



Distr.
LIMITED
E/ESCWA/SDD/2017/WG.1/WP.3
21 April 2017
ORIGINAL: ENGLISH

Economic and Social Commission for Western Asia (ESCWA)

Background paper
AFSD Plenary Session No. 5
Poverty and Prosperity - Inclusive Growth
and Decent Work



United Nations
Beirut, 2017

17-00259

Introduction

The weak growth-employment-poverty relation lies at the heart of the challenges of human wellbeing that the Arab region is facing. This is evident from the findings of several recent studies. The region's high average economic growth over recent decades did not significantly improve incomes of the poor, nor did it generate enough decent jobs for the educated labour force. The problem has by far been a structural one that needs to be addressed at different levels. Poor governance and the current social contract adopted in the region explain, at least partly, the continuous labour and socio-economic challenges faced. Non-inclusive economic and labour market policies are also behind the high levels of poverty and inequalities found in the region. Furthermore, economic policy-making in the region has largely been unsuccessful in accelerating economic diversification and trade diversification. In the region as a whole, the share of manufacturing in GDP has remained low and sluggish over time. Services' share in GDP increased, but remained mainly concentrated at the low end of the value-added chain in the informal sector, resulting in low paid, low quality and low productivity jobs. The Arab region still has the highest unemployment rates worldwide, in particular among the youth, and the lowest women's participation in the labour market, along with the highest levels of labour migration. Recent crises and political instability have further exacerbated the situation and negatively affected many countries in the region, especially the poor and the vulnerable segments of society; the result being increasing inequality and high poverty which seriously undermine human wellbeing.

Overcoming developmental challenges requires policy reforms at various levels and of various types, such as economic, political, institutional and so on. Of particular importance for improving human wellbeing is to strengthen the connections between growth, decent job creation and poverty reduction. It fits well within the framework of the 2030 agenda on sustainable development, which suggests that economic growth needs to integrate the principles of inclusiveness and sustainability in order for progressing toward achieving sustainable development goals (SDGs). It also combines decent work and inclusive growth in the same goal (Goal 8) and recognizes the centrality of Decent Work, both as a means and an end to achieving sustainable development and reducing poverty (Goal 1). A close look at the 17 SDGs indicate that 7 SDGs (and 59 targets) are directly associated with the concept of the growth-employment-poverty nexus.

Session Objectives

The session will explore challenges, impediments and possible solutions to the topic of poverty eradication in relation to issues such as generating decent jobs, green growth and employment, labour migration, youth unemployment, women's unemployment and empowerment. Some of the key areas to address pertain to the overall macro economy and the role of policy coherence; the need to promote the centrality of employment in the broader economic policy setting; the role of structural transformation and how that could help creating decent jobs and meeting the aspirations of the region's youth and growing population. Designing inclusive economic and labour market policies is also essential for closing the gaps and reducing inequalities. Quality and relevance of education and training, wages, social protection, social dialogue and the right to organise and collectively bargain are critical issues in the context of the region's decent work challenge. In addition, improving productivity within sectors, including agriculture and the SMEs, and promoting the culture of entrepreneurship are important issues for raising incomes of the poor and boosting growth.

