclusion.org](http://www.shababinclusion.org), that states in particular that the youth exclusion from the Middle Eastern labor markets caused serious costs for the society, and quantifying these costs is extremely important to build a sort of investment by Middle Eastern governments. This cost can be calculated in terms of human and social capital reduction, in fact consist in the economic loss calculation resulting from young people opportunities loss. Furthermore it is argued that the young people exclusion is multi-dimensional and then the calculation should include additional factors such as poverty, health, drug use, lack of decent house, internet and participation to the political life.

Touching the low income aspect see the ILO paper, *Global employment trends for youth*, 2006; first of all they define 'working poverty' as "Working long hours for low wages under poor conditions and with no social security or any voice is the exact

opposite of what the ILO would call 'decent work'", then, as there aren't poverty data available by age it's produced such an estimate combining employment data with the overall working poor data. For the MENA region youth working poverty rate -at 1 US\$ per day working- on 2005 was about 3,4% and youth working poverty rate -at 2 US\$ per day working- was about 39,2%.

Another aspect to consider is linked to the changing market demand (shift from rural type activities to the third sector activities) that implies the need to articulate the educational offer in order to develop the required skills for the young people entry in labor market. On the issue see in particular Ilo, *Realizing decent work in Asia*, 2006, in [www.ilo.org/public/english/standards/relm/rgmeet/14asrm/dgrealizing.pdf](http://www.ilo.org/public/english/standards/relm/rgmeet/14asrm/dgrealizing.pdf) and World Bank, *Expanding Opportunities and Building Competencies for Young People A New Agenda for Secondary Education*, 2005, in [siteresources.worldbank.org/EDUCATION/Resources/278200-1099079877269/5476641099079967208/Expanding Opportunities Secondary.pdf](http://siteresources.worldbank.org/EDUCATION/Resources/278200-1099079877269/5476641099079967208/Expanding%20Opportunities%20Secondary.pdf), that particularly emphasizes the education and training importance as tools to facilitate young people entry in the labor market.

Each State has different prerogatives and systems. For Egypt see Assaad, Ragui, *Unemployment and Youth Insertion in the Labor Market in Egypt*, presented at the ECES Conference, 2007, that states that the regional educational system slowness on responding to the market needs has caused a huge gap between the skills required by the labor market and those available. This imbalance, coupled with the rapid growth of operators number, leads to a very long timing of the school to work transition. As we can read on Ragui Assad-Ghada Barsoum' elaborate, *Youth Exclusion in Egypt: in search of 'second chances'*, Middle East Initiative Working Paper, 2007, the current Egyptian educational system is facing the challenge of providing students some basic skill. While the number of students enrolled at schools has increased significantly in recent years, quality has not improved, leading to a high abandonment's rate of the path. Even the Iranian system has similar problems, there are criticisms directed to the ability to prepare young people that should enter in the labor market. Like many other countries, the Iranian formal labor market offers high salaries and in general many bene-

fits to persons who enter in the labor market after completing their maximum studies (JD, PhD, etc etc), this led to an educational system focused only on the production of degrees that doesn't guarantee an effective preparation of those who have achieved it. Thus read Salehi- Isfahani-Egel, *Youth Exclusion in Iran: the state of education, Employment and family formation*, Middle East Youth Initiative Working Paper, Settembre 2007. For a detailed description of Oman, Qatar, Lebanon, Lybia and UAE see G. Gonzalez, L.A. Karoly, L. Constant, H. Salem, C. A. Goldman *Facing Human Capital Challenges of the 21st Century Education and Labor Market Initiatives in Lebanon, Oman, Qatar, and the United Arab Emirates*, RAND, 2008.

As ILO, on 2005, on the Report *Youth: Pathways to decent work- Promoting youth employment, tackling the challenge*, UNESCO on the Policy Note No. 3 of 2003, and United Nations, on the World Youth Report of 2003 said a solid formal education, as well as effective and relevant vocational training, labour market information and services and work experience are recognized as key factors in raising employability for successful insertion in the labour market.

“Macroeconomic policies, appropriate regulations and the promotion of entrepreneurship and enterprise development are important tools to realize the full potential of economic growth and for creating pathways to decent work for youth”: that's how Ilo on 2005 on the *Youth: Pathways to decent work- Promoting youth employment, tackling the challenge* underlined the importance of Macroeconomic policies, appropriate regulations and others elements for job creation.

In many countries, macroeconomic policies could play a more effective role in realizing the full potential of growth and job creation. Many developing countries are in a low-level stabilization trap that constrains the role of macro-policy in stimulating demand. While stringent stabilization measures have helped achieve stability in terms of low inflation and deficits in budget and current accounts, they have not been able to spark the rate of investment required for reviving sustainable economic growth. And yet, an essential precondition for sustained labour demand is the enhancement of the levels of investment, with serious adverse effects on labour markets.

