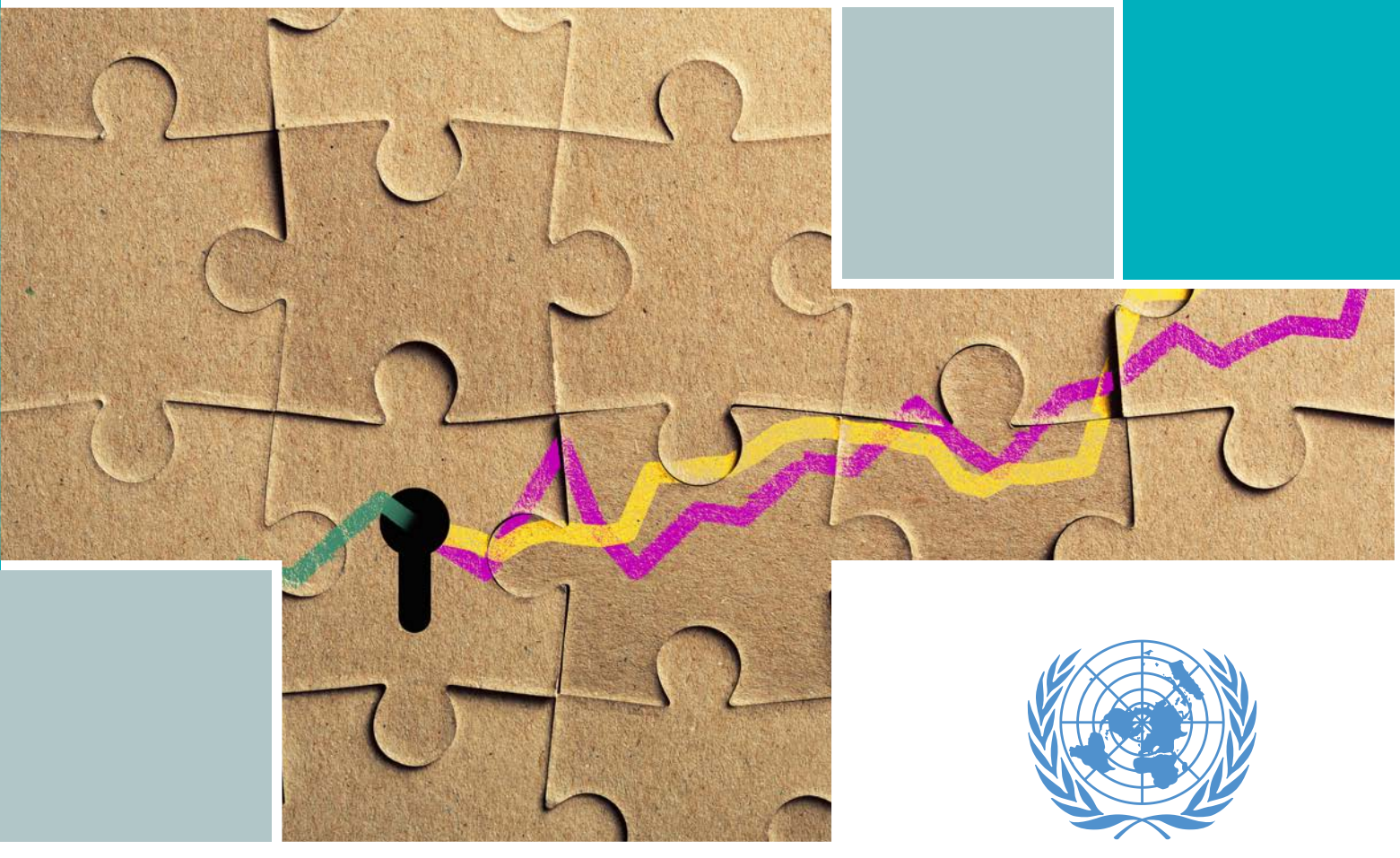
Survey of
Economic and Social Developments
in the Arab Region

2012-2013



ESCWA

United Nations Economic and Social Commission for Western Asia

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E/ESCWA/EDGD/2013/3

ISSN. 0255-5123

ISBN-13: 978-92-1-128363-1

e-ISBN. 978-92-1-056276-8

13-0141

UNITED NATIONS PUBLICATION

Sales No. E.13.II.L.6

Preface

It is a well-known fact that, despite sharing common social and cultural traits, Arab countries are characterized by economic and social diversity. While efforts for Arab regional integration are not new, the difference in natural resource endowments, particularly of crude oil and natural gas, has resulted in different development paths for countries of the Arab region. In terms of per-capita wealth, the Arab region includes both one of the highest and one of the lowest. Upon this structural onset, the economies in the Arab region exhibited further polarization. Major energy exporters, namely countries of the Gulf Cooperation Council (GCC), are on a stable recovery path which has been enabled by an expansionary fiscal and monetary policy mix. Meanwhile, net energy-importing countries in other subregions – Mashreq, Maghreb and Arab Least Developed Countries (LDCs) – are struggling to stabilize their economies amid worsening foreign exchange constraints. The polarization, partly owed to political instability and social unrest, further obstructed the flow of intraregional funds from the major energy exporters of the region. The lack of confidence in intraregional business transactions resulted in the segmentation of economies in the region and the loss of regional leverage, which amplified the seriousness of unemployment throughout the region, even in GCC countries.

At the same time, the socioeconomic transformation of the Arab region continues. While the attention of the international community remains on armed violence, political instability and social unrest in the Arab geopolitical context, the region witnessed a wide range of policy dialogues in 2012 and 2013, formally and informally, including critical reflection on past economic and social policies which had led to high unemployment and, in turn, have induced social unrest. Some Arab countries committed to policy shifts. However, in non-energy exporting countries in the subregions of Mashreq, Maghreb and Arab LDCs, political will alone could not overcome deteriorating macroeconomic realities. While GCC countries, which have sufficient fiscal space, could afford to embark on policy shifts, most of the countries in the other subregions were struggling. Foreign capital inflows into those countries have dwindled and the accumulation of foreign reserves has stagnated. In order to defend the value of their national currencies, most countries in these subregions were forced to tighten their fiscal and monetary policies. Expansionary pro-growth policies became increasingly unaffordable for them, unlike for GCC countries.

The immediate policy challenge for the Arab region is to create employment without relying on an expansionary fiscal and monetary policy mix. The *Survey of Economic and Social Developments in the Arab Region 2012-2013* finds that several options are available to tackle this policy challenge even in the highly uncertain situation surrounding the region's socioeconomic development. In parallel to specific policy proposals, the *Survey* emphasizes the importance of policy dialogue in the area of employment and of a more constructive regional integration framework on this subject. Macroeconomic policies should be traced for their effects and implications on employment not only in each country but also in the region, in order to improve their impact. Migration issues should be re-examined in terms of Arab regional integration, balancing each country's

skill deficits and surpluses with labour shortages and surpluses. Fiscal measures should be strategized such that a certain amount of fiscal revenues can be committed to employment creation and to the improvement of public employment services. A panoply of ideas can be explored even without discussing the total size of fiscal and monetary measures. What is still needed in the Arab region is an efficient and effective distribution initiative by the public sector that is supported by fair-market mechanisms. The revival of regional leverage along this line of reforms should be encouraged in order to halt polarization, thereby stabilizing the socioeconomic development paths of all Arab countries.

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Abbreviations and acronyms

ADFM	Association Démocratique des Femmes du Maroc
ALP	active labour policy
ARAB	Arab region
ASEAN	Association of Southeast Asian Nations.
ASPA	Asia-Pacific
BaU	business as usual
Bbl	barrel
BIS	Bank for International Settlements
CEE	Central and Eastern Europe
CGE	computable general equilibrium
CRB	Commodity Research Bureau
DGTPE	Direction Générale du Trésor et de la Politique Economique
DESA	United Nations Department of Economic and Social Affairs
ECB	European Central Bank
EIA	Energy Information Administration
EIBOR	Emirates Interbank Offered Rate
EU	European Union
FF	Federal Fund
GCC	Gulf Cooperation Council
GDP	gross domestic product
GTAP	Global Trade Analysis Project
ILO	International Labour Organization
IMF	International Monetary Fund
IPU	Inter-Parliamentary Union
JODI	Joint Organisations Data Initiative
JODIBOR	Jordanian Interbank Offered Rate
JPY	Japanese Yen
KSA	Kingdom of Saudi Arabia
LACA	Latin America and the Caribbean
LDC	least developed country
LES-CES	linear expenditure system-constant elasticity of substitution
LIBOR	London Interbank Offered Rate
MANFORME	Mise à Niveau de la Formation et de l'Emploi
MENA	Middle East and North Africa
MIP	Macroeconomic Imbalance Procedure
MIRAGE	Modeling International Relationships in Applied General Equilibrium
Mkt Cap	market capitalization
NAWA	Non-Arab West Asia (Israel, Iran and Turkey)
NOA	North America
OECD	Organisation for Economic Co-operation and Development
OMT	outright monetary transactions
OPEC	Organization of the Petroleum Exporting Countries
OSCE	Organization for Security and Cooperation in Europe

PES	public expenditure survey
PCBS	Palestinian Central Bureau of Statistics
PPP	purchasing power parity
PWP	public work programme
RMB	Renminbi
SME	small and medium enterprise
SSA	Sub-Saharan Africa
TB	treasure bond
TRJ	Thomson Reuters Jefferies
UAE	United Arab Emirates
UI	unemployment insurance
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNSD	United Nations Statistics Division
US	United States
USD	United States dollar
VAT	value added tax
WTI	West Texas Intermediate

Chapter I.

The Global Context and its Implications in the Arab Region

I. The Global Context and its Implications in the Arab Region

A. The global context

1. World economic developments in 2012-2013

Throughout 2012, the world economy continued to struggle to recover from the global financial crisis of 2008-2009. Central banks in developed economies took the stance of monetary easing to its maximum. A series of monetary policy coordination efforts of that line had successfully contained the contagion of liquidity crisis. Moreover, in 2008 and 2009, a series of fiscal stimulus policies at the global level had successfully averted the risk of an implosion in global demand growth and prevented the world economy from becoming trapped in a deflationary spiral. Nevertheless, despite those short-term successes, the struggle for a stable economic recovery became more apparent in 2012 as economic policy options for many governments were further exhausted. The quickly shrinking fiscal space forced many governments to maintain a stance of fiscal austerity. Meanwhile, the speed of the balance-sheet adjustments of the financial sector varied: while a smooth adjustment has been observed in the United States, the process has been slow in the Eurozone area. The remaining uncertainty over financial risks, which still could be contagious, precluded the strong investment-led growth recovery of the world economy at this stage. The developed economies, particularly in Europe, are still prone to a double-dip recession (table 1.1).

Table 1.1 Growth and inflation: World and regional averages, 2011-2014 *(Percentage)*

	Real GDP growth rate				Consumer inflation rate			
	2011	2012[a/]	2013[a/]	2014[a/]	2011	2012[b/]	2013[b/]	2014[b/]
Arab region	2.2	4.8	4.4	4.0	4.9	5.5	4.8	4.0
World	2.8	2.3	2.3	3.1				
Developed economies	1.4	1.2	1.0	2.0	2.6	1.9	1.5	1.8
United States	1.8	2.2	1.9	2.6	3.1	2.0	1.3	1.8
European Union (EU-27)	1.5	-0.3	-0.1	1.3	3.0	2.4	2.0	1.9
Japan	-0.6	2.0	1.3	1.6	-0.3	0.3	0.4	1.8
Economies in transition	4.5	3.2	3.1	3.7	9.5	6.6	7.4	5.8
Developing economies	5.8	4.6	5.0	5.4	6.4	5.4	5.2	5.0
Africa	1.0	5.1	4.6	5.1	8.0	8.1	6.6	5.9
East and South Asia	6.9	5.5	5.8	6.1	6.2	4.8	4.7	4.8
Latin America and the Caribbean	4.3	3.0	3.6	4.2	6.9	6.0	6.0	5.5

Sources: Figures for the Arab region are ESCWA calculations (see table 2.1 for details). Other figures are from United Nations, DESA, 2013a and 2013b.
Notes: a/ DESA forecasts as of May 2013.
b/ DESA forecasts as of December 2013.

Developing economies, including those in the Arab region, increased their presence in the world economy in 2012 by sustaining demand growth. However, it appeared that the economic performance of developing economies diverged according to their resource endowments. Global investment flows stagnated as investors remained cautious about risk. Consequently, developing economies with natural and financial resources were able to weather the uncertain situation of the world economy. The resilience on the part of developing economies sustained the world demand for natural resources and compensated for the moderately decreased demand of developed economies. However, developing economies without natural resource endowments have increasingly suffered from the rising foreign exchange constraint as the capital inflow became insufficient to finance current account deficits. International prices of food and energy stayed relatively stable in 2012, but some developing economies experienced high inflation rates owing to country-specific factors that were mainly related to foreign exchange constraints.

As for the immediate prospects of 2013, the sustainability of sovereign debt, both in developed and developing countries, casts a shadow of vulnerability on the world economy related to two issues of concern. First, the balance-sheet adjustments of the financial sector have not been completed in many economies. The asset side of their balance sheets suffered during the global financial crisis of 2008-2009, and the recovery of asset prices has been slow. Most remain below the pre-crisis level. The fiscal intervention of Governments was intended to directly and indirectly adjust the balance sheet of the financial sector; however, such intervention turned out to be unsustainable in several countries, particularly in southern Europe. The most recent case in point is the financial insolvency crisis in Cyprus for which the Government has been unable to sustain fiscal support. Stagnant asset prices and the slow adjustment of financial sector balance sheets indicate that the world economic situation is still fundamentally fragile.

Table 1.2 **Unemployment rates: World and regional averages, 2010-2013** *(Percentage)*

	2010	2011	2012	2013*
Middle East	11.2	11.1	11.1	11.1
North Africa	8.9	10.0	10.3	10.3
World	6.0	5.9	5.9	6.0
Developed economies and European Union	8.8	8.4	8.6	8.7
Central and Eastern Europe (non-EU) and Commonwealth of Independent States	9.4	8.7	8.2	8.2
East Asia	4.2	4.3	4.4	4.5
South-East Asia and the Pacific	4.7	4.4	4.4	4.5
South Asia	3.9	3.8	3.8	3.9
Latin America and the Caribbean	6.8	6.5	6.6	6.7
Sub-Saharan Africa	7.6	7.6	7.5	7.5

Source: ILO, 2013a, table P1.
Note: * Preliminary estimates.

Secondly, with the exception of those countries with natural resources, Governments maintained a stance of fiscal austerity in the fiscal years 2012-2013, and it is expected that more central banks shift to a tighter monetary stance in 2013. Fiscal prudence and the rising level of expected inflation have been offered as justifications for the general trend of tightening the policy mix. However, policy tightening may negatively affect ongoing balance-sheet adjustments in the financial sector in most developed economies.

The fragility of the world economic recovery was also reflected in employment creation, which remained weak globally (table 1.2). Issues related to youth unemployment became major economic and social policy concerns, not only in developing countries but increasingly also in developed countries. Furthermore, weak employment creation in developed countries resulted in multiple negative effects on employment opportunities in developing economies. These economies often suffer from chronic high unemployment, and jobseekers had fewer options for migration to cope with poor employment prospects in their home countries. The employment situation has crucial financial implications for developing economies that increasingly rely on worker remittances to finance current account deficits.

The economy of the United States has been on the track of economic recovery. While the recovery was initially sustained by external demands, clearer signs of a domestic demand-driven recovery emerged in 2012. The United States (US) Federal Reserve has maintained the level of the target range of 0 to 0.25 per cent of Federal Fund rate since December 2008; and US Treasury bonds yields were stable in both short and long terms (figure 1.1A). Moreover, the stable TED spread implied a steady funding condition for financial institutions (figure 1.1B).[1] An improvement in business sentiments and consumer confidence was observed, which was reflected in the performance of stock markets up until early 2013. However, the slow recovery in labour markets and weak property asset value, which stayed well under the pre-2008 level, rules out a possibility of strong recovery in 2013.

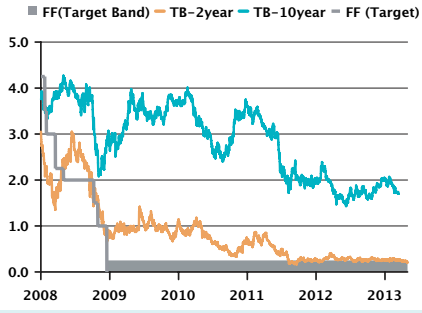
Issues related to youth unemployment became major economic and social policy concerns

The economies of the European Union (EU-27) are in a state of recession or of extremely weak economic growth. The issue of sovereign debts reorganization has intensified, which was exemplified by the case of Cyprus. In addition to the existing mechanism of European Financial Stability Facility and European Stability Mechanism, the European Central Bank (ECB) introduced the Outright Monetary Transactions (OMT) programme in support of sovereign debts reorganization. Meanwhile, the European Commission strengthened its macroeconomic surveillance mechanism over its member countries through the Macroeconomic Imbalance Procedure (MIP). While the first MIP of February 2012 did not identify any of the member countries with excessive macroeconomic imbalances, the second MIP of November 2012 found excessive imbalances in Spain and Slovenia.[2] ECB lowered its key policy interest rate by 25 basis points each in December 2012 and May 2013 (figure 1.1C).

Despite its structural weakness, the announcement by the Government of Japan to introduce reflationary monetary policy in late 2012 resulted in a rapid

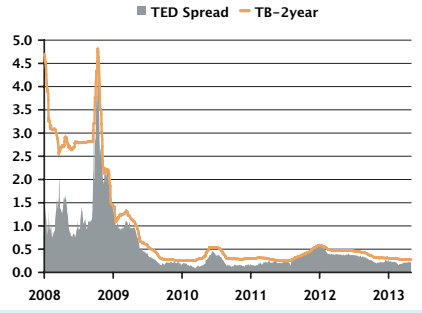
Figure 1.1 **Interest rates: United States dollar and euro, 2008-2013**

A. United States dollar
(Percentage per annum)



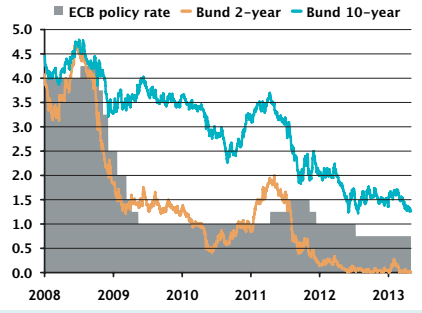
Source: http://www.federalreserve.gov.

B. United States dollar 3-month LIBOR and TED Spread *(Percentage per annum)*



Source: http://www.federalreserve.gov; http://www.bbalibor.com.

C. Euro
(Percentage per annum)



Source: http://www.bundesbank.de.

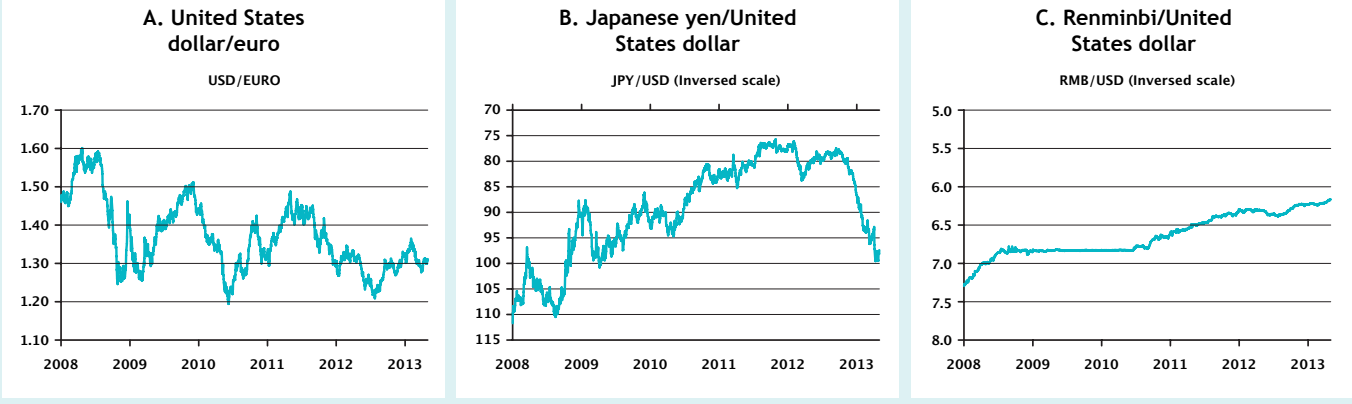
depreciation of the Japanese yen (figure 1.2B). Corporate earnings, particularly of exporting manufacturers, have improved together with business sentiments in Japan. While the economic growth of China inched down in 2012, it is expected to remain high. Pro-growth policy continued with a guided gradual appreciation of the renminbi against the United States dollar (figure 1.2C) in parallel with the liberalization of the national currency transactions in international financial markets. As East and South-East Asia consolidated its position as a global manufacturing centre, it is expected to witness the fastest growth compared to other regions (table 1.1). The robust recovery in Africa is also noticeable despite the varied growth patterns among countries. Several countries in Africa have emerged out of a commodity-centred economy with a moderate diversification into information technology and the service sector.

In sum, the main challenges that the world economy is facing consist of the following: (a) to adjust balance sheets smoothly in parallel with the recovery of asset prices at the global level; (b) to revive the financial sector through an appropriate growth-encouraging macro policy mix; and (c) to create sufficient employment, both in the developed and developing economies, which will be crucial for a solid economic recovery.

2. *Implications for the Arab region*

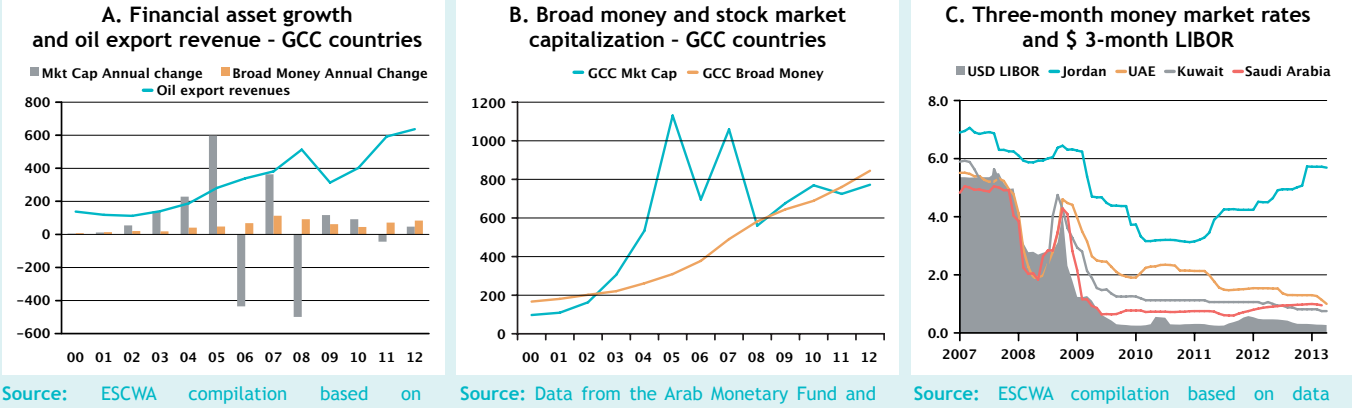
The main economic linkage between the Arab region and other regions remains the energy exports of the former.[3] Despite region-wide policy efforts, the Arab region has yet to diversify from the influence of the oil sector. Nevertheless, the channels of influence have become more complicated. The strong correlation between oil export revenues and growth in financial assets in GCC countries have broken down since 2006 (figure 1.3A). The stock market performance has not recovered as much as the record-high oil export revenues; rather it has traced the value of broad money stock for the past three years (figure 1.3B). This may owe to the continuing balance-sheet adjustments of the region's finance and real estate sectors, the concentration of funds in the narrower scope of regional financial investments, and capital outflows abroad through sovereign wealth funds. However, the trend of delinkage between

Figure 1.2 Foreign exchange rates of major currencies, 2008-2013



Source: http://www.federalreserve.gov.
Abbreviations: USD, United States dollar; JPY, Japanese yen; RMB, Renminbi

Figure 1.3 Oil-financial markets nexus



Source: ESCWA compilation based on Arab Monetary Fund data for stock market capitalization, and national sources for oil export revenues.
Abbreviations: Mkt Cap, Market Capitalization.

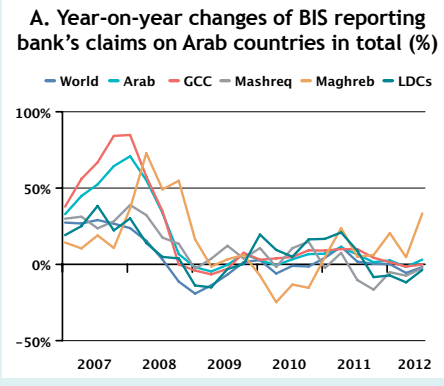
Source: Data from the Arab Monetary Fund and national sources.
Abbreviations: Mkt Cap, Market Capitalization.

Source: ESCWA compilation based on data from British Bankers Association (USD LIBOR), Association of Banks in Jordan, Central Bank of the United Arab Emirates, Central Bank of Kuwait and Saudi Arabian Monetary Agency.

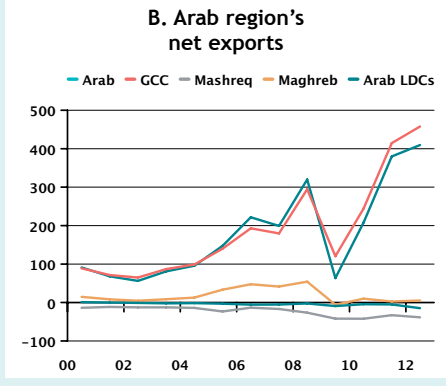
the value flow of oil exports and market-valued wealth suggests a challenge for economic diversification in the region, particularly of GCC countries.

Figure 1.3C shows the three-month interbank offered rates of the United States dollar and selected currencies of the region, namely Jordan, Kuwait, Saudi Arabia and United Arab Emirates. Due to the foreign exchange regime of pegging national currencies to the dollar (or near-pegging in the case of Kuwait), those countries in theory trace the monetary policy of the United States (figure 1.1A) and money market rates also trace dollar LIBOR (London Interbank Offered Rate). The spread between the United States dollar LIBOR and those rates of Kuwait, Saudi Arabia and the United Arab Emirates stayed positive, thereby reflecting a tighter liquidity condition in the region compared to the United States. While the rates of GCC countries converged around 1.0 percentage

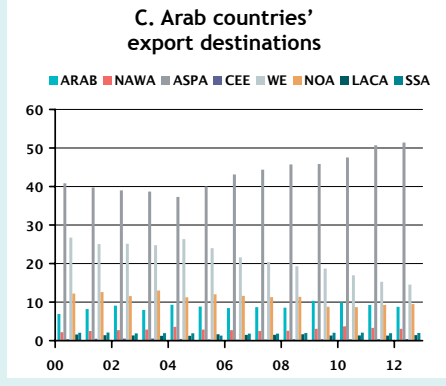
Figure 1.4 The Arab region in global financial and trade flows



Source: Bank for International Settlement data.

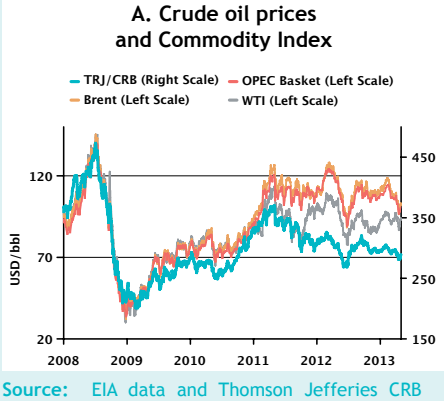


Source: IMF, Directions of Trade Statistics database.

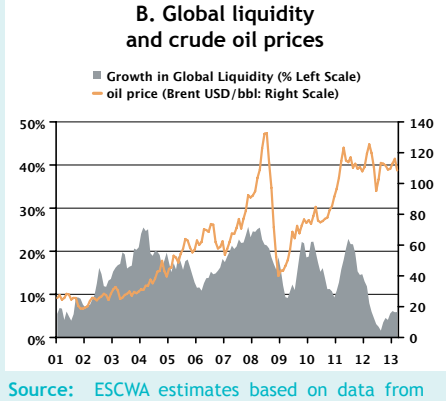


Source: IMF, Directions of Trade Statistics database.

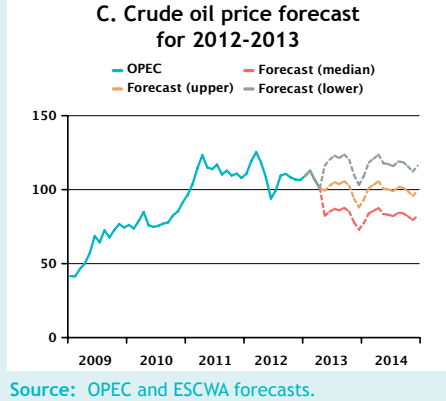
Figure 1.5 Oil prices



Source: EIA data and Thomson Jefferies CRB Index as updated in Bloomberg, available from http://www.bloomberg.com/quote/CRY:IND.



Source: ESCWA estimates based on data from EIA, Federal Reserve Bank of St. Louis and IMF, International Financial Statistics.



Source: OPEC and ESCWA forecasts.

point by early 2013, Jordan's three-month JODIBOR (Jordanian Interbank Offered Rate) has been rising since 2011. The spread between the three-month EIBOR (Emirates Interbank Offered Rate) in the United Arab Emirates and JODIBOR stood at 140 basis points in 2007, which was widened to 460 basis points in April 2013. As figure 1.4A indicates, while the state of subdued capital inflow to the Arab region remained, the flow of funds was severely subdued within the region to give rise to the considerable difference in the funding cost between Jordan and GCC countries. The tighter funding situation is similar in other non-GCC countries as the foreign exchange constraint became increasingly binding.

Total net exports of Arab economies were an estimated $410 billion in 2012, which represented an increase of 7.8 per cent from the previous year (figure 1.4B). In terms of net exports, GCC countries and Maghreb were net exporters while Mashreq and Arab LDCs remained net importers. As to the export destinations of Arab economies (figure 1.4C), an estimated 51.4 per cent of exports were destined for the Asia-Pacific region in

Table 1.3 **Crude oil price estimation and forecast**
(OPEC Reference Basket: United States dollar per barrel)

				Forecast annual average for 2013		
	Minimum	Maximum	Annual average	Lower	Median	Higher
2010	66.84	90.73	77.45			
2011	89.81	120.91	107.46			
2012	88.74	124.64	109.45			
2013				91.1	102.5	113.9
2014				82.9	100.0	117.0

Source: OPEC data for 2010-2012. Figures for 2013 are forecasts as of June 2013.

2012. This share of the Asia-Pacific region as an export destination has been increasing since 2003, while the share of Western Europe has been in decline. The majority of purchase of the Asia-Pacific economies remained energy-related items. The Asia-Pacific region is the largest export destination for GCC countries and other exporters of natural resources in the Arab LDCs, namely Mauritania, the Sudan and Yemen. In terms of gross exports, the portion of intraregional trade for 2012 was estimated at 8.8 per cent, it has been on a declining trend from its peak in 2010 when it marked 10.3 per cent.

B. Oil sector development

According to the Organization of the Petroleum Exporting Countries (OPEC), total world demand in 2012 averaged 88.8 million barrels per day while total supply of crude oil averaged 89.8 million barrels per day.[4] The demand for crude oil in 2012 is estimated to have increased by 0.8 million barrels per day over the previous year. The trend of declining demand from developed economies continued while demand from developing economies continued to increase. The greatest oil demand growth came from China. Since August 2012, OPEC member countries have gradually reduced crude oil production from the near-maximum level. Meanwhile, the crude production of the United States and Canada has shown a notable increase through the development of shale oil, tight oil and tar sands extractions. While geopolitical risks related to crude oil supply are expected to remain, the world crude oil supply is expected to have sufficient spare capacity for 2013. If needed, OPEC may moderately reduce the production quota in 2013 to balance supply and demand.

Crude oil prices experienced a rapid decline in the first half of 2012, owing mainly to concerns over world demand growth. However, crude oil prices recovered throughout the second half of the year to mark a historic high annual average (figure 1.5A). The average OPEC Reference Basket price was $109.45 per barrel in 2012. During the year, the price ranged between a high of $124.64 per barrel on 8 March and a low of $88.74 per barrel on 22 June (table 1.3). Speculations on commodity futures markets remained influential in both selling and buying. Financing for speculators remained available as a result of the prolonged easing of monetary policies in developed economies where nominal interbank interest rates

stayed at a historic low. However, as the level of growth in global liquidity is in a declining trend (figure 1.5B), the influence of speculators is expected to be mild over 2013.

For 2013, the prices of crude oil and fuel products are set to be increasingly dependent on the extent of potential glut in the global market. The weak recovery of the world economy continues to be the main concern. Moreover, refiners in North America have become more competitive, owing to the increasing production of shale oil, which has reduced the profits of refiners in Asia and Europe. Overcapacity in the oil tanker market is another factor that may lower the price of crude oil and fuel products. As several other classes of assets have begun to show signs of recovery, speculations on oil are expected to be relatively less influential. Having taken those factors into consideration, the OPEC Reference Basket price for 2013 is projected to range between $91.1 and $113.9 per barrel, and the mid-term trend of moderate decline is expected to continue in 2014 (figure 1.5C).

Table 1.4 **Oil production in the Arab region, 2009-2014**
(Thousands of barrels per day)

	2009	2010	2011	2012[a/]	2013[b/]	2014[b/]
Bahrain	33	32	43	46	45	45
Kuwait	2 261	2 312	2 659	2 978	2 850	2 700
Oman	812	864	886	918	940	980
Qatar	733	733	733	734	730	725
Saudi Arabia	8 184	8 165	9 311	9 765	8 900	8 750
United Arab Emirates	2 238	2 323	2 564	2 434	2 550	2 500
GCC countries	**14 261**	**14 429**	**16 196**	**16 875**	**16 015**	**15 700**
Egypt	600	671	668	672	670	675
Iraq	2 335	2 381	2 653	2 950	3 100	3 020
Syrian Arab Republic	400	404	334	182	..	..
Mashreq	**3 395**	**3 457**	**3 655**	**3 804**	**3 770**	**3 695**
Algeria	1 219	1 204	1 180	1 113	1 120	1 100
Libya	1 474	1 487	462	1 449	1 500	1 450
Morocco	5	5	5	5	5	5
Tunisia	83	79	39	67	70	70
Maghreb	**2 780**	**2 774**	**1 687**	**2 634**	**2 695**	**2 625**
Mauritania	11	8	8	5	5	5
Sudan	486	514	350	115	130	140
Yemen	286	260	164	157	165	170
Arab LDCs	**783**	**783**	**522**	**276**	**320**	**335**
Total Arab region	**21 220**	**21 444**	**22 060**	**23 589**	**22 800**	**22 355**

Source: JODI (Joint Organisations Data Initiative) Database with the exception of Mauritania, Morocco, the Sudan, the Syrian Arab Republic and Yemen. The source for those countries was the International Energy Statistics data of EIA.
Notes: a/ ESCWA estimates based on official and other sources as of June 2013.
b/ ESCWA projections as of June 2013.
Two dots (..) indicate that data are not available or are not separately reported.

