

**Anti- Unemployment Policies in Non-Oil Countries in
the Middle East and North Africa**
(Selected Countries: Egypt, Jordon, Morocco and Tunisia)

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Abstract

Unemployment is the lack of livelihood-producing work. Since the rise of Capitalism unemployment has increased. The population of the Middle East and North Africa is one of the fastest growing in the world. It has nearly quadrupled since 1950 and is expected to rise more than double over the next 50 years. But jobs have not grown as fast as the region's workforce. Although employment growth was relatively strong in the 1970s, it failed to keep up with demographic pressures in the 1980s, when oil prices dropped and government-led growth strategies lost steam. The region entered the 1990s with relatively high unemployment rates, which have continued to climb in most countries. The average unemployment rate for the non-oil rose from 12.7 percent in 1990 to 15 percent in 2000. The debate on employment and unemployment in the Middle East has been a major feature of public policy for the past few years. With unemployment reaching nearly double-digit figures, the social actors have realized that it is time to confront the problem. This research argues about a number of issues which are related to unemployment and they are: Impact on society and the economy, Cost, causes of Unemployment, Types of Unemployment, Measuring unemployment, and the accuracy of unemployment statistics. This research also elucidates what is the percentage of unemployment and how several Middle Eastern countries deal with it?

This research was developed to determine the experience of unemployment in some randomly selected Non- Oil countries in the Middle East (Egypt, Jordan, Tunisia and Morocco) from the early 1990 till 2005, which helps us to answer lots of question that have been facing many policy makers like: Can current GDP growth generate more employment or will higher GDP growth be required-and, if the latter, by how much? Will the current pattern of job creation-with much of the region's workforce employed by the public sector--need to change? Together, Non- Oil countries account for about 80 percent of the population and the output of the region, excluding the oil-producing countries of the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) which face different economic and employment challenges.

Keywords:

(SOEs): State-Owned Enterprises

SMEs :

Middle East and North Africa : Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudia Arabia, Syrian, Tunisia, United Arab Emirates, West bank& Gaza and Yemen.

Non-Oil Selected Countries: (Egypt, Jordan, Morocco, and Tunisia).

Introduction

Unemployment is one of the biggest threats which face the Middle East. The Unemployment rate was estimated 15% to 20% in the year 2004¹.

Klaus Schwab², warned that unemployment in the Middle East was "a time bomb" that would require the creation of 100 million new jobs in the next 10 years to defuse it.

The Arab League Economic Unity Council estimates unemployment in the Middle East (members of the Arab League only) at 20 percent. The number of unemployed people in Middle-East is particularly puzzling because the oil producing countries employ 7-8 million expatriate workers transmitting perhaps as much as \$22 billion a year.

International Labor Organization (ILO)³ mentioned that the average unemployment rate in the world reached 6.2% while in the Arab region it was 12.2% ; and it increases every year by 3%. This report predicated that the number of unemployed people in the Arab region will reach 25 Million in the year 2010. The report finds that, the number of unemployed people worldwide climbed to new heights in 2005 despite a robust economic growth in 2005. According to the report, the total number of jobless workers stood at 191.8 million people at the end of 2005.

(ILO) describes the unemployment conditions in the Middle East by being the worst conditions in the world. The Arab Economists must supply at least 70 Billion Dollar, and increase GDP from 3% to 7% and to create the availability of at least 5 million job opportunities each year.

Unemployment, the bleak job picture is one of the region's most urgent and destabilizing problems, fueling social tensions, encouraging migration, and making job creation a top priority.

The impact of demographic pressures on the labor market depends on how much the working-age population participates in the economy. Labor market participation-the percentage of people of working age that are either employed or seeking employment-varies substantially across countries, reflecting a mix of factors. This research will identify all of these objectives by including four sections; the first section will be giving a clear view of unemployment, the second section includes indicators of unemployment in the selected countries the third section will identify the situation of the non-oil countries in the Middle-East. Finally, the fourth section will present an overview of unemployment in the non-oil selected countries.

¹ The International Labor Office (ILO) , Annual World Employment Report , 2004-2005.

² The President of the World Economic Forum.

³ (report 2003)

Hypothesis:-

- 1- The problems of impeding investment in the non-oil countries will help create more jobs & hence reduce the problem of unemployment.
- 2- The low level of education of the determination of the quality of education causes the problem of unemployment to increase.
- 3- One of the factors which lead the unemployment problem to increase is the diversion of demand forces & in supply forces.
- 4- Encouraging small industries reduces the unemployment problem.
- 5- The effective role of Geramin Bank contributes in solving the unemployment problem in some countries.
- 6- Any increase in the GDP rate helps reduce the unemployment problem in the selected countries.

Section I: What is Unemployment?

Definition:

The International Labor Organization (ILO) defined unemployment as the people who are out of work, want a job, have actively sought work in the previous four weeks and are available to start work within the next fortnight; or out of work and have accepted a job that they are waiting to start in the next fortnight.⁴

The unemployment definition can differ from one country to another according to how it is measured and implemented.

Unemployment can be also described according to region, sex, educational level, age, and economic conditions.

Types of Unemployment⁵

- **Cyclical** (Deficient Demand Unemployment) unemployment: When there is not enough aggregate demand for the labor.
- **Frictional**: When moving from one job to another, the unemployment temporarily experienced when looking for a new job.
- **Structural**: Experienced when the structure of an industry or skill demands changes in mainly:
 - Switching from a declining industry to a rapidly growing one.
 - Pace of change in the tastes of people.
 - Regional Structure of industry.
- **Technological**: Caused by the replacement of workers by machines or other advanced technology.
- **Classical** (Real-wage): When real wage for a job are set above the market-clearing level, commonly government (as with the minimum wage) or unions, although some (such as *America's Great Depression*) suggest that even social taboos can prevent wages from falling to the market clearing level.
- **Marxian**: when unemployment is needed to motivate workers to work hard and to keep wages down, to preserve profitability.
- **Seasonal**: When an industry only is in demand at certain times.

Impact of unemployment on Society and Economy

Some of the likely costs of unemployment for society include increased poverty, crime, political instability, mental health problems, and diminished issue in economics. Low rate of unemployment usually prevents mass poverty and violence⁶

⁴ <http://www.ilo.org/>

⁵ <http://www.wikipedia.org/>

⁶ <http://www.wikipedia.org/>

Negative impact of Unemployment:

High unemployment implies low real Gross Domestic Product: first, the country is not using its resources as completely as possible and it is thus wasting its opportunities to produce goods and services. Much unemployment - called deficient- demand or cyclical unemployment- thus represents a profound form of inefficiency, sometimes called "Keynesian inefficiency".

The feared **cost of job loss** can spur psychological anxiety, weaken labor unions and their members' sense of solidarity, encourage greater work-effort and lower wage demands, and/or abet protectionism. This last means efforts to preserve existing jobs (of the "insiders") via barriers to entry against "outsiders" who want jobs, legal obstacles to immigration, and/or tariffs and similar trade barriers against foreign competitors.

The impact of unemployment on the employed is related to the idea of Marxian unemployment⁷.

Finally, the existence of significant unemployment raises the monopsony power of one's employer that raises the cost of quitting one's job and lowers the probability of finding a new source of livelihood.

The Challenge of Unemployment in the Arab region⁸

Unemployment and labor market problems present policy-makers in the Arab countries with the most challenging economic dilemmas: poverty reduction, expanded employment, improved labor conditions, greater dynamism of the labor market for sustained growth and a reduction in the budgetary burden of the public sector wage bill.

By comparison with the typical situation in other developing countries, labor markets in the Arab countries are characterized by high rates of intra-regional labor mobility, high rates of unemployment, particularly of youth, and the dominance of the public sector in total employment. These distinctive features of Arab labor markets were molded by such fundamental forces as high population and labor force growth rates, macroeconomic fluctuations caused by oil price instability, and the pervasive role of the State in the region's economic activity.

A demographic transition which resulted in rapid population growth, combined with large-scale shifts of population from rural to urban areas, led to severe pressures on labor markets, especially in urban areas. While these pressures have been operating for at least two decades, their impact on labor markets was masked during the early period of growth associated with high oil prices. Only since the mid-1980s, when economic activity became sluggish and labor absorption slowed down, have policy-makers and researchers paid attention to these dynamic, long-run forces affecting labor supply and shaping Arab labor markets.

Unemployment in the Middle East is one of the government's major concerns. The third part of this research is talking about a number of Non-Oil Countries in the region, which are: Egypt, Jordan, Morocco, and Tunisia.

The factors affecting supply for labor: There is a lack of correlation between educational outcomes and market demand. The fastest growing categories in the labor force in the 1990s were those holding secondary school degrees in technical and agricultural specializations; yet the growth in unemployment among these disciplines was

⁷ However, this loss of production might instead be caused by classical unemployment or Marxian unemployment, which reduces potential output by restricting supply.) Okun's Law tells us that for the U.S., the economy misses out on about two percent of its potential output for each one percentage point of unemployment above the "full employment" unemployment rate. Alternatively, this "law" says that as unemployment rises by one percentage point, say from 5% to 6% of the civilian labor force, the percentage of potential output that could have been produced *but was not* rises by about two points.

⁸ /www.questia.com

even faster Training systems suffer from low quality facilities; poor curricula, and teacher training as well as from the underutilizing and mismanagement of existing training facilities.

The factors affecting demand for labor: Non-tradable sectors are responsible for most of employment growth, and are thus automatically constrained by the size of Egypt's domestic spending power in these sectors. The formal private sector has been unable to compensate for the slowdown in public hiring; however, it is estimated that employment in the formal sector⁹ grew from 2.4 million to 4.8 million between 1976 and the late 1990s, (equivalent to large 86% of private non-agricultural employment)¹⁰.

⁹ The informal sector is made up of individuals working in small and micro-sized enterprise and outside establishments.

¹⁰ If informal employment is defined as including workers without social insurance or protection of legal work contracts, this percentage will rise the informal sector absorbed about 65% of new entrants into the labor market in the late 1990 compared to about 40% in the mid 1980s. (ERF, 2004).

Section II: Indicators of Unemployment:

Section II focuses on the indicators of unemployment in the selected countries which are population, Poverty, illiteracy, women, youth and productivity.

1- Population :

The Arab Countries number of population reached by the end of 2004 approximately 306.4 Million, which represent 5% of the total world population. The growth rate of the Arab region has reached 2.3% where as the growth rate in the developing countries reached 1.4% , in developed countries 0.5 and in the world 1.1%.

The high rate of fertility in the Arab region leads to the growth of population rate, the ratio in the age below 15 years has reached 38% from the Arab region population in the 2001; this ratio is very high in comparison to the ratio in the developing countries which represent 33% and 30% in the developed countries.

We note that the decrease of the growth rate in Tunisia and Morocco by 2% in the selected countries.

The following table shows the number of populations starting from 1990-2004 in the selected countries. (Table 1).

