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**SURVEY
OF ECONOMIC AND SOCIAL
DEVELOPMENTS
IN THE ESCWA REGION
1997-1998**

**PART II
UNEMPLOYMENT IN THE ESCWA REGION:
SELECTED CASE STUDIES**



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Preface

This study constitutes the second part of the *Survey of Economic and Social Developments in the ESCWA Region, 1997-1998*. It is an in-depth analysis of a developmental issue of vital importance to the ESCWA region: the unemployment problem in Egypt, Jordan, Lebanon and Yemen (the region's least developed country). These countries' unemployment problems are a result of economic growth insufficient to absorb all the new entrants to the labour force. Increasing unemployment was aggravated by the return of expatriate workers from the GCC countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) as a result of the Gulf crisis and war of 1990-1991. The pattern of unemployment in these countries has been further complicated by transitional unemployment resulting from the implementation of structural adjustment and economic reform programmes. These included the downsizing of the public sector, which used to be the largest sector in terms of both output and employment generation.

The Governments of these countries have taken various steps to reduce unemployment, including: increased investment in job creating sectors; training and retraining of workers to increase their chances of finding employment; encouraging workers to find jobs abroad; and efforts to reduce the burgeoning labour supply. However, these measures remained too limited to significantly reduce unemployment rates. The major obstacle is low economic growth, bound up with economic reform programmes that required the introduction of restrictive monetary and fiscal policies and public sector retrenchment. Furthermore, the supply of labour in these countries remains high, owing mainly to high population growth, resulting in a large proportion of the population of employment age and the numbers of children abandoning the education system for the labour market.

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INTRODUCTION

The achievement of full employment lies at the heart of macroeconomic policy in developed and developing countries alike. It has been a major goal of both economists and politicians since the Great Depression of the 1930s. It is both an economic and a social goal, as it is the best way of achieving rising living standards and greater social equity. However, it is often some way out of reach, particularly during a period when structural adjustment and economic reform policies are being implemented in a large number of developing countries. An economic slowdown accompanied by a fall in living standards has prompted several developing countries to shift the emphasis of macroeconomic policy away from public sector dominance towards a more outward-looking market-oriented policy. Their main objectives are to achieve macroeconomic stability, eliminate internal and external imbalances, stimulate the private sector and reactivate economic growth.

High unemployment is a hard nettle for policy makers to grasp. It is generally accompanied by an economic slowdown, recession or even depression. In short, it means that the economy is functioning significantly below its potential, and if the effective loss of output is not promptly remedied, it will undermine the well-being of the entire population, not only the unemployed. High unemployment is the main cause of poverty: large numbers of poor people are either unemployed or partly employed on wages well below the minimum required to meet their basic needs.

There are several definitions of unemployment. The general definition refers to employees out of but actively seeking employment, or waiting to return to their jobs. The Organization for Economic Cooperation and Development (OECD) defines unemployment as follows: "People are defined as unemployed if they are not working but are available for work and have taken steps to find work within the last month".¹ Another definition describes an unemployed person as: "Someone who is out of work and who: (1) has actively looked for work during the previous four weeks, or (2) is waiting to be recalled to a job after having been laid off, or (3) is waiting to report to a new job within four weeks".²

Despite the slight differences between these definitions and others, all agree that for a person to be considered unemployed, he or she has to make an effort to find a job, in other words, a person will not automatically be considered unemployed simply because they are out of work if they are not trying to find a job.

The unemployment rate represents the number of unemployed divided by the total labour force, within a specific period of time, usually one year.

Not only are there several definitions of unemployment, but also several types of unemployment, including:

(a) *Frictional unemployment*. This type is also called voluntary unemployment as it refers to people changing jobs, moving from one region of the country to another and/or moving from one economic sector to another looking for better job conditions or better salaries. This type of unemployment will always exist because there are always people changing jobs, so it is also regarded as the lowest possible rate of unemployment;

(b) *Structural unemployment*. This is more serious, as it represents a mismatch between the supply of jobs and demand for work. It occurs when demand for one type of job is rising, while demand for another is falling, and the supply fails to rapidly adjust. Structural unemployment is the most difficult type of unemployment to tackle. It occurs when economic recession is manifested by a depressed labour market. Unlike imbalances in commodity markets, imbalances in the labour market are only very slowly resolved,

¹ Richard Layard, Stephan Nickell and Richard Jackman, *The Unemployment Crisis*, Oxford University Press Inc., New York, 1994, p. 8.

² Rudiger Dornbusch and Stanley Fischer, *Macroeconomics*, sixth edition, International Edition, McGraw-Hill, Inc., 1994, p. 503.

because wages are not in a free movement, and thus, do not respond automatically to shifts in demand for labour;

(c) *Cyclical unemployment*. This is the most severe unemployment problem, as it is caused by a general fall in demand for labour reflecting a drop in economic activity. Cyclical unemployment occurs because of insufficient aggregate demand, and thus, its effect on the economy is greater than either frictional or structural unemployment. Cyclical unemployment is an indication that the economy is functioning below its potential, and so there is a concomitant loss of output. "Cyclical unemployment is unemployment in excess of structural unemployment; it occurs when output is below its full employment level";³

(d) *Underemployment*. This refers to the gross underutilization of the labour force in activities that call on only a fraction of the workers' actual abilities;

(e) *Disguised unemployment*. This refers to workers who work full-time in activities that do not require a full-time job. Therefore, it also represents underutilization of the labour force and hence is usually coupled with low productivity, low morale and low real wages and salaries;⁴

(f) *Hidden unemployment*. This refers to those workers who lose hope of finding a job in the market place, and thus stop searching. Ironically, when they stop searching, they are by definition not considered to be a part of the labour force.

Unemployment is rapidly becoming a worldwide phenomenon. While it has reached a critical stage in a large number of developing countries, it has also become a serious problem in several developed countries. In recent years the United States of America has however managed to reduce its unemployment problem to below 5 per cent. The total number of unemployed workers in the world (including underemployed) reached about 1 billion in 1998.⁵ Of that 1 billion, about 150 million are unemployed, while the rest are underemployed.⁶

Unemployment rose in developing countries during the 1970s as job creation lagged behind economic growth. This can be attributed to a relative fall in employment in the agricultural sector (over-supply of agricultural labour), the mechanization of industrial activity and heavy reliance on capital-intensive economic projects. During the 1980s, economic growth in the developing countries slowed down considerably. This decade also witnessed the eruption of the debt crisis. This, together with a sharp drop in the prices of exports (mainly raw materials) and the protectionist measures taken by the industrialized countries, led to a deterioration in the terms of trade of the developing countries, and hence, worsening trade deficits. An increase in debt service payments and a sharp drop in the inflow of foreign direct investment (FDI) led to a sharp contraction of economic growth in a great many developing countries. This in turn led to a sharp drop in demand for labour, and hence to rising unemployment. These economic conditions prompted many of these countries to introduce structural adjustment and economic reform programmes, to reduce both internal and external imbalances, stabilize the macroeconomic environment, attract FDI, promote the role of the private sector and reactivate economic growth. The application of these programmes entailed restrictive fiscal policy and a tight monetary policy, which led in the short-term to a decline in economic growth. This in turn contributed to rising unemployment.

In the ESCWA member countries under review, the unemployment rate in 1996 was estimated at 9.5 per cent, excluding underemployment (see below). This is an official unemployment rate, which is calculated using individual countries' official unemployment statistics. On the other hand, unofficial sources give much higher unemployment rates. In Jordan, for example, while the official unemployment rate was put at less than 13 per cent in 1996, unofficial sources estimated it to be around 27 per cent. In Lebanon, the

³ Ibid, p. 506.

⁴ Michael P. Todaro, *Economic Development in the Third World*, fourth edition, Longman Group UK, Limited, p. 243.

⁵ International Labour Organization (ILO), *World Employment Report, 1998-1999*, ILO/98/33, p. 1.

⁶ Ibid.

official rate of unemployment in 1996 was estimated at just over 8 per cent, while unofficial sources gave an estimate close to 25 per cent. In Yemen, the official unemployment rate in 1997 was estimated at just over 18.2 per cent, whereas unofficial estimates suggest a rate as high as 30 per cent. Regardless of these very significant discrepancies, the fact remains that these countries are facing a serious unemployment problem.

This research will show the main reasons behind accelerating unemployment to be as follows:

- (a) The inability of the economies of these countries to achieve growth rates sufficient to generate enough employment to absorb the new entrants to the labour force;
- (b) A rapidly expanding labour force (due to high population growth);
- (c) Retrenchment in the productive sector, particularly the agricultural sector, and the inability of other economic sectors to provide alternative employment;
- (d) The weak link between macroeconomic policy and employment policy resulting from an exaggerated emphasis on the implementation of economic reform programmes. These programmes required application of restrictive fiscal policy and tight monetary policy to reduce aggregate domestic demand, which, in turn, led to lower economic growth and lower demand for labour;
- (e) Downsizing of the public sector, which came as part of the economic reform package.

All this is aggravated by the mismatch between demand and supply whereby the education system turns out too few potential employees of a calibre required by the market.

This study is concerned with overt unemployment. Underemployment has been excluded from consideration simply for lack of data, not because it is any less important. Were underemployment to be brought into the picture, it can safely be assumed that the already serious unemployment figures would be doubled at least. This study relies on the conservative official figures provided by member countries (inevitably much lower than unofficial estimates). The main concern here is not the accuracy or reporting of unemployment figures but the existence of the severe problem they reveal. It is a problem that needs to be addressed at the highest economic and political levels. Current unemployment rates underlie increased poverty levels and in some cases political tension and social unrest. This problem should be ameliorated before it becomes a source of much more widespread political tension in the region.