The total crude oil production of the Arab region was an estimated 23.6 million barrels per day on average in 2012, which was an increase from 22.1 million barrels per day in 2011 (table 1.4). Total production marked a record high, surpassing the level of 2008, but it is projected to decrease moderately in 2013 and 2014. The total crude oil production of GCC countries, the major energy exporters of the region, averaged at an estimated 16.8 million barrels per day in 2012, 4.2 per cent higher than in the previous year. Iraq continued to expand its production capacity, and crude oil production grew by 11 per cent to average 2.9 million barrels per day in 2012. The crude oil production of Libya saw a rapid recovery from a drastic production plunge in 2011. Transport difficulties related to the worsening security situations in the Sudan and the Syrian Arab Republic seriously reduced crude oil production and exports from those countries. Yemen managed to maintain the production level slightly lower than that of the previous year despite occasional disruptions of pipelines that transport crude oil.

Table 1.5 **Gross oil export revenues in the Arab region, 2009-2014**
(Billions of United States dollars)

	2009	2010	2011	2012[a/]	2013[b/]	2014[b/]
Bahrain	8.8	10.1	15.3	15.0	13.8	13.5
Kuwait	48.9	61.8	96.7	112.5	100.5	92.8
Oman	15.3	21.9	29.1	31.7	30.4	31.0
Qatar	17.4	25.8	33.8	34.4	32.0	31.0
Saudi Arabia	163.1	215.2	317.6	342.8	290.7	278.7
United Arab Emirates	59.6	66.8	99.6	100.8	99.2	94.8
GCC countries	**313.1**	**401.6**	**592.2**	**637.1**	**566.6**	**541.7**
Egypt	10.0	10.7	13.4	12.8	12.0	11.8
Iraq	39.0	51.5	79.5	89.8	88.7	84.2
Syrian Arab Republic	4.3	4.6	3.0	..	..	..
Mashreq	**53.3**	**66.7**	**95.9**	**102.6**	**100.7**	**96.0**
Algeria	27.4	34.2	46.2	43.5	41.0	39.3
Libya	36.3	47.8	17.0	52.0	50.6	47.6
Morocco	0.1	0.1	0.1	0.1	0.1	0.1
Tunisia	1.6	1.9	2.0	2.5	2.5	2.4
Maghreb	**65.4**	**84.0**	**65.3**	**98.2**	**94.1**	**89.4**
Mauritania	0.2	0.3	0.2	0.1	0.1	0.1
Sudan	7.1	9.7	7.3	0.3	2.0	3.0
Yemen	4.4	6.3	7.9	7.6	7.5	7.6
Arab LDCs	**11.8**	**16.3**	**15.4**	**8.1**	**9.7**	**10.7**
Total Arab region	**443.6**	**568.6**	**768.7**	**846.0**	**771.1**	**737.9**

Source: National sources (balance of payments statistics) with the exception of Libya.
Notes: a/ ESCWA estimates based on official and other sources as of June 2013.
b/ ESCWA projections as of June 2013.
Two dots (..) indicate that data are not available or are not separately reported.

The Arab region's gross oil export revenues are estimated to be another record high of $846 billion in 2012

The Arab region's gross oil export revenues in total are estimated to be another record high of $846 billion in 2012 (table 1.5). This total is expected to decline by 8.9 per cent to $771.1 billion in 2013, with the forecast median crude oil price (OPEC Reference Basket price) of $102.5 per barrel. The general trend of decline reflects the projected decrease in production and prices; even in those countries expected to increase their production, namely Algeria, Iraq, Libya and Oman, the forecast decline in price is set to outweigh the modest increase in production.

C. Concluding remarks

In the changing global economic picture, the Arab region's economic linkage to the Asia-Pacific region and Africa appeared to increase in importance. Despite concerns of possible slackening, the higher and stable growth of both regions is expected to continue. The Arab region's strategic location between the Asia-Pacific region and Africa thus constitutes a positive external factor. However, in total, it may not be sufficient for the subregions of Mashreq and Maghreb to cover the negative factor of extremely weak recovery prospects of European economies.

At the face of weak recovery of the global economy, the Arab region experienced a considerable level of revenue inflows from oil exports in 2012, following the trend of the previous year. Nevertheless, no sense of "oil boom" has been felt in the region. The significant oil-revenue flows did not increase the market-valued financial wealth. The growth in money stock was subdued even in major energy exporters among GCC countries. As opposed to the period 2003-2008, the inflow of foreign funds to the Arab region decreased. The funding cost in GCC countries was once cheaper than in the United States, but since 2008 it has become moderately more expensive. The oil revenue flows failed to activate cross-border economic activities and failed to materialize into a region-wide positive spillover. The polarization of Arab economies continued to be observed in 2012 in terms of funding cost divergence and lower intraregional trade.

The global employment crisis casts a deeper shadow on the employment situation in the Arab region, which already had the highest unemployment rates in the world before the crisis. Continuing high unemployment rates in Europe and North America made labour migration to those areas more difficult for the Arab population. In this global context, regional cooperation in the area of labour became even more important. The third chapter of this report discusses this issue in detail.

Chapter II.

Socioeconomic Trends and Developments in the Arab Region

II. Socioeconomic Trends and Developments in the Arab Region

A. Economic situation and prospects

1. Overview

The economies of the Arab region exhibited further polarization in their development paths in 2012. Major energy exporters in the region, namely GCC countries, are on a stable recovery path which was enabled by an expansionary fiscal and monetary policy mix. At the same time, net energy-importing countries in the region are struggling to stabilize their economies amid worsening foreign exchange constraints. The polarization, owed partly to political instability and social unrest, further obstructed the flow of intraregional funds from the major energy exporters of the region. The lack of confidence in intraregional business transactions resulted in the segmentation of economies in the region and the loss of regional leverage, which amplified the seriousness of unemployment throughout the region, even in GCC countries.

The real gross domestic product (GDP) growth in the Arab region was on average an estimated 4.8 per cent in 2012, compared to 2.2 per cent in 2011 (table 2.1). The recovery in Maghreb economies, particularly in Libya, along with consistent growth in GCC economies contributed to the improvement in the average growth rate. However, the polarization of the economies of the region deepened in 2012 and stemmed partly from political instability, social unrest and armed conflicts. Those factors increasingly obstructed the intraregional flow of funds from the major energy exporters of the region. While major energy-exporting countries in the region recorded another year of high export revenues, energy importers struggled to finance their current account deficits. The weak demand of European economies for non-energy exports from the region and hovering energy prices also contributed to the widening of the current account deficits of energy-importing countries in the region. High oil prices combined with the near-maximum output level led to another historic high in export revenues for major energy exporters in the region. However, while positive spillovers have been observed within the markets of GCC countries, other Arab subregions have not benefited from the current oil boom, thereby deepening the segmentation of the economies of the Arab region.

The average consumer price inflation rate of the Arab region is estimated at 5.5 per cent in 2012, compared to 4.9 per cent in 2011

The average consumer price inflation rate of the Arab region is estimated at 5.5 per cent in 2012, compared to 4.9 per cent in 2011 (table 2.1). Although international commodity prices of energy, metal and food items hovered at a higher level, no extreme price spikes were observed during 2012. While the pass-through from international commodity markets had less impact, the consumer price inflation rate of each country was determined by specific factors. Deflationary pressure remained on housing-related items in Bahrain, Qatar and the United Arab Emirates. Weak property rent and the oversupply of rental properties contributed to the trend, which became apparent after the global financial crisis of

Table 2.1 **Real GDP growth rate and consumer price inflation rate, 2010-2014**
(Annual percentage change)

	Real GDP growth rate					Consumer price inflation rate				
Country/Subregion	**2010**	**2011[a/]**	**2012[b/]**	**2013[c/]**	**2014[c/]**	**2010**	**2011[a/]**	**2012[b/]**	**2013[c/]**	**2014[c/]**
Bahrain	4.3	1.9	3.4	3.0	3.2	2.0	-0.4	2.8	3.2	3.2
Kuwait	-2.4	6.3	4.7	3.2	3.0	4.0	4.8	2.9	3.2	3.0
Oman	5.6	0.3	6.5	4.0	3.8	3.2	4.1	2.9	3.2	3.2
Qatar	16.6	13.5	6.2	5.2	4.9	-2.4	1.9	1.9	2.5	2.7
Saudi Arabia	5.1	7.1	6.8	5.5	4.7	3.8	3.7	2.9	3.0	2.8
United Arab Emirates	1.3	4.2	4.0	3.8	3.8	0.9	0.9	0.7	2.0	2.0
GCC countries	**4.6**	**6.6**	**5.7**	**4.7**	**4.3**	**2.6**	**2.9**	**2.2**	**2.7**	**2.6**
Egypt[d/]	5.1	1.9	2.2	3.2	3.2	11.3	10.1	7.2	11.0	9.5
Iraq	5.9	8.6	11.3	7.8	7.5	2.4	5.6	6.1	6.0	6.5
Jordan	2.3	2.6	2.7	2.9	3.4	5.0	4.4	4.8	5.0	5.4
Lebanon	7.0	1.5	1.2	1.8	2.1	4.0	4.9	6.6	5.2	4.5
Palestine	9.3	12.2	5.3	4.0	4.2	3.7	2.9	2.7	3.0	3.5
Syrian Arab Republic	3.4	-2.0	-31.4	-7.1	-9.0	4.4	4.7	36.5	12.0	7.5
Mashreq	**5.1**	**2.2**	**-1.7**	**2.6**	**2.6**	**7.7**	**7.6**	**11.4**	**9.3**	**7.8**
Algeria	3.3	2.9	2.8	2.9	3.2	3.9	4.5	8.6	4.8	4.0
Libya	4.2	-61.3	100.7	15.0	10.2	2.5	15.0	5.0	3.5	3.0
Morocco	3.7	5.0	2.8	4.9	5.2	1.0	0.9	1.3	1.8	2.6
Tunisia	3.2	-1.9	2.6	3.6	3.8	4.4	3.6	5.6	5.2	4.2
Maghreb	**3.6**	**-9.3**	**10.6**	**5.3**	**5.0**	**3.0**	**5.5**	**5.7**	**3.9**	**3.5**
Comoros	2.1	2.2	2.5	3.5	3.4	4.2	6.8	5.0	3.2	3.0
Djibouti	3.5	4.8	4.7	4.8	4.4	4.0	6.8	5.0	3.2	7.0
Mauritania	5.6	5.1	4.8	6.3	5.5	6.3	5.7	6.2	6.0	5.8
Somalia	..	..	..	..	..	..	..	..	..	..
Sudan	5.2	2.7	-7.0	2.5	1.5	13.0	18.1	35.1	22.0	12.0
Yemen	6.8	-15.3	-1.0	4.5	3.5	11.1	19.4	10.2	9.5	8.0
Arab LDCs	**5.5**	**-2.3**	**-4.6**	**3.2**	**2.3**	**11.6**	**17.2**	**24.6**	**16.5**	**10.0**
Total Arab region[e/]	**4.5**	**2.2**	**4.8**	**4.4**	**4.0**	**3.9**	**4.9**	**5.5**	**4.8**	**4.0**

Source: National sources and UNSD data for Algeria, the Comoros, Djibouti, Libya and Mauritania.
Notes: a/ Figures for 2011 are preliminary releases from national sources which are subject to revisions; the estimated figures for Lebanon, the Sudan, the Syrian Arab Republic and Yemen are as of March 2013.
b/ June 2013 estimations.
c/ June 2013 forecasts.
d/ For the GDP growth rate of Egypt, data are for the country's fiscal year which ends in the month of June.
e/ Figures for country groups are weighted averages, where weights for each year are based on GDP in 2005 constant prices.
Two dots (..) indicate that data are not available or are not separately reported.

2008-2009. By contrast, Saudi Arabia and Oman were under constant inflationary pressure, including for housing-related items, owing to the sustained growth of the real estate sector. Nevertheless, consumer price inflation averaged 2.2 per cent in GCC countries in 2012 and, with the exception of Morocco, other Arab countries experienced a higher consumer price inflation rate. Structural supply bottlenecks resulted in hovering consumer prices in the Mashreq and Maghreb subregions and in LDCs, and inflation accelerated in countries under foreign exchange constraint, namely, Egypt, the Sudan and the Syrian Arab Republic. While the upward shift of private sector wages in parallel with recent wage hikes in the public sector was observed in GCC countries, the shift is not expected to influence the inflation rate in those countries.

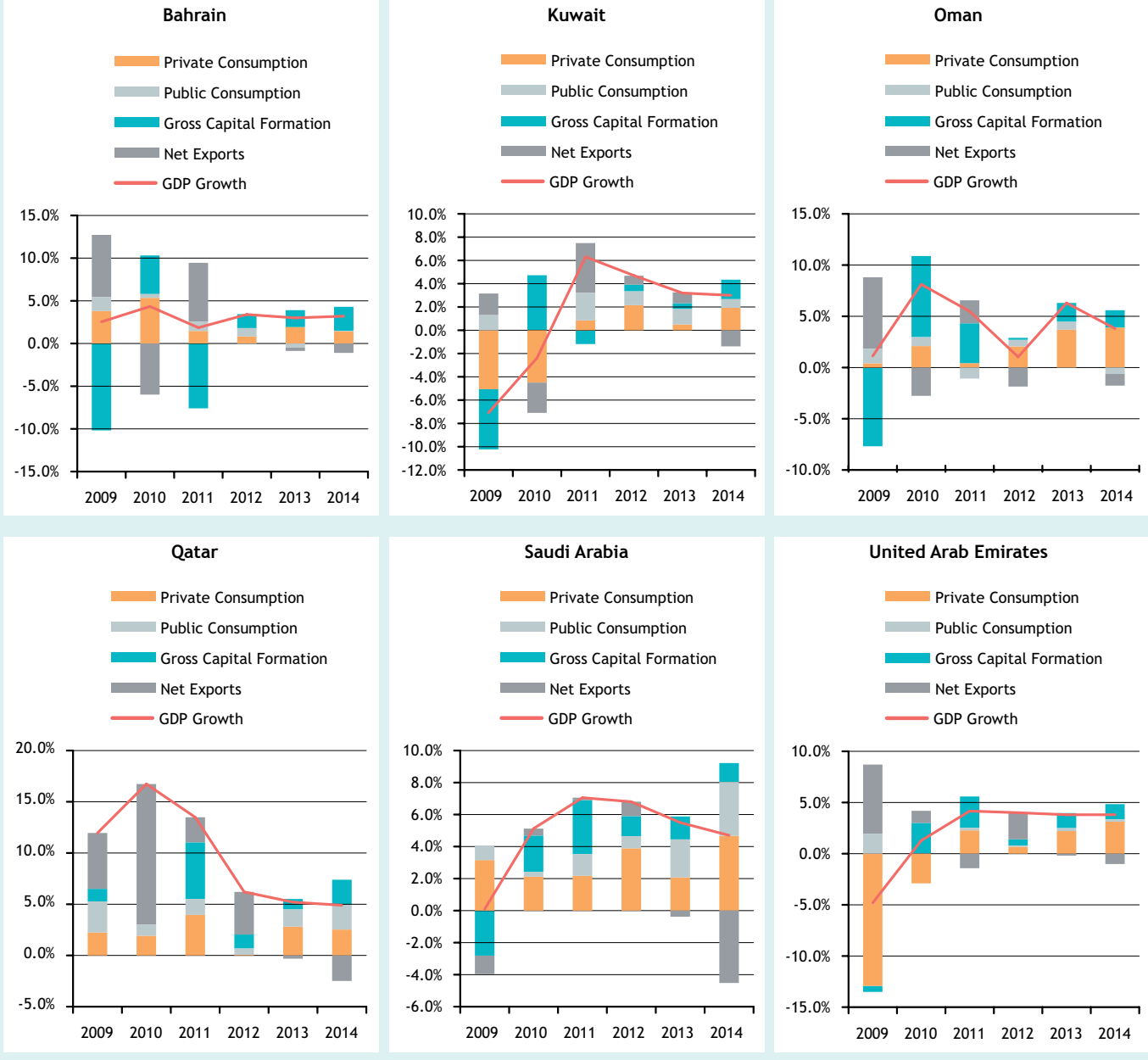
The average consumer price inflation rate of the Arab region is predicted to reach 4.8 per cent in 2013. The low-inflation regime of GCC countries is expected to continue. Food prices have increased since 2012, but the price increase is expected to remain moderate. Moreover, the price of housing-related items, including property rents, is projected to be depressed in Bahrain, Kuwait, Qatar and the United Arab Emirates. Although the exceptionally high inflation rates in 2012 in the Syrian Arab Republic, the Sudan and Yemen are expected to taper off in 2013, severe foreign exchange constraints are anticipated to raise the price level for those countries. Egypt is also expected to experience an acceleration of inflation, owing to the foreign exchange constraint and the devaluation of its national currency. In 2013, GCC countries could implement another round of wage hikes in the public sector, but the impact on general price level is expected to be limited. With the exception of a few occupation categories in GCC countries, private sector wages in the region are expected to stay depressed. Wage-push inflation is not likely to take place in 2013 in the region. Surplus fiscal and external accounts of GCC countries will maintain sufficient supply capacity for domestic demand growth. In other subregions, the private sector wage level is expected to be depressed throughout the year, indicating that wage-push inflation would stem only from public sector wages. Since 2012, while public sector wage hikes have been proposed in a few countries, most notably in Lebanon, the impact on projections of inflation remains uncertain.

Exchange rates in the Arab region stayed stable from 2012 to early 2013, with the exception of Egypt, the Sudan and the Syrian Arab Republic

Exchange rates in the Arab region stayed stable from 2012 to early 2013, with the exception of Egypt, the Sudan and the Syrian Arab Republic. Kuwait has continued to peg its national currency to the basket of foreign currencies, while other GCC countries have kept their national currencies pegged to the United States dollar. Djibouti, Jordan and Lebanon have also continued to peg their national currencies to the dollar. Central banks of Algeria, the Comoros, Iraq, Libya, Mauritania, Morocco, Tunisia and Yemen maintained the managed float regime of foreign exchange rates. For the Sudan and the Syrian Arab Republic, the rapid decline in the value of the national currency widened the spread between the official exchange rate and the exchange rate of parallel markets. Foreign currencies were rationed. Economic sanctions and other non-economic events contributed in large measure to the national currency depreciation in the Sudan and the Syrian Arab Republic, whereas the depreciation of the Egyptian pound was caused primarily by economic factors. In a space of three months beginning in December 2012, the Egyptian pound

depreciated by 8 per cent to the level of 6.8 pounds per dollar in March 2013. As of April 2011, the Egyptian pound had been pegged to the dollar as a nominal anchor for the Egyptian economy during unstable political and social transitions. Throughout 2010, the Egyptian pound gradually depreciated by 7 per cent from

Figure 2.1 Contribution to real GDP growth in GCC countries, 2009-2014



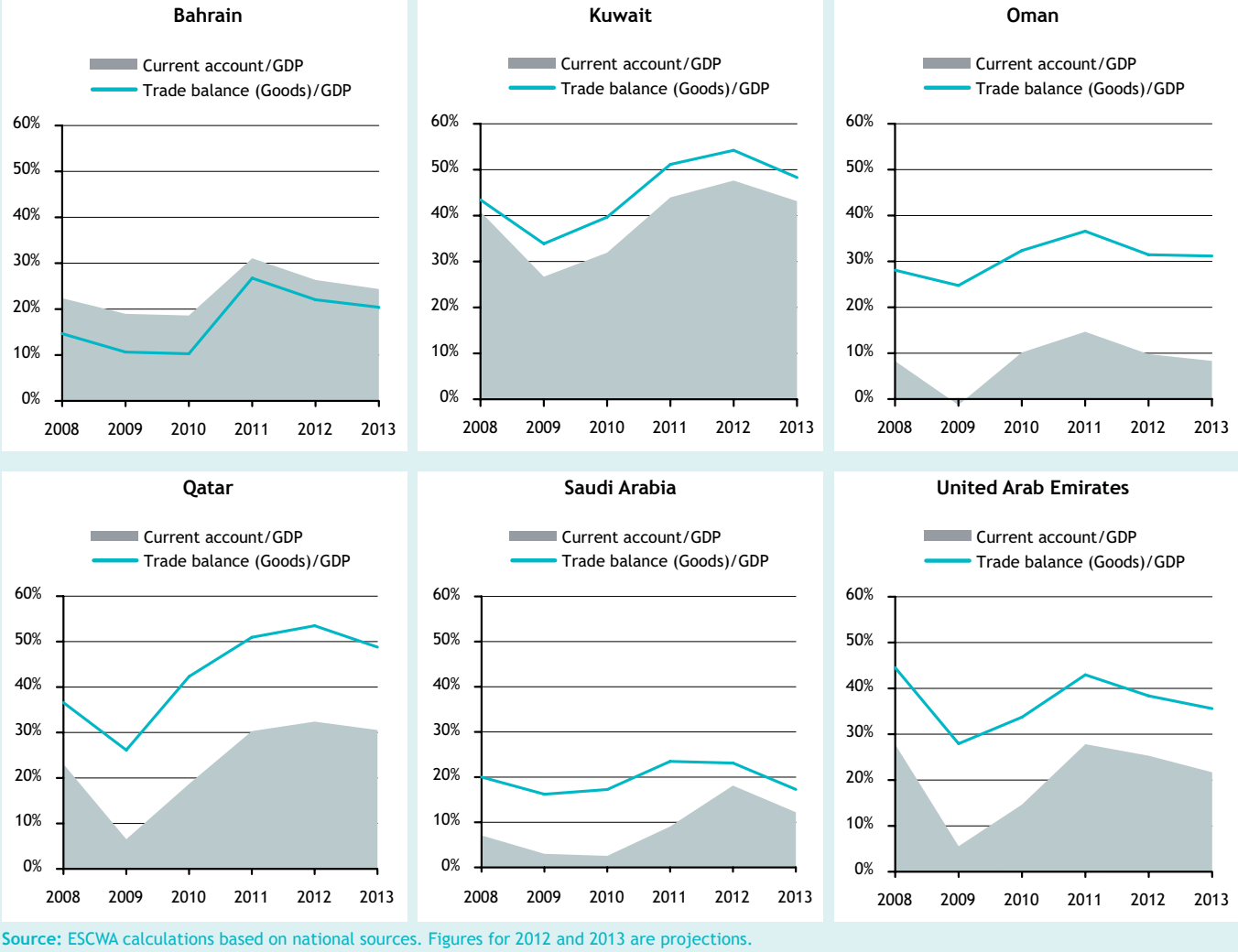
Source: ESCWA calculations based on UNSD data. Data for 2012 are estimates, while those for 2013 and 2014 are projections.
Note: The graphs show to what extent the final demand components (private consumption, public consumption, gross capital formation and net exports) contributed to GDP growth. They aim to display which components drive growth from demand, and to show to what extent foreign-exchange constraints affect the current pattern of growth.

5.4 to 5.8 pounds per dollar. The currency peg regime was effective in maintaining the level of domestic demand during the highly turbulent period. However, it resulted in the rapid dwindling of foreign reserves from $28 billion in April 2011 to around $15 billion in February 2012. Egypt was wary of resuming the gradual depreciation policy given the risk that currency devaluation could cause an immediate fiscal crisis by increasing food and energy subsidies, while only modestly enhancing the competitiveness of Egyptian exports. A gradual depreciation of the Egyptian pound is expected to continue in 2013, but the key to the orderly resolution of the present balance of payment crisis in Egypt rests on the prospects of fiscal reform.

2. *GCC countries*

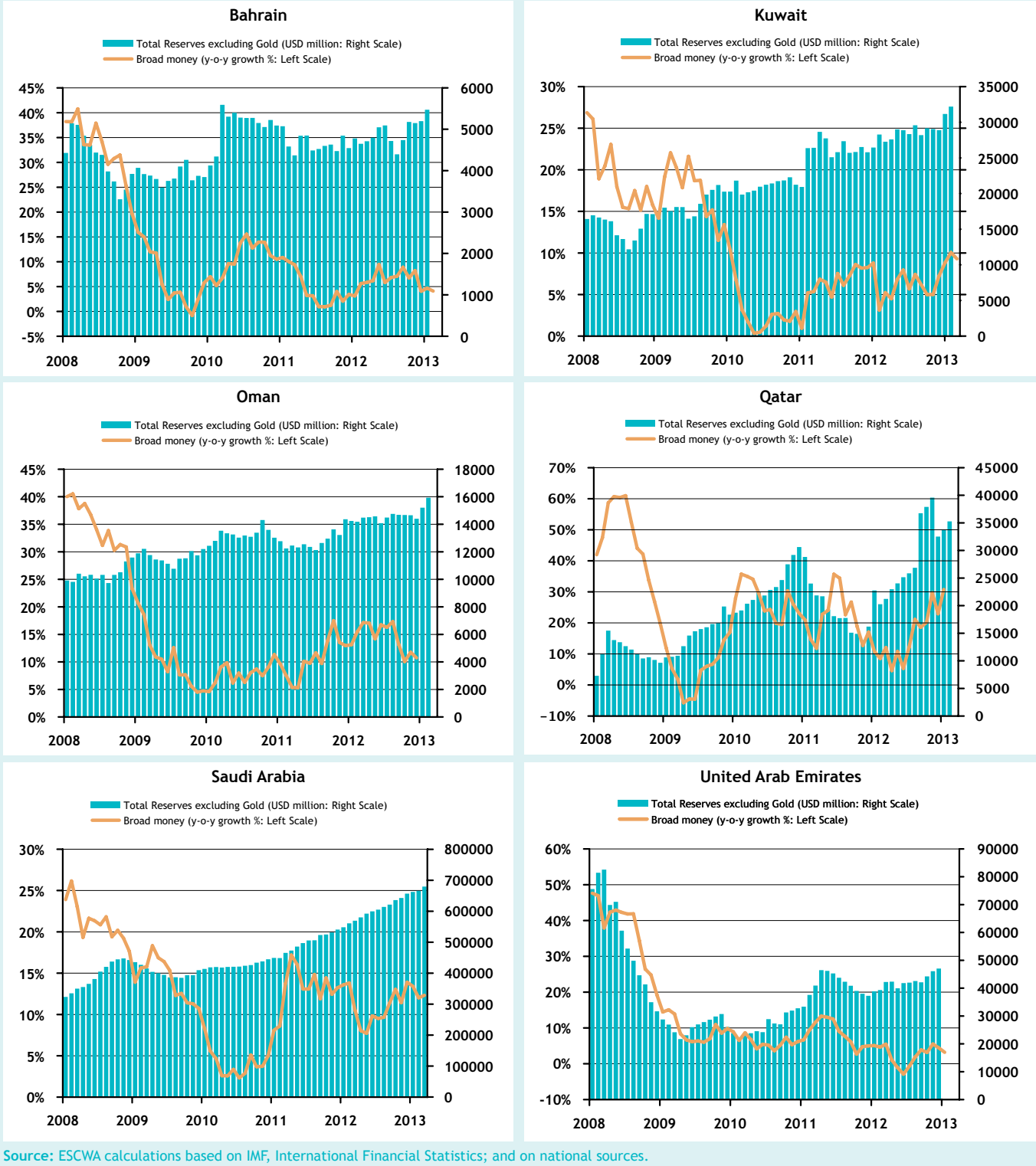
On average, GCC countries are estimated to experience GDP growth of 5.7 per cent in 2012, after registering 6.6 per cent growth in 2011. Despite the

Figure 2.2 Trade balance and current account balance in GCC countries, 2008-2013



Source: ESCWA calculations based on national sources. Figures for 2012 and 2013 are projections.

Figure 2.3 Monetary indicators in GCC countries, 2008-2013



Source: ESCWA calculations based on IMF, International Financial Statistics; and on national sources.
Abbreviations: y-o-y, year-on-year.

decelerating growth rate, GCC economies showed more robustness with consistent domestic demand growth. Everywhere but in Saudi Arabia, the most important concern that emerged from the global financial crisis of 2008-2009 was the possible implosion of domestic demand and debt deflation. Favourable external economic conditions, such as the recovery in energy prices and international coordination of monetary easing, favourably influenced the economic sentiment and confidence in GCC countries. The balance-sheet adjustment of the financial sector of GCC countries progressed smoothly despite the fact that prices of both financial and property assets have yet to recover to the pre-crisis level. Saudi Arabia led the economic recovery in that subregion: its economy continued to experience stable domestic demand-led growth, supported by an expansionary fiscal and monetary policy mix.

For 2013, stable economic growth is expected to continue in GCC countries, albeit with an average GDP growth rate that is likely to taper off, thereby reflecting the expected decline of energy export revenues. Both crude oil production and prices are expected to decline moderately. However, strong domestic demand growth is expected throughout GCC countries, with the recovery of the balance sheets of the financial sector. To diversify economies based on energy production, continuing efforts will include institutional reforms and targeted foreign direct investment, and will create further growth potential in the subregion. The average real GDP growth rate of the subregion is projected at 4.7 per cent for 2013. In general in GCC countries, the structural fragility of domestic demand is likely to be offset by active fiscal policies and projects implemented in the non-energy sector. In the case of Kuwait, however, projections indicate that domestic demand growth will remain relatively weak and non-energy sector growth will be slow. In 2013, the predicted growth rates are 3.0 per cent for Bahrain, 3.2 per cent for Kuwait, 4.0 per cent for Oman, 5.2 per cent for Qatar, 5.5 per cent for Saudi Arabia and 3.8 per cent for the United Arab Emirates.

The shift to a pattern of domestic demand-led growth is expected in all GCC countries to different extents in the forecasting period of 2013 and 2014 (figure 2.1). Despite the projected moderate decline in energy exports in 2013 and 2014 from the peak in 2011-2012 (figure 2.2), active investment activities with strong government support are forecast to set a floor for the growth in this subregion. Despite the record export revenues and associated growth in foreign reserves, the growth of broad money stock stayed moderate, compared to the level recorded in 2007-2008 (figure 2.3). This trait of moderate money stock growth implies the less-leveraged nature of the present pattern of economic growth in GCC countries, compared to 2007-2008, and gives resilience against future negative external shocks to this subregion.

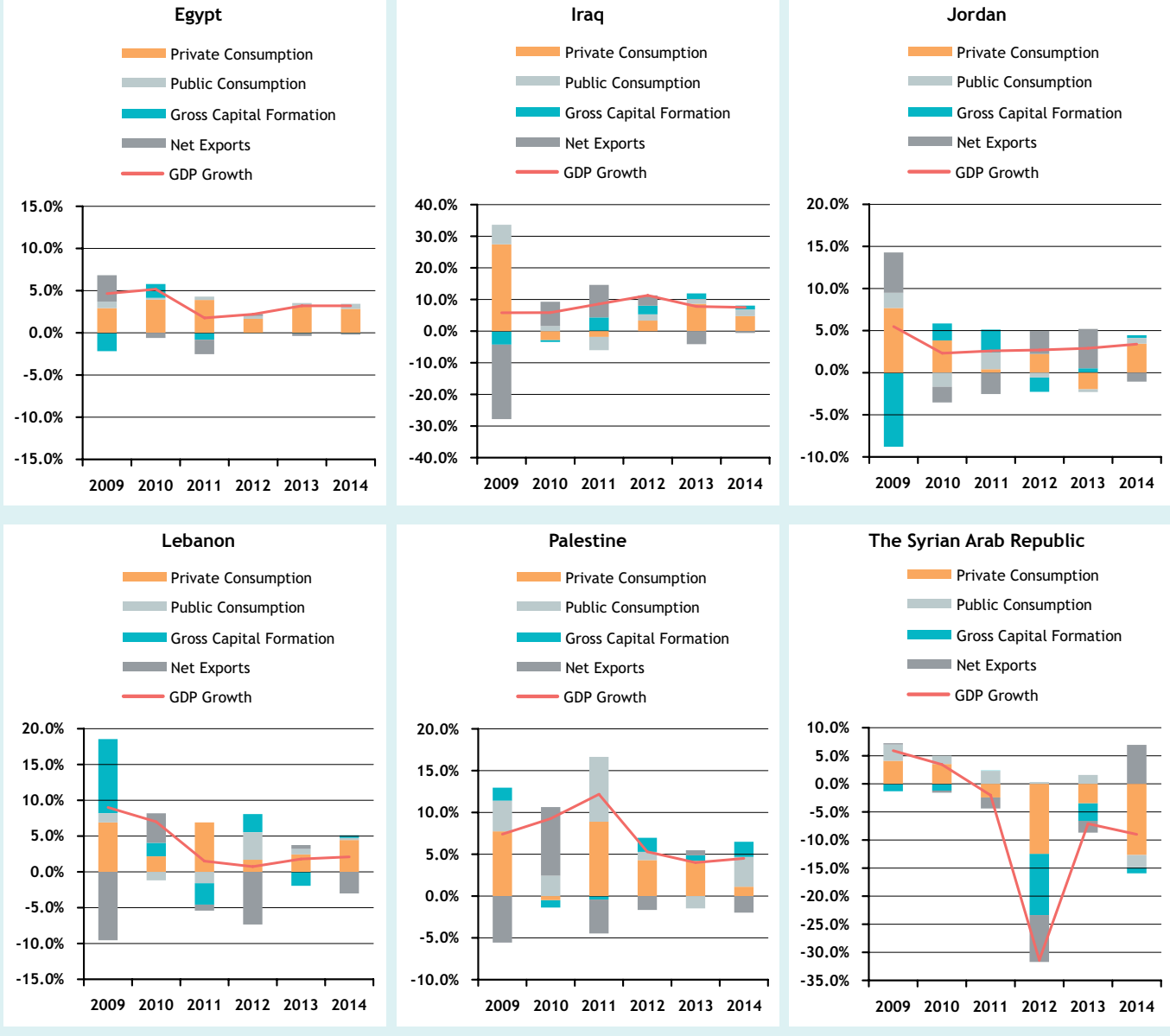
3. *Mashreq*

Economies in the Mashreq subregion are estimated to have contracted by 1.7 per cent in 2012

Economies in the Mashreq subregion are, on average, estimated to have contracted by 1.7 per cent in 2012, after registering 2.2 per cent growth in 2011. The devastation of the Syrian economy was the most significant factor in the economic contraction of that subregion. It was most affected by the political instability, social unrest and economic repercussions of the Syrian crisis. The slump in non-energy exports and the higher cost of energy

imports widened the current account deficits. Moreover, weakened capital inflows into the subregion from GCC countries and Europe made it difficult to finance external deficits. Tourism, which traditionally constitutes one of the main economic activities for the domestic demand growth of Mashreq economies, was substantially affected by various security warnings that deterred tourists from visiting the subregion. Construction activities, another pivotal source for

Figure 2.4 Contribution to real GDP growth in Mashreq countries, 2009-2014

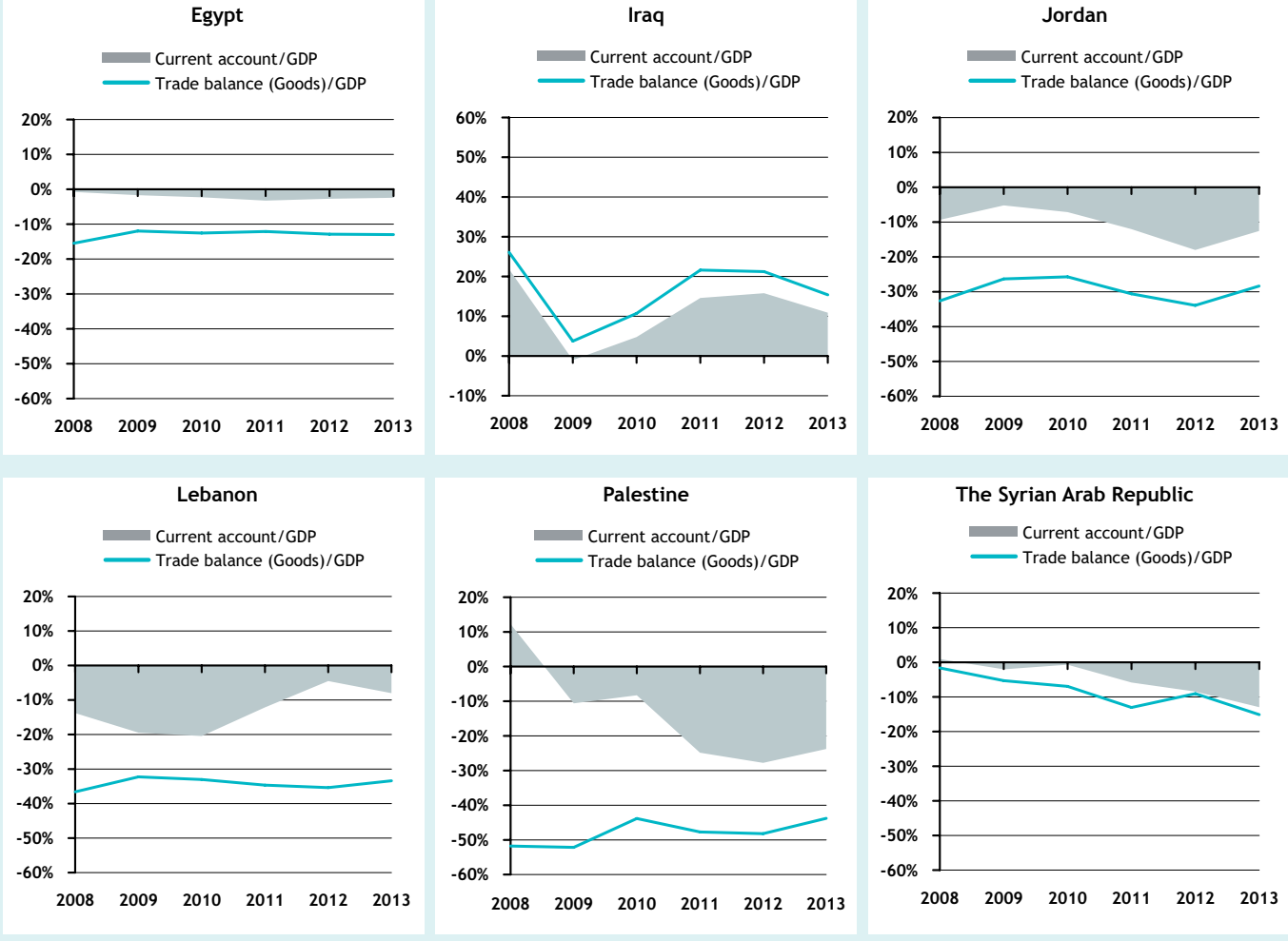


Source: ESCWA calculations based on UNSD data. Figures for 2012 are estimates, while those for 2013 and 2014 are projections.
Note: The graphs show to what extent the final demand components (private consumption, public consumption, gross capital formation and net exports) contributed to GDP growth. They aim to display which components drive growth from demand, and to show to what extent foreign-exchange constraints affect the current pattern of growth.

domestic demand expansion, have also slowed down. Meanwhile, the industrial development of the subregion marked a significant setback, particularly in the Syrian Arab Republic. The production factories and facilities in industrial zones across that country were severely damaged by the ongoing conflict. In Iraq, real GDP growth stemmed mainly from a special factor of crude oil production expansion, which did not correspond to the slow domestic income growth. Real GDP growth in Palestine was also based on a scaling effect for the ongoing reconstruction of the economy in the Gaza Strip. Physical blockades and continuing insecurity, instability and hostility continue to constrain the Palestinian economy.