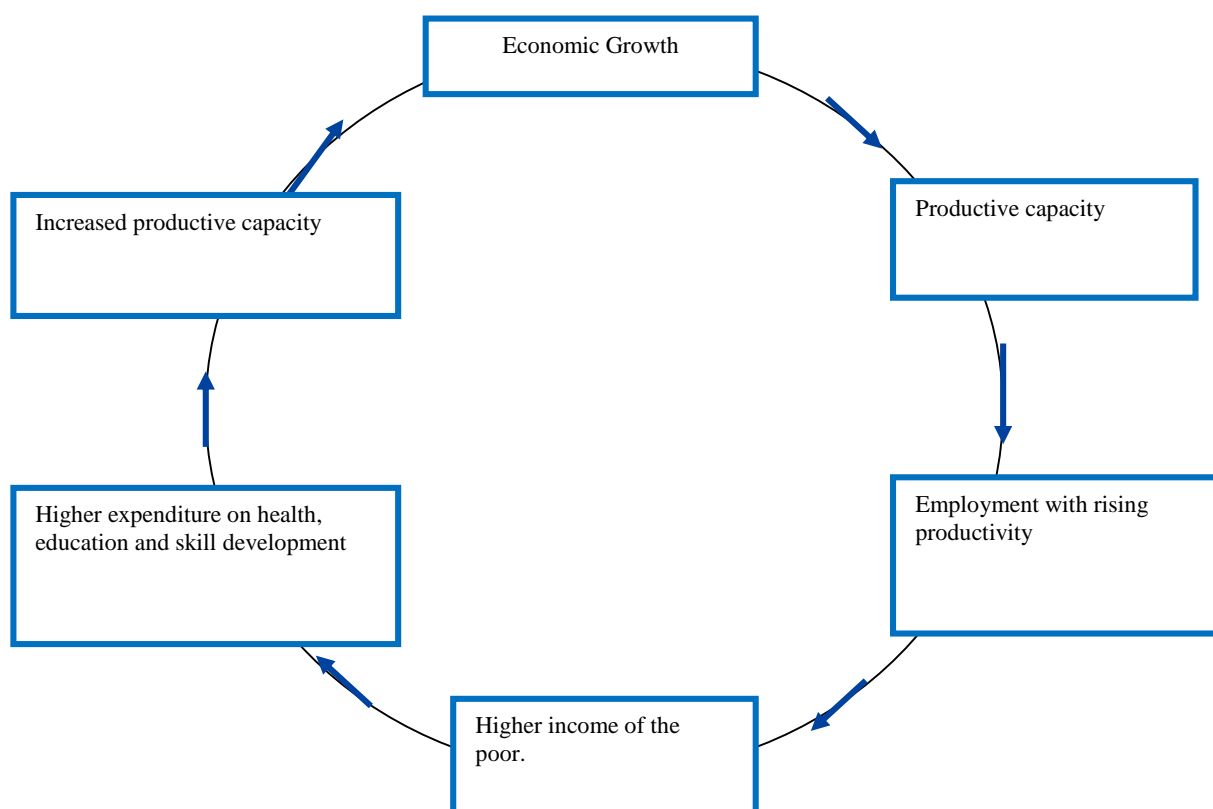
Background

Growth, employment and poverty

Economic growth has been relatively high over the decades in the Arab region. But the region has not been able to effectively translate economic growth into greater income of the overall population. The pattern of growth has not been conducive toward generating decent jobs and enhancing productive capacities over time. Furthermore, several countries in the region are facing negative consequences of conflicts and political instability directly or indirectly, which has severely affected their achievements on economic and social development indicators.

Among the several studies in the literature on growth and poverty nexus, Islam (2004) articulated the conceptual linkages between the pattern of growth and poverty through an illustration (figure 1). Islam argued that high rates of economic growth results in higher per capita income and reduction in poverty in a situation where growth leads to “improved productivity of various sectors and occupations, a shift in the structure of employment towards occupations with higher levels of productivity, and increases in real wages, earnings from self-employment, and earnings from wage employment”. The illustration shows that economic growth can enhance productive capacity that leads to generation of jobs with rising productivity. The workers can benefit by increase in their real wages achieved through higher productivity, which enhances their social expenditure as well as skill development that in turn further increases productive capacity and contributes to economic growth.¹

Figure 1. Linkages between economic growth, employment and income



Source: Adopted from Islam 2004.

Given this background, this brief discussion paper assesses the some of the key indicators related to the components of the illustration and their linkages, which can provide further insights for discussion.