The study comprises four chapters. Chapter I analyzes the regional dimension of the unemployment problem in the ESCWA region, the characteristics of the labour markets in the ESCWA region and the structure of the labour force. Chapters II through V provide four case studies: Egypt, Jordan, Lebanon and Yemen. In each case the unemployment situation is analysed together with its relationship to macroeconomic policy, education policy, employment policy and the impact of the structural adjustment and economic reform programmes on the level of unemployment in these countries. These chapters also provide a short-term outlook for each country under review. Chapter VI analyses the impact of regional cooperation in tackling the unemployment problem in ESCWA member countries that have a labour surplus, and looks at the availability of innovative methods of cooperation. Chapter VII provides a comparative analysis of the countries under review and chapter VIII offers a set of recommendations for policy makers in the region.

I. THE REGIONAL DIMENSION OF UNEMPLOYMENT

A. LABOUR MARKETS IN THE ESCWA REGION

Although unemployment is largely a chronic problem affecting the more diversified economies in the region, it has increasingly hit the major oil-exporting countries, which are labour-importing countries. This is therefore a domestic economic problem with a regional dimension. It stems from, among other factors, the following common characteristics of the labour markets in the ESCWA member countries:

(a) *High growth rate of the labour force.* This is a result of sustained high population growth, whereby the younger age groups constitute a demographic bulge; leakage from the education system to the labour market; and the growing participation of women in the labour force. This high annual average growth rate necessitates even higher economic growth if the new entrants to the labour market are to be absorbed. Unfortunately, in several countries in the region, economic growth has failed to keep pace with the burgeoning labour force, so unemployment has worsened. Even when economic growth has been strong enough to generate employment, this has tended to occur in capital-extensive sectors such as mining and quarrying, not in labour-intensive sectors. The production of tradeable goods has been too weak, outside of the oil sector, to create high employment;

(b) *High illiteracy rates within the labour force.* The high level of illiteracy in several ESCWA member countries reflects insufficient participation in the education system, particularly by girls. A striking effect is a sharp reduction in labour mobility, which represents a thorny challenge for decision makers attempting to tackle unemployment. Labourers forced out of a saturated agricultural sector, where productivity is generally low, cannot be absorbed by job-creating sectors like manufacturing because they lack appropriate skills. High illiteracy sharply reduces access to job opportunities outside the traditional sectors, and hence exacerbates the problems of severe unemployment already confronting several countries in the region;

(c) *Lack of coordination between the education system and labour markets in most member countries.* Such coordination is vital if skills are to be expanded and upgraded to meet the needs of the economy. The result, compounded by high illiteracy, is a general shortage of skills and hence low productivity. This is still the overall picture, despite commendable progress achieved in expanding educational services in the region, including higher education. Crucial areas—technical education and vocational training—remain relatively neglected: the considerable expansion of general education has not been matched by a similar increase in enrolment in technical education. In Yemen, enrolment in technical education has been roughly 12.5 per cent of enrolment in secondary education, which is very low, given the economy's dire need for technical skills. The far more substantial corresponding rate in Jordan—nearly a third of all secondary education—will still not suffice to make up the national shortfall in skills. Education in the region should be geared further towards basic education and technical and vocational training. This is crucial during a period of globalization when increasingly tough competition necessitates cost-cutting and enhanced productivity. Globalization is expected to lead to an increase in the portion of the labour force engaged in the tradeable goods sector geared towards exports. For a country to be able to compete in international markets, it has to do two things. First, to cut the cost of production below that of its competitors; and second, to upgrade skills to improve product quality. In sum, the current level of skills in the majority of countries in the region is too low to enable these countries to compete in international markets, so the need remains to expand and upgrade skills through closer coordination between education and labour;

(d) *Low participation of women in the labour force.* In general, this has been a consequence of relatively low female participation in the educational system, early marriage among women in traditional societies, competition for jobs and employers' preference for male employees. The participation of women in the labour force in the ESCWA region in 1996 ranged from 21.7 per cent in Egypt, down to 17.7 per cent in Yemen, 14.7 per cent in Lebanon, and as low as 13.6 per cent in Jordan. These figures are even lower than those for other developing countries (28.6 per cent in India, 40.4 per cent in the Republic of Korea, and

49.4 per cent in Vietnam).⁷ This unfavourable comparison should have provided ESCWA member countries with sufficient incentive to make additional efforts to promote the participation of women in the labour force;

(e) *High percentage of youth in the labour force.* In most of the region, there is a high proportion of working people in the 14-29 age group. This reflects not only the basic demographic picture but also the entry of young people of school and college age into the labour market. This is an important issue which deserves urgent attention. The existence of a high proportion of young workers contributes to an overall drop in available skills, as most of those young workers join the labour market before completing their education and therefore bring with them neither experience nor skills. Then in the event of retrenchment, these young workers are usually the first to lose their jobs.

B. THE MAIN CAUSES OF UNEMPLOYMENT

During the 1970s and the 1980s policy makers relied heavily on massive capital-intensive projects at the expense of labour-intensive ones and hence, employment generation. This stemmed from the general availability of capital during that period and the need for large infrastructural projects, which are not by nature labour-intensive. While that policy was cost effective for the Gulf Cooperation Council (GCC) countries with a labour deficit and capital surplus, it failed to benefit diversified economies with a shortage of capital but a surplus of labour.

At that time most countries in the ESCWA region had been applying inward-looking, import-substitution economic policies, with little regard for export promotion. This policy, accompanied by heavy protectionist measures, price distortion, and high economic regulation, discouraged competition, and hence, the participation of the private sector. It also discouraged the expansion of the export sector beyond the export of oil, and thus served as a barrier to job creation.

Unemployment in the region during the 1970s and the first half of the 1980s was kept in check by rapid economic growth in certain member countries. Economic development, particularly large infrastructural projects, was financed by oil revenues earned by the oil exporting countries. Simultaneously, the oil boom spilled over from GCC countries to other ESCWA member countries, particularly those with which they maintained closer economic ties. The spill-over came in form of workers' remittances and direct economic assistance. There was a transfer of labour to GCC countries (undergoing a shortage of labour) from ESCWA members with a labour surplus, such as Egypt, Jordan and Yemen. This provided jobs for a relatively large percentage of the workforce in these countries and hence substantially reduced unemployment. It should be noted, however, that this labour migration resulted in labour shortages in several key economic sectors in the countries with a labour surplus, particularly the agricultural sector, which in turn had a negative impact on growth and development of the sector.

The ESCWA region witnessed a deep economic recession during the second half of the 1980s, owing mainly to the sharp drop in oil prices and revenues. This recession, which was in part a reflection of a lack of economic diversification, and a heavy dependence on oil, led among other factors to the return of migrant workers to their respective home countries, as faltering economic growth reduced the demand for labour in the GCC countries. This was exacerbated by the completion of the region's huge infrastructure projects which had employed a very substantial proportion of the unskilled workers in the GCC countries. This together with a sharp drop in economic aid, reflecting a reduction in public spending by the GCC countries, led to a sharp drop in economic growth in the more diversified economies of the region. Both the drop in economic aid and the return of workers exacerbated unemployment in these countries. This situation deteriorated further in 1990, as a result of the Gulf crisis and war, which led to a massive return of workers from the GCC countries to Egypt, Jordan and Yemen. The crisis came during implementation of the economic stabilization programmes in both Egypt and Jordan, and led to the suspension of the programme in Jordan. Economic policy in these countries had to be adjusted to manage the economic crisis and in particular to absorb the huge number of returnees.

⁷ International Labour Office, *World Labour Report, 1997-1998*, pp. 262-264.

The economic recession that hit the ESCWA region in the second half of the 1980s exposed the problems associated with the macroeconomic approach espoused hitherto, in particular highly regulated and inward-looking policies. The economic recession exposed the dangers inherent in a narrow range of economic activity and heavy dependency on oil revenues. The prevailing macroeconomic policy led to huge internal and external imbalances, manifested in mounting budget deficits, trade deficits, rising inflation and a sharp drop in economic growth as efforts were made to stabilize the economic situation. This macroeconomic policy had to change. As a first step towards economic stabilization, programmes were introduced in cooperation with the International Monetary Fund (IMF) and the World Bank. Three countries (Egypt, Jordan and Yemen) have successfully implemented the first phase, which covered mainly the stabilization process. These three countries have achieved macroeconomic stability: inflation was brought under control, currency exchange rates were stabilized at their real levels and budget deficits were reduced as a percentage of gross domestic product (GDP). Moreover, there has been increased participation by the private sector, particularly in Egypt and Jordan, and to lesser extent in Yemen.

Nevertheless, the impact of structural adjustment has thus far been negative in terms of employment generation. In all three countries, downsizing of the public sector has led to a sharp fall in employment by what used to be the nation's largest provider of jobs. This has created so-called transitional unemployment, which has added to the already severe unemployment problem in these three countries. Transitional unemployment represents job losses precipitated by the downsizing of the public sector and the privatization of parts of it. Unemployment rises as a result of the time lag between the job losses and the point at which the private sector becomes able to absorb the redundant workers. The extent of this problem depends on the level of public sector downsizing, the speed of that downsizing and the speed of the privatization programme. The process of structural adjustment can affect employment through its impact on investment—generally negative—and through the orientation of investment (whether directed towards labour-intensive or capital-intensive economic activities).

A high proportion of the labour force is in agriculture. This is particularly the case in the more diversified economies, such as Egypt, Jordan and the region's least developed country, Yemen. The lack of labour mobility has prevented agricultural workers forced out of the agricultural sector from getting employment in job-generating sectors, so they are a net addition to total unemployment.