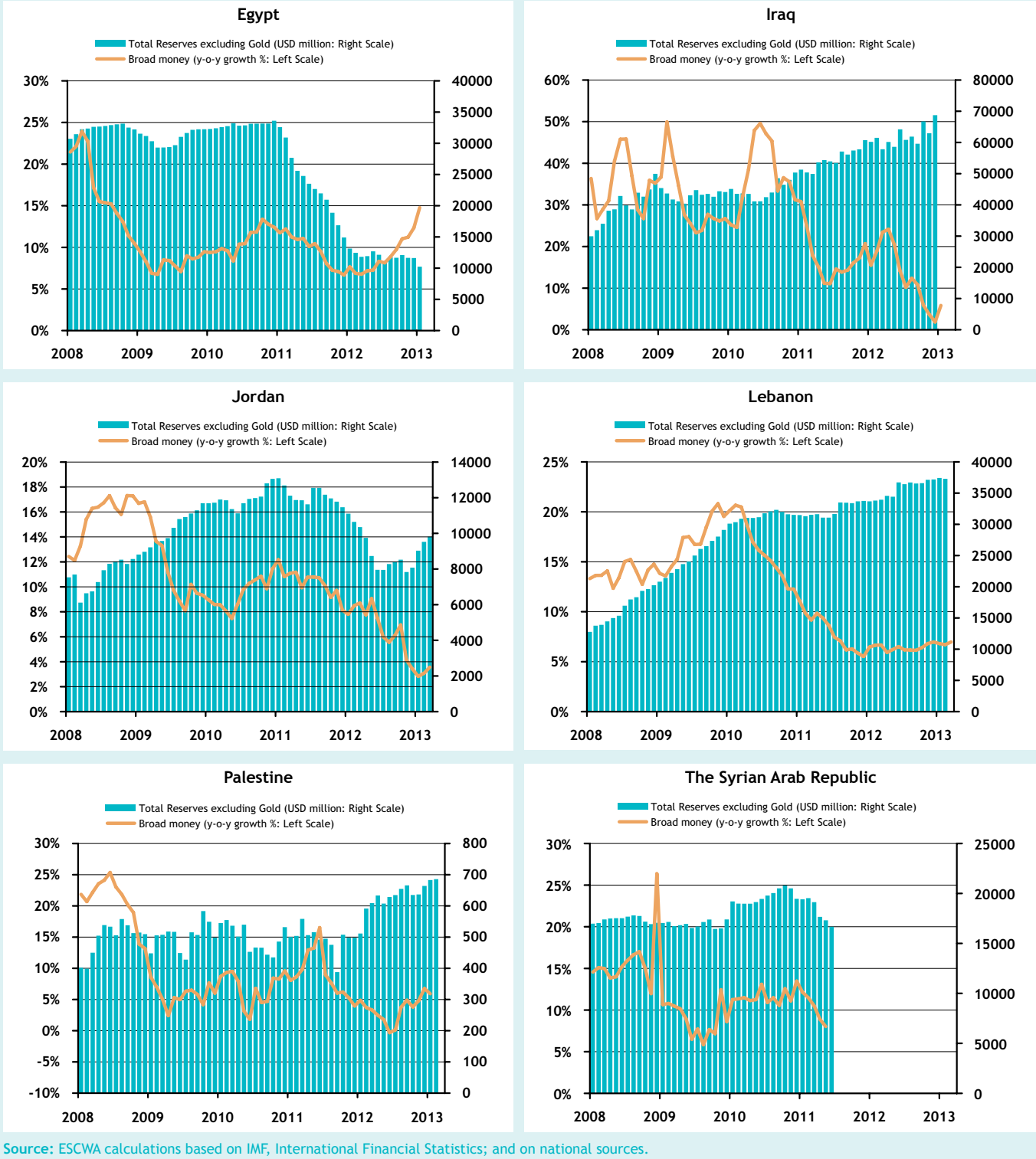
For 2013, the Mashreq subregion is projected to mark a moderate recovery with 2.6 per cent growth on average. The figure is highly influenced by the increasing crude oil production of Iraq and other energy-related activities in the subregion.

Figure 2.5 Trade balance and current account balance in Mashreq countries, 2008-2013



Source: ESCWA calculations based on national sources. Figures for 2012 and 2013 are projections. Figures for Lebanon are estimations. Figures for the Syrian Arab Republic for 2011-2013 are estimations.

Figure 2.6 Monetary indicators in Mashreq countries, 2008-2013



Source: ESCWA calculations based on IMF, International Financial Statistics; and on national sources.
Abbreviations: y-o-y, year-on-year.

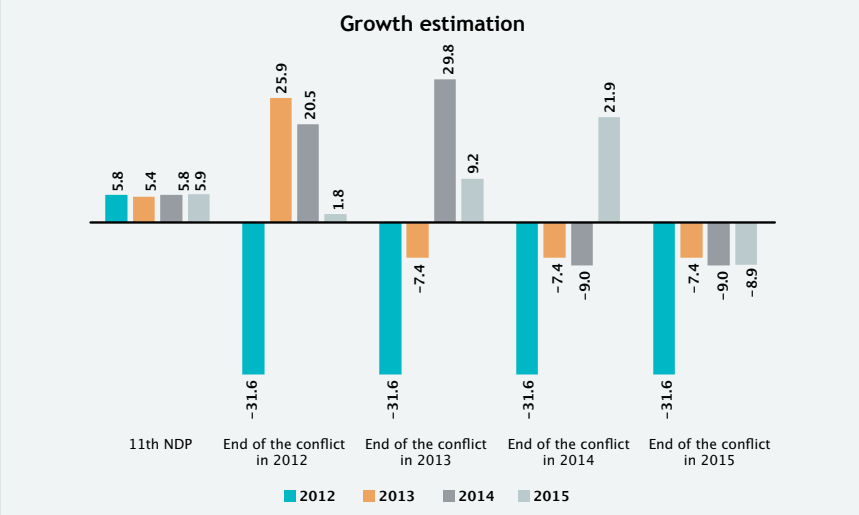
Given that there is no resolution to the deteriorating security situations in sight, particularly in Iraq, Lebanon and the Syrian Arab Republic, business confidence and consumer sentiment are expected to remain weak in 2013. Moreover, the position of the capital account is expected to stay weak, and the risk remains that there will be further difficulties related to the balance of payments (figure 2.5). The space for domestic demand growth remains limited by both supply and demand side factors. Fiscal austerity is expected to continue in Egypt, Jordan and Lebanon; and it is likely that Egypt and Jordan will adopt a tighter monetary policy stance in defence of their national currencies. The growth of broad money stock has stagnated in parallel with the stagnation and decline in foreign reserves accumulation (figure 2.6). With the exception of Iraq, the resource flows of official development aid are expected to be crucial for the subregion to reduce fiscal and foreign exchange constraints. This trend will remain until 2014 (figure 2.4).[1] In 2013, the forecast growth rates are 3.2 per cent for Egypt, 7.8 per cent for Iraq, 2.9 per cent for Jordan, 1.8 per cent for Lebanon and 4.0 per cent for Palestine. The economy of the Syrian Arab Republic is projected to contract further by 7.1 per cent.

Armed violence in the Syrian Arab Republic, the destruction of commercial and residential properties, infrastructure and production facilities have already caused significant economic damage. It was estimated that GDP in real terms contracted by 31.4 per cent in 2012 (boxes 2.1 and 2.2). The contraction of GDP arose neither from idle production capacity nor the suspension of economic activities. Rather, it has been caused by damage to physical capital stock and the loss of human capital. Even under the most optimistic scenario, it would take at least several years for the Syrian economy to regain the level it had attained in 2010. Economic sanctions that have been imposed by the United States, the European Union and the League of Arab States have caused severe foreign-exchange constraints. After financial sanctions and the oil embargo were imposed in 2011, the Syrian economy lost a substantial amount of export revenue, and difficulties in financing hampered its trade facilitation capacity. The official exchange rate of the national currency, the Syrian pound, gradually fell from 47.1 pounds per dollar in January 2011 to 87.09 pounds per dollar in March 2013, with a widening spread between the official rate and parallel market rate. The devaluation of the national currency and the destructions of domestic transport networks caused hyperinflation. The year-on-year consumer inflation rate surged from 5.8 per cent in November 2012 to 49.7 per cent in November 2013.

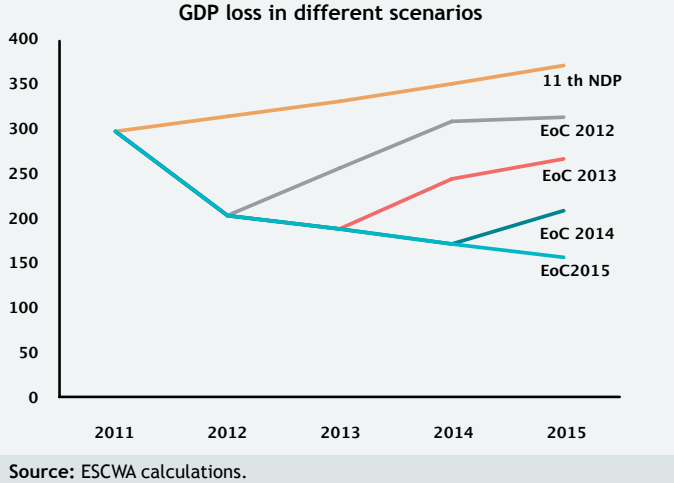
In the Syrian Arab Republic, the year-on-year consumer inflation rate surged from 5.8 per cent in November 2012 to 49.7 per cent in November 2013

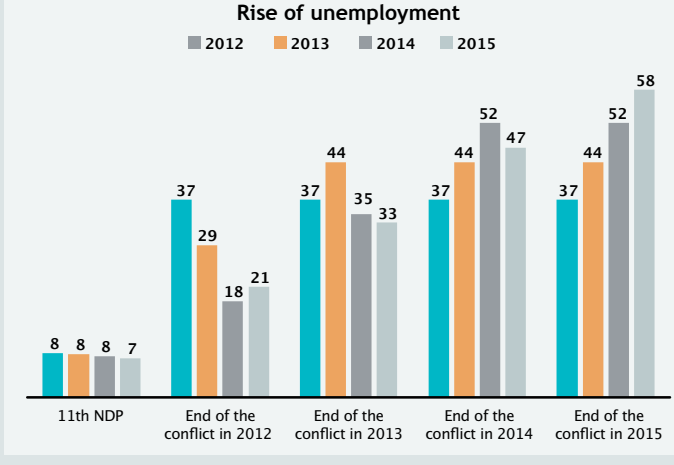
Despite the magnitude of the violence and destruction, the Syrian economy exhibited resilience and avoided falling to a complete halt. Financial institutions are still in operation and international trade with neighbouring countries continued, albeit at reduced levels. For example, according to customs data in Lebanon, Syrian exports to Lebanon in January 2013 stood at $16.0 million, which represents 56 per cent of the pre-crisis monthly average in 2010. Neighbouring countries felt the impact of the crisis not only in reduced trade through the Syrian Arab Republic, but also through the spillover of geopolitical tensions. It adversely affected risk perception in the Mashreq subregion and the inflow of capital and tourists, which had been the main driver of recent economic expansion in Jordan and Lebanon. Moreover, the rapidly increasing number of Syrian refugees to Jordan and Lebanon has put an

Box 2.1 The economic impacts of the crisis in the Syrian Arab Republic



The Syrian crisis, which has been ongoing for more than two years, has brought the country to the edge of collapse, creating an acute social, economic and political crisis, with unbearable losses for the current and future generations. In order to estimate the economic impact of the crisis, a computable general equilibrium (CGE) model was proposed, based on the social accounting matrix. Calculation results show that GDP loss could reach -15.5 per cent in the optimistic scenario (end of conflict in 2012) and -57.9 per cent if the conflict continues until 2015. Every additional year of conflict will have significant consequences on long-term growth perspectives. Total investment (public and private) is set to decrease by -49.8 per cent in the optimistic scenario (end of conflict 2012) and by -85.3 per cent if the conflict continues until 2015. The conflict will heavily affect the total productive capital stock by -20.9 per cent in the best-case scenario, and by -62 per cent in the other scenario. Unemployment, which attained 8.3 per cent in 2010, will be at 21 per cent in 2015 if the conflict ends in 2012, and could reach the alarming level of 58.1 per cent if the conflict ends in 2015. Moreover, Government revenue will drop by the respective values of 40 and 90 per cent; and the Government will not be able to fulfil its current expenditure if the conflict continues until 2015, with the level of current expenditure covering only 46.2 per cent of the level that was initially predicted by IMF. Export volume could decrease by -17.4 per cent in the best-case scenario and -58.9 per cent if the conflict ends in 2015 as a result of the destruction on productive factories. This would result from the slowdown in the Syrian economy, with imports decreasing to -16.9 per cent in the best case scenario and -57.2 per cent otherwise. The country's foreign currency reserves are projected to plunge to $2.1 billion, enough to cover one month of imports; and the Central Bank had about $18 billion in foreign currency reserves prior to the outbreak of violence in the country. The Syrian pound has lost around 90 per cent of its value since the end of 2010; and the official rate for May 2013 was approximately 96 pounds to the dollar, compared to the rate of about 47 pounds before the crisis. In fact, the pound was trading at around 135 to the United States dollar in the black market.





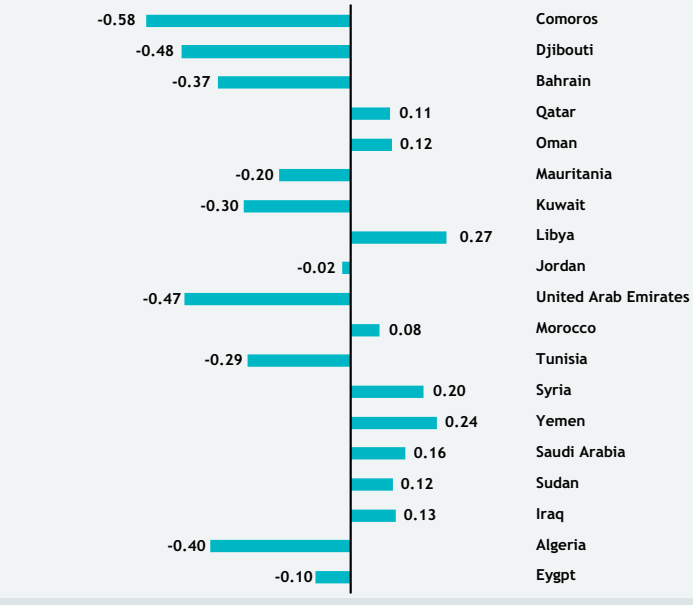
Source: ESCWA calculations.
Abbreviations: NDP, national development plan; EoC, end of conflict.

additional fiscal burden on those countries. At the end of March 2013, the Office of the United Nations High Commissioner for Refugees (UNHCR) estimated the total number of Syrian refugees at 1.23 million, of which 396,000 refugees were in Lebanon and 394,000 refugees were in Jordan.[2] As of 15 March 2013, only 31 per cent of the required funding for the UNHCR regional response plan had been provided.

Box 2.2 The economic impacts of the Syrian crisis on the economy of Lebanon

Lebanon possesses one of the most integrated economies in the region; its performance is strongly linked to the economic situation in the GCC countries, as well as to the economic and social situation of its neighbouring Arab countries, particularly the Syrian Arab Republic. According to the Economic and Social Commission for Western Asia (ESCWA), the crisis has caused GDP to drop by an estimated 31 per cent in 2012 and 7 per cent in 2013 in the Syrian Arab Republic (box 2.1). This explains in part the reduction of GDP growth in Lebanon, which witnessed a drop from 7 per cent before the crisis to 1.5 per cent and 1.2 per cent in 2011 and 2012, respectively.

Correlation index between growth in Lebanon and growth in the Arab region



Currently, humanitarian and economic spillovers of the Syrian crisis are affecting the economic situation in Lebanon. As of 29 April 2013 and as reported by UNHCR, some 450,000 Syrian refugees had officially crossed the Lebanese border, and the Government has estimated that this level was closer to one million individuals if all the unofficial refugees were also taken into consideration. This situation will have significant economic impacts on a country whose population stands at approximately 4.4 million. Moreover, it represents the most important challenge for the Government of Lebanon, particularly given that it is set to affect deeply labour market equilibrium, with an unemployment rate that could reach 29 per cent if wages are not adjusted, or a decrease in wages of 14 per cent if wages are adjusted. In terms of GDP per capita, if Syrian refugees are not absorbed by the labour market and will not bring any additional economic resources, GDP per capita in Lebanon will decrease by 20 per cent; whereas if they are absorbed in the labour market, this decrease will reach 12.3 per cent.

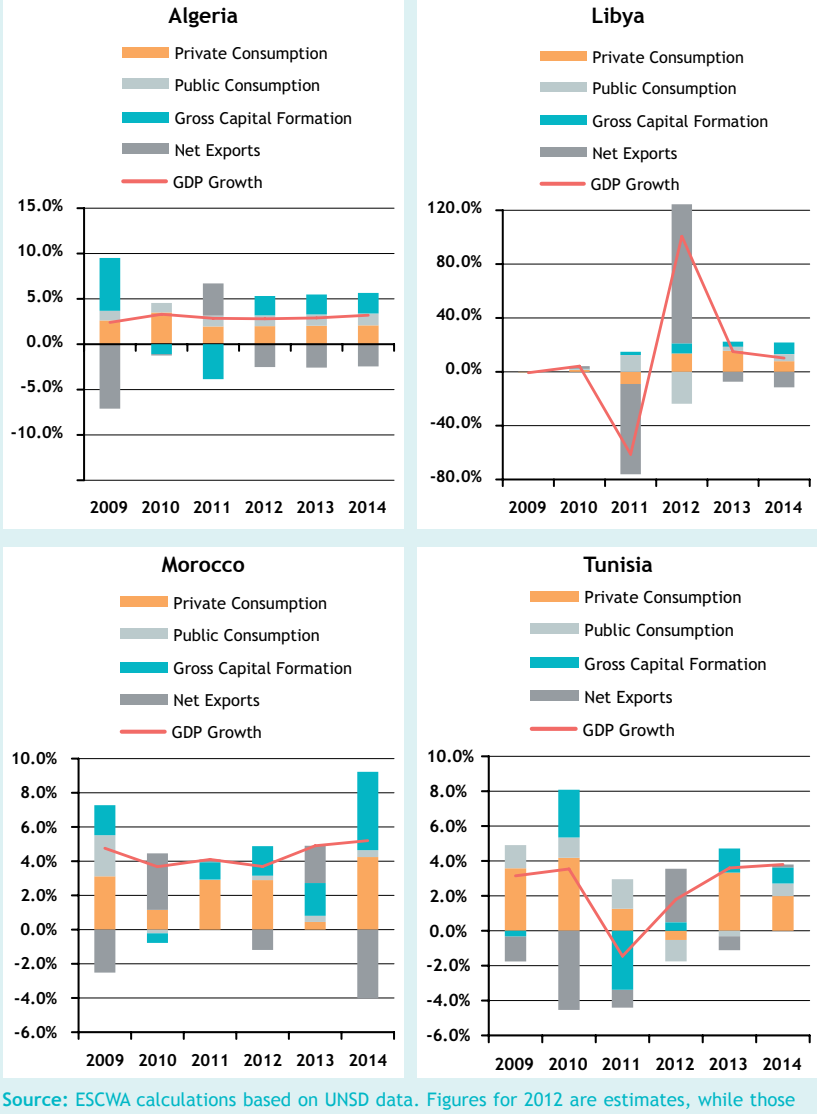
	Refugees not absorbed in the labour market	Refugees absorbed in the labour market
GDP per capita (relative variation 2015)	-20.0	-12.3
Unemployment rate (absolute variation 2015)	29	9
Wages (relative variation 2015)	0.0	-14.0

Source: ESCWA calculations.

4. *Maghreb*

The economies in the Maghreb subregion are, on average, estimated to have grown by 10.6 per cent in 2012, after registering a contraction of 9.3 per cent in 2011. The major factor in subregional economic expansion is that energy production resumed in Libya in 2012 after it had collapsed in the previous year. Despite the phenomenal rate of growth, the Libyan economy has not yet reached the pre-crisis level of 2010. Meanwhile, the economy of Morocco was affected by the underperformance of the agricultural sector, stemming from poor weather conditions. Despite increasing social unrest and security incidents, particularly in Libya, the subregion exhibited resilience and moderate growth. For Algeria, stable energy export revenues were sufficient to cushion negative economic and non-economic impacts. The availability of international financial resources in Morocco and Tunisia filled the gap of external deficits and reduced the severity of foreign exchange constraints (figure 2.8). Moderate domestic demand expansion was observed throughout the subregion (figure 2.7); however, the growth of broad money stock has stagnated even in energy-exporting countries, namely Algeria and Libya (figure 2.9). Clearly, the current pattern of growth in the subregion is insufficient to create enough decent employment opportunities, particularly for young jobseekers.

Figure 2.7 **Contribution to real GDP growth in Maghreb countries, 2009-2014**



Source: ESCWA calculations based on UNSD data. Figures for 2012 are estimates, while those for 2013 and 2014 are projections.
Note: The graphs show to what extent the final demand components (private consumption, public consumption, gross capital formation and net exports) contributed to GDP growth. They aim to display which components drive growth from demand, and to show to what extent foreign-exchange constraints affect the current pattern of growth.

For 2013, the Maghreb subregion is projected to continue to grow by 5.3 per cent. With that rate of growth, the subregion is expected to surpass the pre-transition level of 2010. In spite of unsettling social unrest in several cities and neighbouring countries, the Maghreb subregion was well situated to receive foreign direct investment and international aid, and the business environment is increasingly perceived to be less risky than that of the Mashreq subregion. Uncertainty concerning the investment environment is expected to lift gradually, particularly in energy-exporting countries, namely Algeria and Libya. The continuing sovereign debt crisis in the Eurozone may cause foreign investors to

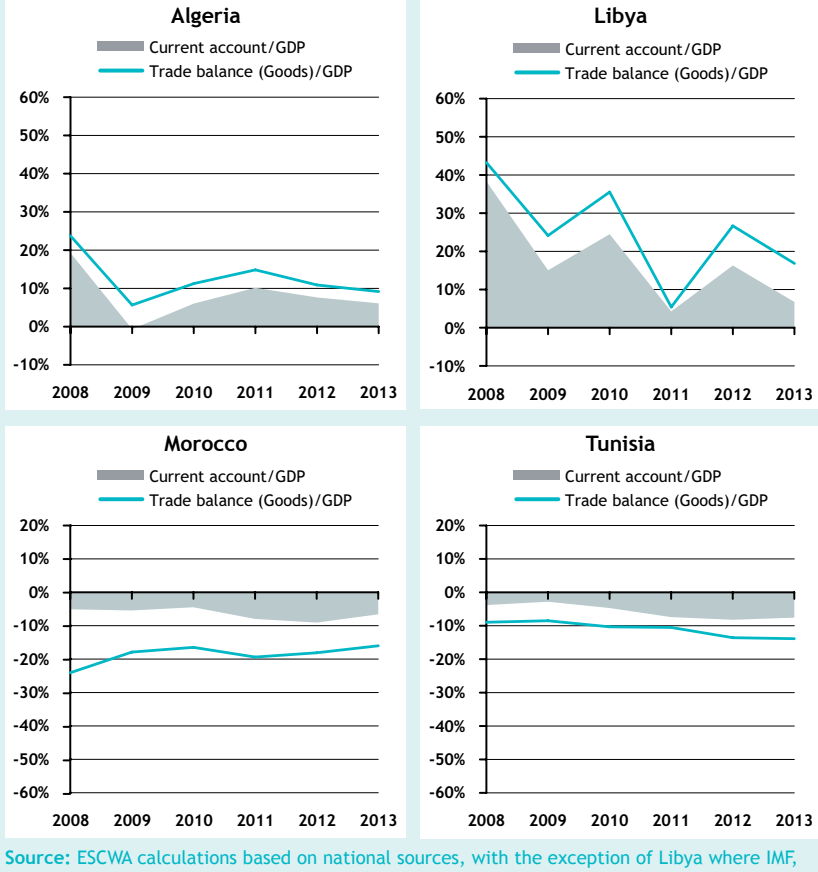
re-evaluate the potential of Morocco and Tunisia by shifting their investment from other peripheries of Europe.

However, the structural fragility of the economy of the subregion remains given its weak export-oriented, non-energy production base. More decent employment opportunities are urgently needed to resolve the fundamental cause of social unrest in the subregion. The present economic situation may serve as a chance to seek more variety in regional ties out of traditionally strong ones with Europe. Economic interactions with other Arab countries, particularly GCC countries, are in an increasing trend, and trade and finance linkages with East Asia are steadily increasing. Moreover, economic ties with countries in East and West Africa have further been strengthened. The challenge of Maghreb economies involves economic diversifications both in terms of sectors and partners. In 2013, the predicted growth rates are 2.9 per cent for Algeria, 15.0 per cent for Libya, 4.9 per cent for Morocco and 3.6 per cent for Tunisia.

5. Arab Least Developed Countries

The economies of Arab LDCs are, on average, estimated to have contracted by 4.6 per cent in 2012, following the contraction of 2.3 per cent in the previous year. Economic contraction in the Sudan and Yemen accounted for much of the trend in the subregion. The struggle of the Sudan for economic stability continued after the independence of South Sudan. A number of armed conflicts over the border area in early 2012 hindered a smooth adjustment to the new economic environment. However, the Sudan and South Sudan finally reached an agreement over the terms of oil production and transportation in March 2013, and external economic and non-economic factors are expected to stabilize. Owing to the loss of crude-oil export revenue, the Sudan suffered from severe foreign exchange constraints, which negatively affected domestic demand and income. The economy of Yemen was more stable towards the end of 2012. While the security situation worsened, the country maintained a stable crude-oil export level. The energy export revenue, both in crude oil and liquefied natural gas, prevented domestic demand from falling further. Furthermore, financial support for the transition in Yemen was actively pledged at the regional and international levels.

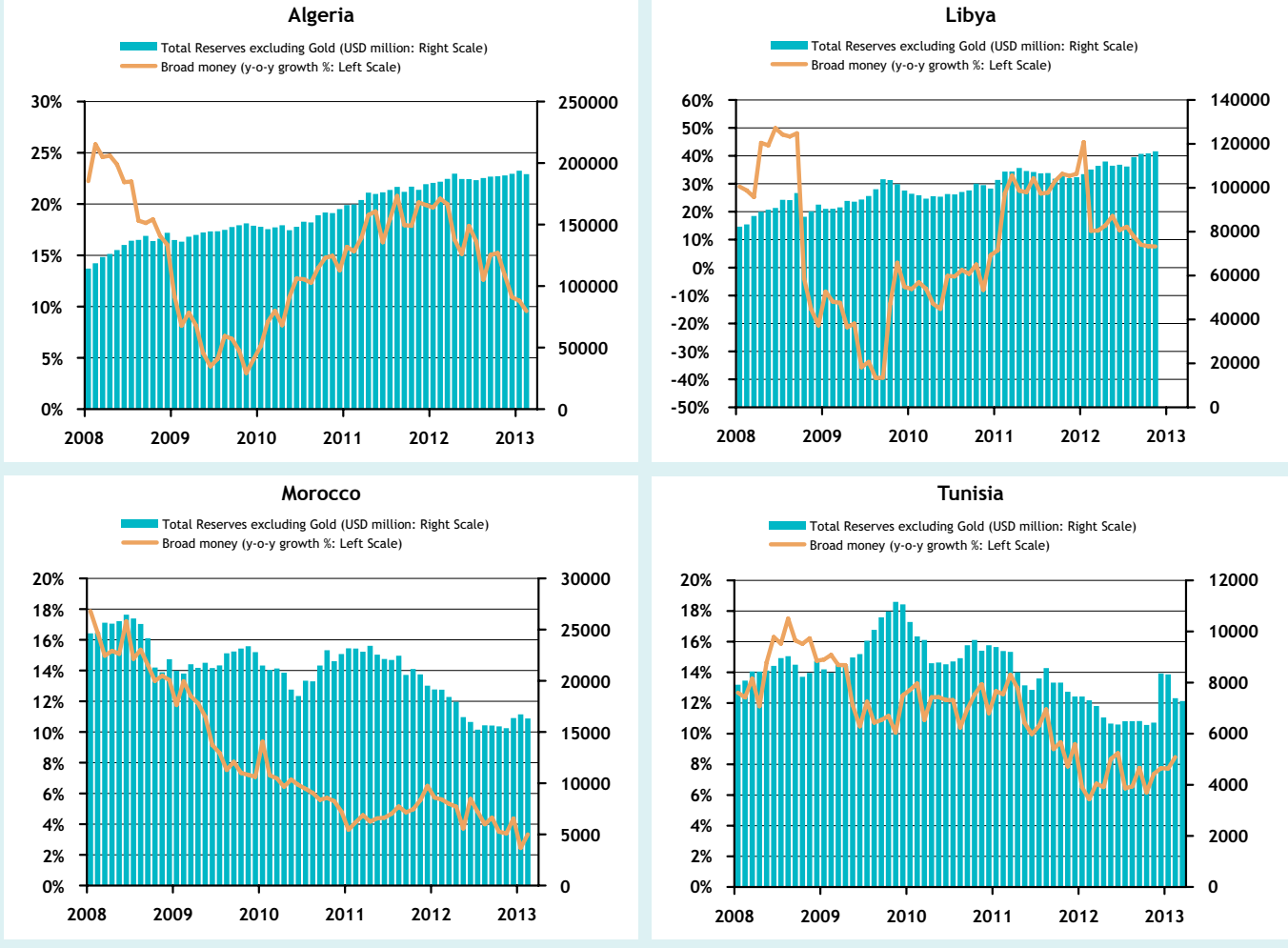
Figure 2.8 Trade balance and current account balance in Maghreb countries, 2008-2013



Source: ESCWA calculations based on national sources, with the exception of Libya where IMF, International Financial Statistics, are used. Figures for 2012 and 2013 are ESCWA projections.