Structural change across economies remains challenging

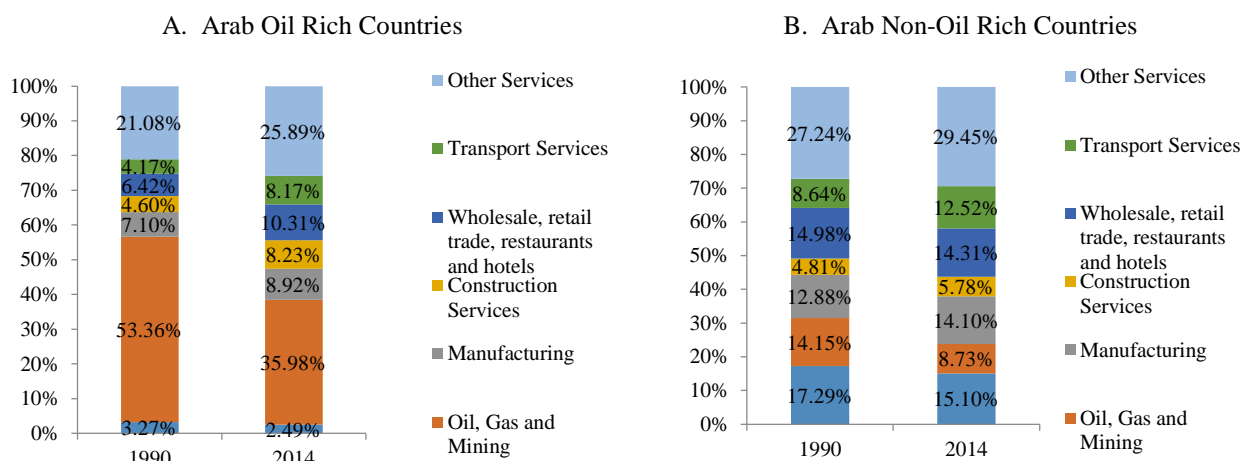
Economies in the Arab region can be divided into two groups on the basis of their resource endowments – those oil-rich or net exporters of oil and gas; b) those non oil-rich or net importers of oil and gas. The figures 2 A & B show the economic structure of Arab oil-rich and non oil-rich countries respectively since the 1990s. In 1990, oil, gas and mining contributed more than half of the GDP of oil-rich countries. As of 2014, the share of oil and gas in their GDP has reduced slightly but remains the dominant sector. The share of manufacturing in the GDP of Arab countries was only 7.1% in 1990, and it has improved slightly to 9% in 2014. The share

¹ For a quantitative formulation of the nexus, see Sarangi 2015.

of services has seen an increase during the period, whereas agriculture's share has remained negligible in the region throughout. However, within the services sector 'other services', which tend to be low value-added informal jobs, continue to have a larger share than high value-added services.

The economic structure of non oil-rich countries is more diversified than that of oil-rich countries (figure 2B), but even non oil-rich Arab countries have a low share of manufacturing in GDP. Of the six countries characterized by low volatility and sustained growth (as mentioned above), only Jordan, Oman and Tunisia implemented noticeable structural transformations.

Figure 2. Economic structure of Arab oil-rich countries



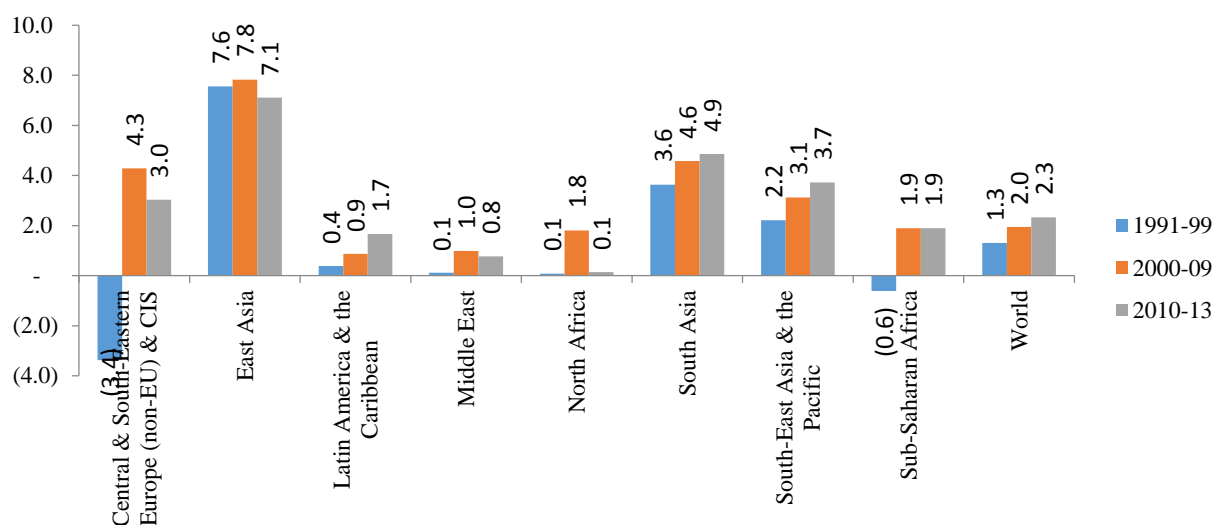
Source: UNSD, 2017.