C. EMPLOYMENT AND UNEMPLOYMENT CONDITIONS

Although unemployment is more prevalent in the more diversified economies, there has been an emerging unemployment problem in the GCC countries. However, this remains under control, as it is a structural rather than a cyclical unemployment problem. To prevent this current situation from inflicting worse damage on their economies, the GCC countries have taken measures including the indigenization of the labour force. These countries, which have relied heavily on expatriate workers since the early 1970s, have managed to increase their domestic supply of labour through high population growth and generous spending on education and training. On the supply side, there has been an increase in the growth rate of the labour supply in these countries. It is estimated that the domestic supply of labour in the GCC countries has averaged around 5 per cent.⁸

On the demand side, although there is still strong demand in certain fields for managers, production workers and manual labourers, the completion of the large infrastructure projects has reduced the demand for unskilled workers. However, the need for expatriate workers is expected to continue over the next few years, as indicated by recent available data on the inflow of expatriate workers to certain countries. In Kuwait for example, the proportion of expatriate workers reached 83.8 per cent of the total labour force during the first quarter of 1998.⁹ Of these, 3 per cent are managers, 15.1 per cent production workers and 65.9 per cent labourers.¹⁰ In Oman, there has been an overall increase during recent years in the number of expatriate

⁸ ESCWA, *Survey of Economic and Social Developments in the ESCWA Region, 1997-1998* (E/ESCWA/ED/1998/5) p. 35.

⁹ National Bank of Kuwait, *Economic and Financial Quarterly* (i/1998), p. 17.

¹⁰ Calculation based on data from National Bank of Kuwait, *Economic and Financial Quarterly* (i/1998), table 11, p. 17.

workers (despite an accelerated outflow of expatriate workers). However, the largest number of expatriate workers in Oman were employed in the private sector: 659,668 in 1996,¹¹ compared to only 160,507 in 1981.¹² Oman is the only GCC country in which the number of expatriate workers increased during the Gulf crisis (from 258,360 in 1990 to 275,888 in 1992).¹³ These figures indicate that despite active indigenization policies in several GCC countries, there remains a need for expatriate workers, particularly in the private sector, which prefers expatriates over nationals because of their lower cost and their willingness to work longer hours. Since the private sector is expected to become the predominant sector both in terms of output and employment, the influx of expatriate workers (including managers, technicians, production staff and labourers) is expected to continue apace. There are moreover certain jobs that the local labour force finds unattractive, particularly municipal work like garbage collection and other low-paid manual jobs. Moreover, the domestic labour force prefers to work in the public sector, which pays more and has less strict working conditions. However, employment in the public sector has been shrinking owing to the restrictive fiscal policies being implemented by these countries to cope with the sharp drop in oil prices and revenues. The drop in public employment is the major cause of the emerging unemployment problem in several GCC countries.

To contain the problem, several GCC countries have taken measures to increase participation by the national labour force in the private sector. To give an example of declining employment opportunities in the public sector, Oman witnessed a drop in civil service employment (both national and expatriate) of 9.7 per cent in 1996.¹⁴ The number of expatriate workers in the civil service peaked in 1993 at 34,187 before falling to 31,488 in 1996.¹⁵ In Qatar, more than 50 per cent of the expatriate workers who arrived between 1993 and 1996 have returned home. This is an indication that there has been an acceleration of the outflow of expatriate workers. For example, in 1993 the outflow of expatriates represented 48 per cent of the influx, while in 1996 this percentage reached 57.7 per cent.¹⁶ The United Arab Emirates has sent home more than 180,000 expatriate workers whose visas had expired.

Retrenchment by the public sector in several GCC countries led to the above-mentioned outflow of expatriates. However, the expansion of the private sector, and the reluctance of the private sector to employ nationals will contribute, if it continues unabated in the coming years, to an exacerbation of the unemployment problem among nationals of these countries. To address this, the Governments of GCC countries have taken steps to increase participation by nationals in newly generated private sector employment. Kuwait, for example, is considering increasing the cost of hiring expatriates by the private sector by improving mandatory health care programmes and increasing their entry visas fees.¹⁷ At the same time the Government is considering providing salary subsidies for the employment, by the private sector, of Kuwaiti nationals.¹⁸

In the United Arab Emirates, a law is to be enacted requiring private companies to fill posts vacated by national workers.¹⁹ In Saudi Arabia, several measures have been taken to localize employment of the labour force. In this context, the Government has requested private companies to increase their employment of national workers by 5 per cent annually; it has also banned the employment of expatriate workers in 20 professional categories.

¹¹ Central Bank of Oman, *Annual Report, 1996*, p. 19.

¹² Ibid.

¹³ Ibid.

¹⁴ Central Bank of Oman, *Annual Report, 1996*, p. 17.

¹⁵ Ibid.

¹⁶ Calculated from Qatar, Ministry of Labour, Housing and Civil Administrations, *Annual Bulletin of Influx of Expatriates, 1996*, p. 11.

¹⁷ ESCWA, *Survey of Economic and Social Developments in the ESCWA Region, 1997-1998* (E/ESCWA/ED/1998/5), p. 35.

¹⁸ Ibid.

¹⁹ Ibid.

However, for these measures to succeed in reducing the number of expatriates in the GCC countries, Governments need to enforce them. For reasons of cost and quality, the private sector is unlikely to voluntarily increase its share of national workers. At the same time nationals of the GCC countries have to be encouraged to take up jobs that are not attractive to them for economic and social reasons. Moreover, a comprehensive retraining programme should accompany these efforts by retraining nationals forced out of the public sector so that they can be readily absorbed by the private sector. An increase in the participation of women in the labour force is another factor that could increase the national labour supply in these countries and hence reduce the need for expatriates. However, this is a long-term goal and may take several years to accomplish.

The indigenization of the labour force in the GCC countries is expected to take several years. This stems from: (a) the high proportion of expatriate workers in the labour force, which cannot be easily substituted in the short term; (b) the reluctance of the private sector to employ nationals owing to considerations of cost and productivity; (c) the reluctance of nationals to take up jobs that are often socially unattractive and poorly paid; (d) lack of coordination between education and employment policies; and (e) low participation of women in the labour force in these countries.

Moreover, past experience has demonstrated the difficulty of accelerating the outflow of expatriate workers in the face of the private sector's desire to continue hiring them and the general reluctance of national workers to take up employment in the private sector. In Oman, where data were available, the number of expatriate employees has grown by an average annual rate of 12.8 per cent, compared to the 3.5 per cent target envisaged by the 1990-1995 Plan for Economic and Social Development,²⁰ and they have been given more than 76 per cent of the jobs created during the planned period.²¹ At the same time the average annual increase in the national labour force was 6 per cent, which although substantial, failed to meet the planned target of 8.3 per cent. The proportion of Omani nationals in the total labour force actually dropped during the planned period from 42.5 per cent in 1990 to 35.2 per cent in 1995.²²

To reverse the situation, the Sixth Five-Year Development Plan (for the period 1996-2000) calls for the establishment of a higher committee for vocational training and labour, and the formulation of a social insurance system for employees in the private sector, to encourage Omanis to work in the private sector, as well as a minimum wage for Omani employees in the private sector. At the same time the plan calls for restrictions on the inflow of expatriate workers by: an increase in the number of professional categories closed to expatriate employees; the introduction of a clearance fee levied on expatriate workers; and the imposition of a maximum ratio of expatriate workers in private firms.²³

In Saudi Arabia, the Fifth Five-Year Plan for Economic and Social Development (1990-1995) called for an increase in participation by Saudi nationals in the total labour force.²⁴ This was to be achieved, among other factors, by reducing the wage gap between Saudi and expatriate workers, which has discouraged Saudi nationals from working in the private sector, owing to the availability of low-wage expatriate workers. In addition, it calls for the upgrading of the skills of the Saudi national labour force, to increase its productivity, and hence its mobility from the public sector to the private sector. The plan called for 4.2 per cent average growth of the Saudi national labour force during the plan period compared with an average annual growth rate of 1.2 per cent for expatriate workers.²⁵

The unemployment problem is more serious in the more diversified economies of the region, which have a large labour surplus, than in the GCC countries. This stems from several factors including: high

²⁰ Sultanate of Oman, Ministry of Development, *Sixth Five-Year Development Plan (1996-2000)*, p. 110.

²¹ Ibid.

²² Ibid., p. 11.

²³ Oman, *Sixth Five-Year Development Plan (1996-2000)*, pp. 107-114.

²⁴ Saudi Arabia, *Fifth Development Plan, 1990-1995*, p. 116.

²⁵ Ibid., p. 119.

population growth; rapid expansion of the labour force; the inability of the economies of these countries to achieve growth rates sufficient to generate enough jobs to absorb the new entrants to the labour force; and retrenchment in the public sector, particularly in those countries that have been implementing economic reform programmes.

The unemployment problem in these countries is of a long-term nature: it will continue to be a major economic problem in the medium term until they achieve higher economic growth. These countries have to take measures on both the supply side and the demand side. On the supply side they have to reduce population growth, reduce the numbers dropping out of the education system, and shift their education policy towards a greater focus on technical education and vocational training. On the demand side, the demand for labour depends on economic growth, and, more specifically, certain sources of growth. Economic growth is not enough if achieved only by capital-intensive sectors. An increase in the proportion of traded goods will stimulate job creation, as labour elasticity of output in tradeable goods is higher than in non-tradeable goods.²⁶ These countries have been losing jobs because import growth has outpaced export growth, and hence created huge trade deficits. However, the implementation of economic reform programmes by these countries is expected to lead to an increase in the contribution of tradeable goods to total GDP, raised exports, a reduced trade deficit, and economic growth of the sort that creates jobs.

²⁶ Labour elasticity of output equals growth in employment over growth of output.

II. CASE STUDY: EGYPT*

A. INTRODUCTION

The importance of studying the unemployment problem in Egypt at this stage of the implementation of economic reform programme is underlined by the following factors: (a) structural disequilibrium as predicated on socio-economic structure; (b) the direct and indirect impact of stabilization and structural adjustment policies, principally large-scale privatization, public sector downsizing and reduced government participation in economic activity—in this context the outcome of fiscal and foreign trade reforms will be considered, especially their impact on stabilization; (c) the impact of global competition and its shaping of national markets, especially labour markets; (d) the inherited characteristics of labour markets; (e) the effect of demography and the structure of the workforce on unemployment; and (f) development choices, mainly technological choices, and their effect on employment opportunities.

This case study investigates the nature, causes and effects of unemployment in Egypt as well as its socio-economic context and relevant policy choices.

A special emphasis will be placed on female unemployment and its regional dimensions. Some light will also be shed on the probable causes of a continuation of the problem in the near future.

