

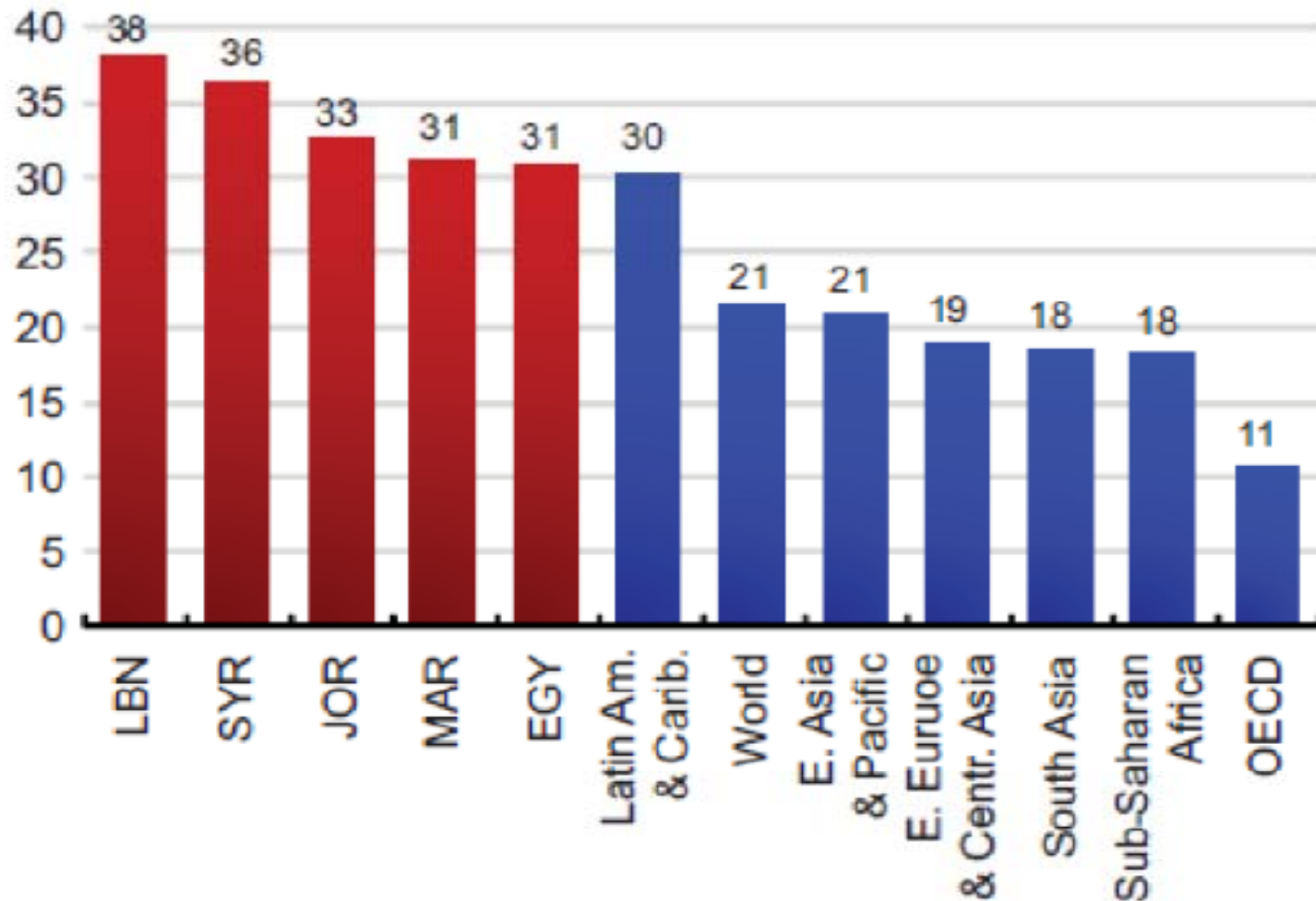
Labour Demand and Social Dialogue:
The Two Binding Constraints for Creating Decent Employment
and Ensuring Effective Utilization of Human Resources
in the Arab Region?

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Presentation at the Expert Group Meeting on
**“Addressing Unemployment and Underemployment
in the Islamic Development Bank Member Countries in the Post-Crisis World”**

Islamic Development Bank Head Quarters
9-10 May 2011

Employers in the MENA region repeatedly and consistently state in various surveys that there is a shortage of skills
(% of Firms Stating Skills Are a Major Constraint)



If so

- Then the youth are unemployable
- And given there are too many youth, then this is why youth unemployment is highest in the Arab world and labor force participation is the lowest (due to discouraged worker effect)
- **Solution**: increase quality and relevance of education and adopt labor-intensive production techniques.
- **Problem** with this solution:
 - Practically: increased education and labor intensive-techniques have been the norm in the last 2-3 decades
 - Theoretically: it ignores the labor demand side and institutional factors.

Motivation and Summary of the Presentation

- A recent report argued “Low rates of youth employment MENA because of lack of skills and a mismatch between skills taught and those required by the modern labor market”.
 - I will instead argue that the solution is not on the supply side (“the other hand”) but more on the lack of demand for skills
- Why the youth did not take to the streets in 1995 when the youth unemployment rate, for example, in North Africa was 31% (compared to 24% in 2010) and the youth share in the working age population was also higher at 30% (compared to 21% today)?
 - I will argue that the problem was not slow rate of employment creation but lack of creation of decent jobs acceptable to adults, too.
- Unlike the domino effects in East Europe (1989) and East Asia (1997) that were caused from common external factors, what can be the common factor behind the recent simultaneous developments in the Arab region?
 - I will argue that a common factor has been lack of social dialogue, conflict resolution mechanisms and voice.

Caveats

- The *within* MENA differences are greater than those *between* MENA and other regions
- The presentation being a comparative one focuses on regional aggregates and does not address country specific considerations
- In economics there are always “two hands” but in this presentation the “other hand” is deemed to be relatively less important.

Lack of Skills

OR

Lack of Demand for Skills?

Education Achievement and the Desire to Emigrate

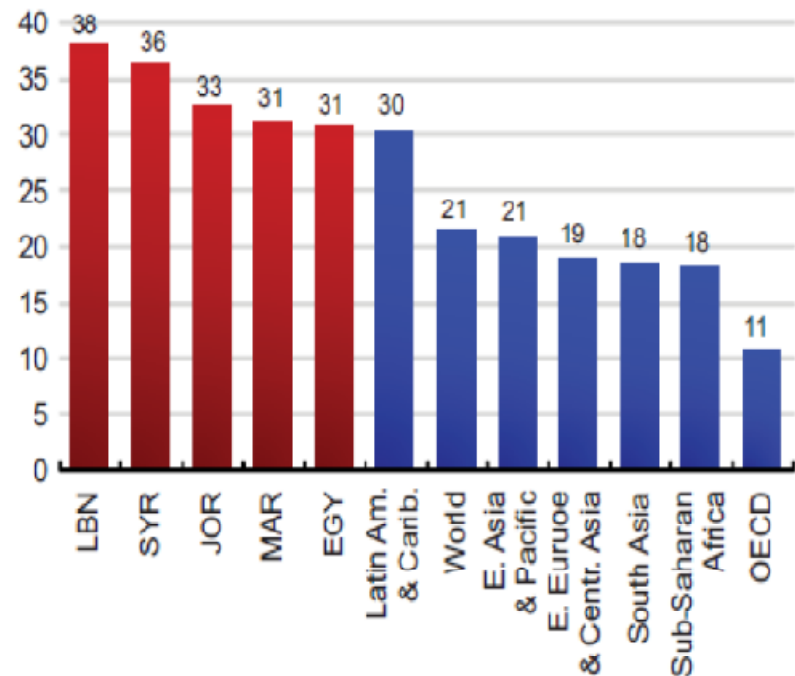
**Table 2: Student Achievement
in Mathematics and Science International
Country Rankings**