Table (1): Number of population in the selected countries (1990-2004)

	1990	1995	2000	2001	2002	2003	2004	Growth ratio 2003-2004	Average growth rate %	
									1985-1995	1995-2004
Jordan	3468	4240	4820	4940	5070	5200	5323	2.37	4.74	2.56
Tunisia	8154	8958	9564	9674	9782	9875	9930	0.56	2.12	1.15
Egypt	51510	57068	63305	64652	65986	67313	68648	1.98	2.23	2.07
Morocco	24177	26386	28705	29170	29631	30105	30584	1.59	1.93	1.65

2- Poverty

World Bank defines poverty line that it is per capita expenditures of 1 US\$ per person per day. While for some it is defined as 2 US\$ per person per day, others calculate minimum caloric requirement as the poverty line.¹¹

The ILO developed the concept of "working poverty" to cover those who work, but do not earn enough to lift themselves and their families above the 1\$- or 2\$a-day poverty line. In terms of 1\$a-day and 2\$a-day poverty data, the Middle East and North Africa fares much better than most other regions in the world. This research does indicate, however, that the incidence of working poverty is much higher in the non-oil producing countries than in the oil-producing countries. Nevertheless, to halve 1\$ a day working

¹¹ World Bank. 1993. Poverty Reduction Handbook. Washington, D.C.

poverty by 2015, the GDP must grow at 4-5 percent a year. To halve the 2\$ a day working poverty by 2015, the GDP must grow by 8-10 percent a year.

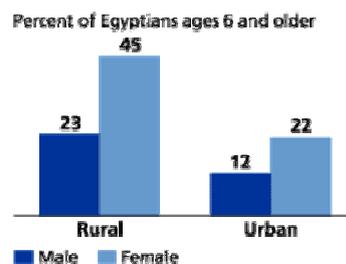
Results from the World Bank's poverty assessments in the selected countries in the region for the period 1985-94 highlight a striking contrast across these countries, while Egypt, Morocco and Tunisia had sustained per-capita gross domestic product (GDP) growth and saw poverty decline, Jordan suffered a sharp drop in per-capita GDP and saw poverty increase¹².

3- Illiteracy

Education contributes directly to the growth of national income by improving the productive capacities of the labor force. A recent study of 19 developing countries, including Egypt, Jordan, and Tunisia, concluded that a country's long-term economic growth increases by 3.7 percent for every year, the adult population's average level of schooling rises¹³. Thus, education is a key strategy for reducing poverty, especially in the Middle-East region, where poverty is not as deep as in other developing regions.

According to the United Nations Population Fund, countries that have made social investments in health, family planning, and education have slower population growth and faster economic growth than countries that have not made such investments selected¹⁴.

Middle-East countries' illiteracy rates are often higher than those of non-Middle-East countries with comparable or lower per capita incomes. There are over 75 million illiterate adults in the region, more than half of whom live in Egypt and Morocco. Around 13 million young adults are illiterate; fully one-third of them live in Egypt, which has both a high illiteracy rate and a large population. As in other parts of the world, illiteracy rates in the Middle-East region are higher among rural than among urban populations (Figure 1).



Source: ORC Macro, Egypt DHS, 2000.

Figure 1: Egyptians who have Never Attended School, by Sex and Residence, 2000

¹² The growth elasticity of poverty is roughly negative 4-5, when estimated at a poverty line of 1US\$ per day (at 1985 PPP)¹². The relatively high growth elasticity could be explained by the fact that Middle-East is characterized by a small poverty gap index¹².

¹³ United Nations Educational, Scientific, and Cultural Organization (UNESCO) institute for statistics, Financing Education Investments and returns, Analysis of the world Education indicators, 2002 edition, or <http://portal.unesco.org>.

¹⁴ United Nations Population Fund (UNFPA), state of world population 2002, People, poverty, and possibilities (New York : UNFPA, 2002).

In the increasingly open global economy, countries with high rates of illiteracy and gender gaps in educational attainment tend to be less competitive, because foreign investors seek labor that is skilled as well as inexpensive¹⁵

In Egypt, despite the government's success in reducing the adult illiteracy rate from 60 percent in 1980 to 50 percent in 1995, the increase in the population's size meant that the number of illiterate Egyptians grew from 16 million to 19 million. A similar trend has been visible in Morocco¹⁶. Table (2) shows the Socioeconomic Indicators in the selected countries between the females and the males.

Table (2) : Socioeconomic Indicators in the Middle East and North Africa (Year 2000)

	Percent of Population Over Age 15 Who Are Illiterate, 2000		Number of People Over Age 15 Who Are Illiterate (thousands), 2000		Percent of Population Ages 15 to 24 Who Are Illiterate, 2000		Number of People Ages 15 to 24 Who Are Illiterate (thousands), 2000	
	Female	Male	Female	Male	Female	Male	Female	Male
Egypt	56	33	12,253	7,374	37	24	2,500	1,678
Jordan	16	5	220	78	1	1	3	5
Morocco	64	38	6,286	3,702	42	24	1,265	750
Tunisia	39	19	1,307	621	11	3	106	27

	Gross Enrollment Ratio (%) ^a				Women as a Share of University Enrollment(%)	Public Education as a Share of Total Government Expenditure (%)	Percent of People Ages 15 and Older in Labor Force		Women as Percent of Labor Force	Total Fertility Rate
	Primary		Secondary				Female	Male		
	Female	Male	Female	Male						
Egypt	96	103	83	88	—	15	20	74	21	3.5
Jordan	101	101	89	86	51	20	22	76	21	3.7
Morocco	88	101	35	44	44	25	30	79	28	2.7
Tunisia	115	120	80	76	48	20	24	73	24	2.1

Source : Dr. Nimrod Raphaeli (Senior Analyst of MemRI's Middle East Economic Studies Program), www.Memri.org.

It is not enough to make education more widely available; the quality of the education also needs to be improved. Arguing that the poor quality of education in Middle-East countries has led to a significant mismatch between the labor market's needs and graduates' skills, the 2002 Arab Human Development Report points out that education in the region often fails to teach students to analyze information or think innovatively. The report also warns that education systems may split into two tiers, with high-quality private education available only to the wealthy minority and low-quality public education the sole option for most citizens. Such a trend would turn education into a "means of

¹⁵ Farzaneh Roudi , Fahimi and Valentine M. Moghadam , Empowering Women, Developing Society : Female Education in the Middle East and North Africa.

¹⁶ UNESCO, UNESCO Statistical Yearbook 1999.

perpetuating social stratification and poverty" rather than a means of increasing social equality.

4- Women

Various global trends pose special challenges to women who are illiterate or have limited education. Economies' export orientation and the growing importance of small and medium-sized enterprises create opportunities for women, but women need the appropriate education and training to take full advantage of these opportunities.

In addition, the benefits of female education for women's empowerment and gender equality are broadly recognized¹⁷:

- As female education rises, fertility, population growth, and infant and child mortality fall and family health improves.
- Increases in girls' secondary school enrollment are associated with increases in women's participation in the labor force and their contributions to household and national income.
- Women's increased earning capacity, in turn, has a positive effect on child nutrition.
- Children — especially daughters — of educated mothers are more likely to be enrolled in school and to have higher levels of educational attainment.
- Educated women are more politically active and better informed about their legal rights and how to exercise them.

Moroccan women with at least some secondary education had, on average, half as many children as women with no education (Figure 2).



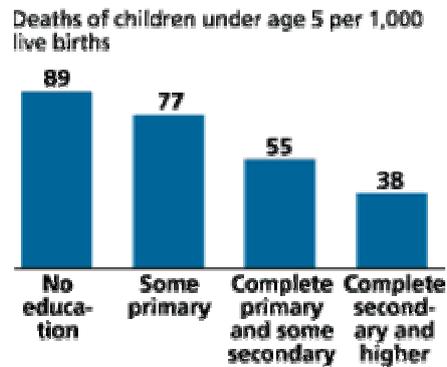
Source: ORC Macro, Morocco DHS, 1995.

Fig. (2): Contraceptive Use and Fertility in Morocco, relative to Women's Education, 1995

Women with more education also tend to have healthier families. **In Egypt**, for example, children born to mothers with no formal education were more than twice as likely to die as those born to mothers who had completed secondary school (Figure 3). According to

¹⁷ Dr. Nimrod Raphaeli (Senior Analyst of MemRI's Middle East Economic Studies Program), www.Memri.org.

the 2000 DHS, Egyptian women with less education were less likely to receive antenatal care: Only 34 percent of Egyptian mothers with no education received antenatal care, compared with 75 percent of those with a high school or college degree.



Source: ORC Macro, Egypt DHS, 2000

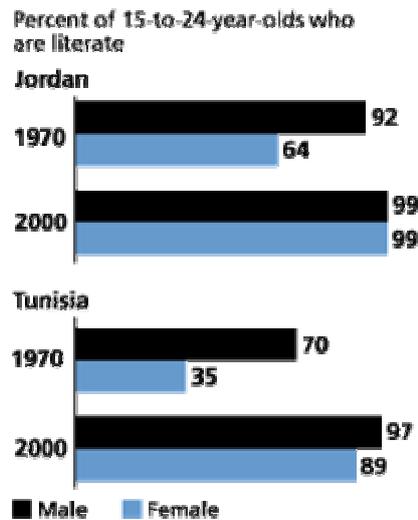
Figure 3: Child Mortality Rate in Egypt relative to Mother's Level of Education

As women's educational attainment in Middle-East countries has increased, more women have moved into the job market. But women's participation in the labor force is still low: Only 20 percent of women ages 15 and older in Middle-East countries are in the labor force — the lowest level of any world region. The highest level of native female labor force participation in Middle-East countries is found in Morocco where women constitute more than 25 percent of the labor force. But those rates are lower than rates found outside the region.

Women who live in countries with a large agricultural sector, such as Egypt tend to work mainly in that sector, although some Middle-East countries have been more successful in getting women into non-agricultural occupations. Morocco and Tunisia for example, have been able to engage women in the countries' export-manufacturing sectors.

Gender Gaps

Women in Middle-East countries are twice as likely to be illiterate as men are and make up two-thirds of the region's illiterate adults. The gender gaps in education vary greatly across countries in the region but are generally wider in countries where overall literacy and school enrollment are lower. But countries that make political and financial commitments to reducing illiteracy, as Jordan and Tunisia have, generally see significant improvements in reducing illiteracy and narrowing the gender gap (Figure 4).



Source: UNESCO Institute for Statistics, "Literacy Statistics" (www.uis.unesco.org, accessed March 11, 2003).

Figure (4): Closing the Gender Gap in Literacy in Jordan and Tunisia, 1970 and 2000

Gender gaps in literacy and school enrollment generally persist regardless of rural or urban location. Gender gaps in school enrollment are especially wide in Egypt. Closing gender gaps in education would benefit countries' economies.

Education is the single most important determinant of both age at marriage and age at first birth in Middle-East countries, since women in the region tend to give birth soon after marriage. Among married Egyptian women ages 25 to 29, for instance, those with no education had married at age 18, on average, and had their first child by age 20; those with a secondary or higher education married at an average age of 23 and had their first child by age 25.¹²

5- Youth

In Section III of the research, the condition of youth is addressed in each of the selected countries.

The biggest challenge facing policy makers in the region is the high rate of youth unemployment, estimated at 25.6 percent in 2003, which is the highest in the world. Although fertility rate (births per woman) in the region may be declining, it is still higher than in other developing countries, and there is the concern that population growth could outpace economic growth¹⁸

Young people aged 15 to 24 comprise almost half of the world's unemployed and are more than three times as likely as "adults" to be out of work. The ILO called this figure

¹⁸ Ilo, Ibid, P. 56.

"troublesome," given that youth make up only 25 per cent of the working age population¹⁹.

Table (3) identify Unemployment youth ratio in 2003 by comparing the Middle East with the rest of the world.