B. UNEMPLOYMENT TRENDS

During the 1960s and the first half of the 1970s, unemployment in Egypt was relatively low owing to substantial investment and GDP growth, as well as social policies which provided jobs in government departments and public sector enterprises (see table 1). Unemployment ranged between 2.2 per cent (1960) and 2.4 per cent (1970).

TABLE 1. EGYPT: UNEMPLOYMENT IN EGYPT, 1960-1996
(Percentage)

Years	1960	1964	1970	1975	1976 ^{a/}	1981	1986 ^{a/}	1990	1991	1992	1993	1994	1995	1996 ^{a/}
Rates of unemployment ^{b/}	2.2	1.8	2.4	2.5	7.7	5.4	14.7	8.0	8.6	8.8	10.6	10.6	10.7	9.0

Source: Egypt, Central Agency for Public Mobilization and Statistics (CAPMAS), labour force survey.

a/ Census data, CAPMAS.

b/ Within the age range 15-64, except for 1991 and 1992 (12-64).

During the period 1976-1982, unemployment increased somewhat, nevertheless remaining comparatively low. This can be explained by: (a) the migration of large numbers of the unemployed to jobs in oil exporting and other countries; (b) the expansion of the construction sector, which helped absorb part of the excess labour supply, particularly among the illiterate and those with little education; and (c) the continuation of government employment policy.

The rapid increase in unemployment rates during the second half of the 1980s and the 1990s can be explained by several factors, principal among which are the return of migrant labour from the oil exporting countries, the decline of economic growth, and the liberalization and adjustment policies that took employment away from the public sector.

* This case study was prepared by Saad Hafez M. Sidky, who worked as a consultant during the preparation of this study. The opinions expressed in this case study do not necessarily represent the views of ESCWA.

The relative severity of the whole unemployment problem during the period 1986-1996 was a reflection not only of rocketing rates of unemployment but also the pattern of unemployment (see below). The underlying causes persist, and have even to an extent worsened.

The latter period witnessed an increase in unemployment among the new entrants to the labour market as well as the established labour force, the latter being, to an extent, a direct result of privatization. In this sense, disguised unemployment in the government sector can be considered a potential source of unemployment.

C. THE PATTERN OF UNEMPLOYMENT IN EGYPT

The pattern of unemployment is dictated by location (rural or urban), economic activity, age, sex, and education. This in turn reflects the labour market, the impact of economic and social policies and socio-economic structure.

1. Female unemployment

Female participation in the labour market, which was always comparatively modest, declined during the 1990-1996 period (see table 2), falling markedly in rural areas, from 16.5 per cent in 1990 to 10.4 per cent in 1996. Conversely, female unemployment rose overall from 1990 to 1995 before falling slightly in 1996. Urban female unemployment ranged from 18 per cent in 1993 to 27.5 per cent in 1995. Meanwhile rural female unemployment rose from just 10.2 per cent in 1990 to 27.3 per cent in 1996.

TABLE 2. EGYPT: FEMALE PARTICIPATION RATES, UNEMPLOYMENT RATES AND FEMALE UNEMPLOYED AS A PERCENTAGE OF TOTAL UNEMPLOYED, 1990-1996
(Percentage)

Year	Participation rate			Unemployment rate			Female unemployed labour force (as percentage of total)		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
1990	16.5	13.1	15.1	10.2	26.2	16.2	45.9	52.4	49.7
1991	13.0	17.1	15.3	10.5	24.3	15.6	42.2	47.4	45.5
1992	15.3	12.4	14.1	11.8	24.7	16.7	42.8	48.4	45.7
1993	14.0	13.3	13.7	27.8	18.0	22.1	45.3	48.4	46.9
1994	14.3	13.4	14.8	18.8	27.7	22.0	47.5	50.5	48.8
1995	13.6	13.1	13.5	20.4	27.5	23.0	46.3	50.2	48.1
1996 ^{a/}	10.4 ^{b/}	14.5 ^{b/}	14.5 ^{b/}	27.3	15.6	20.4	33.9	35.9	34.8

Source: CAPMAS, labour force surveys.

^{a/} Census data provided by CAPMAS.

^{b/} Adjusted figures.

However, it is worth observing that the usual concept of unemployment does not apply to rural areas (quite apart from the absence of a registration system and the consequent lack of reliable data). There are several factors here,²⁷ including a preference for certain jobs, which are perceived to be more suitable for women and are thus quickly taken,²⁸ and discrimination against females, especially when jobs require mobility and so on.

²⁷ M. Mahrous Ismail, *Higher Education and Unemployment in Egypt* and A.M. Hallouda, *Unemployment in Egypt, Measurement and Means of Recovery*.

²⁸ The preference may be due to facilities related to the work, rather than the job itself. See Cairo Demographic Center, *Unemployment and its Demographic and Socio-Economic Effects on the Status of Women and Children in the Egyptian Community*.

There is a hypothesis regarding a relationship between wage level and the cost of work, that is, the cost of taking a job and being in work. This needs to be tested, since it would to a significant extent explain women's withdrawal from the labour market. The increase in female unemployment rates in rural areas may to an extent be a statistical artefact predicated on the definition used. On the other hand, an increase can be explained in terms of social factors and increased education.

2. Rural versus urban unemployment

For a long period of time rural areas did not witness structural unemployment owing to the nature of economic activity, which was mainly agricultural. Structural unemployment was well hidden by seasonal and disguised unemployment. Even seasonal unemployment was disguised by the tendency to employ children. During the 1990s two main changes took place. The first is the increase in the rate of unemployment in rural areas, and the second is the growing weight of rural unemployment as a proportion of total unemployment (see table 3). In addition, the increase of both the numbers and proportions of unemployed in rural areas was accompanied by extensive internal and external migration within and from rural areas.

TABLE 3. EGYPT: COMPARISON BETWEEN RURAL AND URBAN UNEMPLOYMENT, 1990-1996
(Percentage)

	1960 ^{a/}	1976 ^{a/}	1986 ^{a/}	1990	1991	1992	1993	1994	1995	1996 ^{a/}
Rural areas	1.1	6.3	10.5	6.1	7.1	7.2	9.8	10.1	10.0	9.1
Urban areas	4.3	9.5	13.7	12.5	11.4	11.0	12.7	12.4	11.9	8.7
Total	2.2	7.8	12.0	8.2	8.9	8.8	11.1	11.1	10.7	9.0
Rural unemployed as percentage of total	..	46.6	45.0	42.3	45.2	47.0	49.1	50.7	58.2	54.9

Source: CAPMAS, labour force surveys.

^{a/} Data obtained from CAPMAS, population census.

Two dots (..) indicate that data are not available.

This phenomenon can be explained by development policy, which led to three factors:

- (a) The reduced capacity of non-agricultural sectors (including industry and government administration) to absorb excess labour;
- (b) The concentration on raising total productivity (vertical expansion) in the agricultural sector;
- (c) The share of investment directed into agriculture, which remained modest, while priority was accorded to the infrastructure sector. Less weight was given to agriculture, specifically to horizontal expansion.²⁹

Unemployment in rural areas has been affected by the return of migrant labour but there is insufficient data on its precise contribution to volumes and rates of unemployment in rural areas. 57.6 per cent of all migrants abroad were from rural areas.³⁰ In addition about 69 per cent of all migrants were workers.³¹

²⁹ Institute of Arab Studies, *The Unemployment Problem in the Arab Nation*, chapter 2.

³⁰ Local conference on the migrant labour force and its impact at home and in host countries, Cairo. The papers covered at the conference were based on survey data prepared by CAPMAS in collaboration with ILO.

³¹ Nabila Zaki, "Some characteristics of legal Egyptian migrant workers abroad" (paper presented at the above-mentioned conference).

The results of previous studies by CAPMAS (1987) and the National Population Council (1985) indicate a net annual return of migrant labour of nearly 100,000, mostly agricultural workers (farmers and related categories) with little or no formal education.³²

3. Educational levels of unemployed labour force

The group worst hit by unemployment comprises those with secondary education: an average of 82 per cent for the years 1990-1996. By contrast, those with tertiary or postgraduate education suffered only an average of 15 per cent unemployment over the same period. However, unemployment is increasingly hitting the educated labour force, particularly those with secondary education or above (see table 4). An unexpected countervailing trend is the fall in unemployment among those with graduate or postgraduate qualifications.

TABLE 4. EGYPT: DISTRIBUTION OF UNEMPLOYMENT ACCORDING TO EDUCATION, 1991-1992 AND 1994-1996
(Percentage)

	Illiterate	Reads and writes	Less than mid-level certificate of education	Holds mid-level certificate of education	Holds upper mid-level certificate of education (less than university)	Graduate of university or institute ^{b/}	Non-classified	Total
1991	3.7	1.7	3.5	66.8	8.2	16.0	0.1	100
1992	1.2	1.1	1.2	70.4	9.1	17.0	—	100
1994	1.0	0.7	1.4	74.7	8.1	14.1	—	100
1995	1.2	1.1	1.4	75.9	8.0	12.4	—	100
1996 ^{a/}	4.0	2.5	1.2	1.4	72.0	6.7	12.2	100

Source: CAPMAS, labour force surveys.

^{a/} Data obtained from CAPMAS, census data.

^{b/} Includes postgraduates.

A dash (—) indicates that the amount is nil or negligible.

The fate of those with only secondary education can be explained by several factors, including the following:

- (a) Their low productivity due to lack of vocational qualifications, lack of practical experience and so on;
- (b) Their perceived unsuitability to the practical and technological demands of the job market insofar as many of them (34.9 per cent during the period 1989/90-1994/95) are from general secondary schools, and most of these (56.4 per cent) are specialized in the humanities and arts;
- (c) The calibre and distribution of school-leavers.