As argued by Von Arnim et al. (2010), these results reflect a regional structural transformation pattern that contrasts sharply with that of other developing regions. Owing to the lack of structural transformation, productivity gains in the Arab region have been among the slowest in the world. Furthermore, Arab countries continue to heavily rely on the production of primary/ resource-based products or low-tech labor-intensive commodities.

Low productivity growth

During 1991-2013, productivity in Arab countries, measured by the ratio of GDP to labour, registered the lowest growth rate in the world including Sub-Saharan Africa, (Figure 3). All oil-exporting countries (UAE, Saudi Arabia, Qatar, Libya and Algeria) except for Kuwait recorded negative rates of overall productivity over the period. In addition to these countries, Iraq's concentration on oil revenues and its lack of political stability and security contributed to inducing a negative productivity growth. The limited productivity of workers in the Arab region is explained by the concentration of employment in sectors with limited profitability, such as in agriculture and other informal sectors. In Egypt, for instance, agriculture absorbs 28 per cent of total employment while making up about 15 per cent of GDP in 2013. Similarly, in Morocco, agriculture absorbs about 39 per cent of total employment while it accounts for 13 per cent of GDP in 2012.

Figure 3. Productivity growth rate

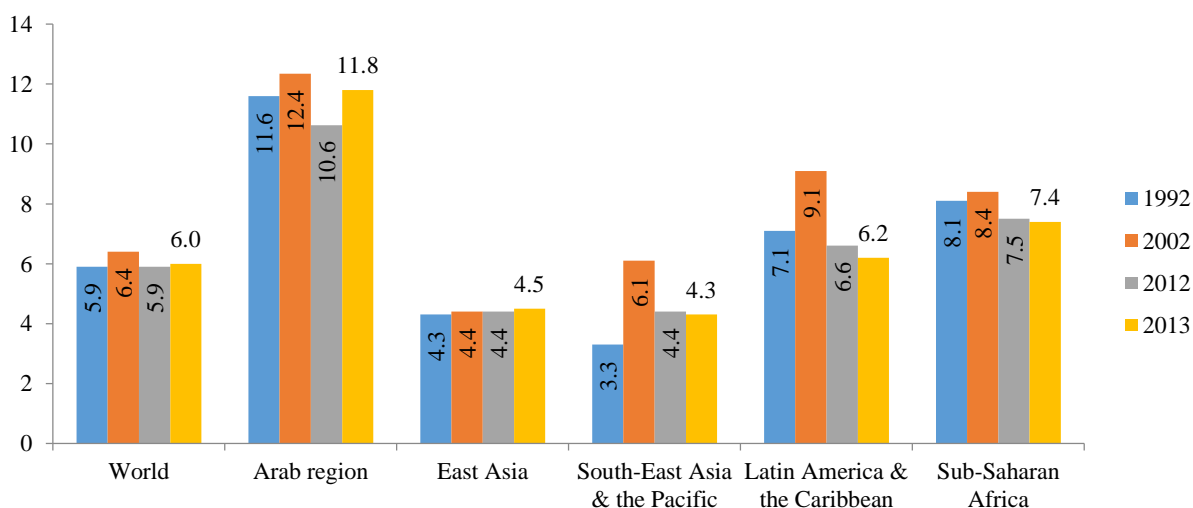


Source: ESCWA, 2013.