Other Arab LDCs, namely, the Comoros, Djibouti and Mauritania, marked moderate GDP growth in 2012, thereby contributing modestly to the income level of those countries. The economy of the Comoros is dependent on the inflow of remittances, foreign aid and other foreign resources inflows (figure 2.11). Its exports of agricultural and fishery products remained too weak to sustain the near subsistence level of consumption against the rapidly increasing population. The economy of Djibouti is dependent on the international port activities and economic situation of neighbouring countries, particularly Ethiopia. Further expansion of port capacities is projected while the employment-creating economic diversification remains a challenge for Djibouti. Mauritania experienced significant inflows of resources, which financed the current account deficits. While the consistent desertification and recent drought affected its agriculture, development in the construction and service sectors, accompanied by inflows of foreign investment into the mining sector,

Figure 2.9 Monetary indicators in Maghreb countries, 2008-2013



Source: ESCWA calculations based on IMF, International Financial Statistics; and on national sources.
Abbreviations: y-o-y, year-on-year.

buoyed the economy. However, the level of growth is still insufficient for Mauritania to graduate from the status of least developed country. The challenge remains as to how the economic benefit from potentially crucial mining can be distributed for balanced socioeconomic development. The economic outcome of political stabilization in Somalia was still uncertain during 2012; however, the newly installed Federal Government was keen to reconstruct the economic governance infrastructure in the

Figure 2.10 Contribution to real GDP growth in Arab LDCs, 2009-2014

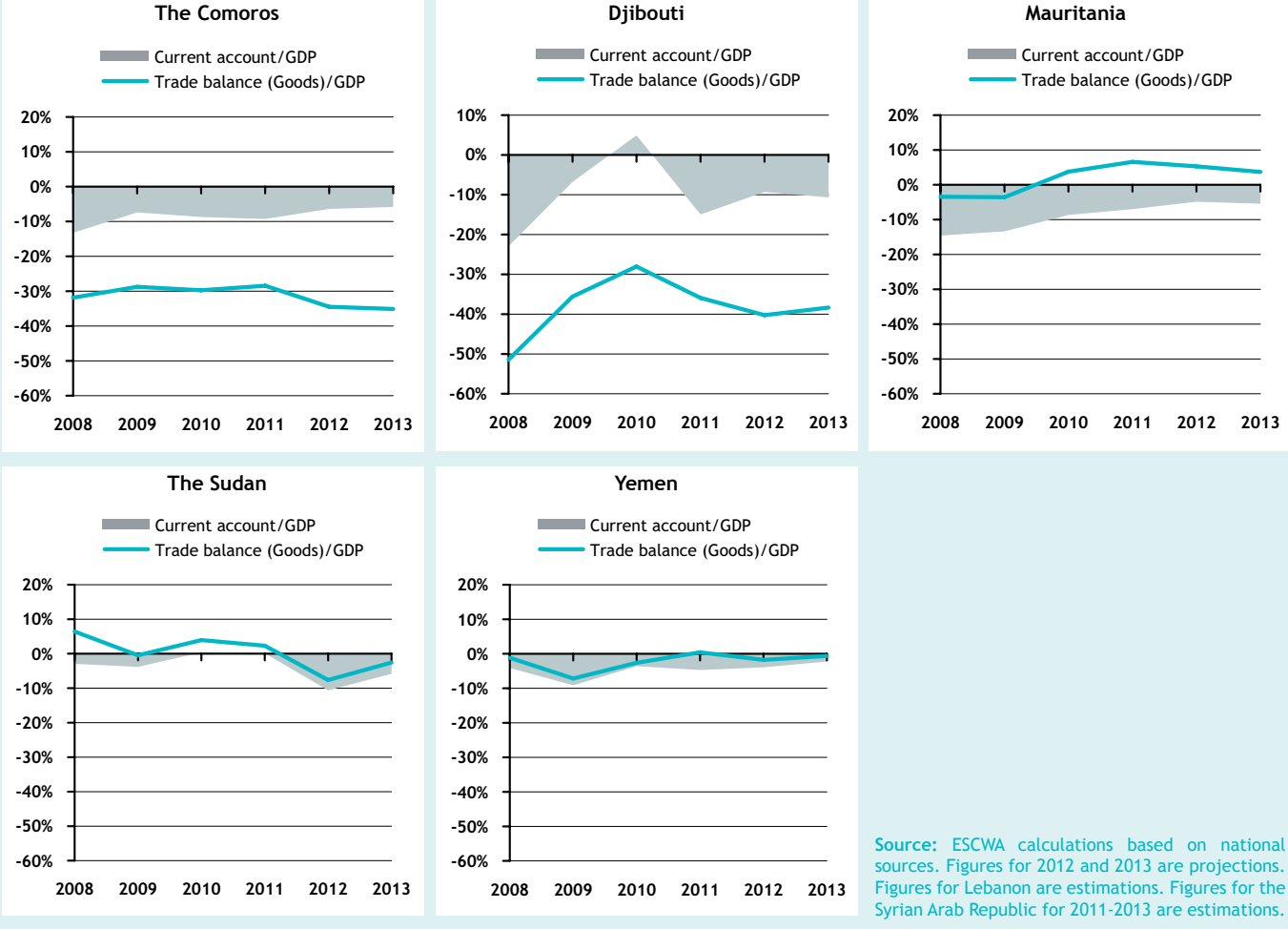
Source: ESCWA calculations based on UNSD data. Figures for 2012 are estimates, while those for 2013 and 2014 are projections.

Note: The graphs show to what extent the final demand components (private consumption, public consumption, gross capital formation and net exports) contributed to GDP growth. They aim to display which components drive growth from demand, and to show to what extent foreign-exchange constraints affect the current pattern of growth.

area of public financial management. The Somalia Conference in May 2013 confirmed the international donors' contribution to support the core policies of Somalia, including public financial management.

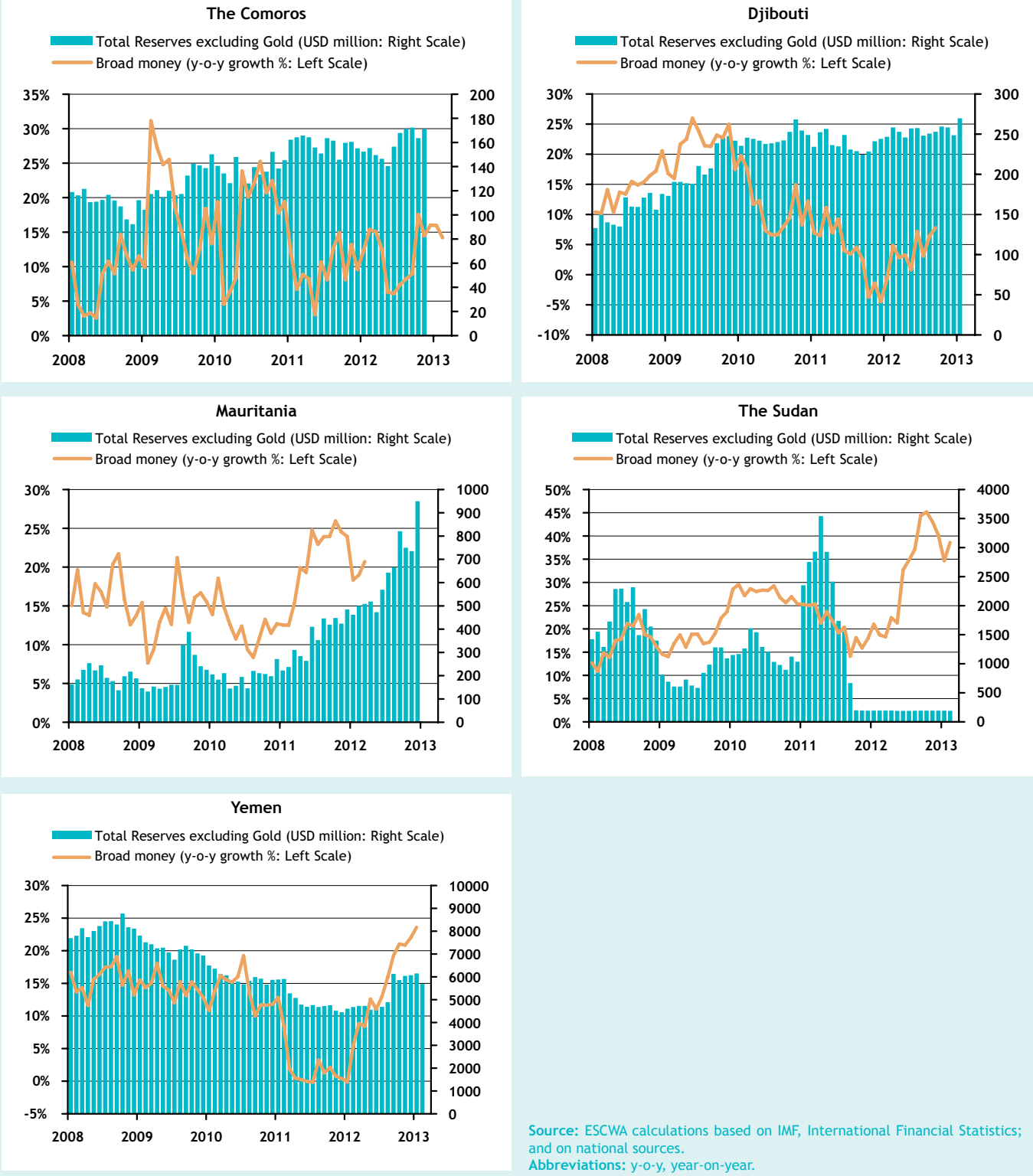
For 2013, real GDP growth of Arab LDCs is projected to average 3.2 per cent. The stable growth in energy and natural resource exports is expected to buoy GDP in Mauritania and Yemen. The economic prospects of the Comoros and Djibouti depend largely on that of neighbouring countries, which are expected to be stable. The Sudan is expected to mark positive growth after two years of economic decline. While severe foreign exchange constraints are set to remain, the extent is expected to be relaxed owing to the consistent growth in non-energy exports. The growth prospects of Arab LDCs are, however, far too weak to reduce the prevailing poverty level. In 2013, the forecast growth rates are 3.5 per cent for the Comoros, 4.8 per cent for Djibouti, 6.3 per cent for Mauritania, 2.5 per cent for the Sudan and 4.5 per cent for Yemen. Projections for Somalia are unavailable, owing to a lack of sufficient official or informal statistics.

Figure 2.11 Trade balance and current account balance in Arab LDCs, 2008-2013



Source: ESCWA calculations based on national sources. Figures for 2012 and 2013 are projections. Figures for Lebanon are estimations. Figures for the Syrian Arab Republic for 2011-2013 are estimations.

Figure 2.12 Monetary indicators in Arab LDCs, 2008-2013



Source: ESCWA calculations based on IMF, International Financial Statistics; and on national sources.
Abbreviations: y-o-y, year-on-year.

B. Economic policy developments

Monetary policy was tightened in Egypt, Jordan, the Sudan and Tunisia, in order to cope with inflationary pressures from binding foreign exchange constraints

The economic environment that policymakers faced in 2012 diverged significantly between major energy exporters of GCC countries and other Arab subregions. To mitigate the risk of domestic demand stagnation and continuing deflationary pressures, Governments in GCC countries adopted a mix of expansionary fiscal and monetary policies. That expansionary policy path was sufficiently sustainable given the ample fiscal space created by growing energy export revenues and the continued monetary easing of the United States. The monetary policy of GCC countries mirrors that of the United States through the currency peg. By contrast, Governments in other Arab countries were under pressure to implement further fiscal consolidation through austerity measures. Monetary policy has also tightened in energy-importing countries in the Mashreq and Maghreb subregions. In response to the rising inflationary pressure from worsening foreign exchange constraints, central banks in Egypt, Jordan and Tunisia tightened their monetary stances by early 2013. A clear policy dilemma existed in energy-importing countries in the Mashreq and Maghreb subregions, as a much-needed pro-growth mix of fiscal and monetary policy became unaffordable.

Despite the limited latitude of monetary policy in GCC countries because of the link to the United States dollar, the relatively stable general price level allowed central banks in these countries to comfortably maintain an easing stance in parallel with the United States monetary authority. The funding cost of the three-month interbank money market has converged around 1.0 per cent in GCC countries, 70 basis points higher than three-month United States dollar London Interbank Offered Rate (LIBOR). A policy shift for monetary easing was seen in Yemen, where the Central Bank lowered policy interest rates in October 2012 and February 2013 to 15 per cent. A neutral monetary stance was maintained in Algeria, Lebanon and Morocco. Monetary policy was tightened in Egypt, Jordan, the Sudan and Tunisia, in order to cope with inflationary pressures from binding foreign exchange constraints. As shown in figure 2.13, the Central Bank of Egypt raised policy interest rates in March 2013 for the first time since November 2011, which brought the overnight deposit rate to 9.75 per cent. The Central Bank of Jordan raised its policy rates in February, June and December of 2012, by which the overnight deposit rate reached 4.0 per cent. The Central Bank of Tunisia raised its policy interest rate in August 2012 and March 2013 to 4.0 per cent.

For the fiscal years 2012 and 2013, the stance of GCC countries remained expansionary. The emphasis on infrastructure investment, health, education and social provision continued. The main challenge for GCC countries in the fiscal policy area was scope rather than size. It became increasingly important to implement budgeted projects effectively in order to attain such long-term policy goals as improvement in productivity. The boom in revenue could easily be used for income transfers or similar expenditures, rather than public investment for physical or human capital formation. Given chronic high unemployment among nationals, GCC countries are keen on strategizing fiscal policy with a comprehensive development plan in both the economic and social spheres. By contrast, energy-importing countries of the Mashreq and Maghreb subregions, and Arab LDCs

Figure 2.13 Policy interest rates in selected Arab countries, 2008-2013

Source: National monetary authorities.

struggled to elaborate and implement fiscal austerity measures in the fiscal years 2012 and 2013. Considering the need of fiscal consolidation, the reform of food and energy subsidies has become a priority. Attaining consensus for reform while assuring a basic living standard for low income populations will be a challenging priority in forming fiscal policy measures in the years ahead.

Employment challenges worsened in the Arab region in 2012. In addition to chronically high unemployment among nationals, the prolonged economic slump in North America and Europe discouraged the immigration of jobseekers. A sizeable trend of return migration was observed in the Maghreb subregion. The employment situation in GCC countries remained unbalanced, with foreign workers constituting the majority of the workforce in the private sector. In spite of their consistently expanding domestic economy, labour markets in GCC countries continue to exhibit the combination of high unemployment among nationals and low unemployment among foreign workers. The policy to increase the share of nationals in the private sector workforce has been in place more than a decade in these countries and, in 2012, there was more stringent application of that policy. The case in point was Saudi Arabia where, as of November 2012, firms that do not employ a legally set proportion of Saudi nationals must pay a fine. Saudi Arabia also campaigned for the promotion of female employment. More occupational classes in the private sector were opened for female jobseekers and several Government ministries began employing female workers. Moreover, 30 prominent female figures were appointed to the Shura Council for the first time in the history of the country. The gradual shift of labour policy in Saudi Arabia is expected to impact other Arab countries.

For the first time in the history of Saudi Arabia, 30 prominent female figures were appointed to the Shura Council

C. Poverty and inequality

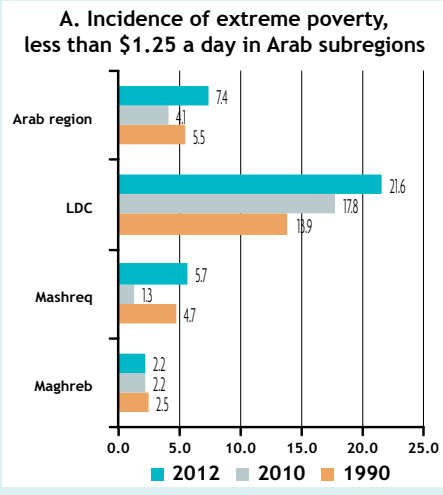
1. Poverty

In the Arab region, extreme poverty, measured by the international poverty line of people living on less than $1.25 a day, dropped from 5.5 per cent in 1990 to 4.1 per cent in 2010, before climbing to an average of 7.4 per cent in the period 2010-2012 (figure 2.14A). Within the region, LDCs have the highest rate of extreme poverty, at 21.6 per cent in 2012, increasing from 17.8 per cent in 2010. In the Maghreb subregion, poverty remained at approximately 2.2 per cent during the same period; while in the Mashreq subregion, poverty increased from 1.3 per cent in 2010 to 5.7 per cent in 2012.

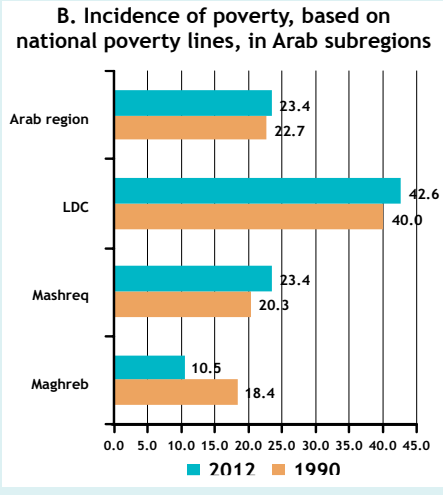
Gains in reducing poverty in some countries were reversed due to political transition and conflicts, a trend that may be expected for any country going through such phases.[3] For example, in the Syrian Arab Republic, the current conflict has a severe negative impact on the country's economy and on people's lives. In 1997, extreme poverty in the Syrian Arab Republic was 7.9 per cent; it fell to 0.3 per cent in 2007. As a result of the current conflict, estimates show that poverty has increased to 7.2 per cent in 2012-2013.

The poverty rate based on the fixed international poverty line of $1.25 a day, however, differs widely from the poverty rate defined by national poverty lines in the Arab region. Based on national poverty lines of individual countries, poverty in the region rose from 22.7 per cent in 1990 to 23.4 per cent in 2012, owing mainly

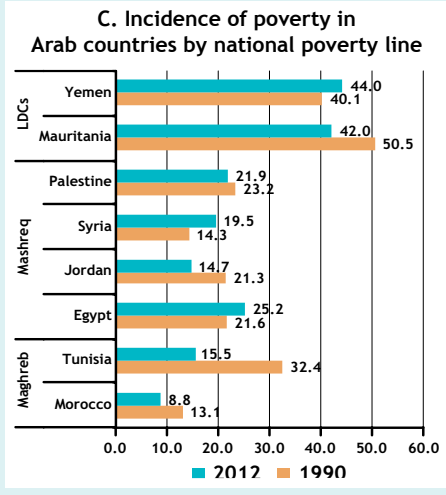
Figure 2.14 Incidence of poverty: Arab region and subregions



Source: Data for 1990 and 2010 are based on World Bank, PovcalNet. Data for 2012 are ESCWA estimates. Also see United Nations and League of Arab States, 2013.
Note: In this figure, subregional averages are calculated based on available data, namely data on Yemen and Mauritania for LDCs; Egypt, Jordan, Palestine and Syrian Arab Republic for Mashreq; and Morocco and Tunisia for Maghreb. Data on poverty for GCC countries are not available.



Source: ESCWA estimates based on World Bank, PovcalNet and national poverty assessments.
Note: In this figure, subregional averages are calculated based on available data, namely data on Yemen and Mauritania for LDCs; Egypt, Jordan, Palestine and Syrian Arab Republic for Mashreq; and Morocco and Tunisia for Maghreb. Data on poverty for GCC countries are not available.



Source: ESCWA estimates based on World Bank, PovcalNet and national poverty assessments.

to increases in LDCs and the Mashreq subregion (figure 2.14B).

Within subregions, countries differ widely in the incidence of poverty (figure 2.14C). In the Maghreb subregion, both Morocco and Tunisia showed decline in poverty during 1990 and 2012. In the Mashreq subregion, Egypt, Jordan and the Syrian Arab Republic progressed well in reducing poverty until 2010, but recent estimates for Egypt and the Syrian Arab republic show an increase in poverty in 2012, owing mainly to the transitions and conflicts that these countries are undergoing. As for LDCs, Yemen witnessed an increase in poverty from 40.1 per cent in the 1990s to 44 per cent in 2012-2013, while poverty rates in countries with smaller populations declined, such as Mauritania whose poverty dropped from 50.5 per cent to 42 per cent.

The choice of poverty line may be particularly crucial for Arab countries. Figure 2.15 plots poverty incidence curves over multiple poverty lines, ranging from $0.2 to $10 in purchasing power parity (PPP). This exercise illustrates that while the poverty line clearly affects poverty rates across all regions, it has a higher impact on poverty rates in the Arab region. At any value lower than $1.25, the Arab region displays very low poverty rates, on par with Europe and Central Asia, and lower than Latin America and the Caribbean. Rates jump sharply at higher poverty lines, however. At a poverty line of approximately $3 a day, it is far closer to that of the average for all developing regions. This is not the case for other regions. South Asia and sub-Saharan Africa are consistently poorer than others; East Asia and the Pacific is consistently within close range of the global average; and Latin

America and the Caribbean and Europe and Central Asia are consistently better-off.

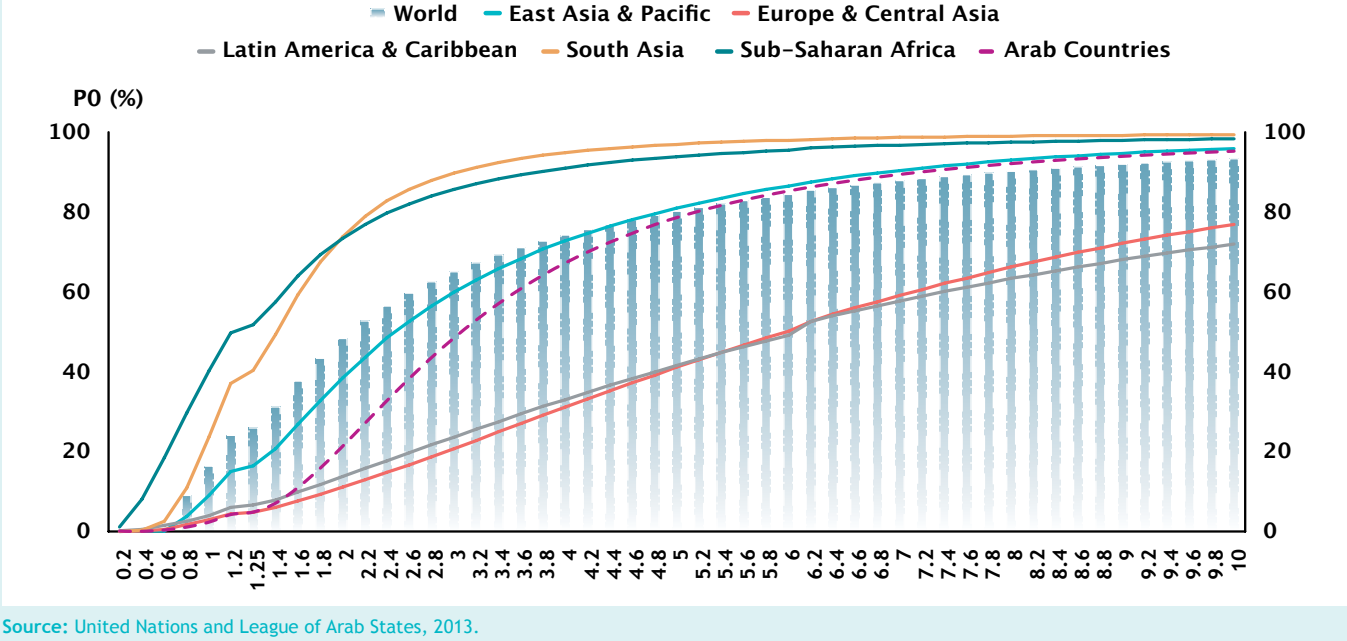
2. *Inequality*

Systemic exclusions resulting in income and non-income based inequalities continue to undermine development in the Arab region. The proportion of poor has remained almost stagnant over two decades, and increased recently since 2010. Unemployment remains a big concern, despite reasonable progress in economic growth in the region. As a result, the divide between rich and poor has widened across countries in the region. High and rising inequality prompts significant ethical questions; it also threatens the impact of growth in reducing poverty, thereby adversely impacting the sustainability of growth itself and potentially causing political and social instability. Some countries in the region are already facing the severe consequences of exclusion resulting in demand for social justice by the people.

Income inequality measured in terms of the Gini index, though relatively moderate in the Arab region, has been sluggish over the past two decades – latest data show that it was 34.7 in the 2000s as against 34.3 in the 1990s. Among Arab countries, Maghreb countries and LDCs have experienced increasing income inequality. The Mashreq subregion, however, shows a decline, from 32.9 in the 1990s to 30.9 in the 2000s and the higher weight of this group of countries results in a slight decline in inequality for the region as a whole. Countries in the sample of Maghreb (Tunisia and Morocco) and of LDCs (Yemen, Mauritania, and Djibouti) all show an increase in inequality (figure 2.16B).

The Gini index, however, fails to capture the ground reality. Given the

Figure 2.15 **Poverty rates across a range of poverty lines in developing regions, 2000-2009**
(2005 PPP, based on recent surveys)



Source: United Nations and League of Arab States, 2013.

glaring manifestations of rising inequality in expenditure and the concentration of wealth in many Arab countries since the 1990s, a more significant rise in inequality would be expected. This would also be more consistent with development stylized facts, as well as with the more visible present-day reality in many Arab countries, where slum dwellings have proliferated alongside new enclaves of gated communities for the rich, as well as other symptoms of "conspicuous consumption". The present-day realities point to rising social exclusion and inequality in wealth and expenditure, which is difficult to square with stagnant values of the Gini coefficient.[4]

There is a need for better statistics and a monitoring system aimed at providing a more accurate picture of the inequality situation in Arab countries. Often household expenditure surveys have been unable to capture the expenditure of the (actual) highest percentiles, which can ultimately lead to underestimating inequality. The large and increasing difference between household expenditure reported by surveys and national accounts lends credibility to this hypothesis.[5]

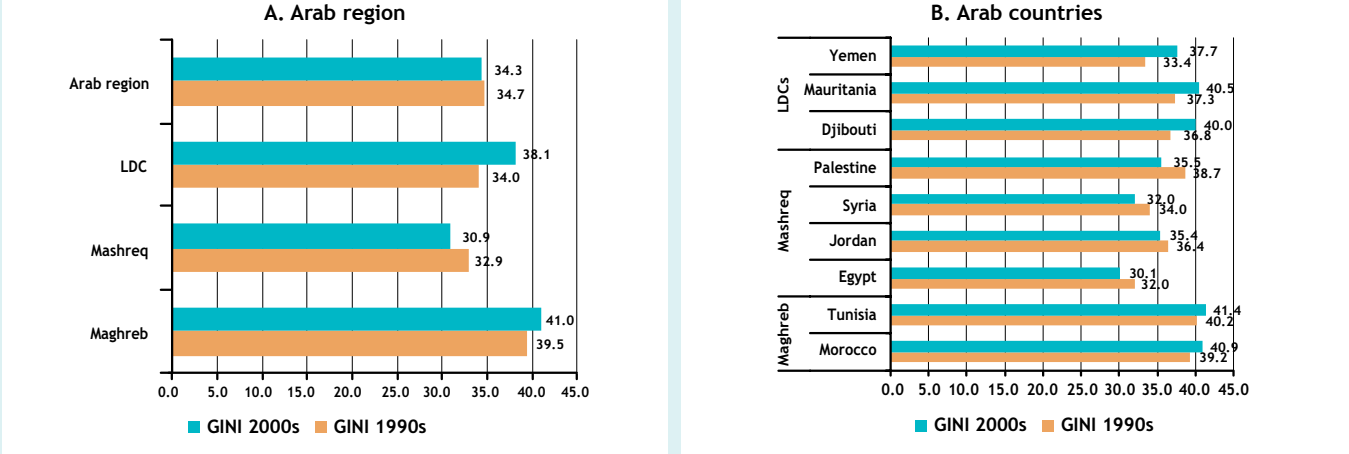
D. Socioeconomic and political developments for women

1. Women's political role and representation

Political participation is not intrinsically linked to political engagement which encompasses many activities, including taking part in peaceful demonstrations and using social media for mobilization. Voting in elections is an area in which Arab women are actively engaged, although they may not always succeed to gain power.

Latest data from the Inter-Parliamentary Union (IPU) indicate that 20.4 per cent of the world's parliamentary seats were occupied by women, which represents

Figure 2.16 Gini index of inequality



Source: Data for 1990 and 2010 are based on World Bank, PovcalNet. Data for 2012 are ESCWA estimates. Also see United Nations and League of Arab States, 2013.
Note: In this figure, subregional averages are calculated based on available data, namely data on Yemen, Mauritania and Djibouti for LDCs; Egypt, Jordan, Palestine and Syrian Arab Republic for Mashreq; and Morocco and Tunisia for Maghreb. Data for GCC countries are not available.

Source: ESCWA estimates based on World Bank, PovcalNet.

an increase from 17.2 per cent five years ago. Arab States ranked last in terms of the number of seats for women in national parliaments, with a 13.8 per cent share (figure 2.17). However, significant progress has been made towards increasing women's participation rate in national parliaments in the Arab region from 9.1 per cent by the end of 2008 to 13.8 per cent in 2013. This owes mainly to the introduction of several regulations, norms and reforms in a number of Arab countries.

While progress has been made in many countries, much work remains to be done, especially in GCC countries (notably Qatar and Yemen). Table 2.2 shows noticeable progress in Libya, Bahrain and Jordan during the past five years, with women members of parliament increasing by 8.8, 7.5 and 5.6 per cent, respectively. Tunisia adopted a law aimed at securing parity on candidate lists; and the introduction of quotas for women parliamentarians in Morocco resulted in an increase of 6 per cent in women Members of Parliament

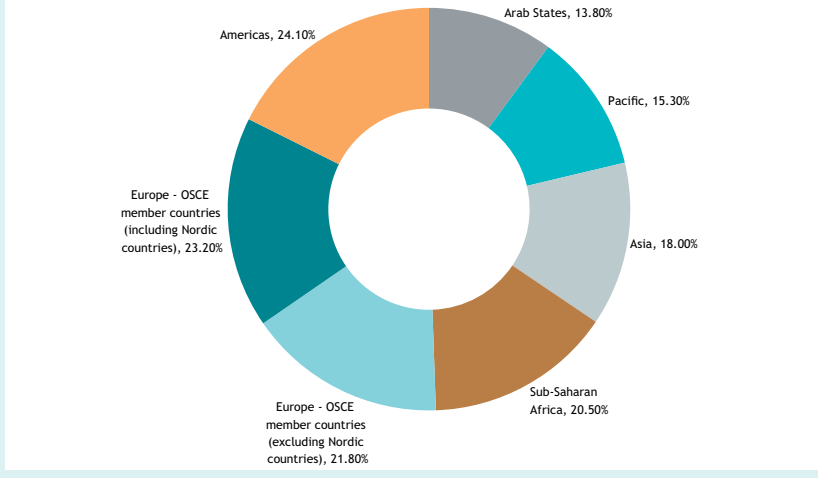
Table 2.2 Women in national parliaments, December 2008 and February 2013

CLASSIFICATION	As at 1 February 2013				As at 31 December 2008			
	Lower or single House				Lower or single House			
Country	Elections	Seats*	Women (Number)	Women (Percentage)	Elections	Seats*	Women	Women (Percentage)
Algeria**	5 2012	462	146	31.60	5 2007	389	30	7.70
Tunisia**	10 2011	217	58	26.70	10 2004	189	43	22.80
South Sudan**	8 2011	332	88	26.50	8 2005	443	80	18.10
Iraq**	3 2010	325	82	25.20	12 2005	275	70	25.50
Saudi Arabia	1 2013	151	30	19.90	4 2005	150	0	0.00
United Arab Emirates	9 2011	40	7	17.50	12 2006	40	9	22.50
Morocco**	11 2011	395	67	17.00	9 2007	325	34	10.50
Libya	7 2012	200	33	16.50	3 2006	468	36	7.70
Djibouti	2 2008	65	9	13.80	2 2008	65	9	13.80
Jordan**	1 2013	150	18	12.00	11 2007	110	7	6.40
Syrian Arab Republic	5 2012	250	30	12.00	4 2007	250	31	12.40
Bahrain	10 2010	40	4	10.00	11 2006	40	1	2.50
Kuwait	12 2012	65	4	6.20	5 2008	65	2	3.10
Lebanon	6 2009	128	4	3.10	5 2005	128	6	4.70
Comoros	12 2009	33	1	3.00	4 2004	33	1	3.00
Egypt	11 2011	508	10	2.00	11 2005	442	8	1.80
Oman	10 2011	84	1	1.20	10 2007	84	0	0.00
Yemen	4 2003	301	1	0.30	4 2003	301	1	0.30
Qatar	7 2010	35	0	0.00	7 2008	35	0	0.00

Source: IPU, data available from http://www.ipu.org/wmn-e/arc/world010213.htm.
Note: Egypt removed the system of quotas for women in its recent elections.
* Number of seats currently filled in national parliaments.
** Has a quota system for women (reserved seats in parliament).

in 2011. In Saudi Arabia, 30 women were appointed as full-fledged members of the 150-member Shoura Council.[6] In the United Arab Emirates, nine out of 40 seats in the Parliament were occupied by women, and the Government is keenly working on the further involvement of women in politics. The role of women in that country has advanced greatly in recent years. Specifically, the Constitution of the United Arab Emirates guarantees equality between men and women in such areas as legal status, claiming of titles and access to education. According to the United Nations Development Programme (UNDP), the United Arab Emirates ranked twenty-ninth among 177 countries in the Gender Empowerment Measures, which represents the best rating in the Arab region.[7]

Figure 2.17 Regional averages of the share of women in national parliaments, February 2013



Source: IPU, data available from http://www.ipu.org/wmn-e/arc/world010213.htm.
Abbreviations: OSCE, Organization for Security and Co-operation in Europe.

Box 2.3 Country snapshot: Tunisia

According to the report on the application of the Convention on the Elimination of All Forms of Discrimination against Women in the Arab region, published by ADFM (*Association Démocratique des Femmes du Maroc*) in May 2009, Tunisia was rated as the most progressive country on women's issues in the Arab region. The government commitments to establish norms and reforms that incorporate women into the public field have boosted the country towards the achievement of gender equality. Women accounted for 31 per cent of the workforce in 2009, and the authorities have provided encouragement and support in order to increase this participation rate, thereby benefiting the overall economic development of the country.

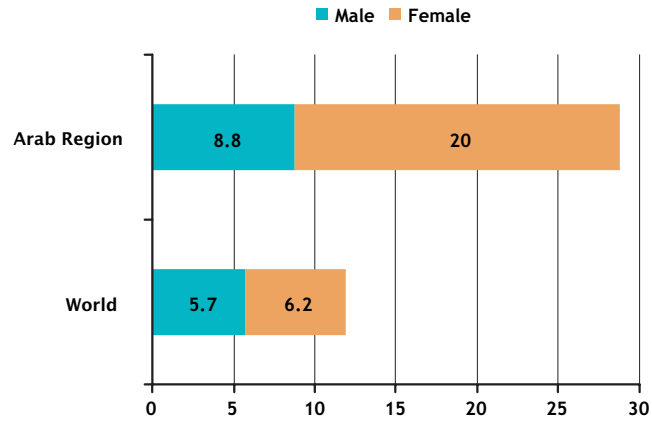
Box 2.4 Country snapshot: the United Arab Emirates

Female graduates in the United Arab Emirates were recently employed within the historically male-dominated professions of government, engineering, science, computer technology, law, commerce and the oil industry. The United Arab Emirates possesses the largest number of businesswomen in the region where entrepreneurship is becoming increasingly popular, thereby providing flexibility between women's traditional role in the home and their widely emerging career aspirations. Women constituted 43 per cent of investors in Abu Dhabi Securities Exchange and the city's association of businesswomen boasts 14,000 members.