The high level of education of the unemployed raises the question of a possible causal relation between education level and unemployment. To answer the question, a distinction should be made between the supply and demand sides. As regards the supply side, 40 per cent of the educated unemployed labour force is a result of a mismatch between jobs and the type and level of education, according to survey data. This analysis may be most applicable to graduates and postgraduates. It can in part be explained by social perceptions and preferences as well as by wage rates, job location, incentives, and so on.³³

A part of the supply side of the problem is a consequence of government employment policy, which coloured the preference of graduates, who would usually rather remain unemployed for a year or more than accept employment outside of government and the public sectors. The attractions of the public sector are job

³² Institute of Arab Studies, *The Unemployment Problem in the Arab Region*, pp. 126-130.

³³ M. Mahrous Ismail, op. cit., pp. 14-18.

security, job mobility, the social security package, a modest workload, and a comparatively acceptable wage. Socio-cultural aspects also play a considerable role.

The demand side centres on the quality, skills and efficiency of the graduates, which often seem to be found wanting. A mismatch has been observed between the product of the education system and labour market demand. This has affected not only graduates of secondary schools and colleges but also graduates and postgraduates in certain specializations.

The educational system apparently lacks the flexibility to respond quantitatively and qualitatively to labour market requirements. When the educational structure is adapted, there is inevitably a time lag before the improved output of the educational process becomes available on the job market. The time lag seemed to differ from one specialization to another.³⁴ It has been observed that, although a flexible educational system is of crucial importance, it cannot alone restore equilibrium to the labour market unless buttressed by social acceptance of and individual preference for the types of work available.

The aggravation of unemployment by declining economic growth will be discussed below.

4. Age structure of the unemployed

The age structure of the unemployed reveals on average between a quarter and a fifth of those aged 15-20 to be unable to find work during the period 1990-1996 (see table 5). This compares with nearly one third in the 20-25 age group, and about 17 per cent of those aged 25-29. The overall trend is an increase in youth unemployment (though the 1996 figures show a fall). The highest rates of unemployment are among young people aged 15-29.

TABLE 5. EGYPT: RATES OF UNEMPLOYMENT OF LABOUR FORCE BY AGE, 1960-1996
(Percentage)

Age	1960 ^{a/}	1976 ^{a/}	1986 ^{a/}	1990	1991	1992	1993	1994	1995	1996 ^{a/}
15-19	3.5	24.5	4.4	18.4	18.5	17.2	21.7	20.9	25.4	22.9
20-24	5.3	9.9	25.1	31.1	33.4	36.0	40.4	40.4	39.4	23.9
25-29	2.9	9.9	26.6	12.2	15.0	16.5	20.3	20.5	20.3	18.2
30-39	1.2	0.7	3.6	1.8	1.9	1.3	2.4	2.2	2.2	2.9
40-49	1.1	0.5	7.5	0.4	0.2	0.16	0.19	0.20	0.18	0.38
50-59	9.4	0.5	0.6	0.3	0.2	0.08	0.18	0.14	0.08	0.34
60-65	2.2	7.8	12.0	0.2	0.12	0.11	0.0	0.11	0.18	0.19

Source: CAPMAS, labour force surveys.

^{a/} Data provided by CAPMAS, census data.

Young people entering the labour market are heavily over-represented in the unemployment figures. Besides its dismal effect on an individual's chances of learning skills and efficient working practices for future use, this situation is likely to have severe socio-economic consequences.³⁵

The data in table 6 shows significant changes in the age structure of the unemployed as privatization is introduced. Those in the 25-29 and, interestingly, the 30-39 age groups become more heavily represented. But nearly 90 per cent of the unemployed are still aged under 30.

³⁴ This phenomenon can be observed in the light of unemployment among graduates within rare specializations such as electronic engineers and physicians. In previous years these categories have experienced unemployment, in general for 4-5 year periods (with significant variations between them).

³⁵ Most studies of political and social violence identified a link to youth unemployment, particularly among those with a moderate level of education.

TABLE 6. EGYPT: STRUCTURE OF UNEMPLOYMENT RATES ACCORDING TO AGE, 1990-1996
(Percentage)

Age	1990	1991	1992	1993	1994	1995	1996 ^{a/}
15-19	19.1	17.6	16.6	16.4	16.2	21.2	20.6
20-24	50.4	49.6	51.8	48.6	50.4	47.5	38.8
25-29	23.4	26.1	27.1	27.0	27.5	25.8	30.0
30-39	5.7	5.6	3.7	5.5	5.4	5.1	8.6
40-49	0.85	0.5	0.4	0.4	0.4	0.3	0.6
50-	0.10	0.6	0.4	0.4	0.1	0.1	1.3

Source: CAPMAS, census data.

Note: Data may not add up due to rounding.

a/ Estimates.

5. Age-sex unemployment characteristics

The increase in unemployment among young people aged 15-29 during the 1990-1996 period hides a gender difference. Female unemployment was greater and grew faster than male unemployment in the same age groups (see table 7).

TABLE 7. EGYPT: UNEMPLOYMENT BY AGE AND SEX, 1976-1996
(Percentage)

Age	Males								
	76 ^{a/}	86 ^{a/}	90	91	92	93	94	95	1996 ^{a/}
15-19	8.3	20.9	11.2	11.2	9.8	13.4	12.2	15.6	..
20-24	12.9	33.1	22.3	26.9	28.1	31.4	31.0	30.6	..
25-29	3.7	15.1	10.3	13.6	14.5	15.9	15.6	15.0	..
30-39	0.64	1.99	1.3	1.43	1.22	1.92	1.77	1.32	..
40-49	0.44	2.77	0.42	0.25	0.18	0.23	0.23	0.21	..
50-59	0.58	1.07	0.33	0.18	0.04	0.19	0.15	0.08	..
60-64	0.54	—	0.18	0.08	0.12	—	0.06	0.19	..

Age	Females								
	76 ^{a/}	86 ^{a/}	90	91	92	93	94	95	1996 ^{a/}
15-19	28.8	53.6	39.2	39.1	39.2	49.4	50.2	57.3	..
20-24	34.1	55.9	47.5	45.2	50.9	57.7	58.4	58.6	..
25-29	7.8	17.4	17.5	18.4	22.3	32.2	32.6	34.5	..
30-39	1.32	2.67	3.2	3.3	1.55	3.7	5.2	3.8	..
40-49	1.39	—	0.12	0.07	0.12	0.05	0.08	0.05	..
50-59	2.14	—	0.09	0.29	0.32	—	0.09	0.1	..
60-64	2.76	—	0.44	0.44	—	—	0.54	—	..

Source: Labour force surveys.

a/ 1976, 1986, 1996 - census data.

Two dots (..) indicate that data are not available.

A dash (—) indicates that the amount is nil or negligible.

This is partly explained by marriage status and socially determined preferences for certain jobs.³⁶ Some socio-economic experts relate the increase of unemployment in general to gender differentials in

³⁶ This last factor derives from a detailed field study into the social determinants of preferences for certain kinds of work and differences between male and female employment, given the absence of wage differentials (at least in the government and public sectors).

education.³⁷ By providing competition for jobs which do not require higher (or even secondary) education, an increasing supply of child labour (aged 6-14) pushes up unemployment rates in the other age groups.

D. LABOUR MARKET CONDITIONS, CHARACTERISTICS AND CONSTRAINTS

The above analysis has outlined the main features and causes of the unemployment problem. The data given above highlights the effects of unbalanced economic growth on unemployment in terms of demography and educational structures. This necessarily leads to a consideration of the effect of development options and patterns on unemployment. As is well known, the circumstances and organization of the labour market are intimately bound up with unemployment, underemployment and disguised unemployment.

1. *The labour market and its absorptive capacity*

By labour market we mean not only the interaction between the forces of supply and demand, but also the legislation, regulations and institutional structures governing those forces and wages. In addition, the labour market comprises all the incentives and constraints affecting the domestic supply of and demand for labour vis-à-vis labour markets abroad (mediated by the migration process and other aspects). In this context, the labour market cannot be insulated from the indirect effect of rules and mechanisms regulating other markets.

(a) *Characteristics of the labour market during the 1990s*

(i) *Supply side*

In 1996 the total labour force stood at 17,175,000 according to the census taken that year. This constituted 46.5 per cent of manpower and 29 per cent of the total population, which indicates a high dependency rate (3.45). As mentioned above, about 9 per cent of the total labour force is unemployed.³⁸ More than 95.1 per cent of the unemployed are new entrants to the labour market. Of the labour force 63.4 per cent are wage-earners and 2.6 per cent are non-wage earners, while 18.6 per cent are self-employed and 6.4 per cent are themselves employers.

The rural labour force (53.9 per cent of the total) has its own characteristics. For example, wage earners constitute 55.8 per cent of the rural labour force compared to 72.4 per cent of their urban counterparts. This can be explained by the family basis of agricultural work. Thus the proportions of businessmen (owners) and non-wage earners in rural areas (7.3 and 4.5 per cent respectively) outweigh their urban counterparts (5.2 per cent and 0.4 per cent). Female participation rates are low: women constitute only 15.3 per cent of the workforce.

Egypt's labour force is young (see table 8, which excludes children). Two-thirds are under 40 years of age, 53.6 per cent under 35, and 40 per cent under 30. As regards economic policy, the most striking impact has been caused by the privatization process and consequent increased unemployment. The data also indicates the existence of a labour force above 65 in self-employment. These workers constitute 1.8 per cent of the total labour force (of whom 72.5 per cent are self-employed). They tend to be concentrated in small-scale handicraft projects or workshops. About 35.6 per cent of the labour force is illiterate. If those with very little education but able to read and write are included, then that figure rises to 54.5 per cent.

³⁷ See M. Abd-El-Kader Al-Husseni, *Some Features of Unemployment in Egypt*. Al-Husseini argues that most graduates are in the age groups 20-24 and 25-29. This runs counter to the statistically attested fact that the highest rates of unemployment are in the age group 15-19. Furthermore, graduation from higher educational institutions mostly takes place in the 20-24 age group.

³⁸ This rate is calculated for the labour force aged 15-64. For Egypt, entry to the labour market can begin at the age of six, especially in rural areas, depending on social criteria. The 1996 census data includes only the labour force aged 15 and upwards.