Rank	Country	Score
1	Chinese Taipei (First)	598
<i>INTERNATIONAL AVERAGE</i>		<i>451</i>
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

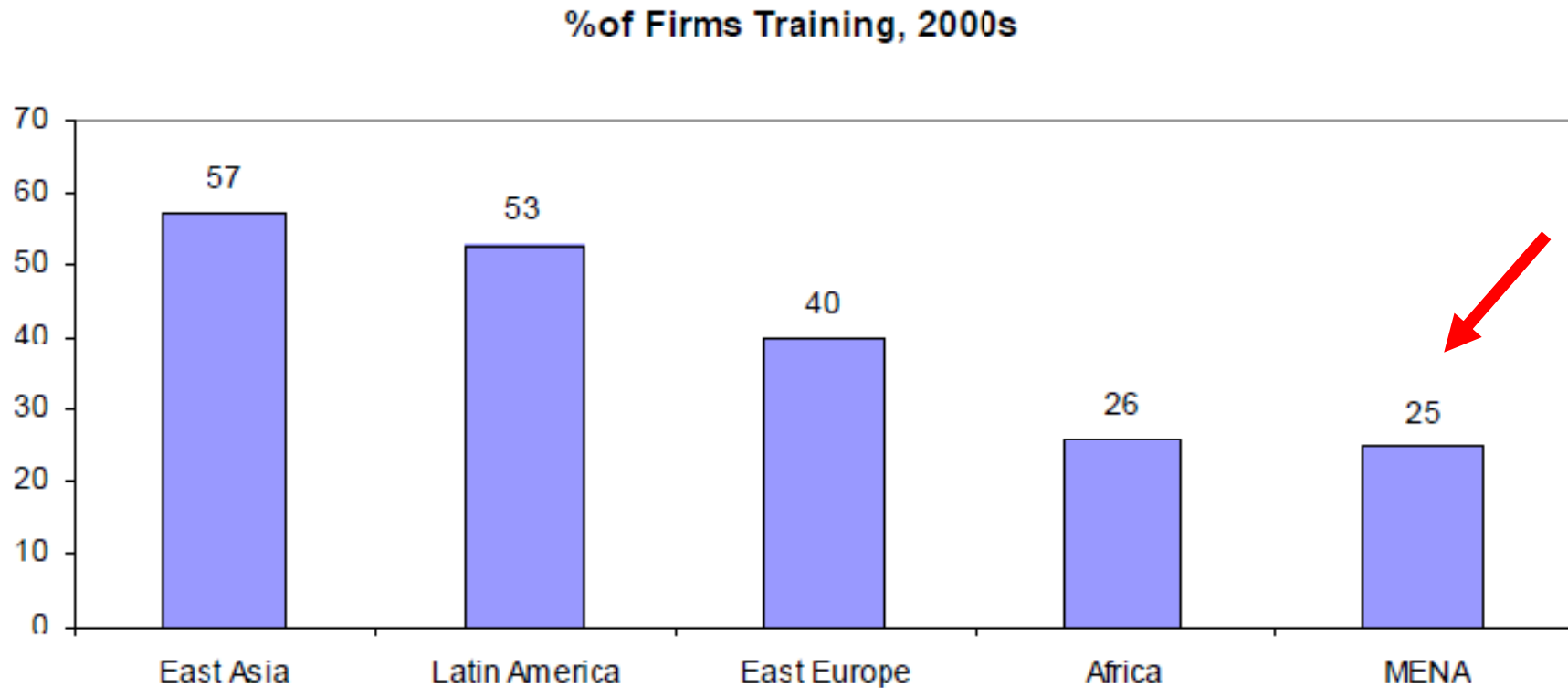
The Skilled Emigrate Because There is No Demand for Skills

**Figure 6: And employers complain in Arab countries where the students do better in education
(% 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.

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



Relying on Foreign Workers is not Confined only to the GCC countries

Jordan: Employment Growth (number) 2000-2009

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

Note: Non-Jordanians include only those with permits from the MoL (e.g. it excludes domestics, undocumented migrants etc)

Is **youth unemployment** too high

OR

Is **unemployment** too high?

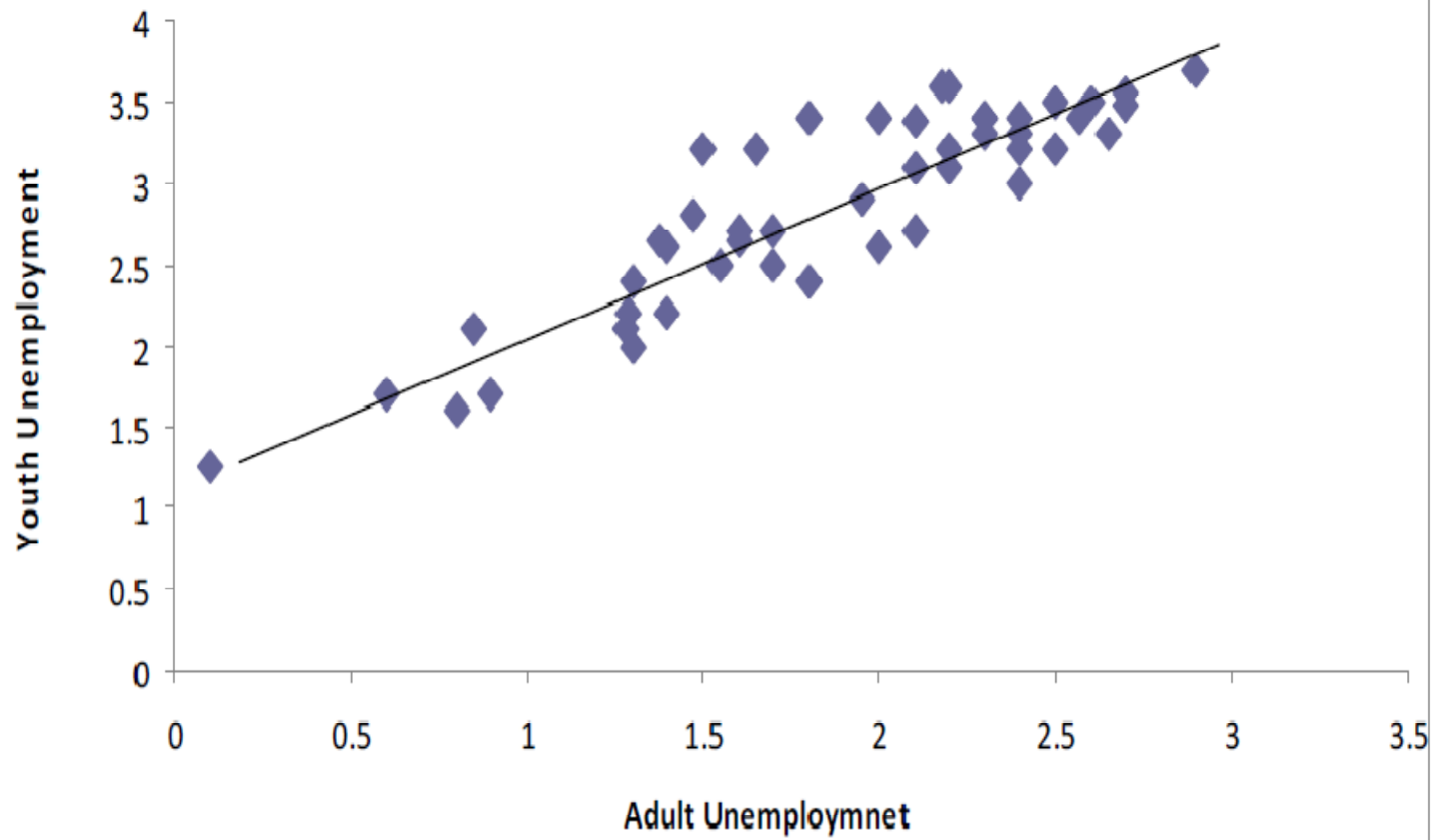
In the Arab region the youth unemployment rate is 2.5 times higher than the *total* unemployment rate (24.7% compared to 10.2%)