Table (3): Unemployment youth ratio in 2003

Region	Unemployment ratio	Unemployment Youth ratio
In the world	6.2	14.4
Industrial Countries	6.8	13.4
East Asia	3.3	7.0
South east Asia	6.3	16.4
South Asia	4.8	13.9
South America & Caribbean	8	16.6
Middle east & North Africa	12.2	25.6
Saharan African	10.9	21.0

6-Productivity

Middle-East is the only region where productivity has not moved in tandem with GDP. The explanation for this unusual pattern is that the GDP growth was fueled primarily by the increases in oil revenues accompanied, according to the ILO report, by "stagnant productivity." It is a perfect example, the ILO says, of why in the long term, "decent employment creation and productivity growth have to go hand in hand with GDP growth. Only then will economic growth lead to poverty reduction²⁰ .

¹⁹ A statement by ILO director-general at the World Economic Forum in Davos, Switzerland, January 25, 2006.

²⁰ Ilo, Ibid, P. 30.

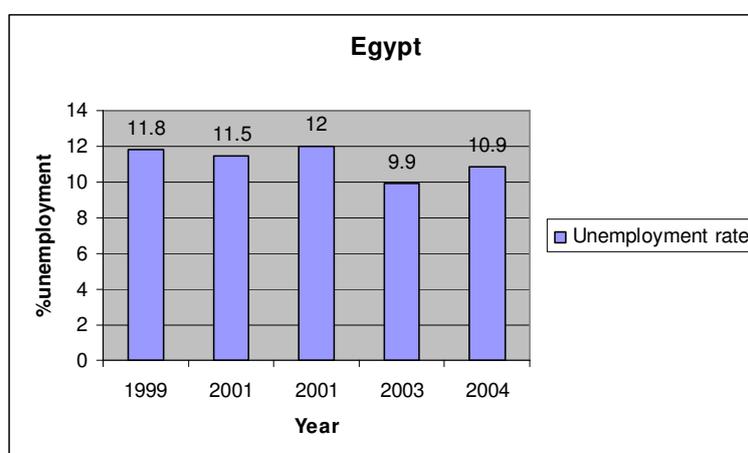
Section III: Unemployment & Non-Oil Selected Countries

(Egypt, Jordan, Tunisia and Morocco)

Egypt

Economic summary²¹

GDP/PPP (2004 est.): \$316.3 billion; per capita \$4,200 **Real growth rate:** 4.5% **Inflation:** 9.5%
Unemployment: 10.9% **Labor force:** 20.71 million. **Exports:** \$11 billion (f.o.b., 2004 est.)
Imports: \$19.21 billion (f.o.b., 2004 est.) **Population (2006 est.):** 78,887,007 (growth rate: 1.8%); **birth rate:** 22.9/1000.



Source: CIA Factbook

Fig. (5): Unemployment Rate in Egypt (1999-2004)

Introduction

Without delving into the current debate regarding the size of unemployment in Egypt, there is a consensus that unemployment has become a living reality in Egypt. It is one of the most serious problems preoccupying policymakers, intellectuals, and the public at large (Fig. 5).

In fact, dealing with the unemployment phenomenon has come to be viewed as the true measure of success for Egypt's economic reform efforts. Unemployment leads to numerous adverse consequences, such as wasting human resources, aggravating poverty, and violating human rights. It also increases social tensions, and negatively affects political stability²².

Although the Egyptian economy experienced an increase in unemployment during the late 1990s, the roots of this problem go back a relatively long time. Accordingly, it is possible to distinguish among three different phases of unemployment²³:-

²¹ <http://www.infoplease.com/>

²² www.worldbank.org

²³ Samiha Fawazy (2002) : Investment Policies and unemployment in Egypt, The Egyptian Center for Economic Studies, Working Paper, No. 68 , P. 7.

The **first phase**, which extended throughout the 1960s, was in a sense known as the full employment period since open unemployment did not exceed 2-3 percent.

Consequently, many workers immigrated to the Arab countries, where there are lots of more-profit jobs. The emigration of the labor in huge numbers concealed the problem of unemployment till the 1980; however, the problem became obvious again afterwards because of the decline of job opportunities abroad.

This can be explained by huge public investments in infrastructure, agriculture, and import substitution industries.

The second phase started in the mid-1970s and continued until the mid-1980s. On one hand, the emergence of this problem could be explained by the fact that the traditional mechanisms for absorbing the increasing numbers of the labor force - through agriculture and government employment - had started to reach saturation. On the other hand, the low rates of unemployment could have been due to the high growth rates resulting from the open-door policy, the increase in foreign capital inflows, the growth of the informal sector, and lastly, the increasing demand for Egyptian labor in the Gulf States as a result of the increase in oil prices.

The third phase started in the mid-1980s and continues to the millennium. During this period, unemployment increased gradually; and became more severe over time. As a result, it became top priority on the government agenda.

As we mentioned previously unemployment can be described according to region, sex, educational level, age, and economic conditions as for Egypt the steps are:

First, in Egyptian cities (Table 4&5), where there are large numbers of people, the dramatic increase of population is related to unemployment because the rate of increase in the available job opportunities is less than that of the population. That means a larger number of people have the same number of job opportunities available, leading to that many people do not have jobs.

In the Egyptian rural areas, surprisingly, there is a shortage in labor in some places accompanied by an excess of them in others. On the one hand, many farmers immigrated to the Arab countries, forcing women and children to work to replace them, and this is not healthy because it leads to increasing drop-out rates in the elementary schools. On the other hand, increasing subdivisions of holdings in agriculture, this means that there are lots of very small farms, made these farms not capable of providing work for all their owners' family members, who cannot work in places that have shortage in workers due to various reasons.

As the pool of available labor increases, and labor productivity increases, an increase in the rate of growth of GDP of 6-7% will be required to keep pace with employment growth. Expansion of job opportunities in rural areas will be particularly important, because the rate of growth of the rural labor force continues to outstrip growth of the urban labor force.²⁴ The rural non-agricultural sector has been the fastest growing sector in the last decade, producing almost twice as many new jobs as the non-agricultural sector in urban areas.

The proportion of workers in the labor force with secondary education or more is projected to increase from 60% in 2005 to 75% in 2020²⁵.

²⁴ (LFSS, 1990-1998)

²⁵ Ministry of Planning, Human Development Report , 2005 ,Ch. 6, P. 102

**Table (4): Distribution of Labor Force and Unemployment (1999/2000)
And Labor Market Demand (2001/2005) in Egypt**

Governorate	Labor Force		Unemployment		Labor Market Demand	
	Thousand	%	Thousand	%	Thousand	%
Cairo	2423	12.8	117	4.8	492	34.6
Alexandria	1133	6	43	3.8	216	15.2
Port Said	187	1	8.2	4.4	45	3.2
Suez	150	0.8	15.8	10.5	34	2.4
Damietta	293	1.5	21	7.2	28	1.9
Dakahlia	1458	7.7	174	11.9	29	2
Sharkiya	1332	7.1	127	9.5	72	5.1
Kalyobiya	1075	5.7	67.7	6.3	44	3.1
Kafr El Sheikh	710	3.8	73.2	10.3	14	1
Gharbeyia	1214	6.4	118	9.7	25	1.8
Monofiya	1024	5.4	55.2	5.4	24	1.7
Beheira	1270	6.7	167	13.2	21	1.4
Ismailiya	231	1.2	18.6	8.1	54	3.8
Giza	1337	7.1	52.2	3.9	248	17.5
Beni Suef	629	3.3	30.2	4.8	4	0.3
Fayoum	550	2.9	24.3	4.4	15	1.1
Minia	1157	6.1	81.2	7	6	0.4
Asiut	719	3.8	78.7	11	7	0.5
Sohag	824	4.4	81.4	9.9	7	0.5
Kena	546	2.9	54	9.9	8	0.6
Luxor	92	0.5	1.8	2	2	0.1
Aswan	262	1.4	49.8	19	5	0.3
Red Sea	72	0.4	11.5	16	12	0.9
New Valley	57	0.3	9.5	16.7	2	0.1
Matrouh	64	0.3	4.7	7.3	4	0.3
North Sinai & South Sinai	83	0.5	6.2	7.5	2	0.1
Total	18891	100	1491.2	7.9	1419	100

Source: CAPMAS: Demand Survey in Egyptian Labor Market (2001).

Table (5) : Number of population , Labor force and Unemployment in Egypt (1994-2004)

(In million)

Years	No. of population	Labor Force	Employed	Unemployment	Unemployment ratio %	Inflation Ratio %
1994	55.8	16.8	14.9	1.9	11.1	9
1995	56.9	17	15.1	1.9	11.3	9.3
1996	58.1	16.9	15.3	1.6	9.6	7.3
1997	59.4	17.3	15.8	1.4	8.8	6.2
1998	60.7	17.6	16.2	1.53	8.50	4.9
1999	62	18.2	16.8	1.52	8.2	3.7
2000	63.3	18.9	17.6	1.5	7.9	2.8
2001	64.6	19.3	17.6	1.49	7.60	2.4
2002	66	19.7	17.9	1.89	9	6.6
2003	67.3	20.2	18.2	2	9.9	13
2004	68.6	20.7	18.7	2	9.85	17

Source : Central bank of Egypt, adapted from Dr. Nagy Khalifa (2006) : Unemployment and Growth in Egypt.

Second, unlike the case in the past, there is not much sex discrimination in the labor market in Egypt today. For instance, there are many women who work in teaching and medicine. Nevertheless, the Egyptian women face some problems when being employed in the fields of management; law, economics and physical sciences. This is in addition to that many wives who prefer to be housewives. (Table 6).

Years	Male	Female	Total
1991	6.6	15.6	8.9
1992	6.5	17.3	9.1
1993	7.6	22.7	11.1
1994	7.5	23.1	11.1
1995	7.5	24.1	11.3
1997	5.2	19.8	8.4
1998	5.1	19.9	8.2
1999	5.1	19.4	8.1
2000	5.1	22.7	9.0
2001	5.6	22.6	

Source: CAPMAS, Labor Force Survey, 1995 - 2001

Third, the new entrants into the labor force, the Egyptian youth, represented more than 90% of the total unemployed in the first half of the 1980's, and the university graduates had to wait five years after graduation- even more than this now - to be employed by the labor force administration. This indicates that the largest percentage of the unemployed comes from the young university or higher institute graduates. And this is because the government is not capable of immediately employing all the unemployed educated young people as it did in the sixties through the guaranteed public employment for graduates. Because this policy is still applied, this makes them wait for a job that may not come before they are in their thirties. So this policy even prevents some youth from thinking of working in places other than the government²⁶.

Unemployment data indicate that unemployment levels are increasing among new entrants to the labor market. The rate of unemployment is highest among those who are 15-30 years old (30% unemployment, compared to an overall level of 8-9% according to official statistics). Almost 95% of the unemployed are new entrants to the labor market²⁷.

The average duration of unemployment is highest among the youth, reaching 39, 63 and 65 months for the age group 20-25 years, 25-30 years and 30-40 years, respectively. The current profile of the newly unemployed differs significantly from that of the workers who are likely to be displaced in the near future by economic reforms. For example see (Table 7).