High unemployment rates

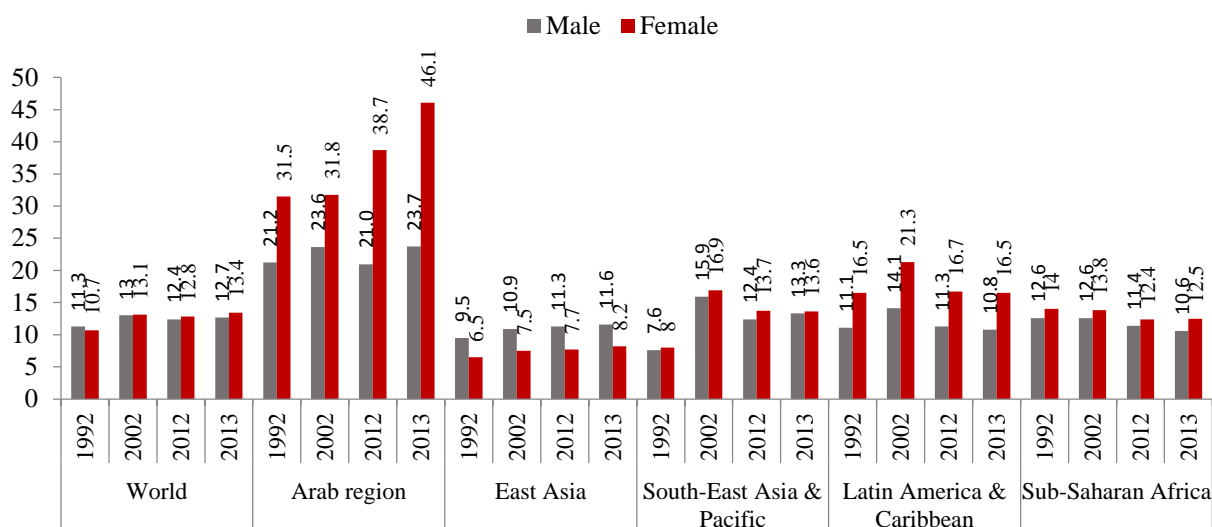
A high unemployment rate has always been the norm in the Arab region (figure 4). Among the causes of high unemployment in the region, increasing population growth and weak labour demand from the formal private sector are important drivers. As several parts of the region are affected by crises, unemployment rate has gone up during 2012 and 2013 from 10.6 per cent to 11.8 per cent. Further, youth unemployment rate is much higher than adult unemployment rate. As compared to the world average of 13 per cent in 2013, the youth unemployment rate in the Arab region stood at 29 per cent (ILO 2014). Youth female unemployment stood at 46.1 per cent as against youth male unemployment at 23.7 per cent (figure 5). The trend also shows that youth unemployment rate has increased in 2013 as compared to 2012. In general, high youth employment rates reflect high birth rates, a youth bulge and excessively rigid labour markets in some countries.

Figure 4. Unemployment rate (%) across regions



Source: ILO (2014).

Figure 5. Youth Female and male unemployment rate (%) across regions



Source: ILO (2014).

Youth face a particularly high burden of unemployment in the Arab world. In many Arab countries, the better educated youth are more likely to be unemployed than their less skilled counterparts.² In recent years, over 30 per cent of qualified young people were unemployed in the Arab region, representing over 40 per cent of the total unemployment rate.³ In Tunisia, 33.6 per cent of those with university degrees were unemployed. Unemployment in the Arab region is persistent in both low and high income households.⁴ This correlates with the high unemployment rates of more educated workers who predominantly come from better off families, lending further support to the idea that Arab economies fail to generate decent jobs for the population as a whole.

The gender component to youth unemployment warrants more concern. From 1992 to 2013, the female youth unemployment rate of the Arab region increased from 31.5 per cent to 46.1 per cent. The female youth unemployment rate is considerably higher than the male youth unemployment rate, although in many Arab countries women represent the majority of skilled university graduates. It may be noted that female labour force participation has seen an increasing trend during the last two decades although the rate is still very low as compared to the World average. But high unemployment rate of the female youth shows that the labour market has been unresponsive to higher participation of females seeking jobs.

Lack of decent employment opportunities

The region's employment growth was the highest in the world at 3.3 per cent a year on average between 1998 and 2009, compared to an annual growth of 1 per cent in East Asia and developed countries and just over 2 per cent in Latin America and South Asia. But the jobs that were created were largely in the low value-added sectors that are typically associated with informal sector activities.⁵ The sectoral employment data in four selected more diversified economies in the region indicates that manufacturing employment share is low and it has remained stagnant or declined in three out of the four countries (Figure 6). Agriculture still constitutes more than one third of employment in Egypt and Morocco and a little less than one fifth of employment in

² ITCEQ 2013.

³ ILO, 2014.