TABLE 8. EGYPT: AGE STRUCTURE OF LABOUR FORCE (AGED 15-75) IN 1996
(Percentage)

Age	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65-69	70-74	75+	Total
Males	9.77	14.12	13.84	13.42	12.93	10.79	9.29	6.38	4.84	2.64	1.23	0.50	0.25	100
Females	13.85	21.18	16.89	15.25	12.89	8.88	5.46	3.10	1.61	0.53	0.21	0.01	0.05	100
Total	10.39	15.19	14.31	13.7	12.92	10.50	8.71	5.88	4.34	2.32	1.08	0.44	0.22	100

Source: CAPMAS, 1996 census data.

Graduates of universities or institutes of higher education and postgraduates constitute only 12.5 per cent of the total labour force. Although a comparatively small group, it does not possess the right mix of skills and practical training to meet the demands of the labour market. This is one of the potential causes of unemployment.³⁹

The educational imbalance of the labour force is greater among males than females and greater in rural areas than urban ones (see table 9). Gender differentials can be explained by various factors, primarily social aspects: for example, the preponderance of uneducated males is a consequence of early marriage, particularly in rural areas, as well as the insufficient reach of the education system. Despite compulsory education up to the age of 15, differences in educational attainment between rural and urban areas are clearly reflected in the structure of the labour force.

TABLE 9. EGYPT: DISTRIBUTION OF LABOUR FORCE (MALES-FEMALES) ACCORDING TO REGIONAL EDUCATIONAL STRUCTURES, 1996
(Percentage)

	Urban areas			Rural areas			Total labour force		
	Males	Females	Total	Males	Females	Total	Males	Females	Total
Illiterate	23.93	5.47	20.2	45.26	21.92	43.54	36.55	11.95	32.79
Can read and write	20.21	3.57	16.86	19.74	3.6	17.94	19.94	3.58	17.44
Primary school	3.32	1.12	2.9	2.30	0.80	2.14	2.74	1.02	2.48
Less than secondary school	4.45	1.58	3.88	2.78	0.71	2.55	3.51	1.24	3.16
Secondary school	25.67	46.65	29.9	21.08	54.51	24.81	23.08	49.74	27.15
Higher than secondary school	4.42	10.56	5.6	2.6	9.19	3.34	3.39	10.02	4.40
University/college graduate	17.4	30.14	20.0	5.13	9.01	5.57	10.47	21.82	12.20
Postgraduate diploma	0.06	0.09	0.07	0.01	0.02	0.01	0.03	0.06	0.04
Masters degree	0.18	0.31	0.20	0.03	0.06	0.03	0.09	0.21	0.12
Doctorate	0.36	0.51	0.39	0.07	0.12	0.07	0.20	0.36	0.22
Non-classified	—	—	—	—	—	—	—	—	—
Total = 100 per cent	6 316 484	1 588 446	7 904 930	8 211 225	1 030 897	9 242 122	14 527 709	2 619 343	17 147 052

Source: CAPMAS, 1996 census data.

A dash (—) indicates that the amount is nil or negligible.

(ii) Demand side

The demand for labour can be described as economic or social. By social demand we are referring to the part of demand with socio-political ramifications represented by the creation of job opportunities in government and public sectors.

It is difficult to use the available data to distinguish between the social and political components of demand. In this context, some indirect indicators need to be developed. It is known that demand for labour

³⁹ See M. Mahrous Ismail, op. cit.; Al-Husseini, op. cit.; and Hallouda, op. cit.

is derived from real growth of GDP and investment in fixed assets. The overall picture of demand provided by 1996 census data is one of imbalances related, in part, to the motive forces underpinning demand, and in general to the structural disequilibrium of the economy. The most obvious characteristic on the demand side is the concentration of job opportunities. One third of registered labour is in government and the public sector. The government sector alone accounts for 27.8 per cent of all registered labour.

The capacity of these two sectors to absorb surplus labour is limited in rural areas as a result of the concentration of governmental bodies and most industrial and related activity in Cairo and urban areas. Thus, in urban areas government and public sector activity account for 18.55 of demand for labour, compared to 11 per cent in urban areas.

The concentration of rural labour in agriculture (51.42 per cent of total demand for labour) is a potential source of underemployment and disguised unemployment.

The demand for labour from the commodity producing sectors (excluding agriculture) is less than Egypt's stage of development would lead one to expect (see table 10). Productive activities account for 31 per cent of total demand for labour in urban areas, and 12.5 per cent in rural areas. The overall picture, in both rural and urban areas, is one of substantial employment in public administration, social and community services and the private service sector (30 per cent in urban areas and 19.5 per cent in rural areas). This reflects a predominance of social aspects over economic ones. The data does not allow the analyst to investigate the potential demand for labour in new industries such as communications and information technology.

TABLE 10. EGYPT: THE DISTRIBUTION OF LABOUR DEMAND IN 1996 ACCORDING TO ECONOMIC AND SOCIAL ACTIVITIES
(Percentage)

Economic activities	Urban			Rural		
	Males	Females	Total	Males	Females	Total
Agriculture and fisheries	9.01	1.92	7.67	53.63	28.73	51.42
Mining and quarrying	0.68	0.17	0.59	0.26	0.07	0.25
Manufacturing	20.95	10.88	19.08	9.52	8.48	9.42
Electricity, gas and water supply	1.43	0.89	1.33	0.80	0.30	0.75
Construction	12.37	1.21	10.3	6.70	0.59	6.15
Wholesale and retail trade	15.83	6.08	14.02	4.88	5.1	4.9
Hotels and restaurants	2.50	0.62	2.15	0.62	0.27	0.59
Transport, communications and storage	9.02	2.94	7.89	4.38	0.71	4.05
Insurance and finance	1.75	3.31	2.04	0.54	0.80	0.57
Business and real estate	3.65	7.08	4.29	1.6	10.67	2.4
Public administration and defence	10.28	20.4	12.16	7.44	8.44	7.8
Education	7.02	31.32	11.54	6.20	27.12	8.04
Health and social services	1.89	9.70	3.34	1.05	7.02	1.59
Community and private services	2.36	1.91	2.28	1.63	0.66	1.55
Private domestic service	0.50	0.76	0.55	0.03	0.13	0.04
International and regional institutions and embassies	0.09	0.11	0.09	0.02	0.01	0.02
Unclassified	0.67	0.70	0.68	0.42	0.90	0.46
Total	5 873 924	1 340 243	7 214 167	7 652 760	745 054	8 397 814

Source: CAPMAS, 1996 census data.

Agricultural workers represent 9.33 per cent of total demand for labour, a proportion to be expected in view of the preponderance of agriculture in rural areas. The inflated government and informal sectors lead

to high demand for clerical staff (7.2 per cent of total employed labour), sales staff (9.33 per cent) and artisans (15.25 per cent). Those employed in industrial production are relatively few (6.81 per cent).

(b) *Labour market distortion and constraints*

The efficient interaction between demand and supply of labour is constrained by the specific characteristics of the demand and supply structures themselves as well as several related factors, including:

- (i) The growing supply of child labour;
- (ii) The preponderance of the informal sector;
- (iii) Inflexibility: insufficient mobility between locations and job sectors;
- (iv) The rigidity of wages.

Therefore the volume and rates of unemployment can be regarded not only as the result of excess supply relative to demand, but also a symptom of the deformation of the supply-demand relationship by these constraints.

2. *The growing supply of child labour*

Traditionally child labour has been seen as a seasonal response to agricultural demand in rural areas. As social changes were introduced (such as agrarian reform, raising per capita income levels, and compulsory education), the Egyptian community could, to a certain extent, retain this traditional phenomenon within the framework of seasonal wage labour.

During the 1970s, the supply of child labour increased as a result of a drop in real per capita income, lower per capita government expenditure on education, health and other social services, and the burgeoning construction sector, the main activity demanding child labour. Wage incentives as well as migration abroad played a considerable role in the increased supply of child labour. The most crucial factor here was an absence of governmental and social control over the labour market.

The supply of child labour as a proportion of the total labour force (aged 15-64) was 2.5-3 per cent throughout the 1990-1994 period. A total of 86.6 per cent of child workers are employed in the informal and semi-informal sectors. One quarter of them have had no formal education whatsoever, 37.5 per cent have had some, while the remainder have not fully withdrawn from education. In the semi-informal sector, only 10.8 per cent of child labour have never been to school, compared to 41.1 per cent who no longer go to school, and 49.1 per cent who are still enrolled in educational institutions.⁴⁰

One direct effect of child labour is the high level of competition with the young uneducated (or semi-educated) labour force, which forces up unemployment among the latter groups.

3. *The preponderance of the informal sector**

The informal sector comprises unregistered economic units of less than five workers.⁴¹ It has the capacity to absorb a considerable portion of unemployment or at least hide the real magnitude of the problem.

* ILO, *World Employment Report, 1998-1999*; CAPMAS, *General Census for Population, Buildings and Establishments 1986*, vol. 1 for a definition and discussion; Aliaa Al-Mahdi and Amira Mashour, *The Informal Sector in Urban Egypt*; and Soad Kamel Rizk, *The Informal Sector: Definition and Characteristics*.

⁴⁰ From the legal point of view, child labour is informal regardless of the formal or informal nature of the sector and institution in which they work.

⁴¹ According to *Economic Census 1991/92* data, establishments with fewer than 10 workers are treated as informal. The definition encompassed the kind of activity, technology, capital assets and registration criteria.

The unreliability of data on the informal sector relates first and foremost to the volume of activities and jobs included. The estimated figures make no distinction between permanent or temporary jobs, productive or non-productive, legal or illegal activities. Graduates from secondary and higher educational institutions working in the informal and semi-informal sectors insist on being registered as unemployed while they wait for a public or government sector job.⁴² The informal sector perpetuates a stark mismatch between, on one hand, the working standards and skills required and, on the other hand, the experience and education of its workers. This frequently means the under utilization of human resources.