²⁶ www.geocities.com

²⁷ <http://www.aucegypt.edu/>

Age group	Male %	Figures in Hundreds	Female %	Female %
15-	1770	21.24	1812	22.82
20-	3706	41.91	3490	37.09
25-	2333	29.25	2647	29.48
30-	648	7.08	1308	10.57
40-	74	0.30	37	0.04
50-	20	0.23	17	0.00
60-64	0	0.00	0	0.00
Total	8551	100.00	9311	100.00

Source: CAPMAS, Labor Force Survey, 2001

The relationship between unemployment and educational attainment appears to be negative as the incidence of unemployment is highest among those with intermediate education (70.2 per cent), followed by those in university (18.2%). In 2001 unemployment rate remained the highest among those with intermediate education to reach 65.4 % among males and 72.9 % among females, followed by those having university and higher than university education reaching 24.6% among males and 18.6% among females 28. (Table 8).

Fourth, there are different opinions on the relation between unemployment and economic conditions. "The only reason we have unemployment is that the governments are using it to contain inflation." This opinion says that governments want to have some unemployed people so that employers do not have to pay much for their employees, for they can easily get others, and, consequently, the prices do not become too high. Other economists think that unemployment rates depend mainly upon how many and how large investments are in a certain country. This is because investments provide job opportunities for the unemployed; consequently, unemployment in Egypt today is due to the lack of the adequate number of large investments²⁹.

The causes of unemployment in Egypt today are overpopulation, disastrous government's policies, insufficient education and training, deteriorating economic policies, and personal causes. "After 1990 the sharp rise in the birthrate prevailing since 1975 will greatly increase the flow of new entrants to the labor market. For the Egyptian labor market is, nowadays, not able to provide jobs for all that need them causing unemployment, which negatively affects the unemployed people's families before affecting the whole society.

²⁸ <http://www.aucegypt.edu/>

²⁹ www.geocities.com

**(Table 8): Labor Force Distribution & Unemployment (1998)
and Labor Market Demand (2001-2005): By Education Status in Egypt**

Sector	Labor Force*		Unemployment**		Labor Market Demand	
	Thousand	%	Thousand	%	Thousand	%
Illiterate	7192	33	135	8		
Read & Write	2076	9	73	4		
Below Intermediate	3522	16	143	8	531	66
Intermediate	5305	24	947	55	28	4
Above Intermediate	1267	6	181	11	108	13
University & Higher	2705	12	242	14	138	17
Total	22061	100	1721	100	805	100

Source: Labor Force & Unemployment: CAPMAS, Labor Market Demand: Labor Demand Survey in Labor Market.

* Represents persons at working age (6 years or more)

** Includes 15 years or more

Informality of the Labor Market in Egypt:

The informal sector is estimated at over 40% of total employment, and therefore about 65% of private sector employment.³⁰ The majority of jobs created in the 1988-98 decade were unprotected by a legal employment contract. Legal contracts include higher costs for females than for males as they must include paid and unpaid maternity leave. Two sectors are reported to include a large number of informal workers: the tourism industry and personal services.

Degrees of informality in Employment in Greater Cairo Region

Full formality for paid and unpaid employment in Greater Cairo Survey applies to individuals who work with contract, and pay social as well as health insurance. If one of the previous items-contract, social insurance or health insurance- is missing, the case is automatically grouped under informal work.

Informality takes four requirements which are:³¹:-

- 1- Working with no contract but with social and health insurance.
- 2- Working with contract but with no health or social insurance.
- 3- Working with no contract but with connection to at least an insurance system of any type.
- 4- Working with no contracts, no health, or social insurance is considered totally informal.

In total, 50.3% of the paid and unpaid workers and employees have a formal status. The ratio of working females in this status to total working females is higher (66.8%), than the similar ratio for working males (46.1%). The concentration of working females in the Metropolitan area in clerical occupation, in the government may explain this difference. On the other hand, those who do not have a contract nor health and social insurance were considered informal workers or employees. 49.7% of the workers in paid and unpaid employment (53.8% for males and 33.2% for females) are grouped under this category. Only 2 % of paid and

³⁰ (World Bank, 2000), Egypt Social and Structural Review, P.57.

³¹ (Nassar, H .1999)

unpaid workers have a contract and do not have a social or health insurance, with no significant differences by sex. The same applies for those, who have a contract and have some kind of insurance –social or health. A very small percentage of those, who work with no contract have social or health insurance (5.2% of all paid and unpaid workers). Men in this work category were found to be more privileged, as a relatively higher percentage (6.1%) has some kind of insurance, even if they do not have a contract. This ratio goes down to 1.9% for females.³²

Future challenges facing Egyptian employment

- A rapidly growing labor force at a rate faster than the population growth rate and a relatively low GDP growth rate.
- Mismatch between labor market requirements and educational output.
- Demand/ Supply Imbalances.
- The training-productivity problem in an outward oriented economy.
- High unemployment rate and persistent under-employment

Egypt (2000-2005)

The economic recovery gained steam in 2004. Driven by strong growth in exports of goods and services, real GDP advanced by 4.8 percent in the first half of 2004/05 (July-December). Egypt made the transition to a unified, flexible exchange rate regime in December 2004 with the establishment of a formal inter-bank market for foreign exchange and the elimination of the surrender requirement. Favorable trends in the balance of payments have contributed to the orderly functioning of the market since its inception³³.

Egypt's external position has strengthened further. All foreign exchange generating activities exhibited robust growth during 2004. The surplus in the external current account rose to 4.4 percent of GDP in 2003/04. This strength reflects improved competitiveness stemming from the real depreciation of the pound since 2001, as well as other external factors, such as higher oil prices and higher Suez Canal traffic. Strong current account flows enabled banks to strengthen their net foreign asset position. Total external debt remained stable at about US\$29 billion (31 percent of GDP) at end-2004³⁴.

In the period ahead, external conditions are expected to remain favorable, and the recovery is likely to firm. Preliminary data suggest a continuation of recent trends in government borrowing in 2004/05. This outlook implies a small increase in the general government deficit on account of lower customs and non-tax revenues, and no change in the level of other debt-creating operations.

³²Nassar, H. 1999

³³ www.imf.org

³⁴ www.imf.org

Jordan

Economic summary³⁵

GDP/PPP (2004 est.): \$25.5 billion; per capita \$4,500 **Real growth rate:** 5.1% **Inflation:** 3.2% **Unemployment:** 15% official rate; actual rate is approximately 30%, **Labor force:** 1.41 million. **Exports:** \$3.2 billion, **Imports:** \$7.6 billion **Population (2006 est.):** 5,906,760 (growth rate: 2.5%).

Introduction

The extent and structure of unemployment in Jordan was examined. The data on unemployment in Jordan come from censuses and labor force sample surveys. The last census was conducted in 1961 and obviously cannot provide current information, but a multipurpose household survey has been conducted annually since 1972. The survey sample is a stratified multistage random sample; 3 strata are distinguished, i.e., cities, camps, and rural areas³⁶. The total unemployment rate was 1.6%, but the rate for women was 2.8% and that for men only 1.5%. The rate for women may be overstated to an unknown extent due to underreporting of women in the labor force, yet it seems unlikely that this factor would explain all of the differences in the extent of unemployment between men and women. The cultural bias against work for women outside the home exerts an influence in making it more difficult for women to find a job, but because of this bias many women do not even enter the labor force and hence cannot be unemployed. Most of the unemployed were in the 20-24 age groups and to a lesser extent in the 15-19 age groups. Almost 60% of the unemployed were in these 2 age groups. Beyond these ages, the percentages of unemployed decreased regularly with age, with the age group 40-44 as a minor exception. When taking sex into account, the 1st phenomenon to be observed was the highly skewed age distribution of female unemployed who were all under age 30. Of the unemployed men, most were also young, with 34.6% in the 20-24 age group and 52.9% younger than 25 years. For married women the low unemployment rate can be explained by the fact that many married women most likely drop out of the labor market if they cannot find a job or if they lose their previous job. In all age groups unemployment was more severe among single than among married men. Among the unmarried population female unemployment was far worse (10.5%) than male unemployment (2.7%) at ages 15-19. Unemployment increased with educational level for men; female unemployed by educational level showed 2 distinct peaks, i.e., at the B.A. level and at the "less than secondary" level plus³⁷ the "Tawjihi" level. Unemployment was a phenomenon of urban rather than rural areas in Jordan³⁷.

Labor Force

In the late 1980s, Jordan both exported and imported labor. The total domestic active labor force in 1987 was about 659,000 workers. Of this number, approximately 150,000 (23 percent) were foreign guest workers, and approximately 509,000 were Jordanian citizens. In 1988, the number of Jordanians living abroad, including dependents, was estimated at up to 1 million³⁸.

³⁵ www.infoplease.com

³⁶ In this analysis, those persons among the unemployed who are in the age group 12-14 are excluded. 82.3% of the unemployed in the sample were men.

³⁷ www.ncbi.nlm.nih.gov/entrez/query

³⁸ <http://countrystudies.us/jordan/48.htm>

Labor Emigration

The oil price increases of 1973 and 1974 stimulated tremendous labor demand in the Arab petroleum-exporting nations, which tended to have small populations. Jordan, suffering from unemployment and having an educated and skilled work force, was prepared to fill this vacuum; over the following decade, several hundred thousand Jordanians left their country to work in neighboring Arab nations. About 60 percent of Jordanian emigrants worked in Saudi Arabia, about 30 percent worked in Kuwait, and most of the remainder found employment in other Persian Gulf states.

Labor Force and Unemployment

In the late 1980s, after years of internal labor shortages, Jordan faced a looming unemployment problem. Throughout the 1970s and 1980s, Jordan sustained a high average annual population growth rate of between 3.6 and 4 percent. This growth rate was augmented by about 0.5 percent per year because of immigration into Jordan from the Israeli-occupied West Bank. In the late 1980s, this prediction was proving accurate; about 40,000 people were joining the domestic labor pool every year. A combination of GNP growth, increased worker efficiency, emigration, and attrition created jobs for most new workers, and unemployment was kept to about 9 percent.

Experts believed, however, that unemployment and underemployment would probably increase rapidly in the 1990s as the labor pool continued to grow more quickly than labor demand. In 1986 only about 20 percent of Jordanian citizens worked or sought work, a figure expected to grow dramatically as the youthful population aged. In addition, because of the recession in Saudi Arabia and the Gulf states caused by slumping oil prices, Jordanians who had been working abroad were repatriating and seeking work at home. The Ministry of Labor estimated that about 2,500 Jordanians returned from abroad in 1986. Moreover, women who in 1986 made up only a little more than 12 percent of the working population but almost 50 percent of secondary school and college enrollment were expected to attempt to join the labor force in growing numbers. The work force had some elasticity in that approximately 150,000 foreign guest workers could be sent home and their jobs given to Jordanian citizens; but even if all guest workers were repatriated, unemployment would persist³⁹.

By one estimate that did not include repatriating Jordanian workers, unemployment could grow to 30 percent of the work force in the 1990s in the absence of extraordinary government action. Therefore, although aware of the problems caused by labor emigration, the government remained far more concerned about unemployment--and declining remittances--than about the problem of emigration. As of 1989, the government had stated explicitly that it would continue to permit unrestricted worker emigration.

An Overview of Current Economic Condition in Jordan

Jordan's economy today is radically different from that in the early 1990s. Over the last four years (2000-2004) real GDP growth average 5.4% while population growth averaged 2.9% implying average per capita income growth of by 2.6%.