At the forefront of Emirati women in business is Sheikha Lubna bint Khalid bin Sultan al-Qasimi, appointed Minister for Economy and Planning in November 2004 and subsequently promoted to her current post as Minister of Foreign Trade. Sheikha Lubna holds the distinction of being the first woman to hold a ministerial post in the country. Her efforts in promoting trade relations throughout the world on behalf of the United Arab Emirates have led her to be rated within the Forbes Magazine's 100 Most Powerful Women.

Sources: United Arab Emirates , Ministry of State and Federal National Council Affairs, 2007; and Forbes, 2007.

Figure 2.18 **Female and male unemployment rates: World and Arab region, 2012**



Source: ILO, 2011a.
Note: The regional average in this figure incorporates the following countries: Bahrain, Iraq, Iran, Jordan, Kuwait, Lebanon, Palestine, Oman, Qatar, Saudi Arabia, Syrian Arab Republic and United Arab Emirates.

During recent sociopolitical events, women marked their presence in demonstrations advocating political freedom and equality in economic opportunities. Following this pressure, Governments in Egypt and Tunisia are considering electoral and constitutional reforms to deepen democracy and present an opportunity to enhance women's economic, social and political inclusion. However, the outlook remains uncertain. Tunisia mandated that an equal number of men and women needed to run as candidates on an electoral list, and women have secured a quarter of the seats in the Constituent Assembly. In Egypt, while millions of women turned out to vote in the recent parliamentary elections, women eventually made up only 2 per cent of the lower house of Parliament. Throughout the region, there is a concern that efforts to advance women's rights may be halted, and even reversed, as new governments come to power. In this context, it will become increasingly important to safeguard at the very least the gains from past reforms. At the same time, the world has acknowledged the power of Arab women as catalysts of change, recognizing Tawakel Karman with the Nobel Peace prize. She is the first Yemeni, the first Arab woman and the youngest recipient of this honour.[8]

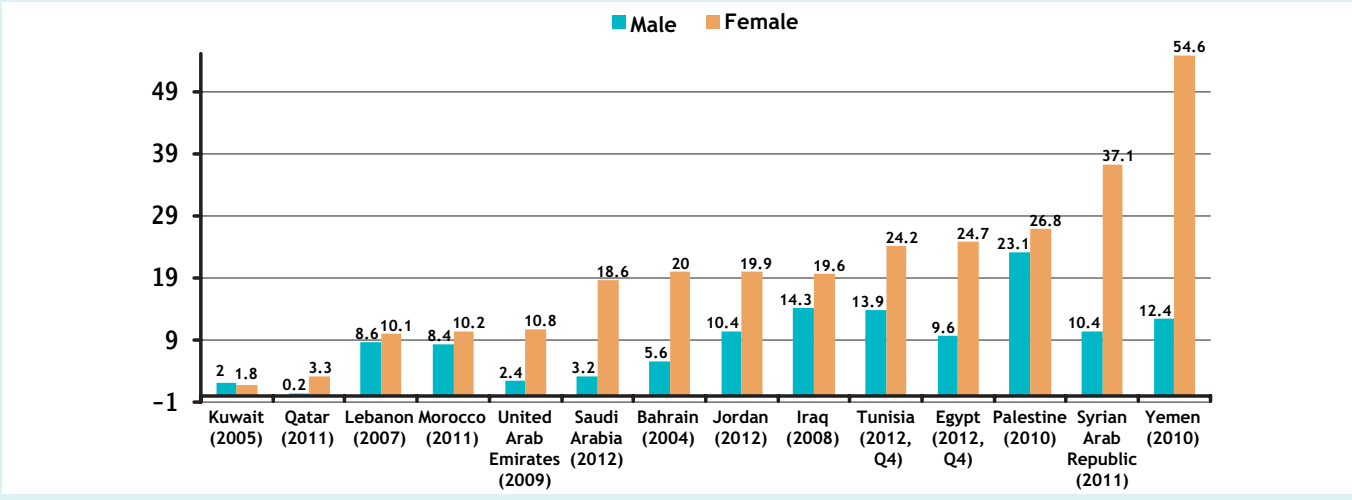
2. *The socioeconomic situation of women*

(a) Female unemployment

Despite significant progress in terms of adopting acts and policies to enhance their access to economic opportunities and education, women in the Arab region, especially educated ones, are facing major challenges in accessing job markets. They continue to have the poorest labour representation worldwide. The International Labour Organization (ILO) revealed that female unemployment in the Arab region was the highest in the world, at 20 per cent, which was more than double the male unemployment rate of 8.8 per cent (figure 2.18).

In Egypt, the female unemployment rate stood at 24.7 per cent at the end of 2012 against a 9.6 per cent rate of male unemployment (figure 2.19). In the Syrian Arab Republic, female unemployment stood at 37.1 per cent, the second highest rate among Arab countries, against the rate of 10.4 per cent in 2011. According to the Syrian Centre for Policy Research, female unemployment was mostly concentrated in rural areas and related to disparities in illetracy rates between females and males. Yemen scored the highest female unemployment rate among Arab countries, at 54.6 per cent by the end of 2010, while 12.4 per cent of men were unemployed. This situation can be largely attributed to the high female illiteracy level in that country, at 75 per cent (almost double

Figure 2.19 Female and male unemployment rates: Selected Arab countries



Source: ILO, 2011a; and other national statistics sources, most recent available data.

that of men), and to other social and cultural barriers that impede women's access to opportunites and independence. Nonetheless, progress has been witnessed in Yemen in the past few years, where one independent female won a seat in Parliament in the 2003 parliamentary elections.

Unemployment rates stood at 26.8 per cent for women in Palestine in 2010 and 23.1 per cent for men. Saudi Arabia has the largest gender gap in unemployment: female unemployment stood at 18.6 per cent, nearly five times the rate of 3.2 per cent for men. As a consequence of the law of segregation between men and women, women unemployment rates remain very high and mostly focused in the fields of education, health care and civil service. Unemployment among women in the United Arab Emirates was also relatively high, at around 10.8 per cent, against only 2.4 per cent for male counterparts. These disparities are complex to explain, and various socioeconomic and cultural reasons affect women's access to the job market, including the following: (a) women are more likely than men to exit and re-enter the labour force for family-related reasons; (b) they have a limited access to education and training programmes; (c) there is a preference in the private sector to recruit men rather than women; (d) the transportation system, which is considered by several local resources as a significant challenge, limits the access of women to jobs, especially those living in remote areas.

In Tunisia, women rely on buses to commute to their work as there are no railways linking the vital parts of the country. In Jordan, the long distance and time needed to get to work continues to impede many jobseekers, and employers in Amman hire women from other cities. In Saudi Arabia, women are still facing challenges in terms of freedom of movement where the law requires that they remain segregated from any males who are not members of their family or household.

At first glance, GCC countries seem to show lower female unemployment

rates, compared to other countries in the region. However, this is highly influenced by female foreign labour. On average more than 80 per cent of the female labour force participation in GCC countries are female expatriates.[9] Most of these expatriate women are domestic workers and jobseekers from Africa and Asia, who migrate from their countries where economic and livelihood situations are difficult.[10] While domestic work is in high demand in the Arab region, it is usually considered unattractive to national workers for social, cultural and financial reasons, which hamper any attempt to replace foreign labourers with national ones. This fact can also be attributed to the absence of robust labour laws and legislations that protect the rights of domestic workers due to the private nature of housework, perceived as work in households (and therefore not considered as workplaces) for private individuals (who are not considered as employers). This situation is difficult to supervise by labour inspectors. For instance, Qatar's 1962 Labour Act states that "the provisions of this law do not apply to persons employed as domestic help in private homes". Similarly, Oman's Labour Law Part II, Article II states that "the provisions of this law do not apply to persons... in the employer's family living with and dependent upon him, not to workers in simple occupations such as domestic servants, etc.". Bahrain's 1976 Labour Law for the Private Sector (Article 2) exempts "domestic servants and persons as such" from the purview of the Law.[11] Unless Governments start to revise and reinforce their labour laws on domestic work governing remuneration, working hours and other protective legislations in line with any other occupation, it will remain a huge challenge to attract the unemployed national females in this category. The same legislation should also apply to non-national domestic female workers so that they may enjoy decent working environment and conditions.

Table 2.3 Employment distribution by gender and sector *(Percentage)*

	Agriculture		Industry		Services	
Country	Male	Female	Male	Female	Male	Female
Algeria (2010)	12.6	6.4	33.7	29.7	53.7	63.8
Bahrain (2004)	1	0.1	18.2	3	80.8	96.9
Egypt (2008)	28.2	45.6	27.3	5.6	44.4	48.8
Iraq (2008)	17.1	50.7	21.6	3.7	61.3	45.6
Jordan (2011)	1.9	0.7	20.1	8.4	78	90.9
Kuwait (2005)	3.6	0	26.7	2.2	69	96.9
Morocco (2008)	34.2	59.2	24	15.4	41.6	25.2
Palestine (2010)	9.9	21.4	28	7.8	62.1	70.8
Oman (2000)	6.6	5.4	10.7	14	82.4	80.3
Qatar (2011)	1.5	0	60.9	4.1	37.5	95.8
Saudi Arabia (2009)	4.7	0.2	23.3	1.5	72	98.4
Syrian Arab Republic (2011)	13.2	22.2	36.1	9.2	50.7	68.6
United Arab Emirates (2008)	5.2	0.2	28.3	7.1	66.3	92.5

Source: ILO, 2011a.

(b) Female employment distribution by sector and occupation

Tables 2.3 and 2.4 present an overview of the gender distribution of employment by sector. Statistics clearly indicate the unequal distribution of employment by sector between men and women. There is a clear concentration of females in the service sector, particularly in GCC countries where most women are employed in the service sector (table 2.3). Within that context, Saudi Arabia scored the highest rate of 98.4 per cent.

In countries of North Africa, particularly those with a large agricultural sector (Egypt and Morocco), the proportion of women working in the sector exceeds that of men. The percentage of women working in industry exceeded 10 per cent in three countries, namely Algeria, Morocco and Oman, where it reached 15.4 per cent. This inconsistency of distribution across the Arab region is mainly a result of cultural and economic heterogeneity among countries. However, employment in the public sector is still considered a better option for women, owing to the more

Table 2.4 Female employment distribution

Country	Armed forces	Legislators, senior officials and managers	Professionals	Technicians and associate professionals	Clerks	Service workers, and shop and market sales workers	Skilled agricultural and fishery workers	Craft and related trade workers	Plant and machine operators and assemblers	Elementary occupations	Workers not classifiable by occupation
Algeria (2004)	0.2	1.6	7.5	19.3	9.6	6.7	16.9	24.7	0.7	12.8	
Bahrain (2004)		3.4		24.8	15.1	3.6		49		4.1	
Egypt (2007)		4.3	20.6	14.6	4.3	4.7	46	2.5	1.4	1.5	0.1
Kuwait (2005)		1.1	9.3	13.2	14.8	59.9	0	0.5	0.2	0.1	0.9
Lebanon (2007)	0.1	4.1	20	19.1	14.4	14.1	2.8	5.2	0.9	19.3	0.1
Morocco (2008)		0.4	1.9	5.9	7.9	1.6	59	11.8	0.4	11	0
Palestine (2010)		3.5	53.7			10.5	20.9	4.9	1.4	5.1	
Oman (2000)		2.1	36.9	13.6	14.4	10.8	4.9	2.5	7.4	7.1	0.2
Qatar (2011)		2.1	20.5	7.1	9.8	7.1	0	0.1	0.4	53	
Saudi Arabia (2008)		2.5	11	26.1	4.9	54.3	0	1.2			
Syrian Arab Republic (2010)		1.3	42.2	9.1	10.4	6.4	13.7	3.5	1.7	11.7	
United Arab Emirates (2008)	0.5	4	17.1	16.3	12.5	47.5	0.1	0.3	0.3	0.9	0.3
Yemen (2005)		1.9	20		4.7	6.9	33.8	5	1.3	16.9	9.7

Source: ILO, 2011a.

favourable working terms and conditions when compared to the private sector, including such advantages as maternity leave, childcare benefits and services, flexible working hours and lower wage disparities.

In terms of occupation, type of labour and career path, existing statistics suggest that, as opposed to other developing regions, the Arab region has a small share of informal employment of women outside the agricultural sector. Meanwhile, women have a limited participation in paid employment, in the ownership of enterprises, and in government, workers' and employers' organizations. They are often in a lower position than men. The promotion of women's entrepreneurship development and women's cooperatives are areas that can contribute towards opening up spaces for women to earn an independent income in the absence of adequate paid employment opportunities. While in some countries women with a university education have higher unemployment rates, technical and vocational education and training can provide interesting opportunities if there is a move towards life skills and technical skills for non-traditional market-relevant occupations for women.

(c) Wage gap

Discrimination in wages plays an integral part in restricting women's participation in the labour force and economic life

Discrimination in employment wages plays an integral part in restricting women's participation in the labour force and economic life. Men's wages exceed those of women in various positions and sectors, particularly in the private sector. The wage gap between men and women increases as their level of education decreases. In Jordan, for example, women university graduates earn 63 per cent of the comparative wage earned by males in the manufacturing sector (table 2.5). This drops to less than 50 per cent among those who completed their basic education, while illiterate women earn less than 33 per cent of the earnings of their male counterparts.

Discrimination also exists in non-wage benefits such as health insurance and other paid benefits to which many women in Jordan are not entitled. Non-paid benefits, such as maternity leave, are not granted by several employers, which forces women to take long career breaks and makes them fall behind in pay and promotion. These practices are due to several factors, such as the tradition of undervaluing women's jobs and qualifications, other social and cultural factors and the absence of national laws. ILO and the Ministry of Labour in Jordan have been working on the issue of pay equity since 2010. Together, they launched the National Steering Committee on Pay Equity in 2011, which aims to promote equal pay for work of equal value and to take the lead in developing and implementing an action plan for pay equity. The Committee recommended that changes be made to national legislation in order to reinforce this principle.[12]

Women's suffering increases as their level of education drops, which, in turn, is usually associated with poverty. Recent studies confirmed the trend that women enter the labour force when wages are high enough to compensate the lost value of their work at home. This has been the main explanation for the rising female labour force participation in some parts of the world. For example, women were pulled into the labour force in high-income countries mainly after the Second World War, as fast economic growth and labour scarcity drove wages up and made market work attractive to women. A critical factor for attracting more women into the

labour force is the size and type of labour demand, as well as high wages. This is also facilitated by the type of available work when it is more compatible with family responsibilities.

While the region demonstrates highly volatile and inconsistent incentives for women's employment due to the prevailing differences in the economic and institutional structures of each country, the overall view confirms that women are still unable to have economic and social equality with men, owing to several interrelated factors. Specifically, they face significant restrictions on mobility, transportation and agency that are linked to legal frameworks, social and cultural norms, and regulations that restrict their work and political participation. There are constant barriers related to equality in education and skill mismatches between what is studied at school and what is demanded in the job market. In Saudi Arabia, some 240 unemployed female teachers are planning to file a lawsuit against the Ministry of Civil Service for its delay in hiring them.[13] While it is a positive indication that women are more able today to express and fight for their rights and presence in the Arab region, it still is considered a challenge to balance the labour market demand and supply. In Arab countries that are facing conflict or post-conflict circumstances, it is expected that the displacement and the absence of men from the household will be pushing more women to carry the burden of supporting the family. Women are also expected to face unemployment in post-conflict situations, mainly as a result of the insufficiency of job opportunities.[14]

In this regard, policy reforms are required immediately to enhance job creation for all, given the increasing labour, demographic and fiscal restrictions, and the changing aspirations in the region. What is needed is a country-specific effort and labour plans that are targeted and coordinated on multiple fronts to increase women's participation in the labour market. Such reforms include laws and legislations in both the private and public sectors to protect women's rights and ensure equality in job opportunities and benefits, address the existing human development challenges, redress the skills mismatch, and promote women's public and political participation as a whole.

Table 2.5 **Women's wages in manufacturing in selected ESCWA member countries, December 2012**
(as a percentage of men's wages)

Country	Percentage
Palestine (2008)	50
Jordan (2008)	63
Egypt (2007)	66
Syrian Arab Republic (2008)	79
Bahrain (2008)	99
Qatar (2007)	142

Source: UNSD, based on ILO data available from http://laborsta.ilo.org.

E. Concluding remarks

On average, GDP growth rate in the Arab region is likely to taper off in 2013, owing to the decline in energy export revenues which had marked a historic high in 2012. It should be noted, however, that it is increasingly difficult to project economic and social developments in the region for 2013. The polarization of the economic and social developments in the region is anticipated to deepen, and several signs of further segmentations have already been observed. Moreover, the region is exposed to the downside risk of dependency on energy exports. In spite of

The structural weakness of the economies in the Arab region, revealed by high unemployment and income inequality, is the chronic undercurrent that causes social unrest and political instability

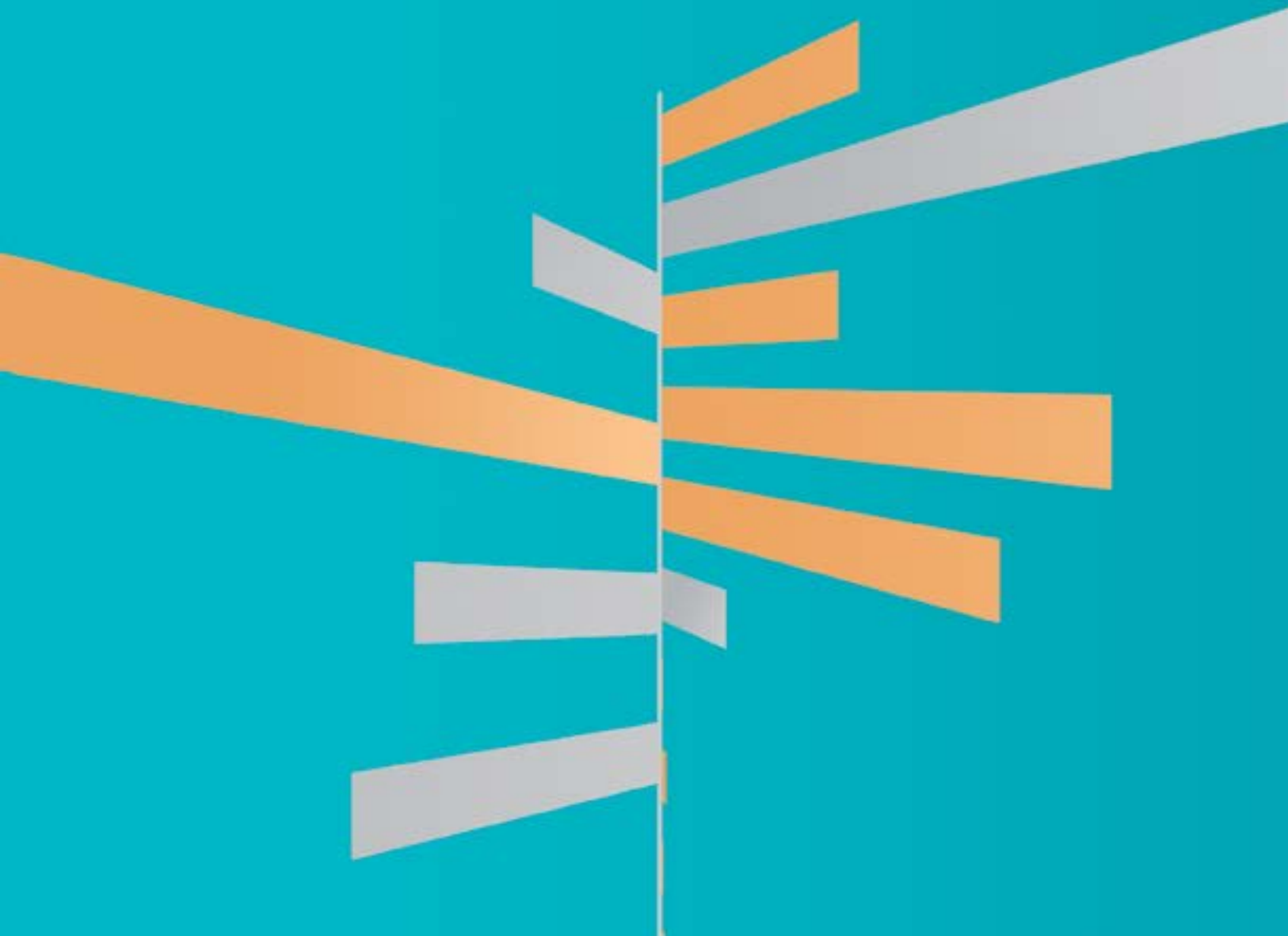
active efforts for economic diversification, major energy-exporting countries are still far from their diversification targets. It is unlikely that there will be another oil price plunge, such as the one witnessed in 2008. Nevertheless, the weakened non-energy sector in the Mashreq and Maghreb subregions shows that the economy of the region as a whole is more vulnerable to abrupt changes in energy prices. A strong recovery in confidence for intraregional business transactions is not foreseen, particularly in the Mashreq subregion. Moreover, the structural weakness of the economies in the Arab region, revealed by high unemployment and income inequality, is the chronic undercurrent that causes social unrest and political instability.

Nevertheless, the Arab region's social evolution continues unabated, albeit gradually. In a historic move, Saudi Arabia amended its labour policy to encourage more nationals, including women, to be engaged in private sector jobs. The stringent application of the "Saudization" policy under the Nitaqat Programme and the associated amendments of the labour law have resulted in the expulsion of significant numbers of illegal foreign workers. From an economic point of view, the abrupt change in the composition of skills in the national economy of Saudi Arabia, which had been excessively dependent on foreign workers including illegal residents, may end up in losses in the short term. However, if the situation comes to promote Saudi female nationals to take up jobs in the private sector and replace foreign workers, it would be the turning point for the country's socioeconomic development. History shows that women's empowerment in Europe and North America was initiated when women took up so-called "men's jobs" during the Second World War. With the participation of women, labour "nationalization" policies across GCC countries could result in a progressive socioeconomic transformation that enriches and diversifies national economies from the labour-market side. The gradual and constant policy shift of Saudi Arabia is one of the positive developments that should be remarked and should not be underestimated, as they can have positive repercussions on the region's socioeconomic development. The Kingdom is in fact trying different approaches to find outlets for women to work; but although the issue is on the agenda, the country is still adopting unsound policies such as the creation of exclusive industrial cities for women, thus reinforcing separation and undermining the empowerment of women.

The Arab region is facing significant challenges to achieve its socioeconomic development aspirations. Political instability and social unrest are still casting a long shadow over the economic performance of the region. High unemployment and the underperformance of national economies are thought to be the main cause of social unrest, which, along with political instability, in turn lead to further economic underperformance. The Arab region is at the verge of this potentially vicious cycle. In order to break out of it, the region must leverage economic activities through further cooperation frameworks and the promotion of integration efforts. Much of the adverse economic situation, particularly in the Mashreq subregion, owes to weakening intraregional resource inflows. Meanwhile, suitable investment destinations are still to be found for the financial wealth created by energy exports. A robust framework for Arab regional integration is needed that makes full use of complementarities and that capitalizes on regional leverage, in order to achieve the socioeconomic development aspirations of all Arab countries.

Chapter III.

Labour Market in the Arab Region: Main Characteristics and Short-Term Responses to the Unemployment Problem



III. Labour Market in the Arab Region: Main Characteristics and Short-Term Responses to the Unemployment Problem

A. Introduction

Along with major political and social aspects, the Arab uprisings were mainly underpinned by the lack of employment opportunities, especially for youth. Deficiency in competitiveness and productivity, in line with poor economic growth, had resulted in one of the highest unemployment levels in the world. This situation can be attributed to a complex combination of different factors. In essence, the demographic transition that occurred in the region and the economic transformations that have taken place in former centrally-planned countries have created a strong pressure on the job market.

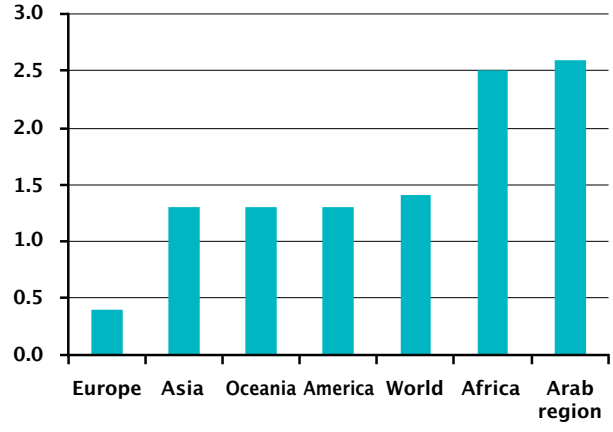
The heart of the problem lies in the fact that while labour demand is witnessing a rapid increase, the economy is unable to create enough jobs. This reinforces a strong and well spotted mismatch between the demographic and economic structures in the Arab region. The Arab Labour Organization estimates that 20 million people are currently unemployed in the region, and that the unemployment rate is growing at a fast pace. Other estimations show that Arab countries along the Mediterranean will need to create more than 1.5 million additional jobs per year over the next 10 years in order to provide employment opportunities for new labour market entrants and to keep unemployment figures unchanged.[1] Doing so requires the rates of economic growth to surpass those achieved in recent years. Reforms should thus be put in place in the short term in order to increase the labour content of growth and better transform economic growth into job opportunities in terms of both quantity and quality.

Arab uprisings were mainly underpinned by the lack of employment opportunities, especially for youth

Over the long term, recent social and political changes in the region could be able to pave the way for solutions to the deeply rooted economic and social challenges facing countries in the Middle East and North Africa (MENA). However, for the moment, difficulties have visibly increased. Employment statistics, despite highlighting only a part of the challenges faced, clearly show how crises directly affect peoples' lives. They reveal that the development model that was implemented before the crisis should be revised in order to be more inclusive, particularly regarding employment. Those statistics also point out that higher growth rates are required to accommodate population growth and widen the economic base, thereby guaranteeing a more diversified economic structure. Additionally, improvements in productivity can be applied such that overall growth may enhance the standard of living.

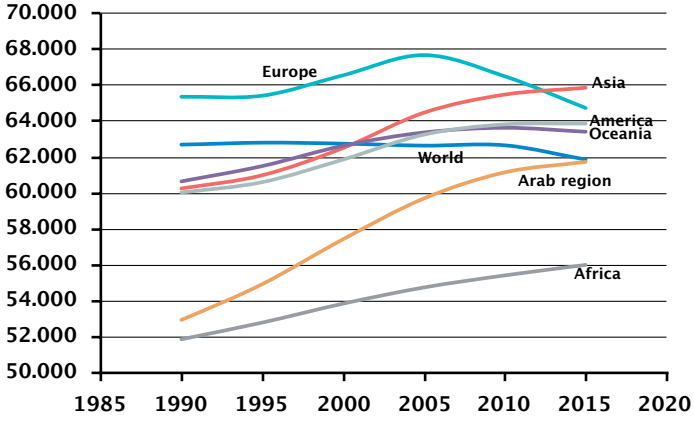
Actions undertaken by new governmental bodies will ultimately be judged by their ability to tackle unemployment and ease social tensions. Economic literature and international experiences show that reaching these objectives requires a well-structured industrialization policy. In essence, this includes an enhancement of competitiveness, business environment and governance landscape. The mismatch

Figure 3.1 Average demographic growth rate



Source: ESCWA calculations based on DESA, 2011.

Figure 3.2 Share of the 15-65 year-old bracket in total population



Source: ESCWA calculations based on DESA, 2011.

between labour supply and demand should also be tackled by a deep reform of the education system. Other reforms should also aim to increase women's employment incentives and ensure a better social protection system. Putting in place a new development paradigm requires a long-term action plan to produce tangible results. New Governments, however, need short-term solutions to ease social tension, while putting in place these long-term reforms. This chapter proposes a sample of short-term reforms that can ease the unemployment problem in the region and help new Governments to better translate growth into job creation. These reforms should be further analysed in the different national contexts. Moreover, the implementation of such reforms should be well designed in order to avoid problems in their application.

B. Labour market characteristics

This section puts forward an overall presentation of the main characteristics and failures of the job market in the Arab region, covering the supply side, the demand side and the structure of the job market.

1. The supply side

Over the past decades, the supply of labour in Arab countries has experienced major demographic changes. The region recorded the largest demographic increase in the world. High fertility rates and exceptional declines in mortality allowed it to reach a demographic growth of 2.6 per cent in 2010, compared to the global average of 1.4 per cent (figure 3.1). This figure was also seen as highest compared to Africa (2.5 per cent); America (1.3 per cent); Asia (1.3 per cent); and Europe (0.4 per cent). The Arab region is undergoing a rapid demographic transition. According to ESCWA, the population of the 22 countries of the region is expected to reach 385.2 million in 2015 and 631.2 million in 2050. Figure 3.2 shows that the region is facing one of the highest increases in the world in terms of the share of the working-age population. Expectations reveal that this phenomenon will continue over the next few years. Figure 3.2 also shows that the share of the active labour

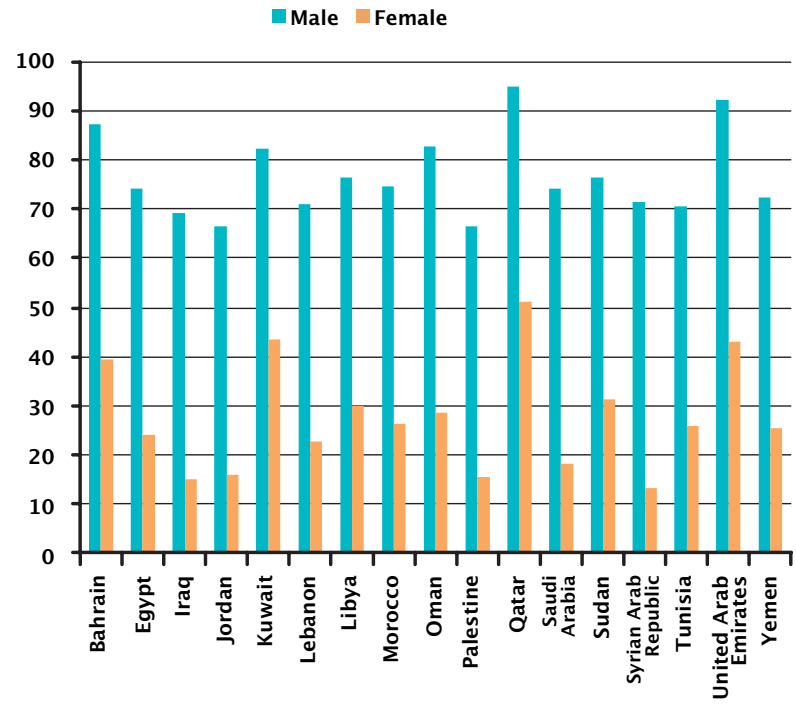
force aged between 15 and 65 could reach 60 per cent of the total population in 2015. Such a situation will create a substantial pressure on the labour market. Its implications require the Arab region to carry out intensive efforts in terms of job creation.

Meanwhile, the participation rate in the labour market remains low, especially for women. Across the region and according to most recent estimates, out of a total of 202.7 million people belonging to the working age, only 101 million are recorded as being active in the labour market.[2] More than three quarters of the labour force are men (78 million), and only one quarter are women (23 million). Interestingly, among the 9.6 million unemployed, women make up almost 40 per cent. In other words, available statistical data show that 70 to 80 per cent of women, belonging to the working age in the Arab region, are either inactive or unemployed. The low rate of participation of women to the labour force is a key feature of all countries in the region. While this may be typical for middle-income countries across the globe, the lowest level as a global average lies just above 40 per cent.[3] In most Arab countries, rates reached an average of 30 per cent at best (figure 3.3). In such low-income countries as Yemen, no more than 26 per cent of women are active in the labour market. Countries of the Mashreq subregion (Egypt, Iraq, Jordan, Lebanon, Palestine and Syrian Arab Republic), as well as Saudi Arabia, show the lowest female participation rates in the labour force. By contrast, active women in the labour market in most other world regions constitute a remarkable percentage reaching above 50 per cent.[4]

At first glance, GCC countries seem to show high female participation rates in the labour force, at approximately 40 per cent. However, a closer look reveals higher participation rates of foreign women in the labour force. Among GCC nationals, women are hardly more active in the labour market compared to women in the rest of the Arab region. While the female active labour force in the other GCC countries broadly corresponds to the regional average, Saudi Arabia exceptionally records the lowest participation rate, at around 14.7 per cent (table 3.1).

The underlying reasons for the absence of women from the formal labour market have not yet been sufficiently addressed. These go hand in hand with strict views on the kinds of jobs that may or may not suit Arab women – often reinforced by labour legislation.[5] In some ESCWA

Figure 3.3 Labour force participation rates in ESCWA member countries



Source: ILO, 2011.