In the UK at the end of 2010, the *total* unemployment rate across the economy was **7.9%** and:

- The unemployment rate for the 16-17 year-olds was 44.3%
- The youth (16-24) unemployment rate was **20.3%**
- The graduate unemployment rate was 20%.

The ratio of youth to total unemployment rate in the UK comes to 2.5 – which is also the ratio in the Arab region.

When Unemployment is High, It is High for the Youth and Adults
(Youth and Adult Unemployment Rates, World, 2000s - in logs)



Too few jobs for the too many youth

Or

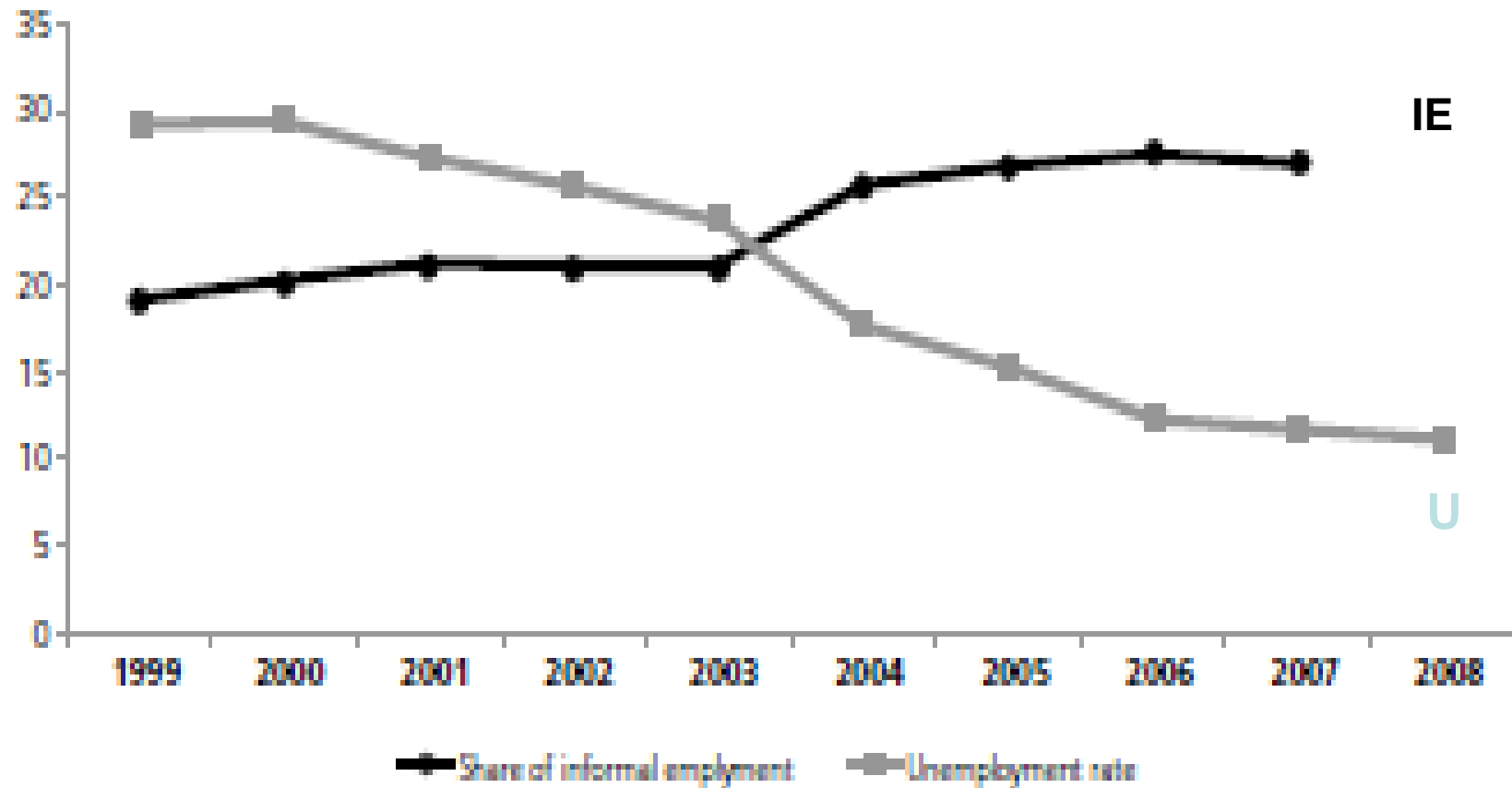
Too few **decent** jobs for youth **and adults**?