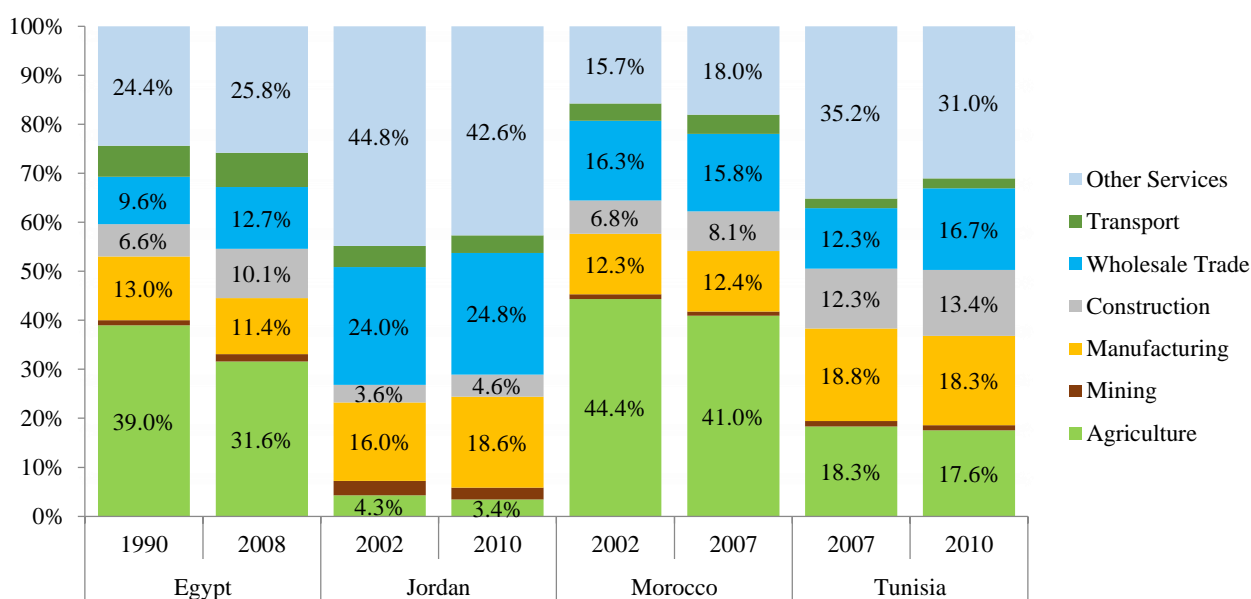
⁴ Tzannatos, 2011.

⁵ ILO and UNDP, 2013.

Tunisia, although its share has slightly declined over the years. During the same period, employment share in wholesale and retail trade has increased in Tunisia and Egypt, but not so in Jordan and Morocco. Share of construction sector employment increased in all the four countries, and the share of ‘other services’ remained high in Egypt, Jordan and Tunisia, since the 1990s.

For the youth among the middle class households, the non-agricultural sector is the main source of occupation, but a significant number of them are absorbed in “other services” (figure 7). For example, 35.5 per cent of youth occupations in Egypt in 2011 were in “other services”, 22.6 per cent in Syria in 2007, 58.2 per cent in Jordan in 2010 and 30.7 per cent in Tunisia in 2010. The structure of economies across countries explains the diversity of youth occupation sectoral profiles, which implies that countries with higher diversity in economic structure have a higher share of non-agricultural jobs, compared to those with relatively greater reliance on agriculture.