Table 3.1 **Labour force participation rate in GCC countries for nationals and non-nationals** *(Most recent data)*

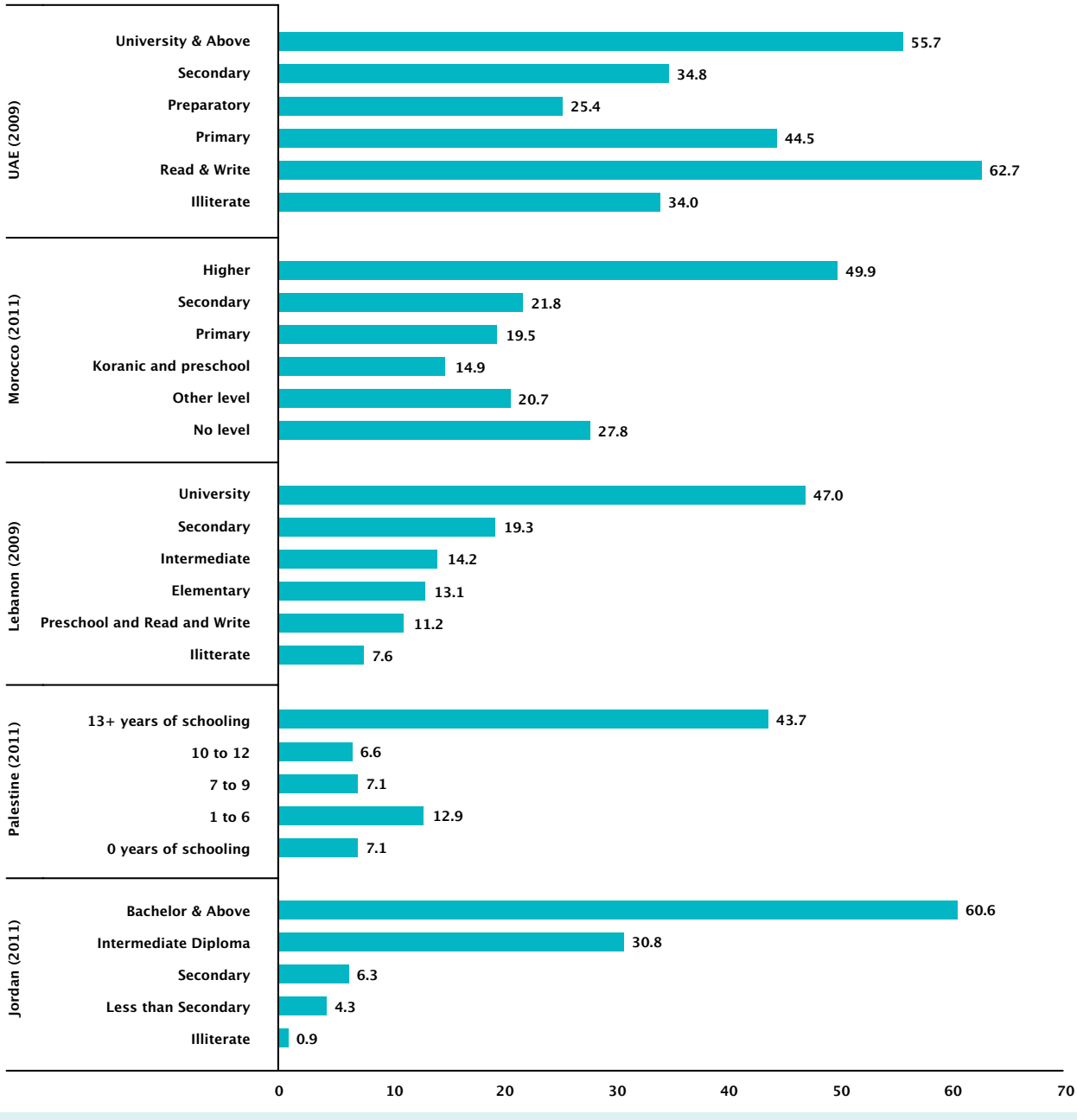
Country	Male nationals	Male non-nationals	Female nationals	Female non-nationals	Total nationals	Total non-nationals	Total
Bahrain (2010)	63.2	99.6	32.3	63.4	47.8	90.4	72.0
Kuwait (2011)	37.0	83.0	27.4	58.5	32.1	73.4	58.7
Oman	..	..	..	..	..	..	..
Saudi Arabia (2012)	61.5	94.4	14.7	37.1	38.1	79.7	53.4
United Arab Emirates(2009)	62.5	93.7	27.5	47.7	45.1	79.0	72.4
Qatar(2011)	63.6	98.0	34.1	58.6	48.7	91.3	86.7

Source: Various national data.
Note: Two dots (..) indicate that data are not available or are not separately reported.

member countries, including Palestine, Iraq and Yemen, further reasons such as the prevalence of violence and physical dangers impede the freedom of the female labour force. While the rates of dependency on women in familial and domestic responsibilities have declined, albeit still showing significance in most countries, other factors influence the rate of female participation in the job market.[6] Indeed, the level of education seems to be positively correlated with women's participation in the labour market: as that level increases, female participation in the labour market also increases, putting additional pressure on it (figure 3.4). In Lebanon and Jordan, women with university degrees are more than twice as active in the labour market as those with secondary education.[7] Similarly in Palestine, 43.7 per cent of women with more than 13 years of schooling participate in the labour force, as opposed to only 33.7 per cent of those whose education is below that level.[8] Male activity rates, by contrast, do not seem to correlate highly with levels of education.

The complexity of labour force development may be illustrated in the case of the Syrian Arab Republic, where substantial growth rates in GDP over the past 10 years, prior to the current conflict, did not increase employment, but were accompanied by a surprisingly sharp decline in labour force participation. While GDP growth rates over the period 2001-2010 fluctuated around 6 per cent annually, total labour force participation declined from 52 per cent in 2001 to 42.7 per cent in 2010.[9] The main underlying reasons of the remarkable decline were a structural change in the agricultural sector and a dramatic increase in the number of university students in the Syrian Arab Republic. Instead of being registered as unemployed or taking up jobs in the informal urban sectors, an estimated 300,000 individuals, mainly women, were believed to have dropped out of the labour force. Similarly, in Morocco, labour force participation declined by about 5 per cent over the past 12 years, to the effect that by 2011, less than half of the working age population (49 per cent) were active members in the labour market (figure 3.5). This decline was most obvious among the higher educated population, as participation rates fell from about 72 per cent in 1999 to 64 per cent in 2011.[10] This development illustrates that the relatively strong average economic

Figure 3.4 **Female labour force participation rate by level of education in selected countries**
(Percentage)



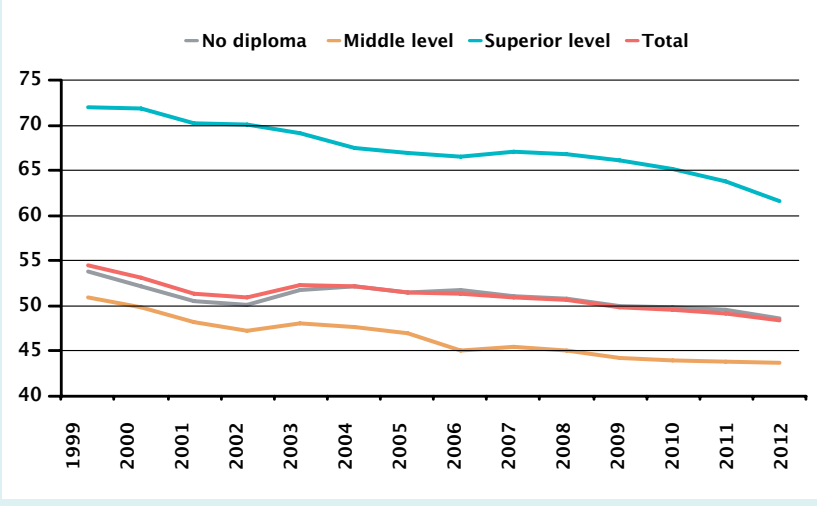
Source: Various national data.

growth was not sufficient to embrace the growing working age population, thereby discouraging an increasing percentage of the most educated talents.

2. *The demand side*

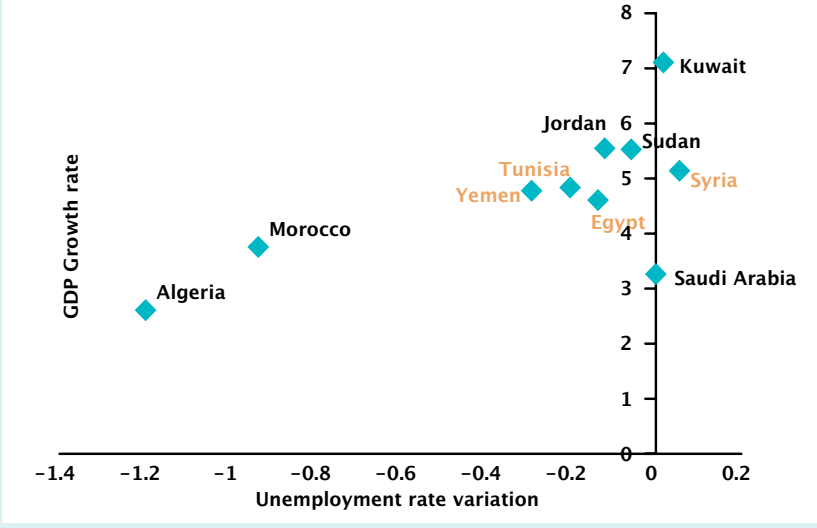
While some countries, such as Finland, Norway, Singapore and the United States,

Figure 3.5 Labour force participation rate in Morocco by educational attainment, 1999-2011



Source: National data from the High Commission for Planning.

Figure 3.6 GDP growth rate and variation of unemployment rate



Source: ESCWA, 2011.

were able to combine strong economic growth with often rising labour utilization, the ability of the Arab region to transform growth into employment has been relatively low (figure 3.6). This ability, as estimated by the elasticity of employment to growth, has significantly decreased since 2004, especially in Arab oil-importing countries. Specifically, employment to growth elasticity witnessed a variation from 0.62 between 2000 and 2004 to 0.47 between 2004 and 2008. This decrease occurred particularly in countries such as Egypt (from 0.82 to 0.57) and Tunisia (from 0.55 to 0.42), and produced one of the most serious problems of youth unemployment in the world (table 3.2).

(a) Persistent and volatile unemployment

The high increase in labour demand and the insufficient capacity of transforming growth into employment opportunities generated an increase in unemployment in the 2000s (figure 3.7).[11]

Most recent data (figures 3.8 and 3.9) show that in Egypt, Morocco and Tunisia, only around 40 per cent of the working age population are employed. In Jordan, Palestine and the Syrian Arab Republic, the share of those employed lies at an even lower percentage, at approximately 30 per cent, compared to the global average of 51 per cent and above in many regions.[12] This low level reveals that societies are vulnerable to economic shocks, which affects their means of living. The comparably high employment rates in the GCC countries result from the importance of labour migration. Taking only in account the proportion of the national working-age population in employment reveals very low rates, ranging from slightly above 20 per cent in Bahrain, 30 per cent in Kuwait, 38 per cent in the United Arab Emirates, to 48 per cent in Qatar. Most GCC countries have undertaken serious efforts to improve the balance between working nationals and foreigners through

Table 3.2 Elasticity of employment to growth in the MENA region

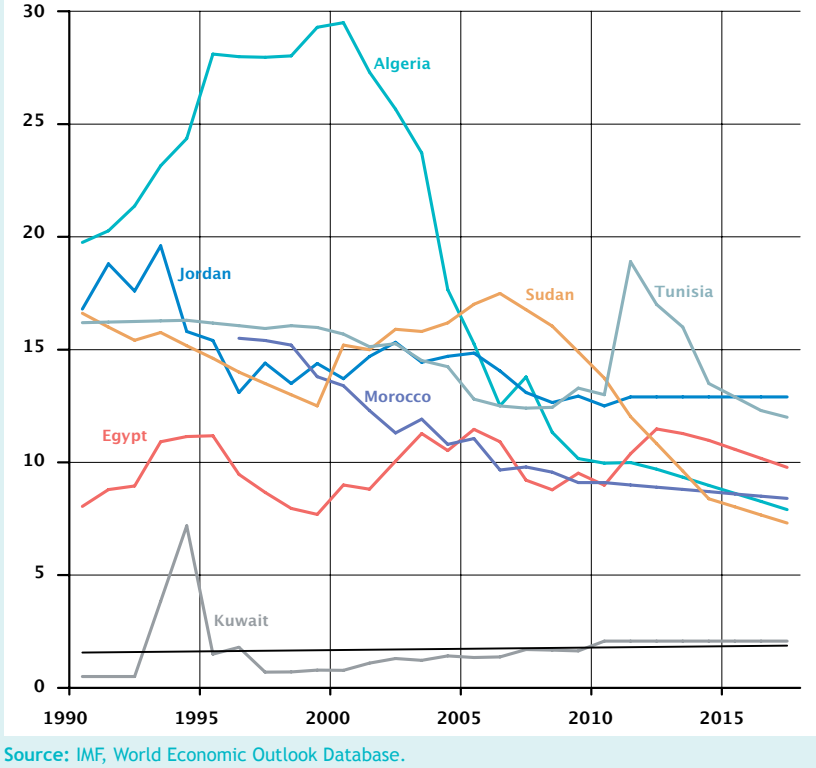
	Elasticity of employment to total GDP, 2000-2004	Elasticity of employment to total GDP, 2004-2008	Elasticity of employment to total GDP, 2000-2008
Country/region			
Developing oil exporters	0.83	0.91	0.87
GCC oil exporters	0.75	0.57	0.66
Oil importers	0.62	0.47	0.55
MENA	0.73	0.65	0.69
2004-2008 some of the best performers+			
Norway	-0.04	18.23	10.09
United States	0.12	2.27	1.29
Finland	0.17	1.33	0.83
Singapore	-0.43	1.28	0.45

Source: Angel-Urdinola and others, 2011; and ESCWA calculations based on IMF, World Economic Outlook Database.
Note: See annex table 1 for more details.

various nationalization policies, aimed at increasing the percentage of national workers. However, success has been limited so far. Any future advancement will possibly depend on increasing mobilization and a higher participation of the female workforce in the economy. However, as mentioned above, in many countries of the Arab region, women who take part in the labour force are still exposed to the obstacles of labour market segmentation and segregation.[13]

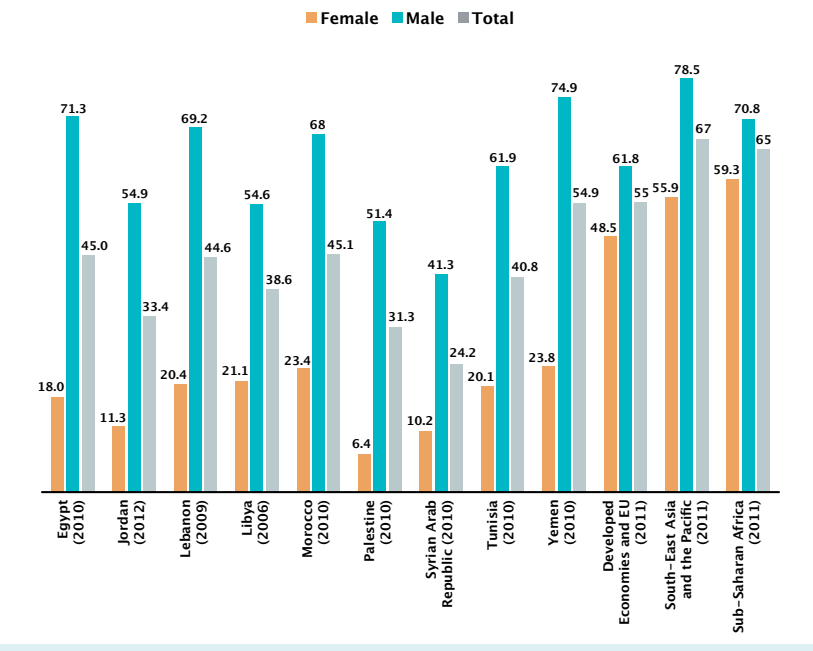
Descriptive statistics show that over the past decade, the average unemployment rate was very high and also quite volatile (table 3.3). A wide regional disparity was displayed, as unemployment ranged from 25 per cent in Palestine to 1 per cent in Qatar. Algeria had an average unemployment rate of 20.1 per cent, with a standard deviation of 7.8, followed by the Syrian Arab Republic and Morocco that recorded an average rate of 11 per cent of unemployment, with a standard deviation of 2.1 and 2.6, respectively. This

Figure 3.7 Observed and projected unemployment rate in selected Arab countries



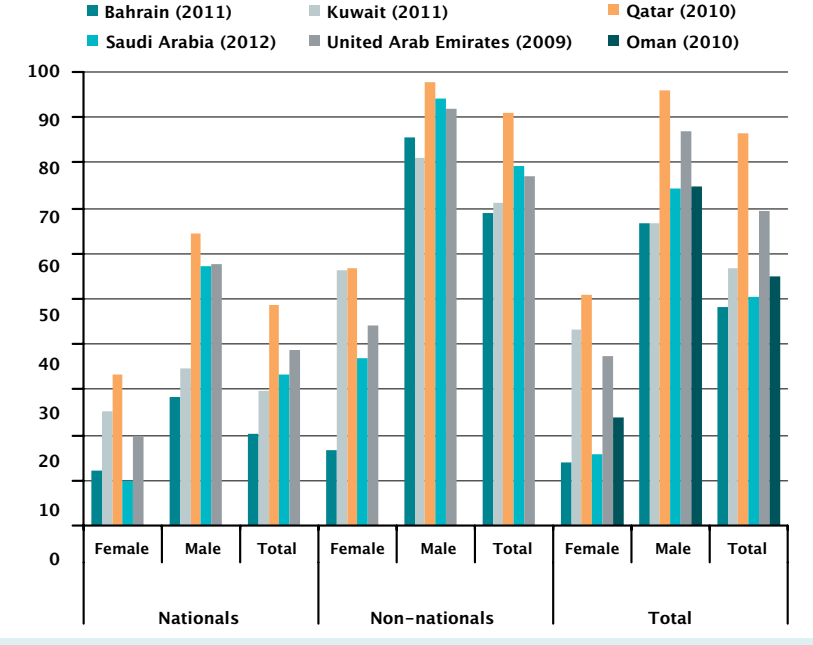
Source: IMF, World Economic Outlook Database.

Figure 3.8 **Employment rates in selected countries and regions** *(Percentage)*



Source: ILOSTAT Database and ESCWA calculations based on various national sources.

Figure 3.9 **Employment rates in GCC countries** *(Percentage)*



Source: Various national sources.

high volatility of average rate constituted an important feature of unemployment in the region.

(b) High level of youth unemployment

Unemployment in Arab countries varies along different age groups and educational levels.[14] Youth are the first victims of unemployment in the region: the group aged between 15 and 24 records the highest rates compared to other age groups in all countries (table 3.4).

IMF came to the same conclusion and announced that unemployment in the MENA region was the highest in the world, with youth constituting the largest population section among those unemployed. Specifically, the rate of unemployment for the group aged between 15 and 24 was at least double the overall unemployment rate. Moreover, at about 25 per cent, the youth unemployment rate in the MENA region exceeded that of any other region in the world.[15]

(c) High unemployment combined with low labour productivity

Another issue of unemployment in Arab countries is that it is associated with low productivity. The conventional wisdom suggests that an increase in productivity resulting from the introduction of new technologies could lead to job destruction and increases in unemployment. However, even this basic interpretation of the unemployment-productivity relationship is inverted in the Arab region. In essence, productivity in Arab countries is very low compared to regions with low levels of development. The rate of productivity growth during the period 1991-2010 in Arab countries was noted as 0.9 per cent, compared to 1.9 per cent for countries

Table 3.3 Statistical properties of unemployment

	Algeria	Egypt	Jordan	Kuwait	Morocco	Saudi Arabia	Syrian Arab Republic	Tunisia
Mean	20.1	9.4	13.9	1.2	11.6	15.2	10.8	14.2
Median	20.6	9.1	14.2	1.3	11.1	15.5	10.8	14.3
Maximum	29.5	11.4	15.3	2.0	15.4	17.4	16.7	16.0
Minimum	9.9	7.6	12.5	0.7	9.1	12.5	8.0	12.4
Standard deviation	7.8	1.1	0.8	0.4	2.1	1.5	2.6	1.4
Skewness	-0.08	0.3	-0.2	0.1	0.5	-0.3	0.6	-0.0
Kurtosis	1.2	2.0	1.8	2.1	2.0	2.0	2.6	1.3
Jarque-Bera	1.7	0.8	0.9	0.47	1.1	0.8	1.0	1.5
Probability	0.4	0.6	0.6	0.7	0.5	0.6	0.5	0.4

Source: ESCWA calculations.

with low income and 4.2 per cent in South Asia. The most striking element is that the average productivity growth was negative during the period 1991-1999 (-0.2 per cent) and has increased significantly during the period 2000-2010 (table 3.5).

However, recent papers show that productivity growth leads to higher employment. If productivity growth occurs in one industry, it will cause job destruction at a company or industry level.[16] Meanwhile, lowering prices increases the global demand and productivity, which, in turn, ultimately has a positive influence on labour demand and offsets the first order employment-lowering effect of higher productivity.

With regard to the Arab region, productivity increases have been difficult to achieve over the past decades. As far as data are available, Arab countries show stagnating or declining labour productivity, with the notable exception of Kuwait and the Syrian Arab Republic.[17] This situation reflects a high labour input in the economic output. It also reveals quite a notable participation of generally low-skilled labour force in

Table 3.4 Youth unemployment versus overall unemployment *(Percentage)*

	Youth (15-24) unemployment	Overall unemployment
Algeria	45.6	10
Bahrain	20.7	5
Djibouti	37.8	41
Egypt	25.8	8
Iraq	45.3	30
Jordan	38.9	11
Kuwait	23.3	3
Lebanon	21.3	12
Libya	27.3	7
Mauritania	44.3	16
Morocco	15.7	10
Oman	19.6	7
Qatar	17	1
Saudi Arabia	25.9	5
Somalia	43.4	33
Sudan	41.2	21
Syrian Arab Republic	19.8	8.3
Tunisia	26.5	14
United Arab Emirates	6.3	2
West Bank and Gaza	33.1	25

Source: UNDP, 2010.
Note: Latest available figures.

Table 3.5 **Productivity growth** *(Percentage)*

Growth rate of productivity (GDP per person employed [constant 1990 PPP $])			
	1991-1999	2000-2010	1991-2010
Arab region	-0.2	1.8	0.9
South Asia	4.0	4.4	4.2
European Union	2.1	1.1	1.5
East Asia and Pacific (all income levels)	2.9	5.7	4.5
East Asia and Pacific (developing only)	4.9	8.3	6.9
Middle income	2.2	5.3	4.0
Low income	1.2	2.3	1.9
High income	2.1	1.2	1.6
North America	2.1	1.5	1.8
World	1.7	2.6	2.2
Sub-Saharan Africa (developing only)	-0.7	2.7	1.3

Source: ESCWA calculations.

the job market, and points to the lack of any value-added character to the majority of existing jobs, as mentioned above.

(d) Low demand for skilled labour

Taking into account the knowledge content as well as productivity in such sectors as construction, trade and transport, figures often lie far below those shown in table 3.6. This further deepens the impression of highly divided economic structures between the extractive and the productive sectors. Available data show that in Egypt, Iraq, Palestine and Yemen, between 40 and 55 per cent of employed labour work were concentrated in sectors with below-average productivity.[18] Existing industries generate a high demand for uneducated low-skilled labour; and it is therefore no surprise that unemployment in Arab countries is especially high among the most educated in the workforce. In Tunisia, the unemployment rate of individuals with secondary education or higher levels of education reached up to double the national average unemployment rate.[19] Equally, in Jordan, the unemployment rate of individuals with higher and secondary levels of education was significantly above the rate of workers with lower education. In Palestine and Morocco, individuals with higher levels of education were more than twice as often seeking employment than other people (figure 3.10).

Interestingly, some recent research on Jordan found that high-skilled individuals often migrated or worked abroad, while the country imported low-skilled labour often for the informal sector. Importing foreign labour, to whom benefits and social security are rarely granted, undercuts Jordanian wages, and the inflow of remittances increases the reservation wage.[20] Such a divergence in wages brought about by importing foreign labour force on the one hand and remitting to the home country on the other hand could well constitute an important explanation of the prevailing low employment rates not only in Jordan, but possibly in other Arab countries.[21] The unlimited availability of cheap labour – either from abroad or from other regions within a country – reinforces imbalances in the economy and the existing labour market segmentation. The most visible examples of this multiple fragmentation are labour markets in some GCC countries. In the United Arab Emirates, according to the 2009 labour force survey, mean wages were only around 29.4 per cent of mean income.[22] This reflects huge differences between national and foreign workers, the public and private sectors, the skilled and non-skilled workers, as well as across the different Emirates within the country.

Table 3.6 Labour productivity in selected Arab countries

A. Mining and quarrying ($)

Country	2004	2005	2006	2007	2008	2009	2010
Jordan	44 536	44 980	51 243	54 898	..	..	..
Kuwait	4 682 268	4 663 553	4 429 576	3 995 655	4 296 896	3 138 171	2 952 047
Palestine	42 976	53 356	42 208	51 603	68 029	46 338	44 296
Qatar	1 176 110	915 576	531 798	..	400 414	584 860	..
Saudi Arabia	..	..	1 016 446	977 557	986 294	919 080	..
Tunisia	114 235	122 719	113 546	141 347	..	..	..
United Arab Emirates	993 150	898 245	983 436	875 290	808 205	..	..

B. Manufacturing ($)

Country	2004	2005	2006	2007	2008	2009	2010
Egypt	11 354	11 355	11 356	11 357	11 358	11 359	11 360
Jordan	13 051	13 061	14 790	14 411	14 428	15 003	..
Kuwait	60 029	60 431	59 369	58 143	46 823	50 274	54 677
Morocco	16 964	18 730	17 662	18 365	19 490	20 023	20 601
Oman	71 515	71 516	71 517	71 518	71 519	71 520	71 521
Palestine	10 182	10 946	8 207	9 159	9 704	8 749	..
Qatar	82 466	79 493	64 900	..	62 146	70 010	..
Saudi Arabia	..	..	47 685	48 300	48 409	47 349	..
Sudan	14 315	14 502	15 419	16 271	..	..	..
Tunisia	11 472	12 006	11 635	11 284	..	..	..
Yemen	7 752	7 349	6 178	11 426	11 747	9 654	8 419

Source: ESCWA, 2012a.
Notes: Labour productivity indicates the value added of mining and quarrying, including electricity and water supply, per capita in constant 2005 $; and the value added of manufacturing per employee in constant 2005 $.
Two dots (..) indicate that data are not available or are not separately reported.

3. *The job market*

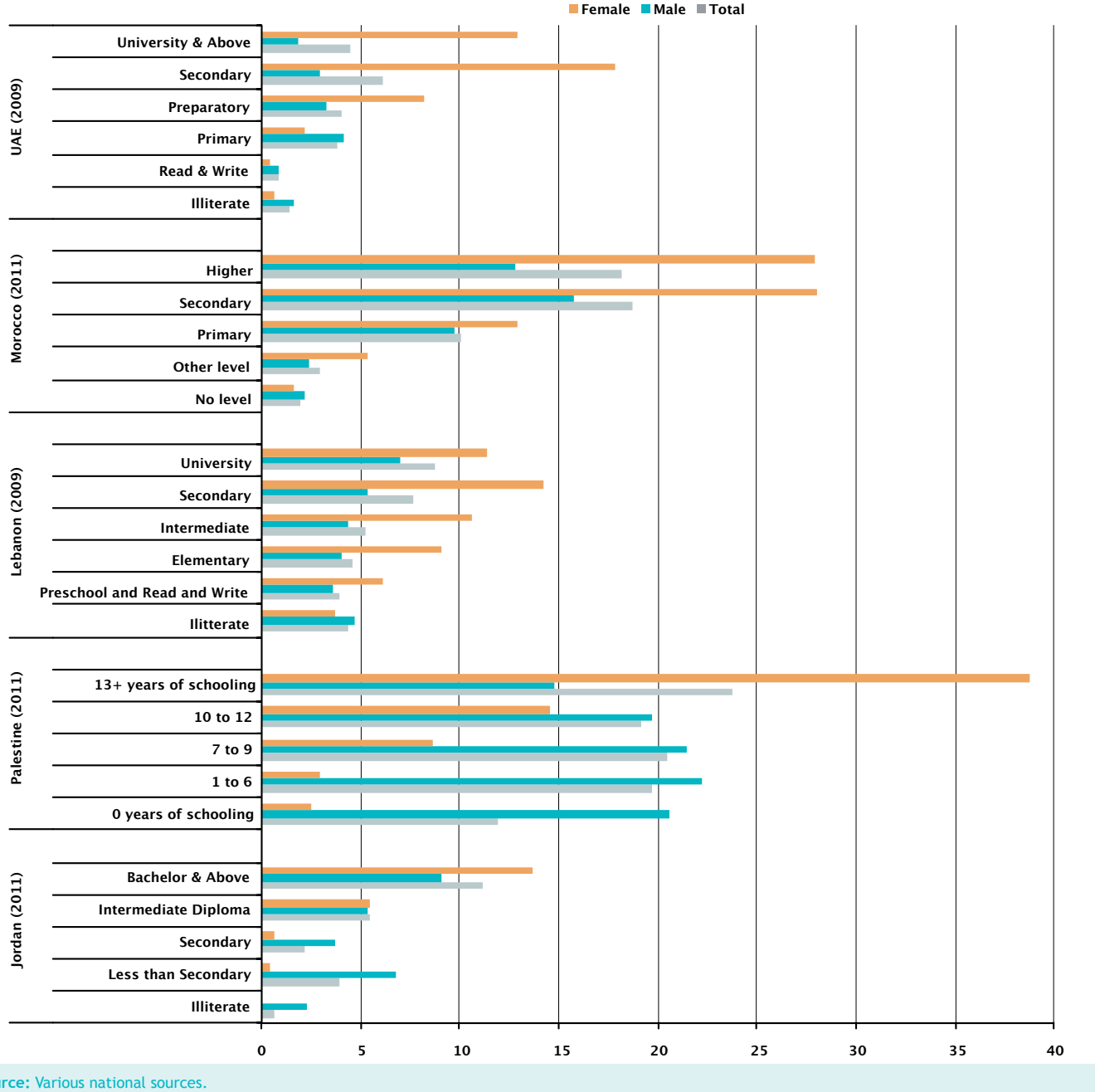
As is the case of many other developing countries, labour laws in the Arab region were elaborated during the 1950s and the 1960s. This was a period of full employment when newly independent States were trying to improve employees' rights and to build a development model based on social progress. This period of "job abundance", especially for skilled workers, has now ended and the upsurge of unemployment in these countries has dramatically changed the bargaining power of job applicants. According to the World Bank's Doing Business report of 2012, the current labour regulation in the region has made recruiting and firing employees extremely complex, even more than in relatively developed economies facing less demographic pressures.

(a) High entry costs

The ratio of minimum wage to the value added per worker is relatively high in the majority of Arab countries (table 3.7). In essence, it reached 0.69 in Morocco, 0.58 in the Syrian Arab Republic and 0.24 in Tunisia. These ratios appear high when

compared with 0.21 in the United States and Germany; 0.34 in Norway, Finland and the United Kingdom; and 0 in Denmark, Singapore and Sweden. Despite this fact, wages were deemed to be suppressed and most work competitiveness in the Arab region came from suppressed wages rather than actual productivity.

Figure 3.10 **Unemployment rates by level of education and gender in selected countries** *(Percentage)*



Source: Various national sources.

(b) High exit costs

Firing costs for formal contracts are considered high in the Arab region (table 3.8). Several countries have amended their labour legislation with the aim of achieving balance and flexibility in hiring and firing employees. Changes in legislation throughout the region included Egypt in 2003; Tunisia in 1994 and 1996; and Jordan in 1996.[23] Further analysis shows that the rules are, however, still seen as overly rigid. Firing remains costly for employers owing to lengthy bureaucratic procedures, high payments and biased labour court decisions. Severance payments are often relied upon as insurance for unemployment, given the scarcity of social insurance systems. Table 3.8 shows that severance pay for redundancy dismissal of workers with 1, 5 and 10 years of tenure was equal to 26.7 weeks in Egypt, 23.1 weeks in Yemen, 13.5 weeks in Morocco and 7.8 weeks in Tunisia. In comparison, the same procedure is "free" in the United States, Denmark, Singapore and Finland and "costs" 11.6 weeks in Germany, 4.6 weeks in France and 2.7 weeks in the United Kingdom.

(c) Difficulties in formalizing jobs

Almost all the economies of the region were marked by their fragmentation into multiple segments and their highly paradoxical economic and employment structures. The economic sectors with the largest shares in GDP, such as the oil and gas industries, provided a comparatively small share of employment, while economic sectors that contributed relatively small shares to GDP, including construction, tourism and other services, provided the highest shares of employment.[24] The result is a wide split between the relatively small segments that offer secure and rewarding

Table 3.7 Recruitment-related indicators

	Fixed-term contracts prohibited for permanent tasks?	Minimum wage for a 19-year-old worker or an apprentice ($/month)	Ratio of minimum wage to value added per worker
Arab countries			
Morocco	Yes	246.5	0.69
Syrian Arab Republic	No	205.8	0.58
Mauritania	No	74.5	0.49
Yemen	No	74.9	0.46
Algeria	Yes	204.8	0.38
Jordan	No	199.9	0.34
Lebanon	No	318.0	0.29
Iraq	Yes	98.7	0.28
Tunisia	No	115.9	0.24
Oman	No	506.9	0.21
Egypt	No	31.8	0.10
Kuwait	No	166.2	0.04
Bahrain	No	0.0	0.00
Djibouti	Yes	0.0	0.00
Qatar	No	0.0	0.00
Saudi Arabia	No	0.0	0.00
United Arab Emirates	No	0.0	0.00
Palestine	No	0.0	0.00
A sample of comparator countries			
Norway	Yes	3 608.9	0.34
Finland	Yes	1 989.5	0.34
United Kingdom	No	1 655.0	0.34
Germany	No	1 145.5	0.21
United States	No	1 242.6	0.21
France	Yes	782.0	0.14
Denmark	No	0.0	0.00
Sweden	No	0.0	0.00
Singapore	No	0.0	0.00

Source: World Bank and IFC, 2012.

Table 3.8 Severance pay for redundancy dismissal

	Worker with 1 year of tenure, in salary weeks	Worker with 5 years of tenure, in salary weeks	Worker with 10 years of tenure, in salary weeks	Worker with 20 years of tenure, in salary weeks	Average for workers with 1, 5 and 10 years of tenure, in salary weeks
Arab countries					
Egypt	4.3	21.7	54.2	119.2	26.7
Yemen	4.3	21.7	43.3	86.7	23.1
Palestine	4.3	21.7	43.3	86.7	23.1
Qatar	3.0	15.0	30.0	60.0	16.0
Saudi Arabia	2.2	10.8	32.5	75.8	15.2
Kuwait	2.1	10.7	32.5	75.8	15.1
Morocco	2.2	10.9	27.3	76.4	13.5
Algeria	13.0	13.0	13.0	13.0	13.0
Tunisia	1.7	8.6	13.0	13.0	7.8
Mauritania	1.1	5.4	11.9	27.1	6.1
Syrian Arab Republic	0.0	0.0	0.0	0.0	0.0
Jordan	0.0	0.0	0.0	0.0	0.0
Norway	0.0	0.0	0.0	0.0	0.0
Lebanon	0.0	0.0	0.0	0.0	0.0
Iraq	0.0	0.0	0.0	0.0	0.0
Oman	0.0	0.0	0.0	0.0	0.0
Bahrain	0.0	0.0	0.0	0.0	0.0
Djibouti	0.0	0.0	0.0	0.0	0.0
United Arab Emirates	0.0	0.0	0.0	0.0	0.0
A sample of comparator countries					
United States	0.0	0.0	0.0	0.0	0.0
Denmark	0.0	0.0	0.0	0.0	0.0
Sweden	0.0	0.0	0.0	0.0	0.0
Singapore	0.0	0.0	0.0	0.0	0.0
Finland	0.0	0.0	0.0	0.0	0.0
Germany	2.2	10.8	21.7	43.3	11.6
France	0.9	4.3	8.7	23.1	4.6
United Kingdom	0.0	2.7	5.3	10.6	2.7

Source: World Bank and IFC, 2012.

employment in the formal public and private sectors, and the large stratum of unskilled, low-productive labour force that hardly contributes in adding any value to existing jobs, which are believed to be generally informal jobs.

According to recent estimates, about one third of GDP and two thirds of employment are generated in the informal sector.[25] Available data on Egypt, Jordan, Palestine, Syrian Arab Republic and the United Arab Emirates all point to higher average wages in the public sector than in the private sector, especially with the inclusion of data from the informal private sector. In Jordan, the wage distribution exhibits a very wide base of low wages, with the majority of workers (52.6 per cent) making less than $423 per month.[26] Estimates reveal that around 14.9 per cent earn less than 200 Jordanian dinars as a monthly salary, while the established minimum wage lies at 190 Jordanian dinars per month. The National Employment strategy of Jordan acknowledges that the large supply of low-wage foreign workers creates pressure at the bottom end of the wage scale.[27] The case of Jordan illustrates that wages in the informal sector tend to be at the lower end of the wage scale, significantly below those of workers in the formal sector.