Annual Employment and Output Growth Rates and Employment/Output Elasticity Asia, 2001-2008

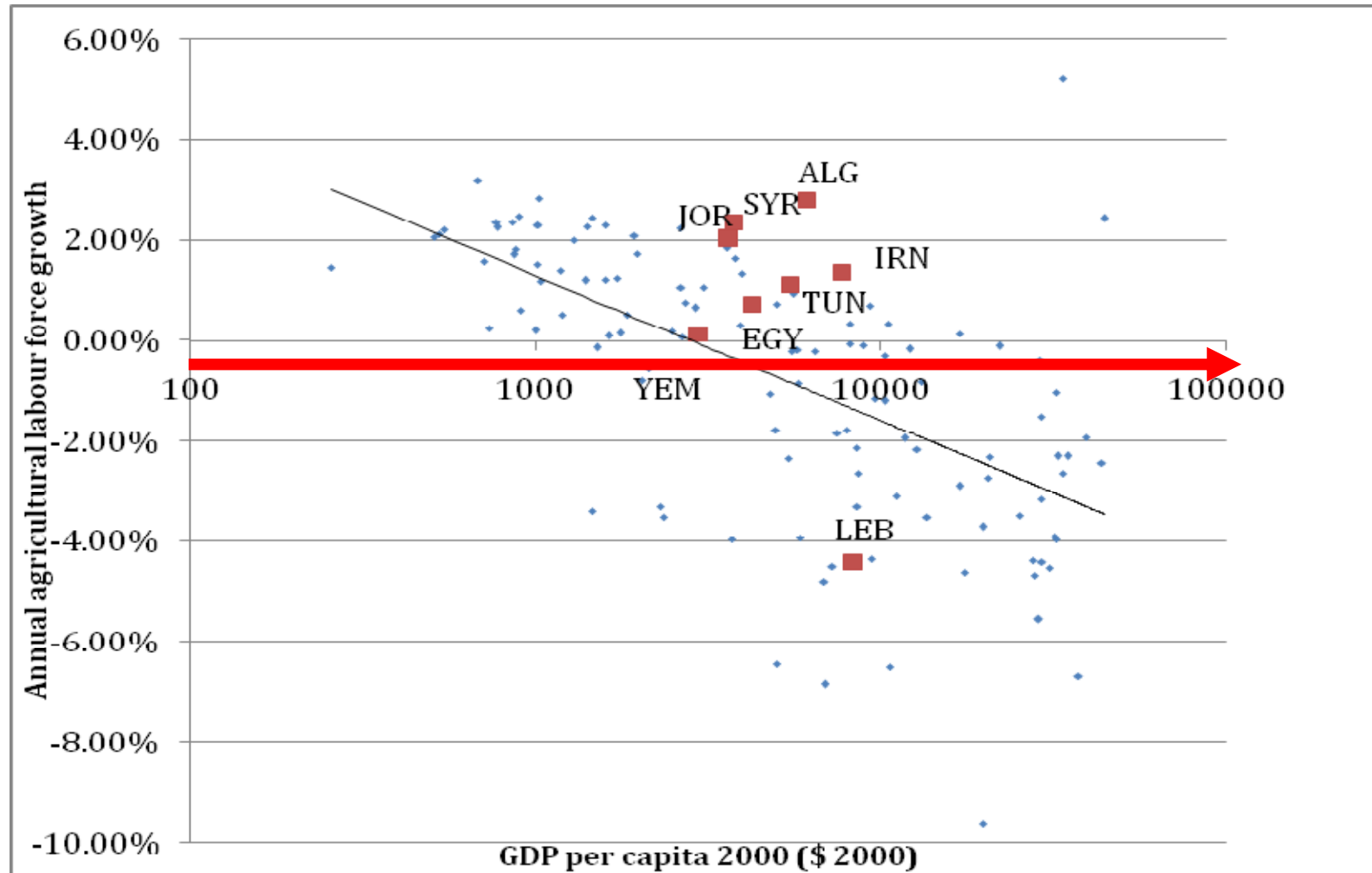
Asia and Pacific	GDP	Employment
China	10.5	0.9
India	7.0	2.4
Indonesia	5.4	1.7
Japan	1.4	-0.1
Korea Republic	4.4	1.4
Malaysia	5.7	1.8
Mongolia	8.2	3.2
Pakistan	5.3	3.7
Philippines	5.3	2.8
Sri Lanka	6.0	1.7
Thailand	5.2	1.7
Viet Nam	7.6	2.0
Average	6.0	1.9
Ratio		30%

Arab countries	GDP	Employment
Bahrain	6.7	2.2
Kuwait	7.9	2.9
Oman	4.6	2.3
Saudi Arabia	4.2	3.2
United Arab Emirates	7.9	5.0
Average	6.3	3.1
Ratio		49%
Jordan	7.3	4.4
Lebanon	4.8	2.1
Syrian Arab Republic	4.2	4.0
Average	5.4	3.5
Ratio		65%
Average (All)	6.0	3.3
Ratio		55%

Informal employment and unemployment rate in Algeria



MENA's agricultural labor force is growing fast for MENA's level of development



Putting All This Together ...

Economic growth has indeed been fast
(oil, globalization, financial sector, real estate etc)

BUT

The benefits were not shared equally
(monopoly centres and concentration of power and wealth)