Unemployment remains within two digits and was estimated at 12.5% by the end of 2004. Inflation growth was moderate and estimated at 3.4%. Growth and stability were reflected in reducing the poverty rate, which went down from 21.3% in 1997 to 14.2% in 2002. One has to

³⁹ <http://countrystudies.us/jordan/48.htm>

mention that there is a controversy regarding the actual poverty rate. Few skeptics refer to the fall in poverty to changes made in the adopted methodology rather than to the economic growth. Latest estimates for poverty level utilized volume of calories consumption instead of the level of income. Adopting this new methodology has brought down the number of poor people significantly. There are no estimates to the poverty level on annual basis to explain the poverty trend over the period 1997 and 2002⁴⁰.

Over the last decade Jordan adopted several liberalization policies under the auspices of the IMF and the WB. In addition Jordan was acceded to the World Trade Organization (WTO) in 2000, after agreeing to a package of trade and investment liberalization measures, as well as improvement in protections for foreign-intellectual property.

Employment Analysis

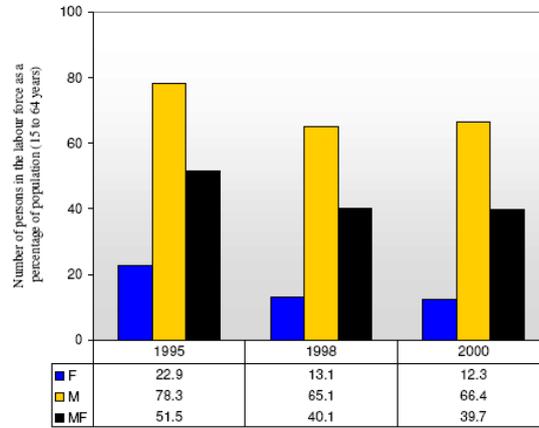
Unemployment rates over the last three decades have been erratic, alternating between periods of very high number of unemployed, as in the 1990s, to periods of slow growth, such as those during the late 1970s and throughout most of the 1980s. Trends in labor force especially that concerning employment reflect economic and social changes. It reflects not only the underlying demographic trends in adult population, but also change in women's participation in the labor market, levels of participation in education, and labor mobility and migration.

The Participation rate was estimated at 38% as an average over the period 2000-2004.

The participation rate for female is fairly low and estimated at 10 percent in 2004 (Fig. 6). This rate has not exceeded 13 percent over the last five years. The participation rate among males is high and averaged 65 percent over the period 2000-2004. The low level of female participation suggests that Jordan needs to advocate policies to encourage female participation especially that the lowest participation rate amongst female concentrated within the educated group as the unemployment figures indicate. Low participation of female is the result of high unemployment and does not indicate high participation rate in the informal sector. Men's participation in labor force went down during the period 2000-2004. This was a direct result of rising enrollment rate in education, especially the intermediate colleges and universities and the inability of the labor market to absorb the new comers. The inability to absorb the new entrants attributes to the mismatch between the labor supply and demand more than to the high labor productivity. It seems that the achieved GDP growth over the last few years is originated in sectors that are not characterized by their labor intensity. Male participation fell from 66.1 % in 2000 to 63.7% in 2004. The overall effect of decreasing rate of participation in labor force for both men and women was that the overall labor force participation rate declined over the same period from 39.4% to 37.4%.

⁴⁰www.gpn.org

Jordan - Labour Force Participation Rate (KILM 1)



1. Source

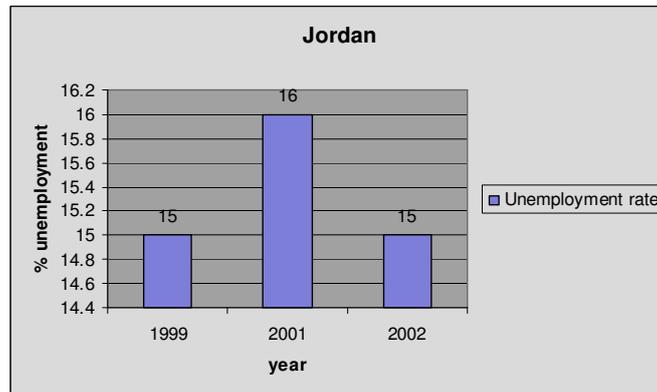
ILO: 2003-2004 Key Indicators of the Labor Market (Geneva, 2003), <http://www.ilo.org/kilm>

2. Type of source HS Household or labour force survey

3. Symbols MF: Male and female, M: Male, F : Female

Fig. (6) : Jordan labor force participation rate

Unemployment with its economic and social implications is one of the most pressing problems facing Jordanian policy makers. The unemployment rate in Jordan fluctuated between 12.5% and 15.3% over the last five years (year 2000), unemployment among male estimated slightly at lower rate than the national average, while for women it has been much higher and estimated at around 20% over the period 2000-2004. In 2004 the unemployment rate declined for males to 12.5%, compared with 13.7% in 2000. The female unemployment rate declined from 21% in 2000 to 16.5% in 2004. (Fig. 7).



Source: CIA World Factbook

(Fig. 7) Unemployment Rate in Jordan

The breakdown of unemployment by education level and sex suggests that the lowest unemployment rate was found within the group of illiterate people for both genders.

Illiterate people represent a small segment in the society and normally members of this group are not actively seeking to join the labor market. They might explain the low level of unemployment within this group especially amongst female who join and leave the labor market without being reported.

However, one can observe a marked difference between males and females. For males, the highest rate of unemployment was registered among those who possess qualification less than the secondary school. This group normally joins vocational training centers and spends a year or two apparently without being adequately qualified. This group aged between 18-23 and considered to be socially vulnerable. Male unemployment is quite similar for the rest of the groups.

Unemployment among female provides a rather different story. The highest level of unemployment was registered among females who possessed high school diplomas or Bachelor's degrees and above, reaching 19% and 18% respectively.

Morocco

Economic summary⁴¹

GDP/PPP (2004 est.): \$134.6 billion; per capita \$4,200 **Real growth rate:** 4.4% **Inflation:** 2.1% **Unemployment:** 12.1% **Labor force:** 11.02 million. **Exports:** \$9.754 billion **Imports:** \$15.63 billion **Population (2006 est.):** 33,241,259 (**growth rate:** 1.6%).

Introduction

Morocco's unemployment problem is serious. Joblessness is officially estimated at 17%, though labor and human rights activists believe that it might be as high as double that number. Unemployed graduates began to organize politically in the late 1990s. Prior to that time, though less *etatist* than the "Arab socialist" regimes, Morocco had developed a considerable public sector that served as the major source of jobs for educated youth. But, and as happened in many other developing countries, government spending on job creation, social services, and infrastructural development exceeded its revenue intakes, spawning inflation and contributing to a debt overhang that sent Morocco to the international financial institutions seeking relief. An IMF- and World Bank-supported structural adjustment program beginning in the late 1980s led to curtailed government spending, trade liberalization, and divestment of numerous state-owned enterprises. Hiring at those firms remaining in government hands was rationalized, frustrating the expectations of high school and college students who had anticipated absorption into the civil service or public sector⁴². (Fig. 8).

⁴¹ www.infoplease.com

⁴² conconflicts.ssrc.org,
www.airninja.com

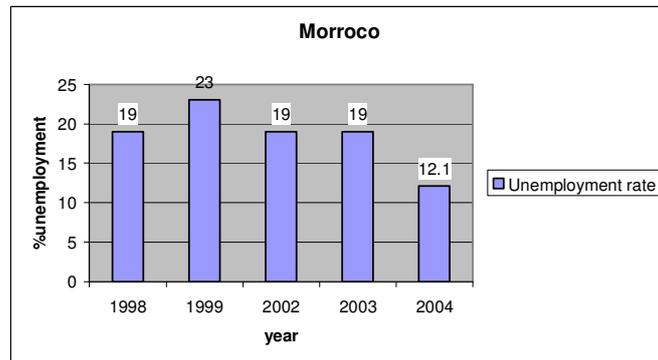


Fig. (8): Unemployment rate in Morocco

Neo-liberal reforms reduced Morocco's debt burden and brought macroeconomic stability to the country, but did not produce the economic expansion its advocates promised, nor the poverty reduction presumed to come in tandem with such growth. And new job creation in the private sector has not kept up with demand. Thus, although the demonstrations witnessed were not explicitly couched as such, they can be understood as bearing some affinity with the sentiments expressed by the "anti-globalization" movement.

In 2003, Morocco's real GDP increased an estimated 5.2%. Morocco's economy grew especially rapidly in 2003 because of ample rainfall. The disproportionate importance of the agricultural sector, which employs 43% of the population, makes Morocco's economy vulnerable to external shocks, like extremely good (or bad) weather. The expected return of normal weather patterns has led to GDP growth. Tourism, which had been growing in economic importance, has been hard hit by the September 11 terror attacks, the Iraq war, and the May 2003 bombings in Casablanca. Barring new terrorist attacks in North Africa, Morocco's tourism sector is expected to rebound in 2004. Other important Moroccan economic sectors include mining (Morocco has the world's largest phosphate reserves). Related industries include the production of fertilizers and phosphoric acid. Morocco also has an expanding manufacturing base⁴³.

Morocco's per capita income in 2003 was \$1,531. The U.S. State Department reports that Morocco suffers from a number of socioeconomic problems. These include poverty, urban overcrowding, inadequate housing infrastructure, and a low literacy rate, especially among women. While all of these issues require attention, unemployment remains the principal socioeconomic problem in Morocco. The unemployed and underemployed make up an estimated 23% of the Moroccan workforce, and the problem is worsening. An estimated 300,000 young workers enter the Moroccan job market every year, while only 200,000 new jobs are created annually. Unemployment disproportionately impacts women, the young, and the college educated.

Controlling fiscal expenditures remains a priority for Morocco. Wider budget deficits are emerging, reflecting a bloated public sector. The public wage bill accounts for more than half of government expenditures. In part this reflects the decision to expand the civil service to provide jobs for the well-educated. The Moroccan government also has trouble cutting spending because it is a leading provider of needed investment capital. Morocco has tried to cut its deficits through the privatization of state-owned enterprises (SOEs). In 1993, 114 SOEs were selected for possible privatization. As of January 2004, half of these had been sold.

⁴³ conconflicts.ssrc.org,
www.airninja.com

Morocco has pursued other economic liberalization efforts including a reform program supported by significant lending from the World Bank and International Monetary Fund (IMF) since the early 1980s. This reform program has led Morocco to liberalize its foreign exchange regime, lower tariffs and other trade barriers, reform the banking system, partially restrain government spending, reduce the foreign debt burden (in part through "debt-for-equity" swaps, in part through refinancing), and encourage foreign investment (now permitted in most sectors of the economy). Morocco also has signed several agreements with the European Union on economic cooperation, including one establishing a free trade zone for industrial goods over a 12-year transition period. Morocco is a partner country of the European Free Trade Agreement.

The Scope of Child Labor in Morocco⁴⁴

Morocco has one of the highest child labor rates in the Middle East and North Africa. Although Moroccan law prohibits children under fifteen from working, government statistics suggest that at least six hundred thousand children age seven through fourteen— 11 percent of all children in that age group—are engaged in economic activity. Of those working children, 372,000 are under age twelve.

Child labor in Morocco is largely a rural phenomenon, affecting an estimated 19 percent of all rural children age seven through fourteen, compared to 3 percent of all urban children in that age group. According to government data, domestic service has the highest levels of paid employment of children, at 72 percent, far surpassing the next closest sector, textiles, at 29.8 percent.