There are imbalances in the distribution of informal activities. Most productive units and workers are concentrated in trade, repair workshops, coffee shops and restaurants, road transportation, and personal and household activities.⁴³ In other words, they are concentrated in the service and handicraft industries. Most of those in the informal sector have only a basic level of education or none at all.⁴⁴ In recent years, the informal sector has taken on people with secondary and often higher educational qualifications while they wait for a formal permanent post.

According to surveys of the labour market (1988 and 1990)⁴⁵ people employed in the informal and semi-informal sectors account for 73.3 per cent of total employed labour. Of all proprietors of businesses and the self-employed, fully 84.6 per cent are in the informal and semi-informal sectors.

The huge proportion of permanent employment provided by the informal sector (59.5 per cent) is the defining characteristic of the Egyptian economy. It is a reflection of limited recruitment by formal work units and formal productive activities, and can be interpreted as evidence of the existence of latent unemployment.

4. The inflexibility of labour mobility

If one disregards internal and external migration, which mainly correlate to a lack of employment opportunities, and low living standards, mostly below the poverty line,⁴⁶ labour mobility can in general be seen to be very rigid, owing to the following factors:

- (a) Geographical rigidity, which is linked to social relations (including proximity to relatives);
- (b) The difficulty of finding affordable accommodation;
- (c) The high direct costs of moving from one location to another;
- (d) The risk involved in taking a job for a finite period;
- (e) Low savings because incomes are so low; job seekers often lack the wherewithal to switch jobs, move home or even look for a job elsewhere;
- (f) Low level of qualifications; this leads to the difficulty or impossibility of reskilling (a consequence of the educational and training processes);
- (g) The rigidity of wages and the narrow gaps between average wages (or earnings) in different sectors.

One of the causes of inflexibility of labour mobility is the labour surplus itself, that is, the existence of high rates of unemployment and the similarity of skills and experiences offered by comparable candidates means little scope for individual choice.

⁴² This can be extended to a part of the graduates working in the formal private sector.

⁴³ *Economic Census 1991/92*.

⁴⁴ Soad Kamel Rizk, op. cit., pp. 40-41.

⁴⁵ Ibid., pp. 28-30.

⁴⁶ The total proportion of the population under the poverty line (US\$ 1 per person per day) is 47.9 per cent; 25.1 per cent are moderately poor and 7.4 per cent ultra poor (see *Human Development Report: Egypt, 1996*, chapter 2).

E. WAGE DETERMINATION, ECONOMIC GROWTH AND UNEMPLOYMENT

1. *Distortion of the wage determination system*

According to microeconomic analysis, a wage is determined by the interaction between the demand for labour and its supply, when marginal productivity becomes equivalent to the wage.⁴⁷ This formulation assumes a perfect equalization of the volume of jobs and employment opportunities. But this assumption is no longer valid, especially when there are distortions within the labour market leading to a distortion of wage determination. In other words, there are cases when the number of jobs exceeds employment opportunities, which means that a part of the labour force occupies more jobs to maintain real income and living standards. This, in turn, means that the actual volume and rates of unemployment can be higher than the statistics suggest. This apparent paradox is a key to understanding a distorted labour market.

Moreover, the system of wage determination in Egypt is not unified across different sectors. In the government and public sectors, wages are fixed by rigid scales, which are determined by educational level and duration of service. These scales have been adjusted in response to inflation and the decline of real per capita incomes.⁴⁸ In the last two decades, salaries were split into two parts: basic and variable (incentives). Incentives are on a fixed scale as a percentage of basic salary, subject to various rules and conditions. They are usually adjusted according to inflation rates. For new entrants to the labour market, these rules have been changed, by means of changes from permanent to temporary job categories.⁴⁹ Differentials exist between government salary scales and public sectors wages. Differentials also exist according to educational level, specialization and location. It must be noted that there is no linkage between public sector wages or government salaries and productivity or efficiency.

From the view point of wage determination, the private sector is composed of heterogeneous subsectors. The informal sector is distinguished from the formal sector, the latter consisting of foreign, local and joint-venture projects, each with its own procedures for wage determination. Projects established according to laws to promote investment should be regarded as a separate additional category. In the private sector, wages will differ according to spatial factors (rural, urban, metropolitan, remote, and so on) for identical jobs requiring identical qualifications and experience. The formal private sector is no longer dependent on nominal wage scales in the public sector⁵⁰ in the absence of limitations on working time. In some cases this change resulted from political pressure, or from membership of a manufacturing union.⁵¹ Wage determination varies according to activity, time of year, and other circumstances. The most obvious examples here are agriculture and the construction sectors. The above-mentioned factors imply that wage determination in the formal private sector is not purely market-led. The same conclusion can be extended to the informal private sector, since it is difficult to isolate wages from incomes arising from ownership, and because of the considerable proportion of non-wage workers within the family framework. Wage differentials have been observed between rural and urban areas, and between urban areas for an identical job requiring identical qualifications.

2. *Labour legislation*

Labour legislation refers to a set of laws, decrees, presidential and ministerial regulations and executive rules issued for the implementation of laws and decrees. Within labour legislation, three main categories of laws, decrees and regulations can be distinguished. Each subset of legislation deals with a category such as employment sectors, the wage determination system, the institutional framework, and rules

⁴⁷ For more details and theoretical discussions refer to the author's study "*Wages, productivity and employment: a methodological paper*", presented to the third conference of Kuwaiti economists, 1997.

⁴⁸ The scales were adjusted four times, in the interests of low wage categories. The gap between top and bottom has been narrowed from 7.9 times in 1971 to 4.6 in 1983 (see Mohaya Zaytoun, *The Structure of Earnings in Egypt* [family survey], p. 8).

⁴⁹ Ibid., p. 10.

⁵⁰ Saad Hafez, op. cit., pp. 11-13.

⁵¹ Mohaya Zaytoun, op. cit., pp. 25-26.

regulating taking up and leaving employment, hiring and firing, social security and so on. Labour law⁵² is the main regulator of private sector workers. Civil servants (those working in central and local government and government bodies) are legally distinct from public sector workers. The latter are dealt with under the umbrella of company law, whereas the former are covered by civil service legislation.⁵³

Labour law dealing with health and occupational safety covers not only private sector workers but also civil servants and public sector workers. There is in addition special labour legislation covering certain occupations such as the judiciary, academia (universities and research institutions), defence, security and the diplomatic service.

The existence of different labour legislation for private, government and public sectors became a matter of debate in the past decade. Several recommendations were introduced to promote the unification of labour legislations for all sectors. The basic objective is to accelerate the privatization process. Labour law is perceived by business as one of the constraints impeding free function of labour market mechanisms, owing to guarantees against summary dismissal of workers. The law has also been criticized for its failure to cover domestic workers (servants) and non-wage labour, that is those working in family establishments. Sections of the labour law explicitly set out the advantages offered to government and public sector workers in terms of minimum wages, bonuses, working hours and so on. These stipulations were designed to narrow social gaps between workers.⁵⁴

Labour law was based on international and regional legal instruments in which standards of human rights were enshrined.⁵⁵ A specific aim was to protect workers from exploitation by private employment agencies.⁵⁶ Although a result may be a slower, less responsive labour market, important guarantees were established against exploitation, particularly of women and children. In this context, Egypt's labour law provides rules for employment abroad and regulates migration of workers.⁵⁷ Group employment contracts are likely to play an important future role in the labour market in Egypt, particularly in the process of privatization.⁵⁸ These legal rulings guarantee labour rights. At the same time they guarantee a business establishment's rights and organize the process by which two or more establishments can merge.

In law, trade unions play an important role in group working contracts. This has in turn entailed some changes and additions to Trade Union Law No. 35 of 1976.⁵⁹

The foregoing reflects the determination of the legislative authorities to take a comprehensive view of labour rights and working conditions, taking into account the changes undergone by the economy. However, Egypt's openness to the global economy and membership in the World Trade Organization (WTO) necessitate reconsideration and revision of certain rules related to the employment of foreigners and flexibility in hiring and firing national workers. These revisions will need to take into consideration workers' rights, society's rights, changes in the international environment, market mechanisms and changes in the structure and scope of public and private ownership. Although labour legislation pays special attention

⁵² It is known as Law No. 137 of 1981, based on Law No. 91 of 1959 and additions. For more details refer to *Law No. 137 of 1981, Extensions, Explanatory Memorandum, and Regulations Governing Its Implementation*, Public Authority for Governmental Publications, 20th edition, 1999.

⁵³ Known as *Law No. 47 of 1978 and Extensions*. Refer to *Official Journal* No. 8, 1996.

⁵⁴ *Law No. 137 of 1981, Explanatory Memorandum*, pp. 61-63.

⁵⁵ *Ibid.*, p. 62.

⁵⁶ *Labour Force Committee Report*, 16 February 1980.

⁵⁷ The fourth chapter of the first section of the labour law controls this process: see Public Authority for Governmental Publications, pp. 12-15; also see *Executive Regulation No. 100 of 1982* concerning working abroad, and *Regulation No. 98 of 1991* by the Minister for Manpower for the same purpose.

⁵⁸ Group employment contracts are the main concern of the second chapter of the fourth section of the *Labour Law*, pp. 33-36.

⁵⁹ For more details, refer to *Law No. 112 of 1995*, published in the *Official Journal*, March 1995, vol. 13.

to teenage employment,⁶⁰ greater determination and precision of focus are needed to protect children under twelve and to meet WTO requirements. This will in turn help control the increase in the supply of labour.⁶¹

3. *Economic growth and the growth of unemployment*

There is a widespread belief that increased investment and increased GDP lead to more jobs and lower unemployment, but data available for the 1980s and 1990s show this not always the case (see table 11). This can be attributed to large-scale return migration from the major oil-exporting countries,⁶² the direct impact of the adjustment and stabilization policies⁶³ and changes in employment policy. Although these factors provide a significant set of explanations, they leave unanswered questions about structural disequilibrium, development choices (mainly the pattern of investment, the channels through which it flows, and technological choices) and population structure (on the supply side).