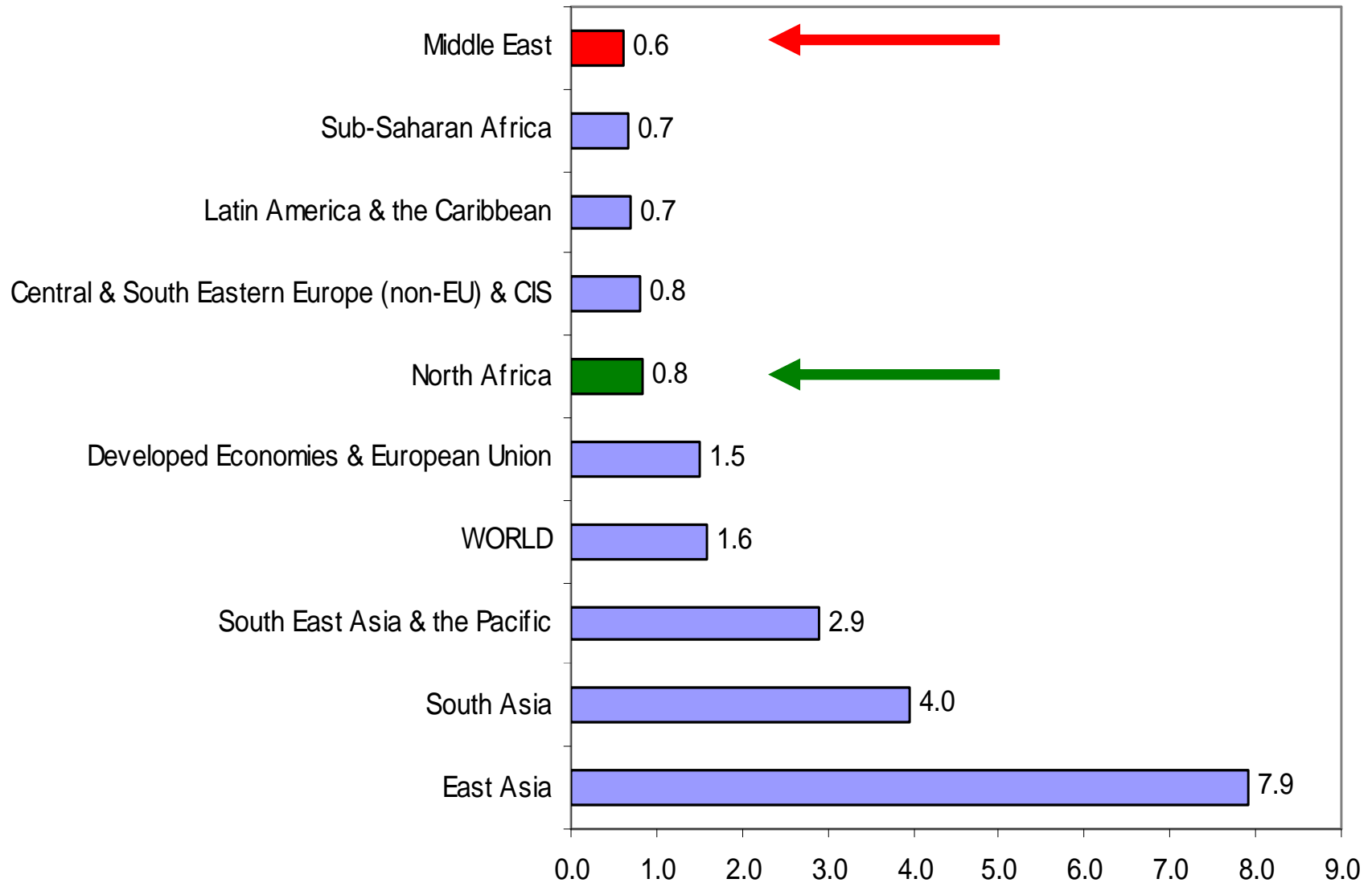
AND

The labor market has not been producing
socially desirable outcomes

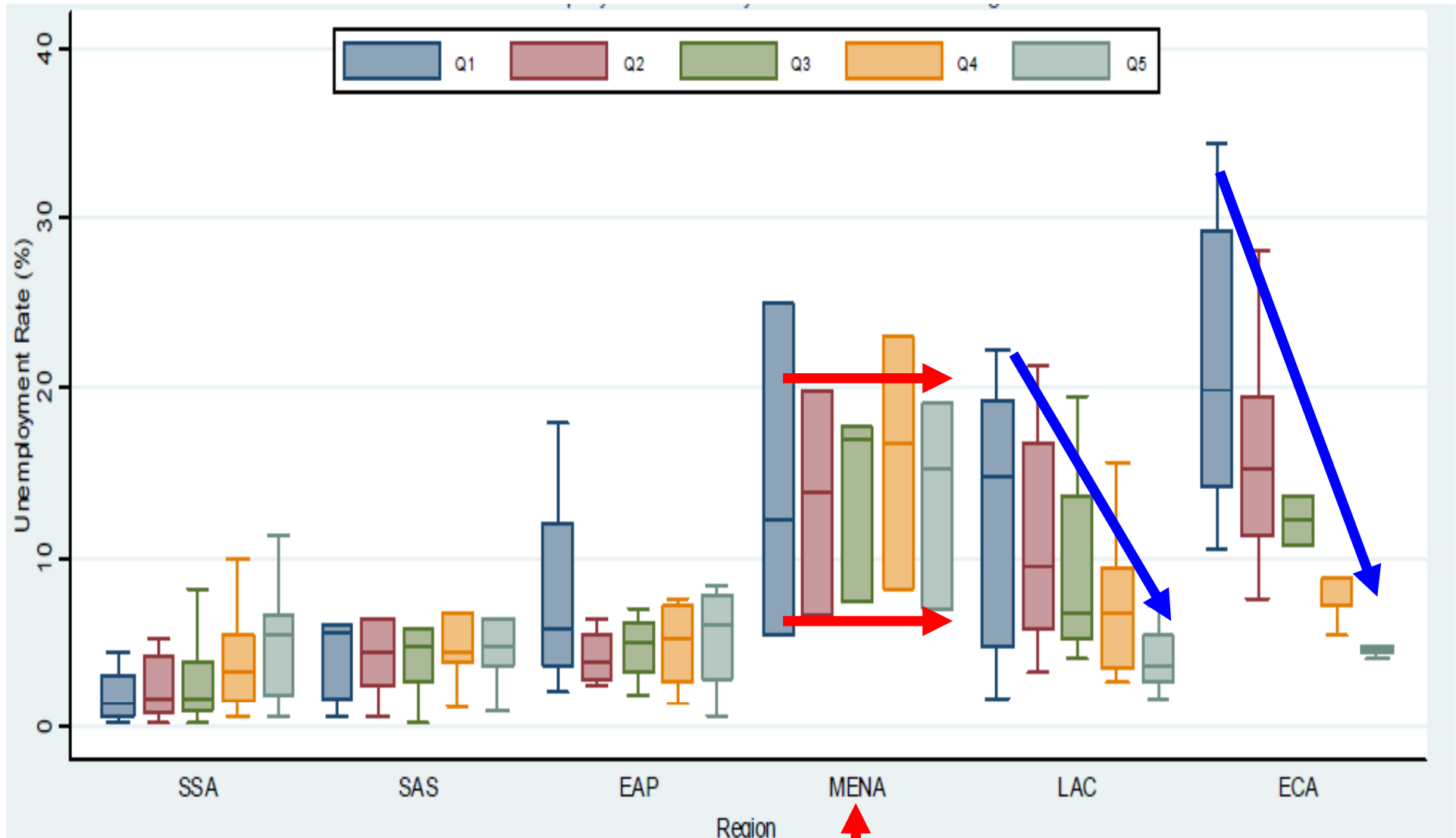
AND

Citizens' concerns were not adequately voiced

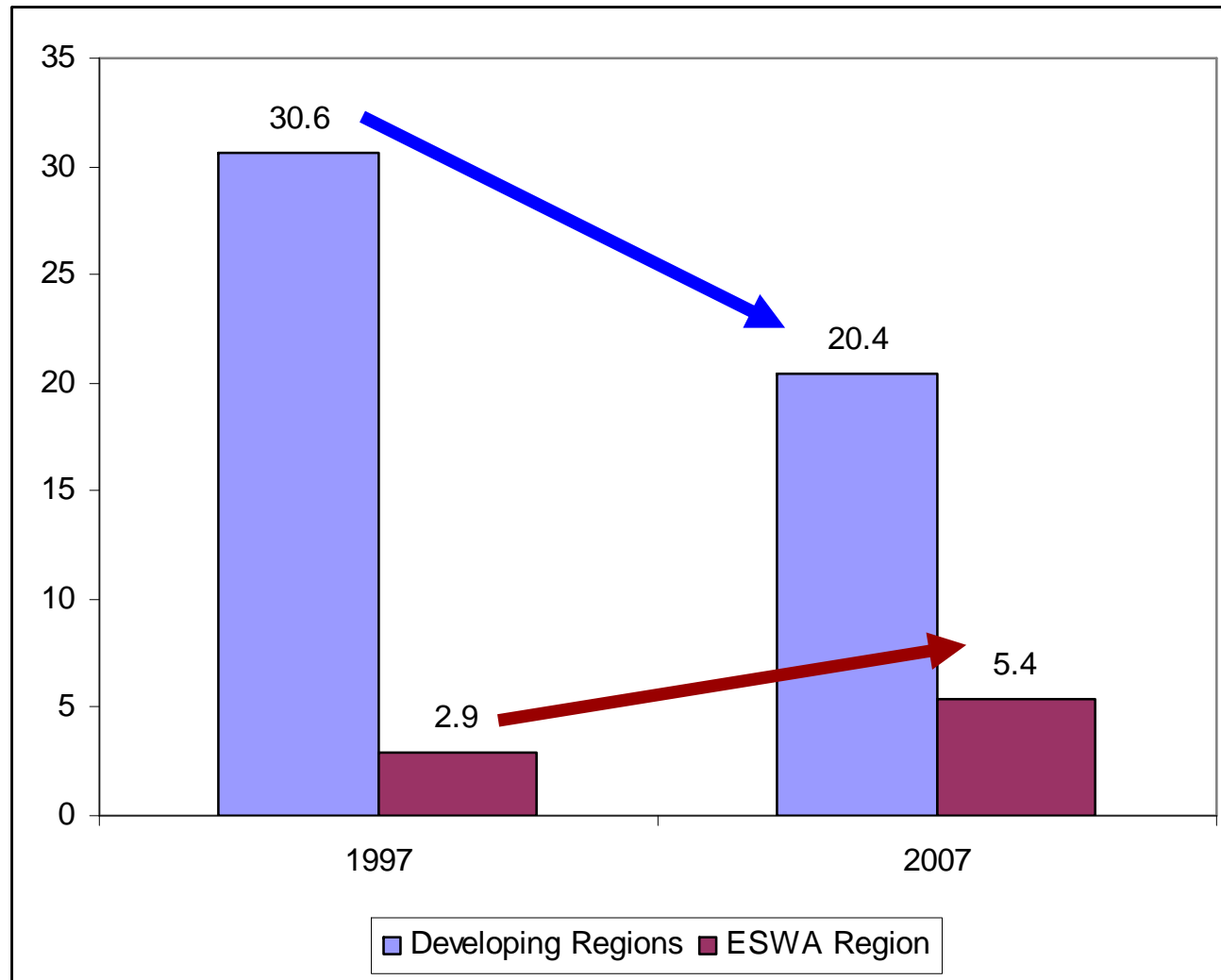
Annual Rate (%) of Productivity Growth by Region, 1991-2010