Morocco's child labor rates appear to have fallen slightly in the 1990s and in the first two years of the current decade, a trend that some experts attribute in part to limited job opportunities for older children and a rise in school enrollment rates for younger children.

Most government and NGO programs targeting child domestic labor have focused on providing them with non-formal education while they continue to work, rather than on preventing young girls from entering domestic work, enforcing existing legal protections against abuse and exploitation, or transitioning working girls back into full-time, formal education.

Public sector employment

The public sector (central government, municipalities, and public enterprises) plays an important role in Morocco. It represented around 18 percent of Morocco's GDP in 2000. With about 635,000 employees (central government excluding the military, and employees of municipalities), equivalent to 15 percent of total urban employment—or 19.5 percent if we add public enterprises.

As a result, wage policy in the public sector has important consequences on the functioning of the labor market⁴⁵.

Unemployment in Morocco

As in many developing countries, in Morocco open unemployment is essentially an urban phenomenon. The labor force participation from 1996-1999.

⁴⁴ <http://hrw.org/reports/2005/morocco1205/5.htm>

⁴⁵ <http://www1.worldbank.org/wbiep/macro-program/agenor/pdfs/Immpa-Morocco.pdf>

In 2000, the urban unemployment rate stood at 21.4 percent, against 15.8 percent in 1990. This is equivalent, in 2000, to 1.1 million unemployed out of an active population of 5.4 million. Several facts reveal important tensions on the domestic labor market. The youth (15-24 years old) are particularly vulnerable to unemployment in urban areas, with a rate often well above 30 percent since the early 1990s.

Whereas the unemployment rate for individuals with no instruction is somewhat low (12.2 percent in 2000) and fluctuates significantly in conjunction with economic activity, the unemployment rate is persistently high for individuals with a higher level of education.

In 2000, their unemployment rate was 30.7 percent. Gender differences are also quite striking: in 2000, 26.7 percent of active urban women were unemployed, compared to only 19.9 percent of the men. Turning to the composition of unemployment, the data reveal that the 15-24 year old group and individuals with a higher level of education account for around 37 percent and more than 18 percent of the number of job seekers, respectively, in 2000.

Individuals with no education represented 8 percent of the unemployed population that year. Underemployment is pervasive, indicating that unemployment may well be worse than the data suggest: in 1991, it affected 20 percent of the urban workforce, and, for the under-25 group, the rate of underemployment was 34.5 percent. In 1995, this rate was 24.2 percent and 23.3 percent for the 15-24 and the 25-34 year old groups, respectively. Overall, movements in the unemployment rate are highly correlated with fluctuations in GDP. For instance, in 1995, a year marked by a severe drought, urban unemployment reached 22.9 percent, and the strong subsequent recovery in 1996, in which GDP grew by 12 percent, allowed to reduce it by about 5 percentage points.

Additional elements reveal several features of urban unemployment in Morocco. As in many developing countries, the majority (about 54.5 percent) of the unemployed are first-time job seekers. Among the unemployed, the impact of long-term unemployment is pervasive. Moreover, the educational level does not appear to reduce significantly the probability of staying unemployed.

Only 9 percent of the unemployed are using formal strategies (such as written inquiries or responses to job openings). Hence, personal relations appears to be the most efficient way to find a job in Morocco. Within a context of tight hiring and firing regulations, the reliance on personal relations may also be a way for the employers to minimize, through maximum information on the candidate, the risks associated with hiring.

In urban areas, the rate of unemployment for the poor is about 50 percent higher than the overall rate of unemployment. Overall, the insertion on the labor market is a key determinant of the living standards. The dependency ratio—calculated as the ratio of the unemployed to the employed members of a household—is 50 percent higher for poor families. Along the same line, econometric estimates indicate that, *ceteris paribus*, unemployment significantly increases the probability of being poor. The link between labor market functioning and poverty is a strong argument in favor of labor market reform to address segmentation and unemployment⁴⁶.

⁴⁶ <http://www1.worldbank.org/wbiep/macro-program/agenor/pdfs/Immpa-Morocco.pdf>

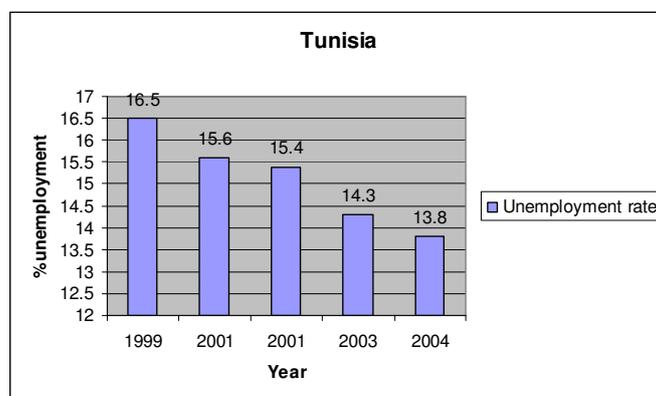
Tunisia

Economic Summary⁴⁷

GDP/PPP (2004 est.): \$70.88 billion; per capita \$7,100. **Real growth rate:** 5.1%. **Inflation:** 4.1%. **Unemployment:** 13.8% **Labor force:** 3.55 million. **Exports:** \$9.926 billion (f.o.b., 2004 est.) **Imports:** \$11.52 billion (f.o.b., 2004) **Population (2005 est.):** 10,074,951 (growth rate: 1.0%).

Introduction

Tunisia's unemployment rate is unusually high. Drawing from the 1989 labor force survey, official estimates put that rate at 15.3 percent. Un-official estimates for more recent years, based on labor force and employment forecasts, yield rates as high as 16 to 17 percent. (Fig. 9).



Source: CIA World Factbook

(Fig. 9) : Unemployment Rate in Tunisia.

The country confronts major policy reforms, including the implementation of a free trade agreement with the European Union and the privatization and downsizing of state-owned enterprises. The problem is that the consequences of these reforms depend on how efficient the labor market actually is?

Tunisia's real gross domestic product (GDP) was estimated to reach 5.7% in 2003, up markedly from 1.7% in 2002. Rapid economic growth 5.5% was expected to continue in 2004. Tunisia has averaged over 5% growth per year since 1997. The slowdown in 2002 reflects the impact of a number of adverse shocks, including a sharp reduction in tourism following September 11 and a subsequent terrorist attack in Tunisia, worsening exports, and a fourth consecutive year of drought⁴⁸.

For the past 10 years, Tunisia has maintained a stable macroeconomic environment. According to the Heritage Foundation's Index of Economic Freedom, inflation averaged only 2.6% between

⁴⁷ www.dfat.gov.au/geo/fs/tuni.pdf,

www.eia.doe.gov,

www.infoplease.com

⁴⁸ www.ideas.repec.org

1993 and 2002. This trend continued in 2003, when consumer prices were estimated to have risen 2.7%. The inflation forecast for Tunisia in 2004 suggests that prices will rise 2.4%.

In the long run, Tunisia sees privatization as a way of creating jobs by making its economic climate more attractive to investors. However, the mass firings that might accompany rapid privatization could provoke unrest given that Tunisia's unemployment rate remains at high levels (officially 15%, but likely higher). Tunisia faces a very significant employment challenge. Around 55% of the work force is under the age of 25, meaning that large quantities of new jobs must be created. For 2002-2006, the government was looking to increase domestic and foreign investment, with a target of \$34 billion for the period⁴⁹.

Labor Force in Tunisia

The criteria used to measure unemployment in Tunisia differ from those commonly applied in other countries in two respects:

- 1- The most frequently mentioned discrepancy concerns job seekers of ages 15 to 17, and 60 and above, who appear on the unemployment rolls in most countries but who are not included in Tunisia's unemployment figures. Because these people are available to work, observers believe that official unemployment figures underestimate the magnitude of the problem.
- 2- The second discrepancy, however, more than offsets this underestimation. Tunisian data count a set of inactive people (mostly housewives) as unemployed, although they would not be counted as such elsewhere.

In Tunisia, however, this definition was considered problematic because it yielded a higher unemployment rate for men than for women, which is uncommon. Of course, this gender gap may say more about the condition of women at that time than about the appropriateness of the definition. But in practice, the problem led to several endeavors by the statistical office (Institut national de la statistique) to identify potentially discouraged job seekers among inactive women. For this reason the standard definition of the economically active population was gradually extended to include the marginal labor force first, and then the potential labor force⁵⁰.

Tunisia—2005⁵¹

Tunisia has made significant progress toward its objective of catching up with the economic level of the lower-tier OECD countries. Real per capita income has increased by almost 20 percent since 2000, the unemployment rate continues to decline, and macroeconomic imbalances remain

⁴⁹ www.ideas.repec.org

⁵⁰ <http://www.worldbank.org/research/journals/wbro/obsfeb98/pdf/article4.pdf>

- **The marginal labor force** comprises individuals who do not consider themselves economically active but who did some work in the preceding three months. More specifically, all the interviewees were first asked whether they considered themselves employed, unemployed, housewives, students, in military service, and so on. Then, all the inactive respondents, apart from those in military service, were asked whether they had worked in the three months preceding the survey. Those who did were switched from inactive to marginally active, and then asked whether they worked at least one hour during the week preceding the survey. The answer was overwhelmingly negative, which is not surprising given that these individuals reported that they were inactive. As a result, most of the marginally active were counted as unemployed.

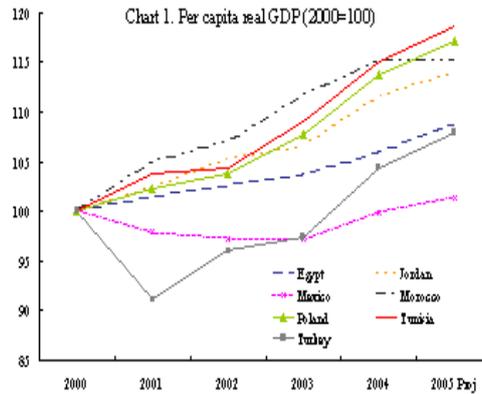
- **The potential labor force** consists of a subset of housewives who have some free time and would like to have a job. More specifically, those interviewees who classified themselves as housewives and who did not do any other work during the previous three months, not even as family workers, were asked whether their housekeeping tasks kept them busy all day. If so, these women are considered inactive. But if not, they were asked whether they would be willing to take a job if it were offered.

An affirmative answer shifts them from inactive to potentially active. Not surprisingly, most of them were reported unemployed when asked whether they worked at least one hour during the week preceding the survey.

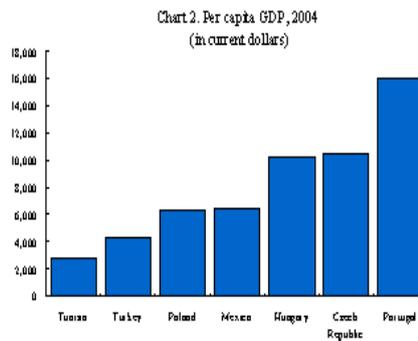
⁵¹ www.imf.org

under control owing to the capacity of the fiscal, monetary, and exchange rate policies to respond rapidly to changing conditions and economic shocks. (Fig. 10 & 11).

However, all the conditions are not yet met to achieve this objective, and important economic policy challenges lie ahead.