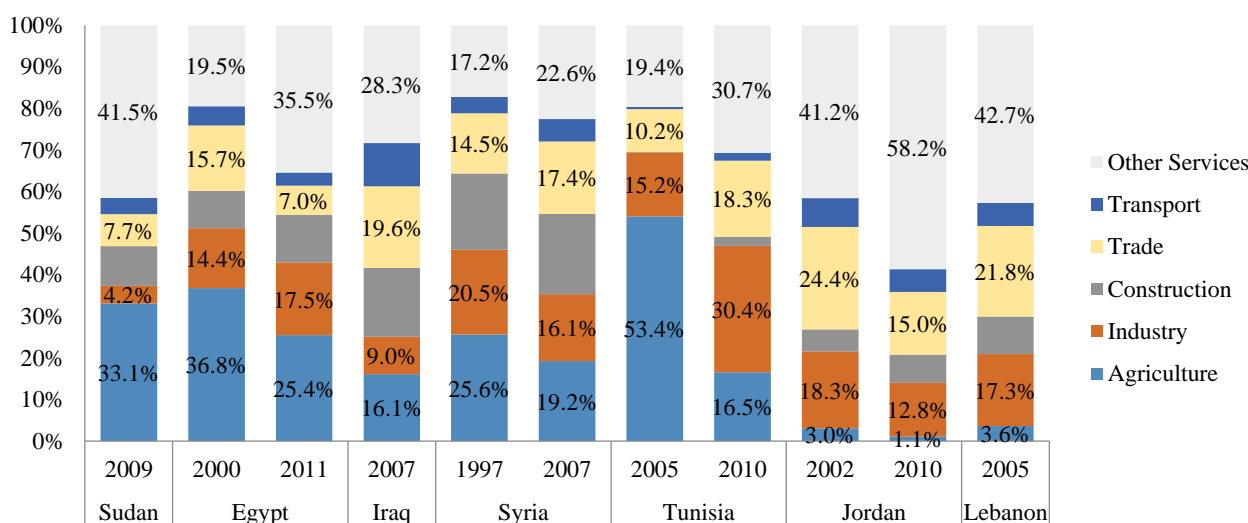
Figure 6. Employment shares (sectoral) in the four selected more diversified economies



Source: Sarangi 2015, based on data from ILO.

Between 2000 and 2011, there was a major shift from agricultural to non-agricultural occupations among young people, a trend that is distinctly noticeable across Egypt, Jordan, the Syrian Arab Republic and Tunisia (figure 7). The share of industrial jobs increased in some countries, such as in Egypt and Tunisia, although they are at low levels, while trade and transport sector occupations increased in the Syrian Arab Republic but not in Jordan. Importantly, construction jobs and “other services” that are mostly low value-added in nature, increased in all the four countries. This shift from agricultural to non-agricultural occupations could be the result of education expansion in the region, especially higher education. The greater diversification of occupations in Tunisia can be attributed to its successful shift from an agricultural to a non-agricultural economy in the post-reform era that began in the 1990s. However, a lack of industrial development and modern high value-added service sector development in most Arab countries has increased service sector jobs, mostly in the “other services” category that tend to be informal in nature.

Figure 7. Distribution of middle class youth employment across economic sectors



Source: ESCWA (2014a).

Recent crises affected growth and poverty in several Arab countries

Conflict and political instability have plagued several countries in the region, particularly since 2010. Iraq, Libya, Palestine, Somalia, Syria, Sudan, and Yemen are affected by conflict or crises situations, while Egypt, Jordan, Lebanon and Tunisia are negatively affected by influx of refugees due to conflict in neighboring countries as well as by unstable political outlooks and terrorism episodes. A recent study⁶ found that conflict-affected countries are more likely to witness a contraction in growth, higher inflation, large fiscal and current account deficits, loss of foreign exchange reserves, and a weakened financial system. Similarly, neighboring countries are expected to face negative consequences from conflicts next door.

In the Arab world, recent conflict has wiped out decades of economic and social development achievements in several countries. The latest ESCWA estimates suggest that conflicts in the region have led to a net loss of \$614 billion in economic activity, and to an aggregate fiscal deficit of \$243 billion during 2011-16.⁷ Conflicts also worsened other economic and social indicators, such as debt, unemployment, corruption and poverty. Over 2011-13, the size of the Arab middle class dropped from about 45% to nearly 37%.⁸

Since political instability started affecting the region in 2010, poverty has been on the rise. Over 1990-2010, extreme poverty, measured by the proportion of people whose income is less than PPP \$1.25 a day (in 2005 PPP), declined from 5.5% to 4.1%. In 2012, extreme poverty increased to 7.4%,⁹ and with the expansion of conflict over 2012-15 to several other areas, particularly Iraq, Libya, Palestine, Syria and Yemen, extreme poverty has increased further. Another notable feature of the region is that the international extreme poverty measure underestimates poverty in the Arab region. For instance, by shifting the poverty line from \$1.25 to

⁶ Sab, 2014.

⁷ ESCWA 2016.

⁸ ESCWA 2014.

⁹ UN and LAS 2013.