Employment-intensity of growth is particularly im-

portant for developing countries. While *growth is a necessary condition, it is not sufficient*; it is essential to ensure an economic policy environment that results in economic growth being employment-intensive. Again, macroeconomic policies can play a role in producing such outcomes by promoting the growth of sectors and economic activities that are employment-generating by their very nature. Business- and enterprise-friendly macroeconomic policies and regulatory environment are also helpful in ensuring that growth does not become jobless.

Young people frequently lack adequate information, guidance and counselling about labour market opportunities, that's why the ILO, on the *Youth: Pathways to decent work- Promoting youth employment, tackling the challenge*, of 2005 underlines the importance Employment services role in ensuring the comprehensive information and the broadest possible assistance and guidance are available for young persons, including those belonging to disadvantaged groups.

As perfectly resumed on a World Bank study, on the *Middle East and North Africa Region Economic developments and prospects*, on 2008, countries across the GCC have given priority to nationals in public sector recruitment, have provided various subsidies and benefits to private firms to employ nationals, and have introduced targets on employment of nationals and upgrading of education and training programs. The countries have also regulated the issuance of work permits, raised the costs of expatriate labor through higher fees on foreign labor, and more severely enforced their immigration and labor laws.

#### *Some examples*

The Saudi Arabian Manpower Council has sought to discourage foreign participation in certain labor classes. An estimated 34 professions currently are restricted, with 22 others planned. Furthermore, a 10 percent upper limit on any expatriate nationality is also planned. Firms with 20 or more employees are required to raise the ratio of nationals in total employment by 5 percent each year. The government has also explored subsidizing training of nationals, to be funded through the levy of fees on expatriate labor work permits and visas.

. In Bahrain, the Ministry of Labor and Social Affairs recently announced that it plans to place restrictions on the issuance of work permits starting

in 2005. By then, only temporary work permits will be provided in certain sectors where government wishes to encourage Bahraini participation. Subsidies for training were also instituted in 2001 and linked to the degree of Bahranization in companies. Other industrial incentives such as duty-free imports of raw materials and machinery are likewise linked to Bahranization. In the United Arab Emirates (UAE), the Emiratization drive has led to increases in the number of nationals in the financial sector by 189 percent between 1997 and 2002.

In Qatar, the government set up a committee, similar to other GCC states, that reviews requests submitted by private enterprises for labor importation. The committee gives final decisions with regard to the approved number, occupations, and nationalities. However, in both Qatar and the UAE, the urgency of restricting the inflow of expatriates is not as pressing as in other GCC states, owing to shortages of national manpower in relation to private sector needs.

In Oman, the government restricted the overall number of expatriate permits and simultaneously carried out a tough civil services retrenchment policy. These changes, combined with incentives to recruit and train nationals as well as levy fees on expatriates, led to a shift in expectations of Omanis toward the private sector and that sector's lower relative wages. Sectoral as well as firm-specific quotas have also been set in 2003 for selected economic activities.

In Kuwait, a labor law was passed in 2000 that calls for extending government social allowances to nationals in the private sector, instituting an unemployment insurance plan, providing training subsidies, setting Kuwaitization targets and linking them to government contract awards (and setting penalties for not achieving preset targets), and levying new fees on expatriates in order to minimize the wage gap. The law represents an attempt that is unique in the GCC to address open unemployment of nationals in a comprehensive manner.

As stated in many reports on the subject, as example see Kabbani, Nader and Ekta Kothari, *Youth Employment in the MENA Region: A Situational Assessment*, World Bank Social Protection Discussion Paper, 2005, there is a general data paucity representing the policies effectiveness on helping middle eastern young people.

The fact remains that there are labor and employment policies in favor of the category here exam-

ines; on this point see Dunlop, Imelda, *Business and Youth in the Arab World*, London: International Business Leaders Forum, 2006 that presents the policies implemented in many area's companies, to facilitate the young people transition to adulthood through training projects and mentoring schemes; for the specific case of Tunisia read Bedoui, M. and G. Ridha, *Les politiques de Lutte contre l'Exclusion Sociale en Tunisie*, ILO, Working Paper no. 88., 1996, <http://www-ilo-mirror.cornell.edu/public/french/bureau/instit/papers/1996/dp88/index.htm> . The Tunisian system is completely designed on French system, which contains three types of programs: the largest is the one that used the *training and work contract*, established in 1981, and that presents until now a success rate of 73%; another instrument used is the *Program of initiation into life work for youth* started on 1988 and which led to a rate placement around the 60%; and finally there is a program reserved to young people with a high level preparation called the "*Stage d'initiation à la vie professionnelle pour le cadres*" that between 1987 and 1994 presented a rate placement of 73%.