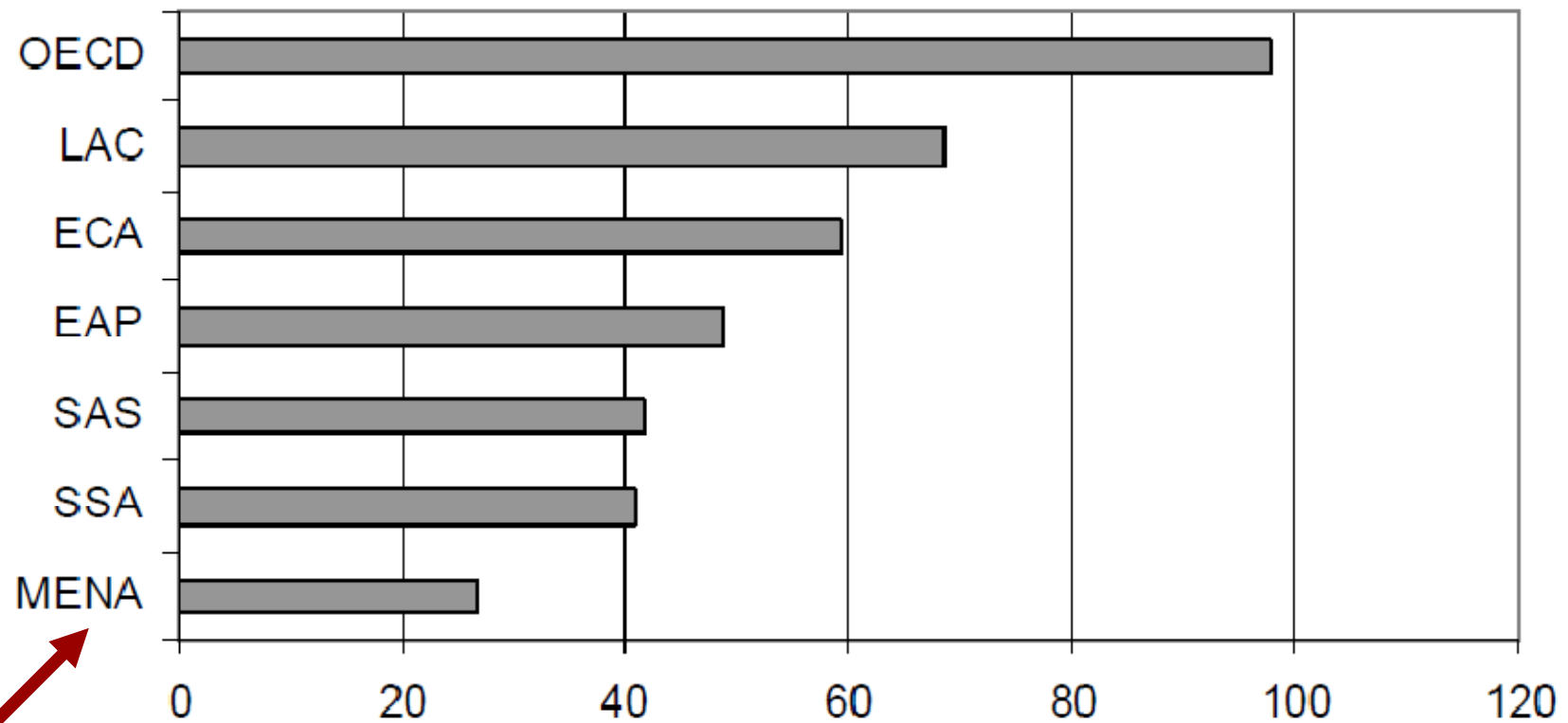
In MENA Unemployment Rates Do Not Decline As Household Income Increases from the Lowest to Highest Quintiles, 2000s