\$2.75 (2005 PPP) in 2010, which is closer approximation to national lower poverty lines in many countries in the region, the poverty rates for the region increase from 4% to nearly 40%.¹⁰

The Panel and its Themes

The session aims at discussing the following issues within the framework of the 2030 Agenda, focusing on the SDGs 1, 8 and 10 (but not limited to these):

- What are the missing links between economic growth, decent work and prosperity in the Arab region?
- How does the SDGs framework help to link economic growth, decent jobs and poverty reduction and make the nexus between these sustainable in the Arab region?
- What policies have been established toward making inclusive and productive labour market in the Arab region or your country? Can the Agenda 2030 give us some insights about how to reform the policies?
- What policies could affect the jobs for the youth in the Arab region or your country? If there was not that kind of policies, what policies would have a potential? In what sense they can contribute to structural transformation?
- What policies are in place to ensure labour rights and social protection in the Arab countries? What could be done differently to address the challenges?
- How can the countries tap the huge demographic dividend to their benefit? What are the obstacles to tapping the huge demographic dividend to their benefits?

¹⁰ Sarangi et al 2015. Abu-Ismail et al 2011.

References

- Abu-Ismaïl, K., G. Abou Taleb, and R. Ramadan (2011). Towards More Sensible Poverty Measurement. Background Paper for Arab Development Challenges Report 2011.
- ESCWA (Economic and Social Commission for Western Asia) (2016). Arab Development Outlook: Vision 2030. E/ESCWA/EDID/2015/3.
- _____ (2014) Arab Middle Class: Measurement and role in driving change. E/ESCWA/EDGD/2014/2.
- _____ (2013) Survey of Economic and Social Developments in the Arab Region, 2012-2013. E/ESCWA/EDGD/2013/3.
- ILO (International Labour Organization) (2014). Key Indicators of the Labour Market. Eighth edition.
- ILO (International Labor Organization) and UNDP (United Nations Development Programme) (2013). Rethinking Economic Growth: Towards Productive and Inclusive Arab Societies. Beirut: ILO.
- ILO-ROAS, ITC ILO and ESCWA (2016). Growth-employment-poverty relation discussed at joint ILO-ESCWA expert group meeting and training. Available from: <http://www.itcilo.org/en/community/news?newsid=growth-employment-poverty-relation-discussed-at-joint-ilo-escwa-expert-group-meeting-and-training>
- Islam, R. (2004). The nexus of economic growth, employment and poverty reduction: an empirical analysis. Discussion Paper, No. 14. Geneva: International Labour Office.
- ITCEQ (Institut Tunisien de la Compétitivité et des Études Quantitatives) (2013). Le chômage des jeunes: déterminants et caractéristiques. Available from www.ieq.nat.tn/upload/files/Publications%20recentes/Le%20chomage%20des%20jeunes-Determinants%20et%20caracteristiques.pdf.
- Sab, R. (2014). Economic impact of selected conflicts in the Middle East: what can we learn from the past? Working Paper, WP/14/100. Washington, D.C.: International Monetary Fund.
- Sarangi, Niranjana (2015) Economic growth, Employment and Poverty in Developing Economies: A focus on Arab region. ESCWA working paper E/ESCWA/OES/2015/WP.4.
- Sarangi, N., and others (2015). Towards better measurement of poverty and inequality in Arab countries: a proposed pan-Arab multipurpose survey. ESCWA Working Paper. E/ESCWA/SD/2014/WP.1.
- Tzannatos, Zafiris (2011). Labour demand and social dialogue: two binding constraints for creating decent employment and ensuring effective utilization of human resources in the Arab region? Paper presented at the Islamic Development Bank Meeting on Addressing Unemployment and Underemployment in the Islamic Development Bank Member Countries in the Post-Crisis World, Jeddah, 9-10 May.
- UN (United Nations) and LAS (League of Arab States) (2013). Arab Millennium Development Goals Report: Facing Challenges and Looking beyond 2015. E/ESCWA/EDGD/2013/1.
- UNSD (United Nations Statistics Division) (2017) National Accounts Main Aggregates Database. Available from <http://unstats.un.org/unsd/snaama/Introduction.asp>.
- Von Arnim, Rudiger and others (2011). Structural Retardation of Arab Economies: Symptoms and Sources. A Background Paper for the Arab Development Challenges Report 2011.