(Fig. 10) : Per Capita real GDP in Tunisia (2000-2001)



(Fig. 11) : per capita GDP in Tunisia, 2004

The main challenge which faces Tunisia is reducing unemployment, which increasingly affects university graduates. To achieve this, at a higher rate of growth, the economy must continue its transformation by developing the sectors that require skilled labor to respond to a growing demand for jobs from university graduates. This in turn will lead to higher productivity, the real engine for sustainable economic growth. To face this challenge, Tunisia should make certain reforms in the labor market.

Medium-Term Economic Outlook and Further Transformation of the Economy in Tunisia

The medium-term outlook reflects the government's ambitious objectives of strengthening the foundations for higher growth, which would make it possible to further reduce the unemployment rate by absorbing the growing demand for jobs from skilled workers. The mission shares the authorities' belief that achieving these goals will require further transformation of the Tunisian economy. This would require higher private investment and higher productivity. This could be achieved through (a) the new drive for reform currently under way, which aims to strengthen the financial system, improve the business climate, and enhance labor market flexibility; and (b) continued adaptation of macroeconomic policies to the constraints posed by Tunisia's integration into the world market.

Section IV: Unemployment Overview in the Non-Oil Countries in the Middle East ⁵²

1- There are some important differences between the Non-Oil Countries over the 1990s.

A- Job Growth:

- *Jordan* faced one of the highest growths in working-age population (averaging over 4 percent a year from 1994 to 2000) in the Non-Oil Countries group. Job growth, although substantial (3¾ percent a year), did not keep up. Still, the unemployment rate fell significantly over the decade, from 19.7 percent in 1993 to 13.7 percent in 2000, because of migration of skilled labor to countries of the Gulf Cooperation Council and a decline in domestic labor market participation rates, particularly for men, which may have reflected the withdrawal of unemployed workers from the labor force in the face of inadequate job opportunities. Discouraged workers who have left the labor force are estimated at nearly 4 percent of the labor force. Low-productivity jobs appear to have led job growth, as reflected in the fact that labor productivity (output per employed person) fell during the 1990s and that nearly 6 percent of the workforce is reported to be underemployed.
- *Egypt* and *Tunisia* experienced small declines in unemployment rates and similar demographic trends in the 1990s: the working-age population grew between 2½ and 3 percent a year; participation rates rose; and employment grew slightly faster than the labor force.
- The main difference between the two countries lies in the labor productivity growth that accompanied job growth: during the 1990s, output per person employed grew by an average of 2 percent a year in Tunisia and 1 percent in Egypt. This difference can be ascribed in part to the dominant role played by agriculture and government in Egypt, sectors in which productivity growth tends to be lower.
- Gaps in coverage, notably of the rural sector in the early 1990s, somewhat complicate the analysis of labor market developments in *Morocco*. The working-age population grew by 2½ percent, and participation rates edged up a bit during the 1990s. There was a slight rise in unemployment, driven primarily by rising urban unemployment. Labor productivity growth was generally low in both the agricultural and nonagricultural sectors. The unemployment rate is now 13 percent but reaches 20 percent in urban areas. In rural areas, unemployment is low, but underemployment is likely to be widespread. Unemployment declined slightly in recent years, but the decline mainly reflects a drop in participation rates.

B- Labor productivity

The evolution of labor productivity provides another insight into the relationship between GDP and employment. Labor productivity (measured as GDP per person employed) grew relatively slowly in the Non-Oil Countries (1 percent a year on average) compared with other regions. Low productivity growth, in turn, limits the potential for real wage growth (an increase in wages after accounting for inflation). Indeed, the evidence shows that real wages in the manufacturing sector declined in Egypt and Jordan during the 1990s⁵³. In fact, the growth in total factor productivity was negative in some countries. The overall result might indicate that underemployment and low-productivity jobs have increased.

⁵² www.imf.org

⁵³ The weak labor productivity growth appears to have resulted from both a slowdown in the rate of capital accumulation and weak growth in total factor productivity (productivity gains from a more efficient use of capital and labor and from technological progress)

The weakness of productivity growth during the 1990s is particularly striking in light of the gains made in educational achievement in Non-Oil Countries. Although countries in the Middle East still lag behind many developing countries in Asia and Latin America in terms of educational achievement, particularly with respect to women, they have made impressive strides since 1975. The average number of years of education completed by adults 15 years of age and older in , Egypt, Jordan and Tunisia more than doubled between 1975 and 2000, compared with an average increase of only about 50 percent for other developing countries. But, contrary to expectations, the return (in terms of productivity gains) on this investment in education appears to have been relatively low in Non-Oil Countries. Part of the reason may lie in a mismatch between the skills required in the modern job market and those provided by the education system.

The continued strength of government job creation, where measured productivity gains tend to be lower, may also have been a reason for the slow growth of overall labor productivity. Indeed, the two countries with the lowest rates of labor productivity growth (Egypt, and Jordan) are also the ones with the largest share of government employment. Large public sectors probably also affected GDP growth, as public employment had to be financed by higher taxes, cuts in other (more productive) spending, or larger deficits.

2- The factors constraining GDP growth

If it is insufficient demand that is constraining GDP growth, **more employment** can only be generated at the cost of lower wages, which, in turn, induce more labor-intensive production and thus lower labor productivity (i.e., more employment for the same level of output).

Similarly, **technological progress**, by enabling less labor to produce the same amount of goods and services, would destroy jobs. But if output is constrained on the supply side because enterprises do not find it profitable to expand production, then technological improvements would raise profitability and thus contribute to higher levels of investment, employment, and output without necessarily reducing wages.

Inadequate demand for a country's products can limit growth over the short to medium term. The exhaustion of the government-led growth strategy that had propelled much of the growth in earlier decades and the absence of an adequate domestic private-sector response to take its place contributed to restrain growth in the 1990s in Non-Oil Countries. But tapping more effectively into world demand-world trade grew at an average of 7 percent in the 1990s-could have compensated for weak domestic demand. Non-Oil Countries lost a significant market share in export markets over the 1990s compared with other developing countries. Given this unrealized potential demand, growth in Non-Oil Countries is more likely to be restrained by supply-side constraints than demand limitations. So, enhancements in productivity, by reducing costs, would stimulate investment, growth, and thus employment.

In the Middle East is closely connected to an improvement in GDP growth performance. How much more GDP growth would be needed to address the employment needs of the region over the medium term? Reducing unemployment rates by half over the next 15 years while meeting the job needs of new entrants into the labor force would require that average employment growth increase to about 4 percent a year in the Non-Oil Countries. Less would be needed in Egypt, Morocco, and Tunisia, and more in Jordan.

In all countries, job creation would have to speed up. A cut in real wages would accelerate job creation by increasing the labor intensity of production, but would have adverse social costs. If the twin objectives of creating jobs and improving living standards are to be achieved, a leap in GDP growth is necessary, possibly by as much as 2 percentage points a year over the recent trend

of 3.7 percent annual growth. Growth would need to increase markedly in all countries except Tunisia, and most significantly in Jordan.

3- Policy reforms that enhance growth prospects:-

Many countries in the regions have made efforts to improve the climate for growth by restoring and maintaining macroeconomic stability, raising education standards, opening up their economies to the private sector, and integrating into the global economy through gradual trade liberalization. Yet, the private sector has not achieved much in the way of growth and job creation, particularly compared with more dynamic emerging markets.

This highlights the fact that private sector ownership is not a sufficient condition for market economies to develop. For the private sector to enhance competitiveness and growth, it needs to be supported both by well-functioning markets that promote competition and reward innovation and by solid institutions that help manage change and resolve conflicts among market participants.

In most Non-Oil Countries, **entrepreneurship and innovation** are stifled by the dominance of public enterprises. Private sectors are also often shielded from competition by restrictive trade regimes and other anticompetitive policies. By accelerating privatization, liberalizing external trade, and opening up domestic markets, Non-Oil Countries could strengthen competition and innovation, which, in turn, would spur economic growth. The experience of other economies has shown that liberalization can initially lead to employment losses. But these transitional costs would be offset by greater benefits over the medium term.

4- Flexibility of labor markets in the Middle East:

Are labor markets in the Middle East flexible enough to allow enterprises to adjust to stronger competition and innovation and to promote employment? Real wages in the industrial sector of selected countries appear to be quite flexible, and labor market regulations, while widespread, are generally no more prevalent than in other developing countries. In some countries, labor market regulations are more binding and impose serious costs on enterprises operating in the formal sector. Although the impact of these regulatory rigidities on aggregate employment may be muted by the presence of large informal sectors, the distortions can have significant efficiency costs. The adverse effects on growth and employment are likely to be most severe during times of structural transformation, when labor market rigidities interfere with enterprises' ability to adjust to changing market conditions. In these circumstances, targeted labor market reforms, in combination with the creation of more competition in the private sector, could have a significant payoff.

5- The costs of sustaining employment through the public sector: The preponderant role of the public sector in most countries in the region may well be a natural policy response to lackluster job growth in the private sector and might be difficult to reverse unless the private sector begins to expand. At the same time, public employment policies impose costs on the private sector and distort incentives in ways that can harm growth. These considerations argue for a gradual retrenchment of public sector employment. Because of the premium placed by public sector jobs on educational achievement rather than the acquisition of marketable skills, the attractiveness of public sector employment (in terms of job security and, in some countries, relatively high wages) may have contributed to the skill mismatch observed in the region. The skill mismatch, in turn, increases pressures on the public sector to absorb graduates unable to find jobs in the private sector.

Anti-Unemployment Policies in Non-Oil Countries:-

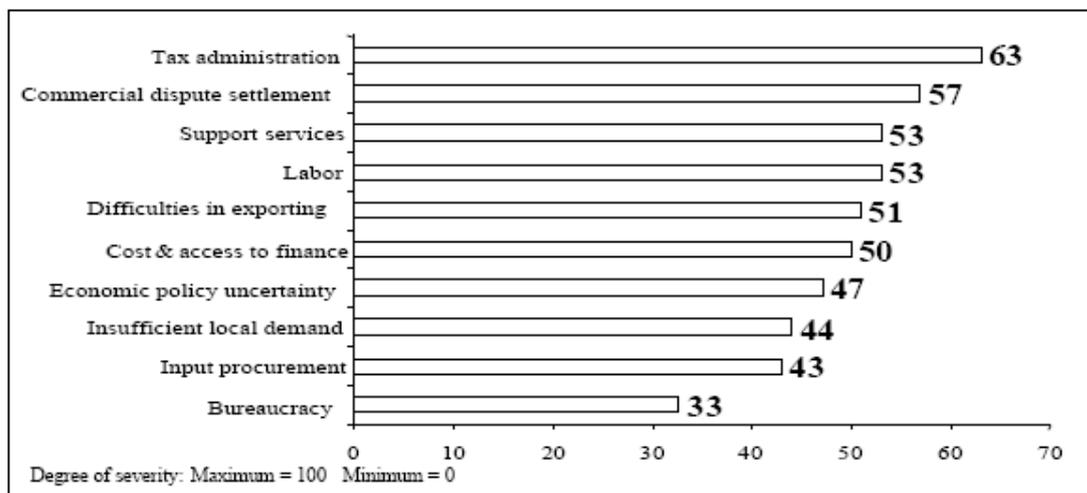
The unemployment problem that prevails in many countries including the selected countries in this study could be faced through the following strategies:

1- Achieving high and sustainable rates of investment and growth

The first policy deals with the investment policies needed to achieve high and sustainable rates of investment and growth. These policies include macroeconomic measures and policies to improve the investment climate. The second set of suggestions deals with investment incentives and the relative price structure to achieve labor-intensive growth.