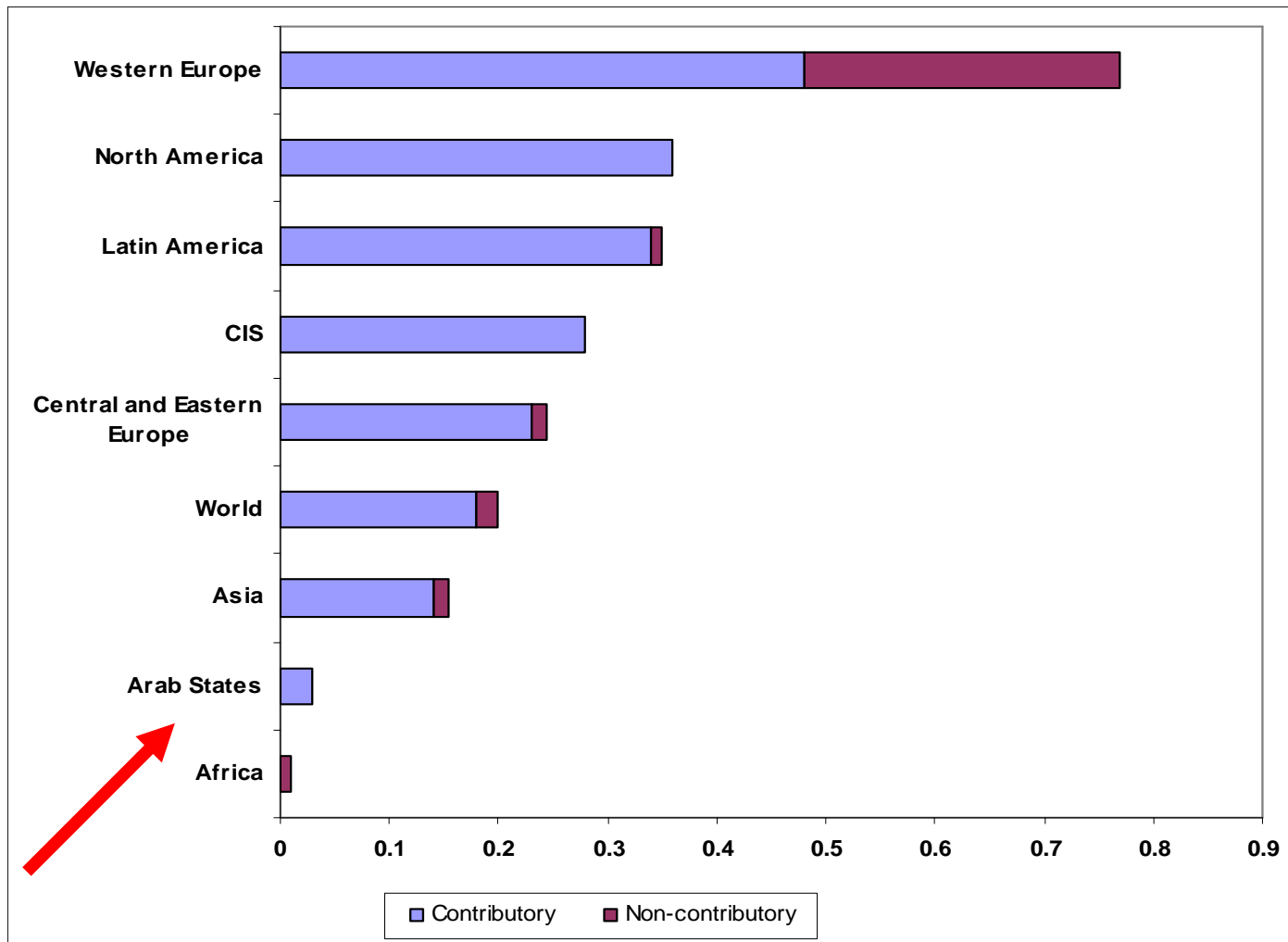
Proportion of Employed People Living Below \$1/day (PPP) in Developing Countries and West Asia, 1997 and 2007