The size of the gap between informal and formal sectors varies across Arab countries. While wages are estimated to be around 10 per cent higher in the formal sector in the Syrian Arab Republic, the wage difference has reached around 50 per cent for youth in Morocco. In Egypt and Lebanon, the gap amounts to 30 per cent, climbing to 50 per cent for women in Egypt.[28] While minimum wage legislation exists in most countries of the region, it is not necessarily always enforced. Such disadvantages in wages in the informal sector should be diagnosed in connection with other shortcomings related to higher working hours, less annual leave, poorer working conditions and absence of insurance coverage by existing social security systems (such as pension schemes or health-care insurance). In the Arab region, almost 70 per cent of workers are not covered by social security schemes.[29] Table 3.9 shows that the share of informal employment in non-agricultural sectors reached 67.1 per cent in Morocco, 45.9 per cent in Egypt, 51 per cent in Yemen and 35 per cent in Tunisia. This situation explains also the increasing role of the informal sector as one of the major job providers in the region. Nasser (2011) estimates that informal employment reached 10.8 million in Egypt in 2008, representing 48.1 per cent of total employment.

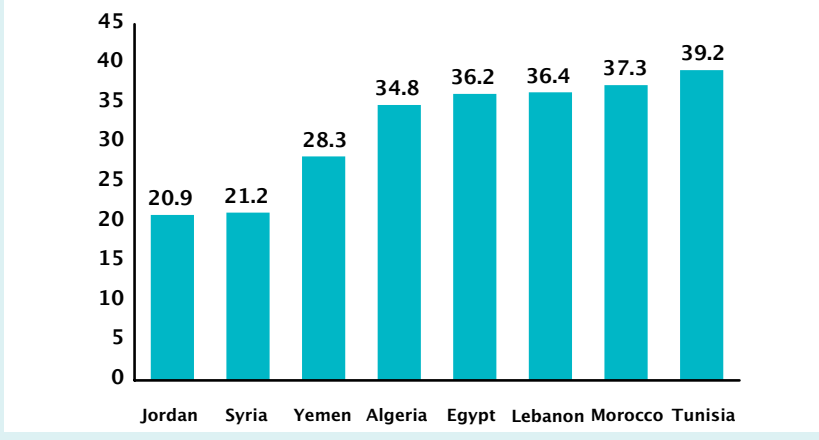
Table 3.9 Share of informal employment in total non-agricultural employment

Country	1975 -1979	1980 -1984	1985 -1989	1990 -1994	1995 -1999	2000 -2007	Latest
Algeria	21.8		25.6		42.7	41.3	41.3
Morocco		56.9			44.8	67.1	67.1
Tunisia	38.4	35	39.3		47.1	35	35
Egypt	58.7		37.3		55.2	45.9	45.9
Lebanon						51.8	51.8
Palestine						43.4	43.4
Syrian Arab Republic				41.7	42.9	30.7	30.7
Yemen				57.1		51.1	51.1

Source: OECD, 2009.

Figure 3.11 features the Schneider index, which measures the share of production not declared to regulatory and tax authorities. Between 1999 and 2004, the rate of growth of this index in the region was of 0.42 per cent per year, which represents a level comparable to that of Europe and Central Asia. According to

Figure 3.11 **Schneider index** *(Percentage of GDP)*



Source: Angel-Urdinola and others, 2011.

this index, Tunisia followed by Morocco displayed the highest levels of informality. Undeclared high levels of production increased the issues of revenue collection for non-oil countries and enhanced fiscal resource losses.

Low employee mobility from the informal to the formal sector highlights issues of reformation that should be undertaken to facilitate the costs of registration, the procedures of employment, the minimum capital requirements and the removal of entry barriers.

C. Short-term economic responses to unemployment

This section proposes a sample of short-term reforms that could ease the unemployment problem in the region and help new Governments to better translate growth into job creation. These reforms should be further analysed in the different national contexts. Moreover, their implementation should be well designed in order to ovoid problems in their application.

1. Improving the impact of macroeconomic policies on labour

A comprehensive survey of the fiscal and monetary policies in the Arab region and their relation with job creation revealed a number of inconsistencies between public policies and job creation that explain part of the unemployment problem in the region.[30]

(a) Initiating a national dialogue to define a new developmental paradigm

Almost all business models in the Arab region are based on cheap labour. At the same time, the region is striving to establish knowledge-based economies. Countries currently maintain conflicting policy agendas. New Governments should start a corporate dialogue with the private sector and the social stakeholders in order to design a new development paradigm, and to define new directions with the objective of encouraging investment that increases competitiveness and labour productivity. In GCC countries, this dialogue should also include a discussion about a long-term migration policy, and should be supported by a major improvement of the labour market information systems and employment-related research. While most of the basic indicators are available, the level of detail and analysis does not always allow for a differentiated picture that could guide rapid policy interventions in a highly volatile political and economic environment. This improvement should include the following:

(i) In addition to basic labour market indicators, more information should be collected in relation to the "decent work" agenda. This especially concerns information about working conditions, hours regularly worked, prevailing

wages in different sectors and work injuries;

(ii) More systematic research should be directed to the informal sector. Some of the statistical instruments used to collect employment-related data, establishment surveys for example, insufficiently cover the informal sector. They should be complemented by specific research in order to represent adequately the working conditions of the majority of the population. Similarly, the situation of persons with disabilities and other disadvantaged groups should be considered more systematically;

(iii) The quality of statistical data deserves improvement, including the comparability over time. In order to trace progress and the effect of different policy instruments, data collection shoud be sufficiently frequent, of reliable and stable quality, and able to reflect accurately seasonal changes in society;

(iv) Private sector demand for skills should be studied more deeply. In order to guide policy interventions, more detailed information is needed about the types of skills demanded in the private sector;

(v) Access to high quality and detailed statistical data should be broadened beyond policymaking circles. Given that analytical capacity within public administrations is often limited, the academic and professional research community should be encouraged to join efforts. Similarly, large private sector enterprises may be interested in the study of specific labour market trends in order to refine investment decisions.

(b) Enhancing the business climate and the regulatory framework

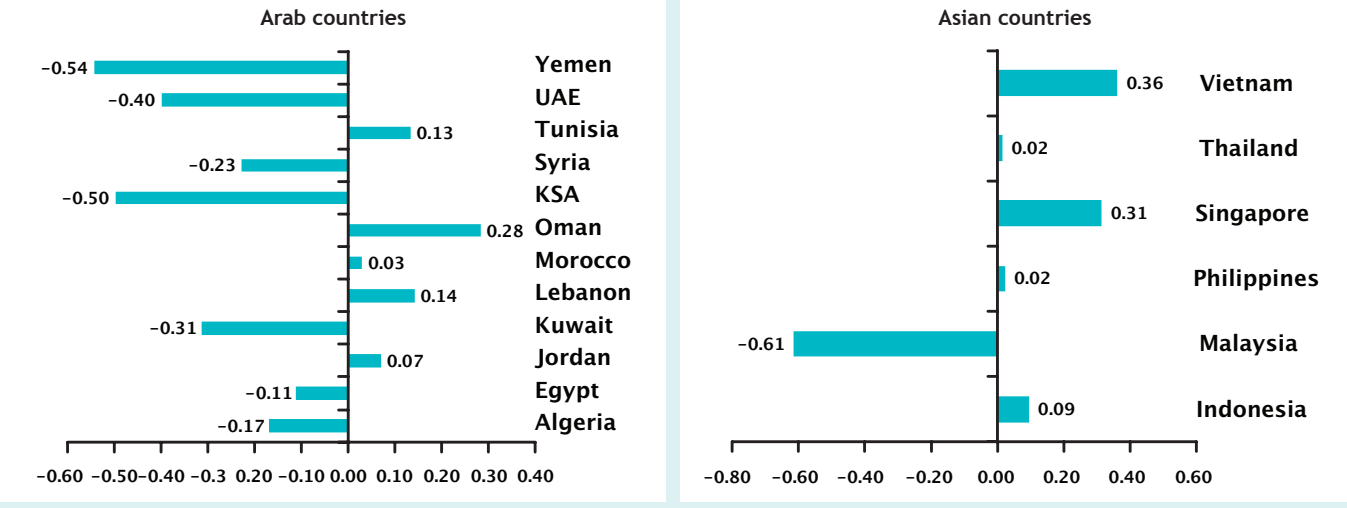
Demand for labour must come from the economy. While the state can influence and support this demand in several ways and bridge some gaps for a limited period of time through public employment and public works programmes, it cannot replace original private sector activity. In crisis situations the state should step in, albeit ideally limiting its intervention to a specific period of time. The overall policy direction would be to support the creation of jobs for the educated part of the population while continuing to increase the quantity and improve the conditions of existing informal sector employment. In the short term, these reforms should include the following:

Improved business regulation and governance are of higher importance for employment creation than a reform of labour regulation

(i) Comprehensive regulatory reforms should be undertaken in the short, medium and long term. The demonopolization of product markets, including the dismantling of formal or informal monopolies, an equal-level application of laws and rules, and a reduction in the time and effort needed to start an enterprise are important factors that support job creation. Recent research suggests that improved business regulation and governance are of higher importance for employment creation than a reform of labour regulation.[31] Better availability of good jobs in other sectors would also reduce the pressure on public sector employment;

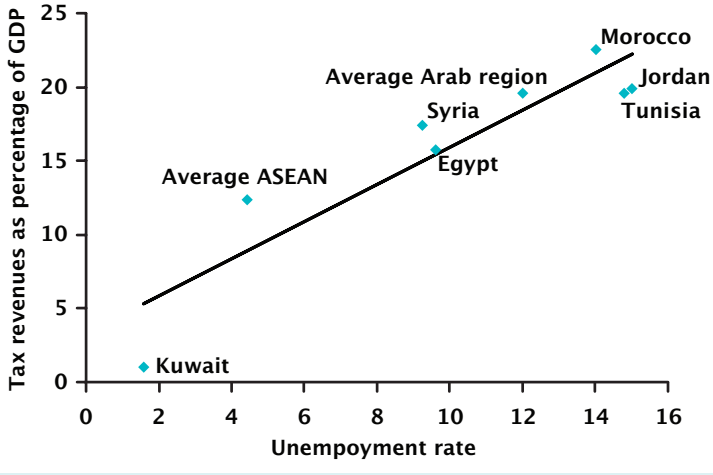
(ii) Support of small and medium enterprises (SMEs) and entrepreneurship, particularly given that the vast majority of businesses in the Arab region are SMEs and microenterprises. The leverage of successful SME support

Figure 3.12 Correlation between employment variation and public expenditure growth



Source: ESCWA calculations, based on World Bank data, available from http://data.worldbank.org/indicator.

Figure 3.13 Correlation between unemployment variation and tax revenues
(Percentage of GDP)



Source: ESCWA, 2011.
Abbreviation: ASEAN, Association of Southeast Asian Nations.

strategies can be considerable. Such support can range from improved access to finance, to legal support services, to support for better business linkages with partners along the value chain. The National Suppliers Development Programme in Egypt, where the Ministry of Trade and Industry works with a net of local potential supplier firms in order to meet the quality standards of a big multinational company, could serve as an example.

(c) Revising fiscal policy

On the fiscal side, there is a negative correlation between public expenditure, tax regimes and employment creation. The same conclusions are drawn from the study of the monetary and exchange-rate policy regimes. The historical inverse relationship between the rate of unemployment and the rate of inflation in an economy (Phillips curve) appears to be turned upside down in the Arab region. Pegged exchange rate regimes applied by the majority of Arab countries have affected their competiveness and hindered them from creating jobs. As recommended by UNDP's *Arab Development Challenges Report 2011*, the region should adopt more accommodating macroeconomic and sectoral policies to enhance the efficiency of its fiscal policy.

The foremost priority is to use public investment to facilitate economic activity in formal sectors that have high potential for providing decent job vacancies. This would contribute to the competitiveness of Arab economies and encourage more investment in production.

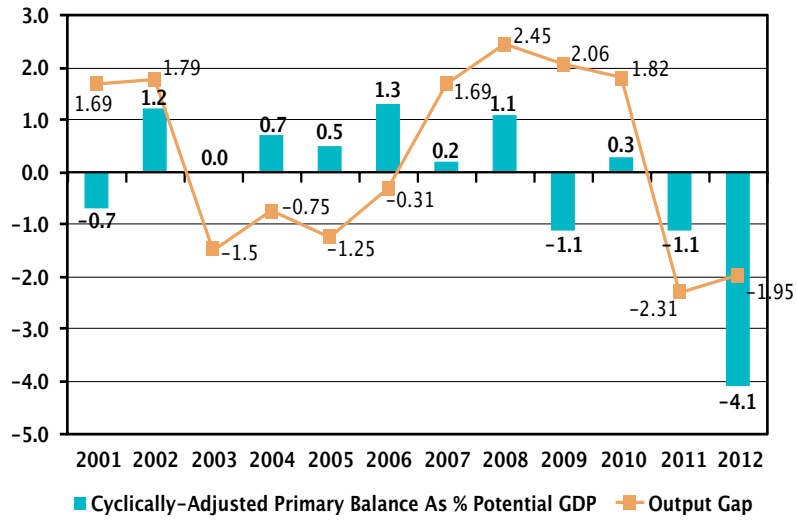
On the tax collection side, the Arab region should address issues related to corruption and governance. Low (or adequate) tax rates that stimulate growth and job creation, and that are embedded in an effective regulation system, should be reliable and predictable over a long period of time in order to encourage people to work, save and invest within formal markets. The Arab region is characterized by two distinct approaches of taxation:

(i) Countries that generate revenues by exporting oil redistribute parts of these revenues to their populations without imposing income taxes. This is the case in most GCC countries and Libya;

(ii) Non-oil Arab countries, which have much lower per-capita incomes, depend on foreign markets or foreign sources of income, such as aid and workers' remittances in Jordan, Lebanon and Tunisia; or a mixture of aid and rent sources, such as in Egypt, which contains natural sources and the Suez Canal. In the absence of progressive and comprehensive tax scales, these countries rely on generating revenue through value-added taxes. Those are direct taxes that do not distribute the tax burden on the basis of the size of personal income or corporate profit.

Gradually, countries in the region are realizing that fairer taxation systems have a politically stabilizing effect, and they have initiated the needed steps. For example, with its new 2011-2012 government budget, Egypt has suggested a capital gain tax on profit from capital operations, such as stock and real estate profit, raising taxes on the highest income bracket by 5 per cent.

Figure 3.14 Fiscal impulsion in Tunisia



Source: ESCWA calculations based on data from the National Institute for Statistics, Tunisia.

On the spending side, cyclical unemployment could be addressed by policies of temporary stimulus, such as the stop-go policy that has been implemented in Tunisia since 2012 (figure 3.14).

This policy is designed as a temporary and substantial increase in investment at the expense of operating expenditures. It results in widening the budget deficit to an acceptable level while meeting the conditions of medium-term debt sustainability. The analysis of the absence of good macroeconomic management in Tunisia during the crisis shows that this could lead the country to the inability of stimulating aggregate demand, thereby managing the Keynesian component of unemployment.

(d) Increasing government expenditure on investment

A panel econometric analysis conducted on a set of Arab countries shows that the investment rate is the only statistically significant variable that explains unemployment in the region.[32] Specifically, a variation of 1 per cent in the investment rate reduces the unemployment rate by 0.24 per cent. However, economic growth achieved through investment does not stand as a job-creating indicator. In essence, no significant statistical relationship has been spotted between growth and unemployment, even when the change of structure was captured during this period by adding the period-fixed effect. In this case, inflation becomes negatively correlated with unemployment as expected by the Philips curve. An increase of 10 per cent in the inflation rate should reduce unemployment by about 0.2 per cent, which is very modest compared to the effect of investment. Investment appears to be a crucial strategy in reducing unemployment in Arab countries.

Table 3.10 Explanation of the unemployment rate in the region

Variable	Cross fixed effect	Period and cross fixed effect
C	17.72***	19.7***
Investment rate	-0.24***	-0.31***
Inflation rate	-0.00018	-0.027***
GDP growth rate	0.01	-0.01
R-squared	0.79	0.85
Adjusted R-squared	0.78	0.81
Standard error of regression	3.01	2.83
Residual sum of squares	1775.38	1321.01
Log likelihood	-518.14	-487.39
F-statistic	68.42	21.62

Source: ESCWA calculations.

(e) Reallocating a part of the military expenditure

Figure 3.15 shows that Arab countries allocate more than 5 per cent of their GDP to military expenditure. This represents more than twice the world's average level. Military expenditure is an opportunity cost given that it prevents efficient allocation of government resources into education and public health. Arab countries allocate 3.95 per cent of their GDP to education while the world's average is 4.45 per cent; they also allocate 2.44 per cent of their GDP to public health expenditure while the world average is 5.75 per cent.

A large part of military expenditure consists of buying imported goods, which does not have any economic consequences and cannot affect the Keynesian multiplier, as it does not support domestic manufacturing or any other kind of value-adding to the industry. Reforms of government spending patterns should address this outlined bias, otherwise countercyclical measures that many countries in the region are planning to adopt in the forthcoming years will have no significant impact on reducing unemployment. Taking into account population growth, associated with the growing number of youth searching for meaningful employment, Arab countries should find a way for resolving future conflicts that might arise.

(f) Increasing public employment: Extending public work programmes (PWPs) and active labour policies (ALPs)

Public employment could represent a transitory solution, particularly given that few short-term employment opportunities are available for the better educated part of the unemployed population; however,

it is not advisable as a long-term solution. It is important to limit the duration of public employment contracts from the start and make them conditional on further qualification and career guidance during the contract.

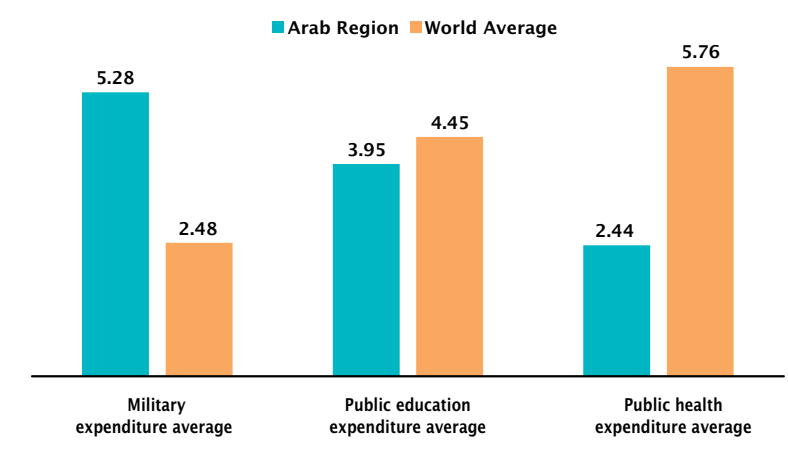
PWPs can be extended as instruments through which Governments can directly assist especially vulnerable groups.[33] Serving as poverty alleviation tools, PWPs are usually designed to provide employment and income to the parts of the population that are most severely affected by economic crises. In the Arab region, Egypt, Iraq and Yemen have experience in operating large-scale PWPs with volumes of several million United States dollars, predominantly spent in rural areas. These programmes pursue the twin objectives of creating employment and developing a vital economic and social infrastructure in often marginalized areas.

ALPs are policies that have been previously applied in the Arab region. They basically consist of Governments intervening in labour markets in order to provide protection against some fluctuations of economic conditions. In essence, Governments intervene to support the match between labour supply and demand, raise the quantity and quality of human resources available to the economy, and improve the functioning of the labour market. Instruments employed range from reforms of labour market regulations and the overhaul of employment services, training programmes for PWPs, employment subsidies and the promotion of SMEs.[34] The potential of such programmes as a quick response mechanism in crisis situations is currently being exploited in Tunisia where several donors along with the Government have initiated employment creation through labour-intensive working programmes. The focus is on improving the living conditions in economically weak regions in the country and in urban areas.[35]

Among GCC countries, Saudi Arabia has started targeting activation policies to address the low levels of labour force participation among women. By implementing more forcefully a law dating from 2006, Saudi women are now supposed to replace male foreign migrant workers in most retail shops.[36] At the same time, the Ministry of Labour has started an initiative to encourage women to work from home.[37] Other labour enriching programmes that have absorbed hundreds of millions of financial supporters include MANFORME (*Mise à Niveau de la Formation et de l'Emploi*) in Tunisia;[38] the Al-Manar project in Jordan;[39] vocational education projects in Egypt and Morocco; and parts of the MEDA programme in Jordan, Lebanon and the Syrian Arab Republic.[40]

As a note of caution, these types of programmes should be implemented in such a way that they do not affect long-term

Figure 3.15 **Public expenditure, 2005-2009 average** *(Percentage of GDP)*



Source: ESCWA calculations, based on World Bank data, available from http://data.worldbank.org/indicator.

The persistence of the employment crisis in Arab countries has been a source of concern over the past decade

macroeconomic stability in the concerned countries. Specifically, studies of the programmes should be undertaken in order to address the consequences of their failures. For example, in such countries as Tunisia, the implementation of these programmes, which are seen as a new form of public jobs, has created a serious burden on the budget. In addition, analysis suggests that while the mentioned reform programmes have generated "islands of excellence", they have failed to initiate broader systemic changes.[41] Systemic changes in terms of a structural transformation of Arab economies, diversification away from rents and a move into other technologically advanced sectors, have been on the Arab agenda for a while, and in some aspects the process is on an encouraging path. The share of the manufacturing sector, as well as of services such as telecommunications, trade and tourism, are increasing rapidly. Manufacturing is now the second largest sector in Egypt and Jordan.[42] However, many manufacturing enterprises continue the low-skilled, low-value-added and low-productivity trend in the region, often using foreign migrant labour, thereby further emphasizing the comparatively low knowledge content of the economy.

2. Reforming labour market legislation to reduce rigidities while maintaining social security mechanisms

A number of countries have reformed labour legislation, notably Egypt, Oman and Yemen in 2003; Iraq and Qatar in 2004; Saudi Arabia in 2005; the United Arab Emirates in 2007; and Jordan, Kuwait and the Syrian Arab Republic in 2010.[43] Most reforms relaxed the conditions of fixed-term contracts, making it easier for employers to adjust their workforce to economic conditions. However, new and more radical approaches seem to be required. The persistence of the employment crisis in Arab countries, despite the considerable funds and efforts vested by Governments and international donors, has been a source of concern over the past decade.

(a) Implementing unemployment insurance

Economic efficiency and worker protection could be achieved if the labour code is set as an overarching goal to protect the income of workers as opposed to protecting jobs. In order to reach this objective, the following combination is proposed:

(i) A reduction of the firing cost;
(ii) The creation of a mandatory public unemployment insurance (UI) system.

There is a large consensus of opinion that UI is an important automatic economic stabilizer. On the one hand, UI allows consumers to cope with the risk of large fluctuations in income arising from job losses. On the other hand, it provides a method of smoothing consumption for the unemployed, particularly for consumers who are constrained in borrowing. The overall effect of such policy on the national economy is quite complex. In this context and in order to obtain a first order estimation of the impact of establishing a mandatory labour insurance mechanism in all Arab countries, a CGE simulation was undertaken using a modified version of the MIRAGE model.[44] This involves creating in 2013 an institution that would provide unemployment benefits to all unemployed persons in the Arab region. The benefit level is supposed to be equivalent to 25 per cent of current workers earnings, which represents a level equal to the OECD

(Organisation for Economic Co-operation and development) average (annex II). This benefit is supposed to be totally financed by additional labour taxation to maintain the net labour benefit at its initial level. In this simulation, the impacts of reducing firing costs are not assessed, though this policy is supposed to increase the growth-employment elasticity. Consequently, labour elasticity is assumed to remain unchanged, which means that the estimation of the economic cost of this policy is a maximal estimation. According to such a simulation, creating UI in the Arab countries implies a sensible increase in labour taxation. For non-oil producing countries and Saudi Arabia (countries where unemployment is relatively high) this increase reaches 3 to 4 basis points (figure 3.16).

Also according to the simulation, the policy cost would be equivalent to a GDP loss of 1 per cent for the entire Arab region (figure 3.17). GDP loss would be more important in non-oil producing countries where it could reach 2.06 per cent, with a 3.25 per cent loss in Morocco, 2.43 per cent in Egypt and 1.32 per cent in Tunisia. Salary increases would reduce economic competitiveness, especially that of non-oil economies. That would explain the reduction in their total exports (figure 3.18).

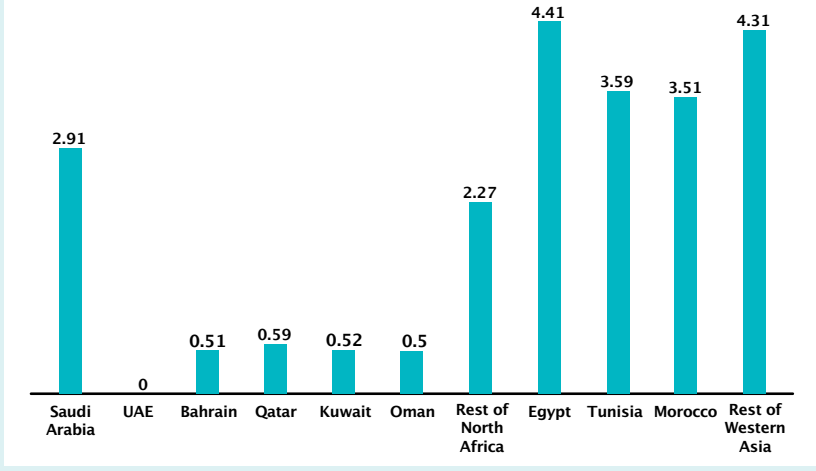
The impact of these variations should be compared with those of the employment programmes that are currently implemented in many Arab countries. As an example, the World Bank estimates that 11 employment programmes existed in Tunisia and that their overall cost exceeded 1.5 per cent of GDP. The analysis of costs and benefits and implementation mechanisms of UI should also take into consideration additional microeconomic and social effects.[45] Appropriately designed UI schemes could provide adequate protection to workers in the context of a more flexible labour market. While Algeria, Egypt, Iran and Kuwait had some kind of UI systems, they were hardly being used. This could be attributed to a lack of public awareness of UI benefits among its plan members, in addition to restrictive eligibility conditions, the difficulty of and the stigma attached to documenting a "just-cause" firing decision, and low overall lay-off risk regarding covered employees with open-ended contracts.

From a positive side, UI is certainly a good tool to protect workers that underestimate the eventuality of being unemployed. In the United States, the welfare of benefit-recipient households is on average only 3 to 8 per cent lower than the welfare of otherwise identical households.[46] Moreover, in the absence of unemployment insurance, average consumption expenditures would fall by about 20 per cent.[47]

The introduction of UI programmes could affect employment decisions. First, such programmes influence job-search

Appropriately designed UI schemes could provide adequate protection to workers in the context of a more flexible labour market

Figure 3.16 **Variation of labour taxation** *(Basis points)*



Source: ESCWA calculations based on World Bank data, available from http://data.worldbank.org/indicator.

efforts and the reservation wages of recipients. They may either prolong unemployment periods by making leisure more attractive, or shorten them by providing additional resources, thereby enabling a more effective job search. Second, unemployment benefits improve the bargaining position of workers. This leads to higher wages and hence to a higher equilibrium unemployment.[48] Additionally, UI could affect allocation decisions on economic agents such as enterprise restructuring and layoff.

Several countries are considering the introduction of UI. At present, schemes are effective in Egypt and Bahrain. In Jordan, UI is currently phased in as a defined contribution scheme.[49] Saudi Arabia and Oman introduced a programme of unemployment benefits in 2011, and the United Arab Emirates is debating a similar move.[50]

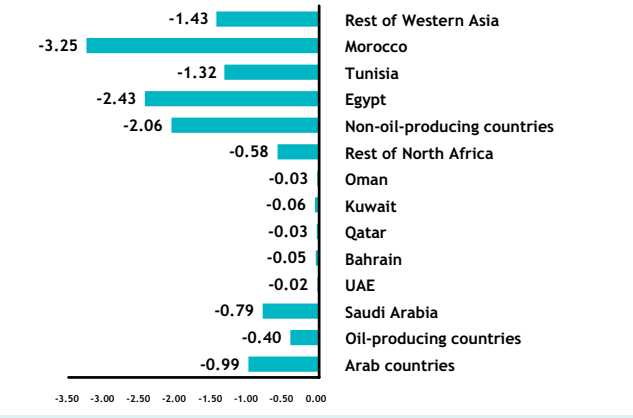
(b) Implementing a social value added tax (VAT) mechanism

In a Bismarckian system, social benefits are financed by payroll taxes. These taxes constitute the difference between the gross salary actually paid by the employer, and the net income actually received by the employee. In this context, the reduction of labour costs encourages firms to hire more employees and improve their competitiveness.

One of the causes frequently put forward to explain the persistence of high unemployment rates is the cost of work or the wage wedge, which is the difference between what the employer pays and what affects the employee. The example of Tunisia shows the salary structure normalized to 100 per cent. The social and fiscal wage wedge represents the difference between the total amount paid by the employer (normalized to 100) and the cost that he/she incurs. The figures show that the tax wedge increased by around 4 per cent from the period 1990-2000 (23.5 per cent) to 2000-2010 (27.6 per cent). In the recent period of 2008-2010, the tax wedge continued to record an increase reaching 28.2 per cent. Reducing unemployment rates could require reducing the tax wedge (table 3.11).

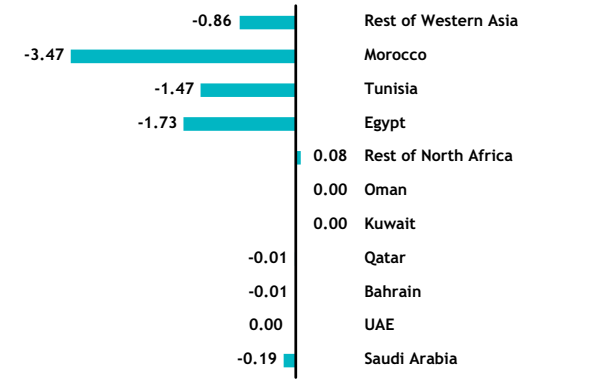
The principle of social VAT is to reduce the contributixons paid by employers

Figure 3.17 Variation of GDP



Source: ESCWA simulation using MIRAGE.

Figure 3.18 Variation of exports



Source: ESCWA simulation using MIRAGE.

and offset this reduction by increasing the VAT rate to continue to finance social protection of employees. The simplicity of this mechanism and its immediate effect on labour costs has led many countries to implement it or to explore the possibility of doing so. Countries such as Denmark and Germany are best known for their success in introducing social VAT. Specifically, in the late 1980s and early 1990s, Denmark experienced an increase in its unemployment rate, large public deficits and a big deficit in its balance of payments. To address this problem, the then socialist Government of Denmark put in place a package of reforms, including the introduction of social VAT. The immediate effect was an improvement of competitiveness by 5 per cent and a slight inflation with improved profit margins. While the impact on unemployment was seen as mixed, the country has been able to reduce unemployment rates from 10 per cent in the early 1990s to 4 per cent in 2011. Similarly, Germany introduced a system of social VAT in 2007, which led to an increase in VAT from 16 to 19 per cent, to fund a reduction in unemployment contributions. A VAT point was sufficient to compensate for the reduction of social contributions. In France, the debate has been ongoing over a long period. In essence, the issue was discussed in 2007 and returned to the public debate more recently. Several studies have been initiated and simulations show that a VAT point offsets 1.5 social contribution points. According to DGTPE *(Direction Générale du Trésor et de la Politique Économique)*, more than 300,000 extra jobs could be financed in the medium term by lowering the social contribution concentrated on low wages, and compensating that by raising VAT by 1.5 contribution points.

Applying such a mechanism in some countries of the Arab region could possibly reduce labour costs faced by employers without reducing the benefits of social safety nets. The economic impact of implementing social VAT mechanisms has been assessed through a simulation, using a modified version of the MIRAGE model. The simulation consists of reducing labour taxation by 50 per cent while maintaining social security benefits. The gap between social security contributions and benefits is supposed to be financed by an additional indirect taxation commonly known as social VAT. The simulation shows that the level of social VAT that needs to be applied differs between countries. The difference ranges from 6.79 per cent in Bahrain and 4.14 per cent in Tunisia to 0.07 per cent in Egypt (figure 3.20). The variations in results stem from the difference in the initial level of social security contribution prevailing in these countries. Also, the reduction of labour cost has its consequences on the level of unemployment in the considered countries. Figures 3.21 and 3.22 show that unemployment rates decrease in all countries, particularly in Tunisia, which

Table 3.11 **Fiscal and social wage wedge in Tunisia** *(Percentage)*

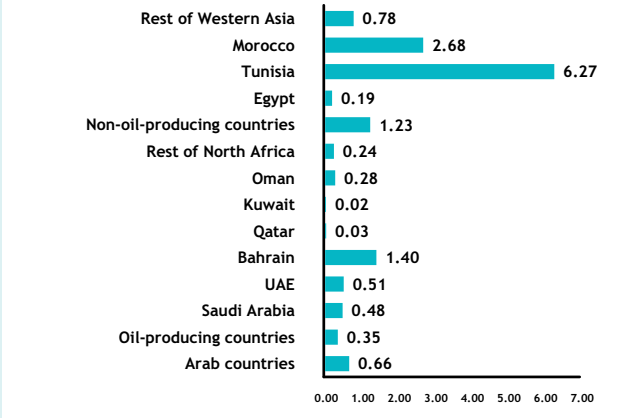
	Average 1990-2000	Average 2001-2010	Average 2008-2010
I. Employer cost	**100**	**100**	**100**
Social contributions	10.1	10.3	9.8
Other employer contributions	2.7	3.4	4.4
II. Gross wage	**87.3**	**86.3**	**85.9**
Employee social contribution	5.0	5.8	5.0
Tax	**5.8**	**8.5**	**9.1**
III. Wage	**76.5**	**72.4**	**71.8**
Fiscal and social wedge	23.5	27.6	28.2

Source: ESCWA calculations based on data from the National Institute for Statistics, Tunisia.

would record levels of -7.7 basis points in the unemployment rate of unskilled labour, and -14.9 points in the unemployment rate of skilled labour. Consequently, Tunisia is a country where social security contribution is high in terms of rate and coverage. As a result of the pro-competive effect of such a reform along with the new employment dynamics and the sensible decrease of unemployment, all Arab countries are expected to create additional growth possibilities, estimated to reach 0.66 per cent for the whole region. As for Tunisia, growth possibilities are estimated to reach more than 6 per cent, thereby showing the major benefits of this reform. In countries such as Egypt, where the social security coverage is limited owing to high informality, the impacts of such a policy remain correspondingly limited.