Unemployment can be significantly reduced when investment is high and geared towards labor intensive production techniques, export –oriented activities and small enterprises. But investment levels have been falling since the 1990 s due to a decline in government spending and limited FDI inflows. The trend towards the extensive use of capital intensive production techniques in the formal private sector has also led to an increase in the cost of creating one job opportunity – to grow from LE 60 thousands during the 1980s to LE 103 thousand in the late 1990s. During the same period, the average elasticity of employment to output fell at to between 0.6 and 0.64, indicating that growth has not been labor intensive. A final point relates to the allocation of investments between small and large enterprise. Even though small firms are responsible for absorbing well over half the labor in the industrial sector, their share of investment does not exceed 14%⁵⁴.

The following fig. (Fig. 12) Shows the problem that impeding investment in Egypt.



Source: Fawzy, Samiha (1998), "Business Environment in Egypt," ECES Working Paper No. 34.

Fig. (12): Problems Impeding Investment in Egypt

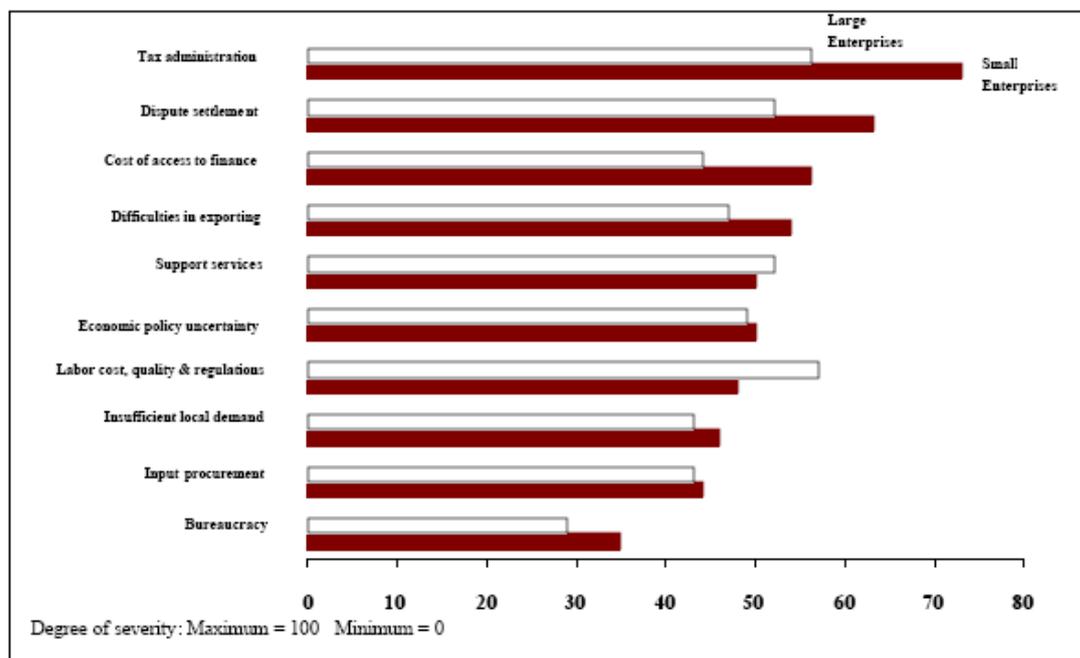
⁵⁴ Fawzy, S. (2002) : " Investment policies and the unemployment problem in Egypt " The Egyptian Center for Economic Studies, Working paper No, 68, September.

In conclusion, it is important to emphasize the fact that encouraging private investment and enhancing its efficiency is a necessary condition for reducing unemployment, but it is not sufficient by itself. This should be coupled with policies aiming at curbing population growth, raising the levels of education and training, and lastly, dealing with labor market distortions.

2-Small Business Industries:

Formal and informal micro, small and medium sized enterprises in all non-agricultural sectors of the economy have been the major domestic employers since the 1980s, and could, with adequate support, become an even more viable engine of income and growth in coming years. One advantage of SMEs is their ability to offer large numbers of jobs at a low cost of only L.E. 10 thousand for micro and small enterprises and performance of SMEs.

Several Studies indicate that small enterprise suffering much more than large scale enterprise from the shortcomings of the business environment. On the contrary, labor force problems are less evident in small enterprises compared with large ones⁵⁵ (Fig. 13).



Source: Fawzy, Samiha (1998), "Business Environment in Egypt," ECES Working Paper No. 34.

Fig. (13): Intensity of Problem in Small and Large Enterprises

⁵⁵ Fawzy, Samiha (1998) : The business Environment in Egypt “, The Egyptian Center for Economic Studies, Working Paper No. 34.

World Bank (1994) : Private Sector Development In Egypt: The status and the Challenge, Washington D. C.

SMEs in the Middle-East region find the regulatory and institutional framework lacking transparency, inconsistent and inefficient, thus inhibiting further development, rather than acting as a mechanism for sustained growth. Low education and low literacy rates among SME managers make these problems especially difficult to overcome⁵⁶.

Fig. (14) Shows the distribution of labor in the years 2003 and 2015 in Egypt under projected rates of growth. The figures show a huge increase in the share of private sector employment from 37% in 2003 to 56% in 2015. Almost all the private sector is comprised of SMEs, hence their significant growth. The large and formal private enterprise sector will also witness a sizable increase in its share of employment⁵⁷, while employment in SOEs and government will shrink in absolute terms and the share of agriculture will decline significantly (a projected annual growth of only 2% including agro industry exports).

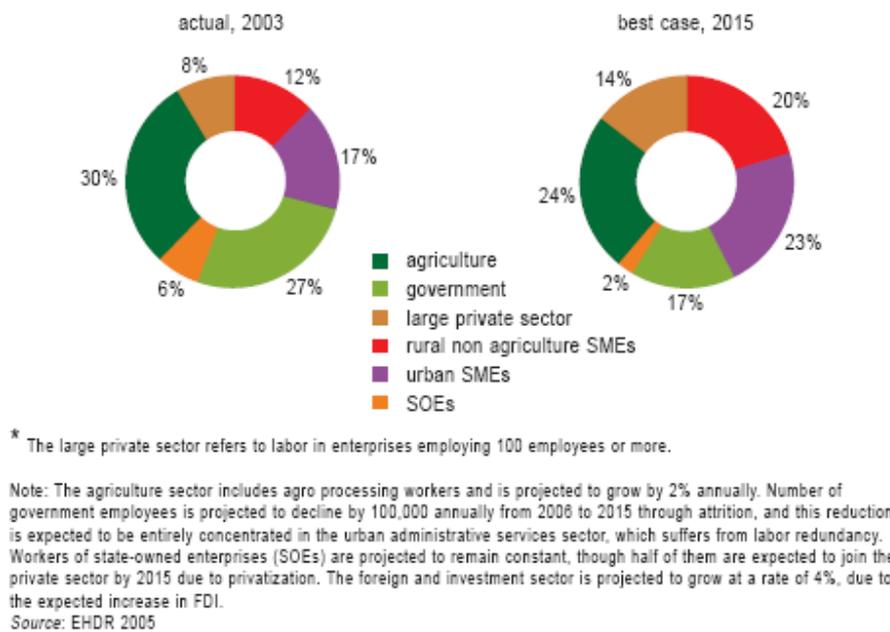


Fig. (14): Distribution of employment by economic sector in BC scenario

3-The Establishment of Germaine Bank:

The link between poverty and unemployment is weak nationally and in the cities, indicating that the urban poor cannot afford to remain unemployed in the absence of unemployment benefits. There is, however, a positive relationship between poverty and

⁵⁶ Antoni Mansour , (2001) : Support Services and the Competitiveness of SMEs in the MENA Region, The Egyptian Center for Economic Studies, Working Paper No. 34, p. 7.

⁵⁷ The large private sector refers to labor in enterprises employing 100 employees or more.

unemployment in rural areas, and poverty is also higher among unpaid workers and the self-employed not hiring others, while occasional and seasonal workers are twice as likely to be poor than permanent workers⁵⁸.

The Middle-East countries are working on establishing a number of Germaine banks in the selected countries. For example, financing bank of small business in Jordon, establish Germaine Bank in Morocco and Social Fund for development in Egypt.

4- Development of Education:

Growing numbers of university and secondary school graduates are venturing into SMEs. As much as higher education improves the knowledge and opportunities open to entrepreneurs, education is not a sufficient condition for success. The academic curriculum does not prepare future entrepreneurs with management or technical skills; the curriculum, where appropriate, needs to be linked to practical experience in the field, and market-orientated training introduced, to foster growth.

⁵⁸ ERF (2004).

Results:

Good governance and the rule of law are two basic domestic bases for the economic growth.

- The importance of domestic policies makes all the difference to keep the unemployment level in check.
- A stable and non-inflationary currency plus a high rate of savings and investment are some of the conditions necessary for the sustainable growth needed to create jobs.
- An effective law, order and an efficient civil administration are also the necessary prerequisites for the economic growth and progress

Recommendations:

- The positive impact on employment can be enhanced through targeted labor market reforms, such as more flexible labor market regulations, to enable enterprises to respond to market signals.
- Avoiding mismatch between the skills required in the modern job market and those provided by the education system. The attractiveness of public sector jobs can contribute to this mismatch by encouraging students to specialize in fields that give them access to a government job but have limited appeal to potential private sector employers.
- In all countries, job creation would have to speed up. A cut in real wages would accelerate job creation by increasing the labor intensity of production.
- The leap in growth required to reduce unemployment in the Middle East over the medium term calls for ambitious, broad-based reforms. Opening the private sector to stronger competition while strengthening the institutions that support private markets can encourage investment and stimulate productivity growth.
- The positive impact on employment, in turn, can be enhanced through targeted labor market reforms, such as more flexible labor market regulations, to enable enterprises to respond to market signals. In this process, the role of the public sector will need to be reshaped from purveyor of jobs to provider of a sound physical and institutional infrastructure.
- The government should set as one of its objectives absorbing the growing demand for jobs from skilled workers. This would require higher private investment and higher productivity.
- To reduce the unemployment by half in 2015, Middle-East needs GDP growth rates much higher than the historical growth rates of 3.5 percent.
- To reach a higher level of knowledge base, the Arab countries in the region would need to invest more in Research and Development (R&D). The Economic Unity Council of the Arab League estimates that the Arab countries spent 0.24 percent of their GNP on R&D.
- Reforms must be stepped up, particularly in the following area: Liberalization of the labor market. A more flexible labor market is needed to absorb the growing supply of skilled labor and to create a climate conducive to improved productivity levels.
- Poverty must be monitored more effectively, on the basis of core household budget surveys administered on a regular basis. Poverty indicators can change sharply over a short period of time. And poverty's emergence and disappearance is not confined to easily identifiable groups.
- In all countries, job creation would have to speed up. A cut in real wages would accelerate job creation by increasing the labor intensity of production, but would have adverse social costs. If the twin objectives of creating jobs and improving living standards are to be achieved, a leap in GDP growth is necessary, possibly by as much as 2 percentage points a year over the recent trend of 3.7 percent annual growth. Growth would need to increase markedly in all countries except Tunisia, and most significantly in Jordan.

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