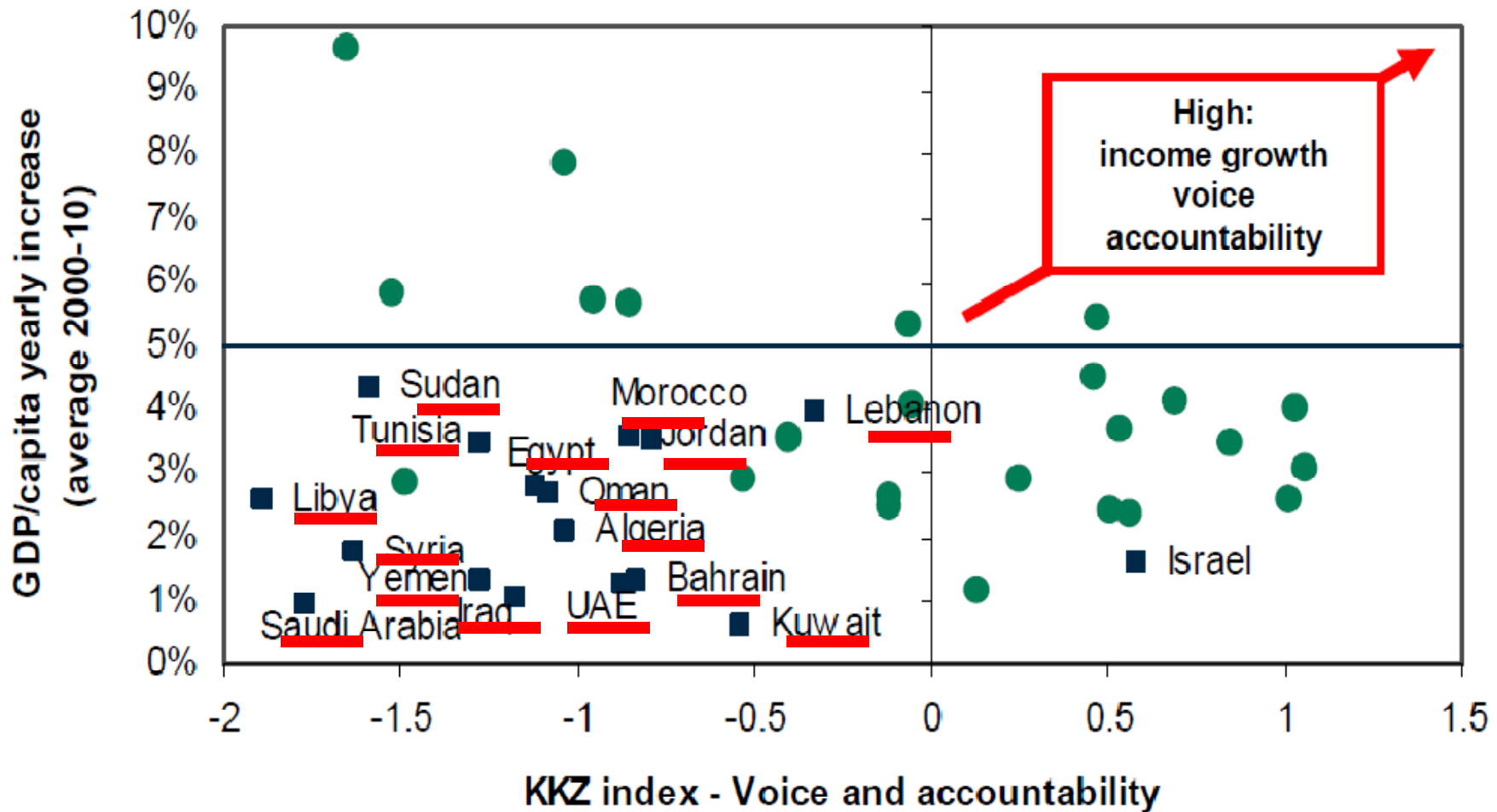
Index of Public Accountability



Percentage of All Unemployed Receiving Unemployment Benefits, 2008

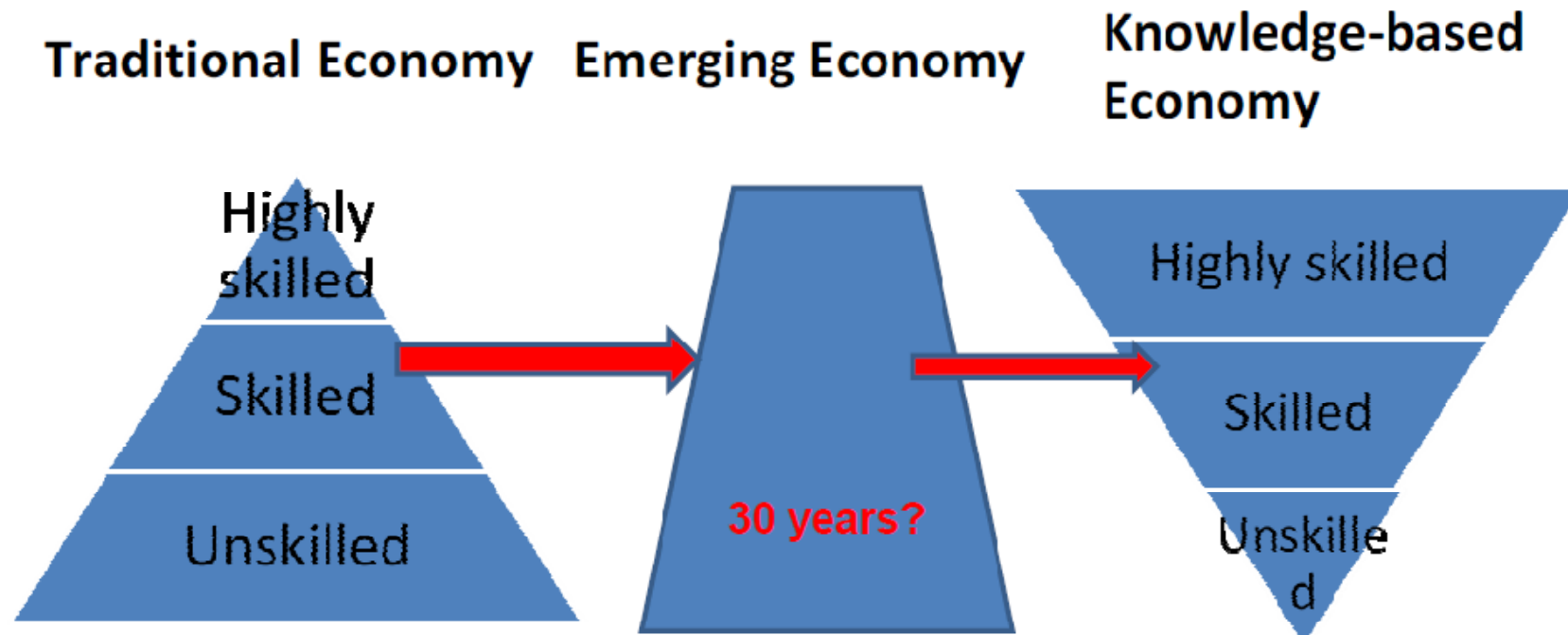


Citizens in Arab Countries Have Seen Slow Increases in Incomes and Have Had Low “Voice”

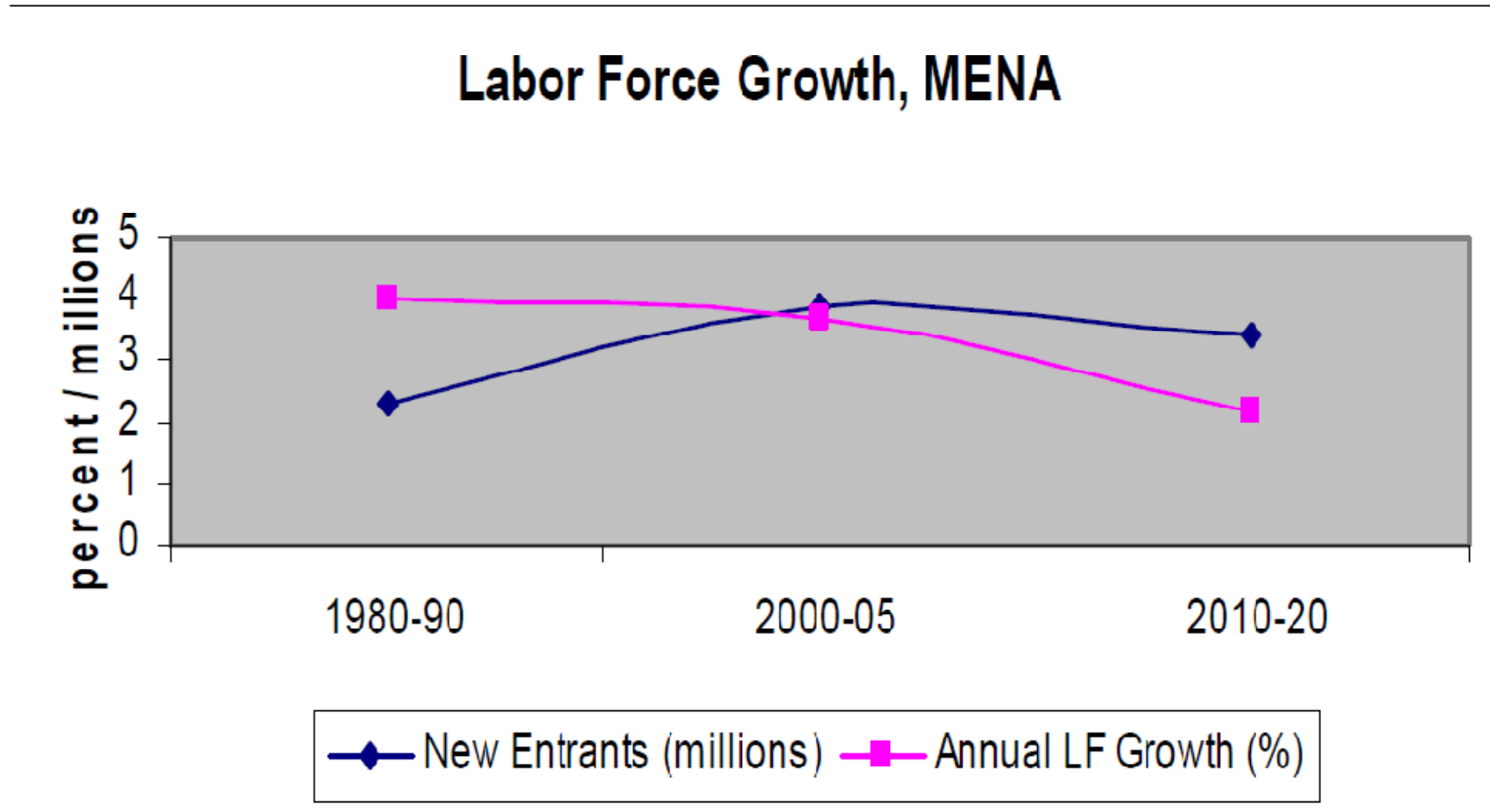


What needs to be done?

To Achieve This Transformation, The Biggest Challenge is to Transform Labour Demand...
The Response of Labour Supply Will Then Follow



And the transformation must start now:
The demographic window of opportunity is closing



Conclusions

- What matters more is not the creation of jobs for youth but **decent jobs for all**
- It is the **demand for labour** that matters most, that is, **transparency and level playing field** in the private sector accompanied by **meritocratic** employment in the public sector
- This would lead to **effective** public services and social protection
- This process cannot go on for long without open **social dialogue**.

Thank you