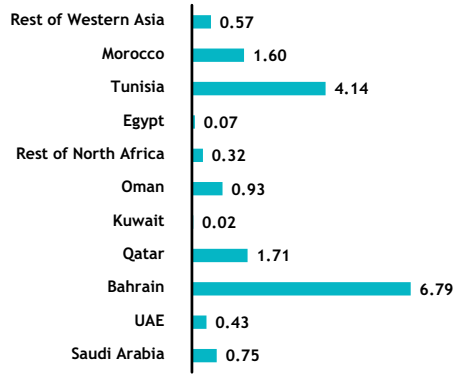
The redistributive impacts of this policy should be studied at the country level. Increasing indirect taxation is known to be

Figure 3.19 Variation of GDP



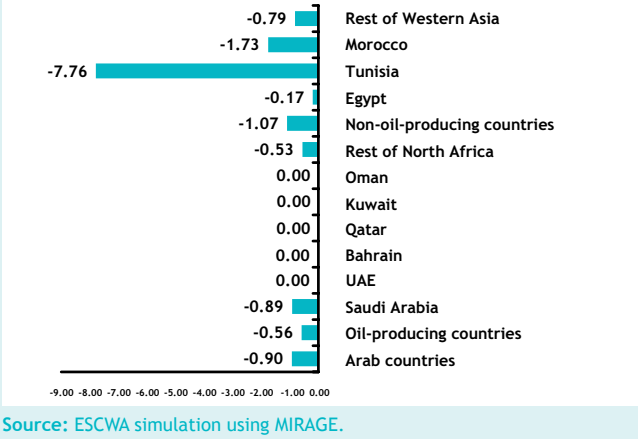
Source: ESCWA simulation using MIRAGE.

Figure 3.20 Variation of social VAT



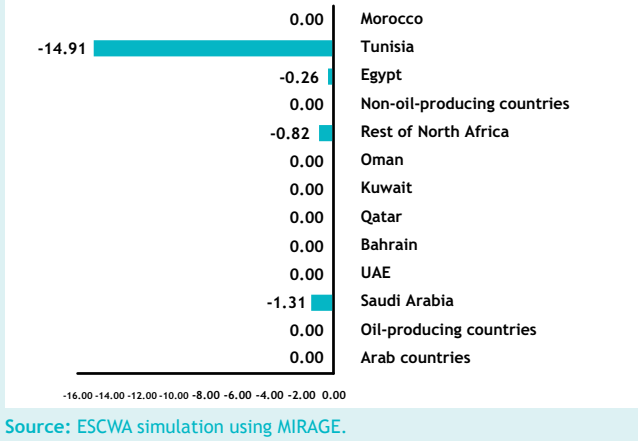
Source: ESCWA simulation using MIRAGE.

Figure 3.21 Absolute variation of unemployment for unskilled labour



Source: ESCWA simulation using MIRAGE.

Figure 3.22 Absolute variation of unemployment for skilled labour



Source: ESCWA simulation using MIRAGE.

an anti-redistributive policy. Tax collection policy should also be addressed. In the majority of Arab countries, tax evasion plays a significant role; even indirect taxation is easier to collect than direct taxation.

(c) Encouraging part-time employment

Part-time employment should be encouraged and made available on a broader scale. The overwhelming preference for public sector jobs, especially among women, seems to stem partly from the shorter working hours in public administrations. Better availability of part-time jobs might accommodate some of these concerns while at the same time mobilizing higher female labour force participation. Care must be given to proper adjustment of social security contributions for part-time jobs.

(d) Reforming employment services

One of the main limitations of public employment offices in the Arab region is their low coverage and limited number of benefits. According to an ESCWA study, the percentage of jobseekers employed through employment offices has been quite low.[51] For example, descriptive statistics reveal that in Bahrain, from 2005 to 2007, 18 per cent of jobseekers who were registered at the Employment Service Bureau of the Ministry of Labour found jobs through the Bureau. In Egypt, from April to June 2010, 29 per cent of registered jobseekers found employment through the Central Department for Employment and Labour Market Information. In Jordan, from 2004 to 2010, 3 per cent of registered jobseekers found a job through the National Employment Centre. In Lebanon, between 1998 and 2005, the National Employment Office registered only 1370 jobseekers, advertised for 450 job offers and placed no more than 210 jobseekers in employment. In Palestine, in 2008, while more than 300,000 unemployed were formally registered, the Directorate of Labour was able to facilitate employment for only 87 individuals. As for Saudi Arabia, in 2008, the employment offices of the Ministry of Labour facilitated the employment of 57 per cent of the unemployed registered in the offices. In Tunisia, in 2005, public employment agencies registered 300,000 jobseekers and 110,000 job offers, thereby fulfilling an average of 100,000 job positions. In order to improve the efficiency of these agencies and to increase their rate of placement, ESCWA developed a comprehensive reform package that covers the following topics:[52]

In Jordan, from 2004 to 2010, 3 per cent of registered jobseekers found a job through the National Employment Centre

(i) *Developing an integrated employment approach for public employment services:* This new approach draws lessons from reforms implemented in GCC countries in order to build new agencies that provide services and career guidance for jobseekers. This approach also determines their weaknesses and potential, and develops training courses based on their needs and the requirements of private businesses. Coordination with private businesses is carried out to identify job opportunities and facilitate the recruitment process;

(ii) *Formalizing the recruitment process:* With the exception of public sector employment, recruitment currently predominantly follows the informal traits of personal and/or business contacts. Public announcements and standardized selection procedures allow for better and more equal chances for people, regardless of social networks and family relations. A policy infrastructure

Issues of gender equality and regional distribution are not consistently mainstreamed in the design and delivery of employment services

should be developed that links labour market participants in the broader sense;

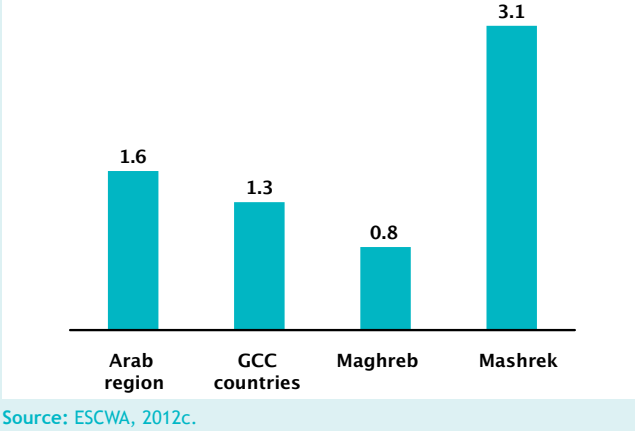
(iii) *Strengthening employment services:* The outreach of employment services can be improved through the better integration of counselling and training services, and a more systematic connection to businesses and their requirements in a certain geographical and/or professional area. This requires primarily a larger infrastructure with the possibility to offer opportunities to workers currently in informal sector employment;

(iv) *Strengthening the role of employers' associations and trade unions in the management employment services:* Civil society organizations and state administration would ideally be part of a horizontal network that cooperates towards the objective of increasing opportunities and mobility;

(v) *Promoting the role of private employment offices:* Private employment offices can play an important role if their activities are better regulated. In essence, while the regulation of private training institutes is being developed, that of private employment offices lags behind. With the exception of Jordan, the development of private employment offices remains absent from the labour policy agenda in the Arab region;

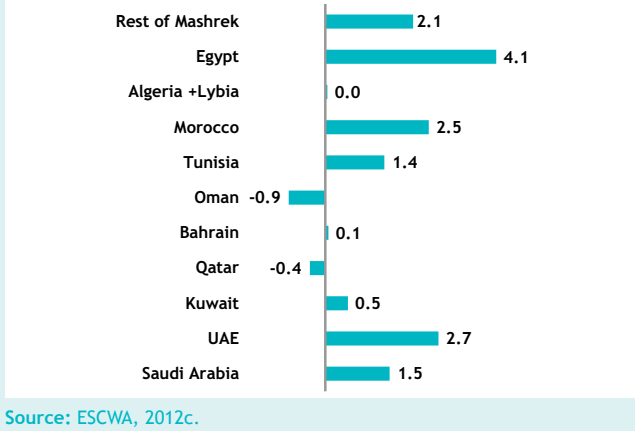
(vi) *Mainstreaming equality in the design of public expenditure surveys (PESs):* Some data indicate that issues of gender equality and regional distribution are not consistently mainstreamed in the design and delivery of employment services. In Egypt, for example, from April to June 2010, only 19 per cent of the positions were filled through the labour offices by female jobseekers. Available information indicates also that in most ESCWA member countries, employment offices are distributed in different governorates, regions or areas. However, in some cases, they tend to be concentrated in capital cities or urban areas. For example, in Iraq, one third of employment offices are in Baghdad; in Saudi Arabia, one quarter are in Riyadh; and in Lebanon, employment

Figure 3.23 Variation of GDP relative to variation in 2015



Source: ESCWA, 2012c.

Figure 3.24 Variation of GDP relative to variation in 2015: Selected countries



Source: ESCWA, 2012c.

offices are located only in three major cities. While the concentration of employment offices in capital cities and urban areas might be justified by high levels of urbanization, it also sets the challenge of reaching out to rural areas. In addition, it is not clear how the budget is distributed or if services of the same kind and quality are equally available in all offices. The budget distribution for PESs by governorate, region or area is generally unavailable, and the quality of employment services may be uneven. For example, in Egypt, the percentage of job vacancies filled by the employment offices varies from one governorate to the other. In Saudi Arabia, large regional variations have been observed in the number of vacancies posted by employment offices. These trends should be examined with caution. In particular, while they could reflect variations in the levels of efficiency of employment offices, they might also be the result of the specific conditions of the labour market in different areas of a country. In addition, public employment offices will be in charge of management and labour insurance mechanisms. They will also take responsibility of registering the unemployed, distributing unemployment insurance benefits and following the evolution in the labour market.

3. Reinforcing migration policy within the Arab region

As part of its assessment of the economic and social impacts of strengthening Arab integration, ESCWA undertook a simulation that comprised the following:[53]

(a) Removing all tariff barriers between Arab countries and subregions in 2013;

(b) Reducing the cost of transportation between Arab countries by 2 per cent yearly;

(c) Substituting 20 per cent of non-Arab migrants in oil-producing countries and all future flows of non-Arab migrants by Arab nationals.

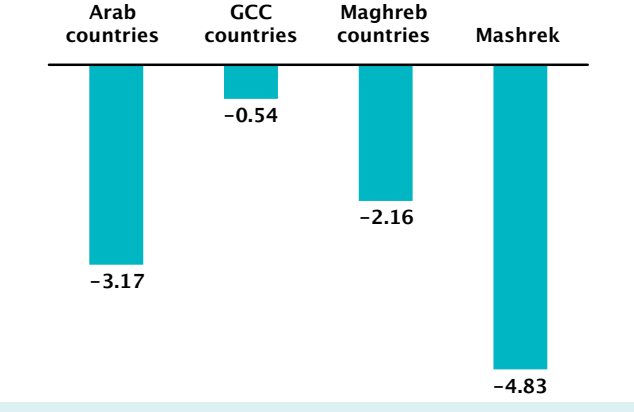
Simulations show that if such a policy is implemented, the Arab region could register an increase of 1.6 per cent in GDP (figure 3.23), which would benefit all Arab countries. Egypt could be one of the largest benefiting countries from this process, with a GDP gain of 4.1 per cent. Tunisia and Morocco could register GDP gains of 1.4 and 2.5 per cent, respectively (figure 3.24). Equally, oil-producing countries could benefit from the regional integration process as they would make profits from improved market access and from migrants that have a larger propensity to consume in hosting countries.

Moreover, regional integration policies could have an impact on the level of unemployment in the whole region, especially in countries suffering from high unemployment level, including Egypt, Morocco and Tunisia.[54] Figures 3.25 and 3.26 show that the unemployment rates of both skilled and unskilled labour could be reduced significantly by around 3 basis points. The impact is most significant in the non-oil producing countries that could experience a reduction in the unemployment rates of both unskilled and skilled labour by around 5 basis points. At the country level, Egypt, Morocco and Tunisia would benefit from a sensible decrease in the unemployment rates of their skilled and unskilled labour. Figure 3.28 shows that the unemployment rate of skilled labour in Egypt could be reduced by 8.02 basis points; in Tunisia and Morocco,

the reduction could reach 6.9 and 7.2 basis points, respectively. In the rest of the Mashreq subregion, unemployment for skilled labour could be reduced by 6.43 basis points. Unemployment would also be sensibly reduced for unskilled labour in countries that suffer from high unemployment rates. Figure 3.27 shows that rates could be reduced by 3.86 basis points in Tunisia, 4.34 basis points in Morocco, 5.71 basis points in Egypt and 4.08 basis points in the rest of the Mashreq countries.

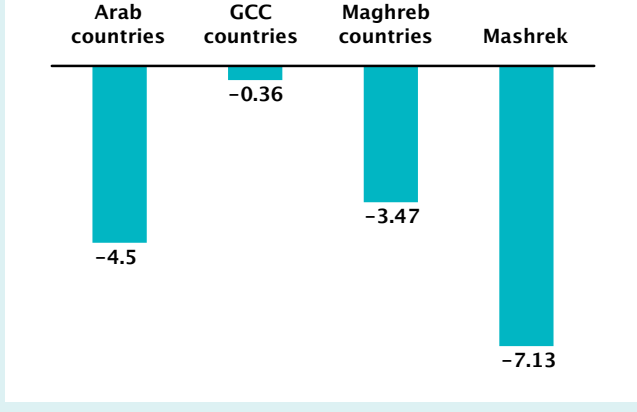
Reinforcing migration policy in the Arab region has no cost in terms of public finance and could serve as the first and most urgent solution to the unemployment problem in the region. Putting in place this policy only requires regional political will. Policymakers in the region would be well advised to draw lessons from the

Figure 3.25
Variation of unemployment for unskilled labour



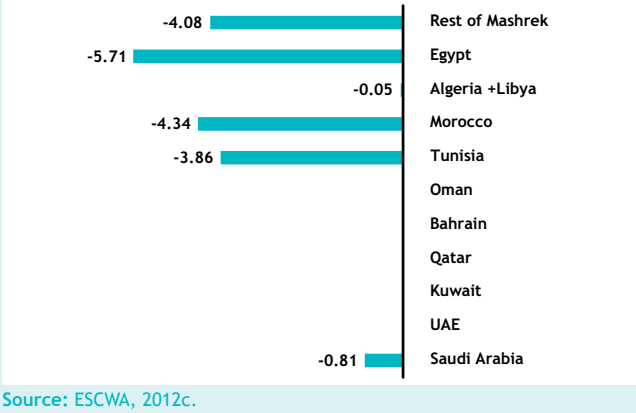
Source: ESCWA, 2012c.

Figure 3.26
Variation of unemployment for skilled labour



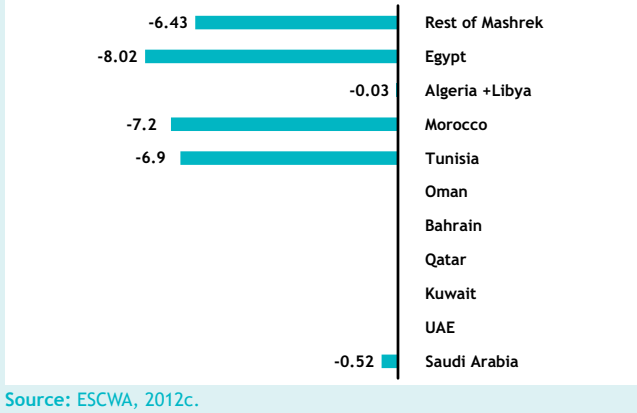
Source: ESCWA, 2012c.

Figure 3.27
Variation of unemployment for unskilled labour: Selected countries



Source: ESCWA, 2012c.

Figure 3.28
Variation of unemployment for skilled labour: Selected countries



Source: ESCWA, 2012c.

recent political events. They should also take into consideration that the rise of unemployment in one country would have a regional impact. Accordingly, the solution to the unemployment problem should also be tackled at the regional level.

D. Conclusion and recommendations

It is clear that, in the short term, there are difficult choices to be made in the region. One cannot achieve equity, growth and job creation at the same time without drastic changes in fiscal and macroeconomic policies. As a first step towards these changes, a corporate dialogue between policymakers and the private sector would be useful, in order to revisit the overall policy objectives and to discuss the development paths of individual countries.

Decisions should be made soon, otherwise both economic and social conditions will be further affected. Solutions to unemployment problems in the Arab region are not obvious and will ultimately require a new inclusive development model. Designing, implementing and achieving results through such a model need time and social stability. This *Survey* puts forward a sample of innovative reforms that could, in the short term, create the the needed context to launch the long-term reforms. It proposes five policies, namely: (a) improving the impacts of macroeconomic policies on labour; (b) implementing unemployment insurance while reducing firing costs; (c) implementing a social VAT mechanism; (d) reinforcing migration policy within the Arab region; (e) reforming public employment services. It has presented a global assessment of the economic impacts of these reforms, using a CGE model. Results showed that the impact varied across countries and depended on specific initial conditions. The publication has also demonstrated that regional integration and modernization of public employment appear to be relevant issues to all Arab countries.

This *Survey* should be considered as a primary assessment of these policies. An in-depth analysis of each country should be conducted in order to take into consideration the individual, social and economic structure in line with the institutional framework characterizing each country.

Solutions to unemployment problems in the Arab region are not obvious and will ultimately require a new inclusive development model

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Annex I

ELASTICITY OF EMPLOYMENT AND SELECTED LABOUR MARKET INDICATORS

Annex table 1. Employment to growth elasticity in the MENA region

Country/region	Elasticity of employment to total GDP, 2000-2004	Elasticity of employment to total GDP, 2004-2008	Elasticity of employment to total GDP, 2000-2008
Developing oil exporters	0.83	0.91	0.87
Algeria	1.29	1.53	1.41
Libya	0.49	0.38	0.44
Syrian Arab Republic	0.65	1.03	0.84
Yemen	1.12	1.05	1.09
GCC oil exporters	0.75	0.57	0.66
Bahrain	0.44	0.34	0.39
Kuwait	0.41	0.46	0.44
Oman	0.50	0.42	0.46
Qatar	1.26	1.03	1.15
Saudi Arabia	1.00	0.68	0.84
United Arab Emirates	0.88	0.51	0.70
Oil importers	0.62	0.47	0.55
Egypt	0.82	0.57	0.70
Jordan	0.69	0.58	0.64
Lebanon	0.52	0.37	0.45
Morocco	0.50	0.40	0.45
Tunisia	0.55	0.42	0.49
MENA	0.73	0.65	0.69
Some of the best performers in 2004-2008			
Norway	-0.04	18.23	10.09
United States	0.12	2.27	1.29
Spain	0.87	1.56	1.22
Finland	0.17	1.33	0.83
Singapore	-0.43	1.28	0.45
New Zealand	0.74	1.02	0.88
Canada	0.76	1.02	0.92

Sources: Angel-Urdinola and others, 2011; and ESCWA calculations based on World Development Indicators, World Economic Outlook Database, accessed April 2012.

Annex table 2. Selected labour market indicators *(Percentage)*

Country/region	Latest year	Labour force participation	Employment to population	Paid to total employment	Unemployment	Youth unemployment
Developing oil exporters						
Algeria	2010	41.7	37.6	33.4	10	21.5
Libya						
Iraq	2008				15.3	43.5
Syrian Arab Republic	2010	43.7	42	62.7	8.4	18.3
Yemen	2009	42.2	36.1		14.6	
Sudan	2008				20.7	
GCC oil exporters						
Bahrain						
Kuwait	2008				7.7	
Oman						
Qatar	2009	87.7	87.4	99.6	0.3	1.2
Saudi Arabia	2009	49.9	47.2		5.4	29.9
United Arab Emirates	2008	72.6	69.7	95.8	4	12.1
Oil importers						
Egypt	2010	50.3	42.5	59.5	8.9	24.8
Jordan	2010	39.5	34.6	83.5	12.5	28.1
Lebanon	2007	43.4	39.5		9	22.1
Morocco	2010	49.6	44.6	44.4	9.1	17.6
Tunisia	2010	46.9	40.8		13	29.4
Palestine	2010	39.5	29.8	67.6	23.7	40.2

Source: ILO, 2011a.

Annex II

SHORT DESCRIPTION OF THE MIRAGE MODEL

The assessment is done using the Global Trade Analysis Project (GTAP) 8 database and a modified version of MIRAGE that includes a migration block.

A. GTAP DATABASE

The GTAP database is a global database that describes bilateral trade patterns, production, consumption and intermediate use of commodities and services. The current version GTAP 8 considers 128 countries/regions, including the six GCC countries. For the purpose of the current study, we will use the following disaggregation: Egypt; Tunisia; Morocco; rest of North African countries; Bahrain; Kuwait; Oman; Qatar; Saudi Arabia; United Arab Emirates; United States; European Union; Japan; China; India; Turkey; and rest of the world.

B. MIRAGE global CGE model

MIRAGE is a multi-sector, multi-country computable general equilibrium (CGE) model initially devoted to trade policy analysis and more recently applied to long-term growth and environmental issues. MIRAGE is a relatively standard neo-classical model of economic activity and is based on the latest release of the GTAP data set, namely, version 8.0. It is designed for analysing dynamic scenarios, which are solved as a sequence of static equilibria, with the periods being linked by dynamic variables (population and labour growth, capital accumulation and productivity).

Policy scenarios are compared to a baseline, or business as usual (BaU) scenario. The dimensions of the model and its main features are as follows:

(a) ***Demand:*** The demand side is modelled in each region through a representative agent, whose utility function is intra-temporal, with a fixed share of regional income allocated to savings and the rest being used to purchase final consumption. Below this first-tier Cobb-Douglas function, consumption trade-off across sectors is represented through a LES-CES (Linear Expenditure System-Constant Elasticity of Substitution) function. Each sectoral subutility function is a nesting of CES functions, comparable to the standard nested Armington – Dixit-Stiglitz function, with two exceptions, namely: (i) domestic products are assumed to benefit from a specific status for consumers, making them less substitutable to foreign products than foreign products between each other; and (ii) products originating in developing countries and in developed countries are assumed to belong to different quality ranges;

(b) ***Supply:*** Production makes use of five factors: capital, skilled labour, unskilled labour, land and natural resources. The first three are generic factors; the last two are

specific factors. The production function assumes perfect complementarity between value added and intermediate consumption. The sectoral composition of the intermediate consumption aggregate stems from a CES function. For each sector of origin, the nesting is the same as for final consumption, meaning that the sector bundle has the same structure for final and intermediate consumption. The structure of value added is intended to take into account the well-documented skill-capital relative complementarity. These two factors are thus bundled separately with a lower elasticity of substitution (0.6), while a higher substitutability (elasticity 1.1) is assumed between this bundle and other factors. Constant returns to scale and perfect competition are assumed to hold in agricultural sectors;

(c) ***Capital, markets clearing and macroeconomic closure:*** The capital good is the same whatever the use sector, and capital is assumed to be perfectly mobile across sectors within each region. At the regional level, capital stock is assumed to be constant in the core simulations of this paper. Natural resources are also perfectly immobile and may not be accumulated. Both types of labour (skilled and unskilled) as well as land are assumed to be perfectly mobile across sectors, while production factors are assumed to be fully employed. As for macroeconomic closure, the current balance is assumed to be exogenous (and equal to its initial value in real terms), while real exchange rates are endogenous;

(d) ***Dynamics:*** In a typical recursive dynamic framework, the time path of the model is solved as a sequence of static equilibria in each year. In other words, the solution in any given year is not a function of forward-looking variables, though it may be an explicit function of past variables known and, therefore, exogenous. While there are drawbacks in the recursive dynamic framework, particularly in the modelling of savings and investment behaviour, its one key advantage is that it is much easier to set up and solve. There are several backward linkages between one period and another, covering population growth, productivity increases and capital accumulation. Most of these linkages can be resolved outside of the modelling framework or, in other words, in between solution periods. One exception is the capital accumulation function. Before running any policy simulations in a dynamic framework, it is often necessary to define a reference, or BaU scenario. The BaU scenario makes some assumptions about a broad range of dynamic variables — population and labour supply growth rates, the growth rate of factor productivity and other exogenous variables. If all productivity variables, including population growth rates, are pre-determined, the growth rate of real GDP is endogenous. However, the path trend in real GDP growth may be unrealistic;

(e) ***Unemployment:*** In addition to the standard version of MIRAGE, this exercise supposes that labour market is imperfect and that unemployment results from a minimum wage level that is beyond the equilibrium wage. For both skilled and unskilled labour, the minimum wage is dynamically calibrated in order to reproduce the level observed and projected unemployment rates for all the regions;

(f) ***Bilateral migration and remittances:*** The data is extracted from the World Bank Global Bilateral Migration Database and aggregated in order to fit with the study's aggregation. When taking into account migration, demographic evolution in country (r) over period (t) is given by:

the level of unskilled labour $L(r,t)$:

$$L(r,t) = L(r,t-1)(1+g^{L}(r,t)) + \sum[FMIG^{L}(s,r,t) - FMIG^{L}(r,s,t)]$$

the level of skilled labour $\mathbf{H(r,t)}$.

$$H(r,t) = L(r,t-1)(1+g^{H}(r,t)) + \sum[FMIG^{H}(s,r,t) - FMIG^{H}(r,s,t)]$$

Where $g^{L}(r,t)$ and $g^{H}(r,t)$, the rate of natural growth of unskilled and skilled labour. This data is extracted from United Nations projections when supposing that the share of skilled remains constant, and $FMIG^{L}(s,r,t)$ and $FMIG^{H}(s,r,t)$ are the flows of skilled and unskilled migrants from county $(\mathbf{s})$ to country$(\mathbf{r})$. The stock of unskilled (resp. skilled) migrants from county $(\mathbf{s})$ in country $(\mathbf{r})$ $MIG^{L}(s,r,t)$ (resp. $MIG^{H}(s,r,t)$ is given by:

$$MIG^{L}(s,r,t) = MIG^{L}(s,r,t-1) + FMIG^{L}(s,r,t)$$

$$MIG^{H}(s,r,t) = MIG^{H}(s,r,t-1) + FMIG^{H}(s,r,t)$$

Remittance by migrant $S_{REM(r,s)}$ $S_{REM(r,s)}$ is supposed to be constant. The level of remittances from county $(\mathbf{r})$ in country $(\mathbf{s})$ is then given by:

$$REM(r,s,t) = S_{REM(MIG^{L}(s,r,t)+MIG^{H}(s,r,t))}$$

Remittances are modelled as a transfer from households in country $(\mathbf{r})$ to households in country $(\mathbf{s})$.

The transport cost is extracted from the GTAP database.

Annex III

UNEMPLOYMENT BENEFITS

Annex table 3. Unemployment benefits
(Percentage of previous earnings in OECD countries)

	2001	2007	2009
Australia	24.8	20.8	21.2
Austria	30.5	30.4	30.8
Belgium	37.1	38.7	41.8
Canada	15.3	12.0	15.2
Chile	..	..	..
Czech Republic	5.9	6.3	6.3
Denmark	58.0	53.5	52.6
Estonia	..	..	..
Finland	36.5	35.5	34.8
France	42.8	38.1	38.8
Germany	29.1	22.9	23.2
Greece	13.9	12.4	9.6
Hungary	11.6	11.7	11.4
Iceland	38.1	29.1	35.5
Ireland	27.0	38.0	43.2
Israel	..	..	..
Italy	33.3	31.3	30.4
Japan	12.0	12.6	12.7
Korea	9.7	9.2	8.9
Luxembourg	25.3	25.6	25.6
Mexico	..	..	..
Netherlands	52.0	33.9	33.8
New Zealand	30.2	27.0	32.3
Norway	58.4	56.5	33.4
Poland	11.3	10.1	9.9
Portugal	40.5	42.5	43.1
Slovak Republic	11.3	8.3	8.3
Slovenia	..	..	..
Spain	34.0	33.4	32.8
Sweden	37.9	35.3	39.3
Switzerland	37.5	32.7	32.7
Turkey	..	9.8	11.4
United Kingdom	14.8	13.3	12.1

Source: OECD Employment Outlook data, available from http://www.oecd.org/els/emp/oecdemploymentoutlook.htm.
Note: Two dots (..) indicate that data are not available or are not separately reported.

Endnotes

Chapter I

1. The TED spread is the spread between 3-month LIBOR and 3-month US Treasury Bill interest rates. It is a measure of liquidity as it indicates a relative borrowing cost of private entities to the US Treasury. Historically, it has stood around 50 basis points (0.5 percentage points). The higher TED spread implies a shortage of dollar liquidity in the private sector, as the funding cost of the United States dollar at the international money market rises more than that of US Treasury.
2. European Commission, 2013.
3. Following the accession of Libya, Morocco and Tunisia to ESCWA in July 2012, it was decided that the territorial coverage of the *Survey* would be expanded to include all countries of the Arab region. Subregional groupings are used in this paper, reflecting a combination of per-capita income level, geographical proximity and similarities in economic and social characteristics and conditions. The subregional groups are as follows: countries of the Gulf Cooperation Council (GCC), namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates; Mashreq, comprising Egypt, Iraq, Jordan, Lebanon, Palestine and Syrian Arab Republic; Maghreb, comprising Algeria, Libya, Morocco and Tunisia; and Arab LDCs, comprising the Comoros, Djibouti, Mauritania, Somalia, the Sudan and Yemen.
4. OECD, 2013.

Chapter II

1. The results of figure 2.4 must be interpreted with caution. For example, the decrease in the current account deficits will be a positive contribution of net exports to domestic economic growth in Jordan in 2012 and 2013, which does not entail an increase of net export surpluses.
2. Updated figures are available from http://data.unhcr.org/syrianrefugees/regional.php. Figures include "persons of concern", the total number of registered refugees and those awaiting registration.
3. Khandelwal and Roitman, 2013
4. UNDP, 2012.
5. Abu-Ismail and others, 2011.
6. Khal, 2013.
7. UNDP, 2007.
8. Vishwanath, 2012.
9. See chapter III on labour market characteristics in Arab countries.
10. Kapiszewski, 2006.
11. ILO, 2004.
12. ILO, 2013b.
13. Saudi Gazette, 2013.
14. UN Women and CEDAW, 2013, p. 40.

Chapter III

1. Angel-Urdinola and others, 2010.
2. Note that data refer to the 17 ESCWA member countries, unless otherwise indicated.
3. UNDP and ILO, 2012.
4. The world average for women's labour force participation rate is 51.1 per cent (ILO, 2013a).
5. ESCWA, 2010.
6. Sugita, 2010.
7. Lebanon, Central Administration of Statistics, and UNICEF, 2009.
8. PCBS, 2011.
9. Nasser and Mehchy, 2012.
10. Data from the High Commision for Planning.
11. With the notable exception of Algeria.
12. ILO, 2013a, p.45.
13. For further recent analysis of female employment in the region, see ESCWA, 2012d, pp. 8 and 19-28.
14. UNDP, 2010.
15. Ahmed and others, 2012.
16. Nordhaus, 2005.
17. ESCWA, 2012e, p. 11.
18. ESCWA, 2012a.
19. Tunisia, National Institute of Statistics, 2011. Calculations are based on table 26, p. 24 and table 36, p. 29.
20. Wahba, 2012. A reservation wage is the income threshold below which individuals prefer to be unemployed rather than working at that wage level.
21. The employment rate, or employment to population ratio, measures the percentage of the working age population that is actually employed. Low rates of labour force participation combined with high rates of unemployment therefore lead to low employment rates.
22. United Arab Emirates, National Bureau of Statistics, data on the labour force, 2009.
23. Haider, 2011.
24. ESCWA, 2012a.
25. World Bank, 2011.
26. Jordan, Department of Statistics, 2011.
27. Jordan, 2012, p. 60.
28. World Bank, 2011.
29. Jordan, 2012, p. 6.
30. ESCWA, 2012c.
31. World Bank, 2012, pp. v and 29-30.
32. Including Okun Law and Philips curve and other mechanisms. The panel data is an unbalanced panel from 1980 to 2011 for nine countries. The equation is estimated with fixed effect (cross-country and period) and without (period); and the unemployment rate is explained using the rate of investment, GDP growth and inflation rate. Okun Law and Philips curve are expected

to allow the presence of a negative correlation between GDP growth, investment rate and unemployment. Others variables are introduced that do not reveal any statistical significance.

33. ESCWA, 2011.
34. For a recent overview of labour market policies in Arab countries, see ESCWA, 2011 and 2012a.
35. ILO, 2012.
36. Financial Times, 2012a.
37. Financial Times, 2012b.
38. For further information, see http://siteresources.worldbank.org/EDUCATION/Resources/278200-1126210664195/1636971-1126210694253/Tunisia_Country_Report.pdf.
39. For further information, see http://www.almanar.jo/almanaren/WhoWeAre/tabid/168/language/en-US/Default.aspx.
40. For further information see European Union, MEDA Programme.
41. European Training Foundation, 2006, p.64.
42. ESCWA, 2012a, p. 48.
43. Ibid., pp. 103-106.
44. Modeling International Relationships in Applied General Equilibrium (MIRAGE), see annex II; and Bchir and others, 2002.
45. Angel-Urdinola and others, 2010.
46. Hamermesh and Sleznick, 1995.
47. Gruber, 1997.
48. Blanchard and Wolfers, 2000.
49. http://www.social-protection.org/gimi/gess/ShowMainPage.do.
50. For Saudi Arabia, see Knickmeyer, 2012; for Oman, see IMF, 2011; and for the United Arab Emirates, see Al-Subaihi, T., 2012.
51. ESCWA, 2012a.
52. Ibid.
53. ESCWA, 2012c.
54. ESCWA, 2011.

Arab countries exhibited increasing polarization in their development paths in 2012 and 2013. Major energy exporters, namely Gulf Cooperation Council (GCC) countries, are recovering from the global economic crisis, owing to an expansionary fiscal and monetary policy mix. At the same time, net energy-importing countries of the region are struggling to stabilize their economies amid worsening foreign exchange constraints. The polarization was also partly due to political instability and social unrest, which further obstructed the flow of intraregional funds from the major energy exporters of the region. The lack of confidence in intraregional business transactions resulted in the segmentation of economies and the loss of regional leverage, which amplified the problem of unemployment, even in GCC countries.

Amid those economic and employment difficulties, social development in the region has continued through policy reforms and institutional development. Nevertheless, social dynamics in the region were also affected by social unrest and political instability. The immediate policy challenge for most of Arab countries remains to create employment. The *Survey of Economic and Social Developments in the Arab Region 2012-2013* highlights several policy options to tackle this issue, even in the region's highly uncertain situation. In parallel to specific policy proposals, the *Survey* emphasizes the importance of policy dialogue in the area of employment and of a more constructive regional integration framework on this subject. The revival of regional leverage should be encouraged to halt the polarization and stabilize the socioeconomic development paths of all Arab countries.

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Printed at ESCWA, Beirut

E/ESCWA/EDGD/2013/3
United Nations Publication
Sales No. E.13.II.L.6
ISSN. 0255-5123
13-0141 – July 2013

USD 25
ISBN-13. 978-92-1-128363-1
e-ISBN. 978-92-1-056276-8