TABLE 11. EGYPT: GROWTH OF POPULATION, LABOUR FORCE AND GDP, 1985-1996
(Percentage)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Natural population increase (mid-year) ^{a/}	3.04	2.94	2.83	2.85	2.44	2.38	2.23	1.96	2.12	2.22	2.07	2.2
Employment ^{b/}	3.6	3.4	0.8	2.9	2.9	2.1	2.8	0.8	3.2	3.0	3.3	2.9
GDP ^{c/}	7.0	10.5	5.3	5.5	5.5	4.7	..	2.5	3.9	4.7	4.9	..

Sources: a/ CAPMAS, Annual Statistical Year Book (different years).

b/ National Bank of Egypt: Economic Bulletin.

c/ Ibid. The initial data of fiscal years and different base years have been unified, taking 1978 as the base year (=100).

Two dots (..) indicate that data are not available.

(a) *The impact of investment patterns and channels*

The pattern of investment in successive five-year plans did not effectively tackle employment targets.

The vast majority of investment (86.6 per cent) was devoted to replacement, modernization and rehabilitation. Rehabilitation accounted for only 23.7 per cent of total capital accumulation, and completion of current (earlier) investments represented 62.9 per cent of the total.⁶⁴ This is not expected to create jobs (as opposed to efficient utilization of existing productive capacities and raising productivity). Furthermore, upgrading and rehabilitation processes usually mean the introduction of capital-intensive modern technology, which is reflected in disguised unemployment (taking labour legislation into account).

The 1987/88-1991/92 five-year plan followed the same course of investment with different priorities; replacement and rehabilitation constituted 21.4 per cent of total investments, whereas completion of current investments took up 30.2 per cent of total investments.⁶⁵ Commodity-producing sectors (including

⁶⁰ Special ministerial regulations (Nos. 12-14 of 1982) govern the employment of teenagers.

⁶¹ It must extend the rules to agricultural work, and also set out the activities and occupations open to teenagers.

⁶² Nagla'a Al-Ahawani, *Stabilization and Structural Adjustment Policies and Their Impact on Unemployment in Egypt*, p. 99; *The Unemployment Problem in the Arab Nation*, *ibid.*, pp. 93-96; and the fifth session of the local conference on *The Migrant Labour Force and its Impact at Home and in Host Countries*, *ibid.*

⁶³ Al-Ahawani, *op. cit.*, pp. 117-131; also Ahmed Hassan, *The Impact of Adjustment Policy on Labour Market and Employment in Egypt*, pp. 376-401.

⁶⁴ Egypt, *Five-Year Plan 1986/87-1991/92*, vol. 1, p. 35.

⁶⁵ *Ibid.*, pp. 267-268.

infrastructure) accounted for 52.8 per cent, while social and private services accounted for 31.4 per cent.⁶⁶ Industrial, agricultural and other commodity producing sectors took only a modest share of investment in view of the declared targets for unemployment. While all total commodity-producing sectors including agriculture, manufacturing and mining received 41.5 per cent of total investment allocations during the two five-year periods between 1982/83 and 1991/92, their combined contribution to employment was only 33.4 per cent (see table 12).

TABLE 12. EGYPT: PARTICIPATION OF MAIN SECTORS IN ABSORBING NEW ENTRANTS TO LABOUR FORCE COMPARED WITH THEIR SHARE OF TOTAL INVESTMENTS (1982/83-1991/92)
(Percentage)

Sectors	Share in investment expenditure	Share in labour force absorption
Agriculture	7.0	14.4
Manufacturing and mining	22.9	18.5
Total commodity-producing sectors	41.5	33.4
Infrastructure	29.2	12.4
Economic services	23.2	20.4
Social, community and private services	5.7	33.8

Source: Data available in vol. 1 of the Five-Year Plan 1992/93-1996/97.

Although the declared employment targets meant an expansion of employment opportunities, the main focus of the investment programme for the two five-year plans 1982/83-1991/92 was infrastructure (29.2 per cent) to prepare the economy for economic take-off.⁶⁷ Accordingly, an investment expenditure of 171 billion Egyptian pounds (LE) helped to create 3.4 million jobs, most of them in services and informal activities.

There is clearly a mismatch between investment spending and job creation. In addition, the effective impact of investment on employment is mediated by technological choices. The existence of underemployment leads to the likelihood that new jobs will be occupied by underemployed labour, especially those already working in the same sector.

A comparison of the plan periods 1982/83-1986/87 and 1992/93-1996/97 confirms the existence of a mismatch between investment and job creation, as shown in table 13, which shows changes in agriculture, manufacturing and mining (commodity-producing sectors). The mismatch is seen more clearly, in both periods, for social, community and private services, which can be interpreted as continued absorption of labour by the government and informal sectors.

TABLE 13. EGYPT: COMPARISON BETWEEN INVESTMENT AND ABSORPTION OF LABOUR (1982/83-1986/87 AND 1992/93-1996/97)
(Percentage)

Sectors	Share of investment expenditure		Share in absorption of labour force ⁶⁷	
	82/83-86/87	92/93-96/97	82/83-86/87	92/93-96/97
Agriculture	5.55	8.32	15.58	9.36
Manufacturing and mining	36.45	26.29	19.17	16.32
Total commodity-producing sectors	45.32	38.63	34.75	25.68

⁶⁶ Egypt, *Five-Year Plan 1992/93-1996/97*, vol. 1, p. 72.

⁶⁷ Calculated from the available data in table 24, p. 96 of the *Five-Year Plan 1992/93-1996/97*.

TABLE 13 (*continued*)

Sectors	Share of investment expenditure		Share in absorption of Labour force ^{c/}	
	82/83-86/87	92/93-96/97	82/83-86/87	92/93-96/97
Infrastructure ^{a/}	26.05	28.94	12.00	14.31
Economic services	22.51	20.68	21.00	18.72
Social, community and private services	6.12 ^{b/}	11.75	32.25	41.29

Source: Second annual plan 98/99 of the *Fourth Five-Year Plan 1997/98-2001/02*, vol. 1, pp. 62 and 80.

a/ Includes housing.

b/ Includes other investment expenditure.

c/ Proportion of newly created job opportunities.

(b) *The race between GDP and population growth*

GDP, as a determinant of demand for labour (via investment and savings), cannot be isolated from the effects of population growth and expansion of the labour supply.

Analysis of the growth of GDP, population and the labour force show two important trends: first, relatively steady growth of GDP (both nominal and real values); second, declining rates of population growth, as an outcome of the long-term interaction of economic factors, demographic policies, increasing levels of education, and a continuation of the problem of high population growth. However, the capacity of the economy to reduce unemployment is constrained by the following factors:

- (i) The age structure of the population and fertility rates, which limit the levelling-off of population and labour force growth. So in the near future (5-10 years), natural rates of population growth are not expected to fall any lower than 1.8-2 per cent;⁶⁸
- (ii) Patterns of sectoral growth: the *National Strategy for Economic and Social Development*⁶⁹ as well as the *Five-Year Plan 1997/98-2001/2002*⁷⁰ give priority to export-promoting activities by introducing a wide variety of incentives to encourage exports. Heightened global competition makes these sectors more sensitive to unemployment shocks;⁷¹
- (iii) The introduction of capital-intensive technology in traditionally labour-intensive activities such as agriculture, construction, textiles, garment and furniture industries.

These trends are reinforced by: firstly, the multifaceted processes of integration into the international market; and secondly, the merging of small-scale industries into larger functional units within the domestic context (which is partially related to adjustment policy).

⁶⁸ Predictions made on the basis of the available demographic time series data corrected using 1986 and 1996 census data. The *National Strategy for Socio-Economic Development 1997/98-2016/2017* seeks to reduce the rate of natural population growth from 1.94 (in 1996/97) to 1.21, whereas decreasing standards of living tend to raise the birth rate.

⁶⁹ Ministry of Planning, refer to the population, labour force and employment targets in the *National Strategy for Economic and Social Development*, pp. 184, 319, 321 and 395-404.

⁷⁰ *Five-Year Plan 1997/98-2001/2002*, vol. 1, pp. 177-183.

⁷¹ The expected shocks can occur due to a failure to compete, and from the probable viability of labour force to mobile according to WTO agreement.

Taking into consideration the rate of unemployment, the average cost of creating new jobs in the productive sectors⁷² and savings capacity⁷³ (with domestic and foreign constraints), the effective rate of real GDP growth required to completely alleviate unemployment (at current levels of labour supply) is estimated at 14-16 per cent per annum, which is exceptionally high and probably completely out of reach.

The serious development efforts made during the period 1982/83-1991/92 were accompanied by an annual increase in unemployment rates.

F. EMPLOYMENT POLICY

The targets and mechanisms of employment policy in the 1990s were similar to those of the previous decade, but there were differences of emphasis.

Its main aim was to promote the absorption of new entrants to the labour market (by means of newly created jobs as well as existing ones) and thus reduce unemployment (see table 14). However, employment policy was itself given a lower priority than economic stabilization, which was implemented despite its severe, direct socio-political and economic consequences. To mitigate this impact, short-term measures (amounting to security nets) were brought in to encourage self-employment in small-scale projects.

TABLE 14. EGYPT: EMPLOYMENT TARGETS IN THE FIVE-YEAR PLANS (1982/83-1986/87, 87/88-1991/92, 1992/93-1996/97, AND 1997/98-2000/2001)
(Thousands of employees)

	82/83-86/87	87/88-91/92	92/93-96/97	97/98-2000/2001
Creation of employment opportunities	..	..	3 190	..
New jobs	1 507	2 069.4	2 450	2 961
Existing jobs (replacement)	..	..	740	..
Average unemployment	5.2%	9.0%	7.5%	4.9%

Source: Ministry of Planning, five-year plans.

Note: Data excludes military personnel and replacement.

Two dots (..) indicate that data are not available.

Employment policy covers both the supply and demand sides of labour, and to some extent takes into consideration their relations to other socio-economic aspects.

1. Supply side

On the supply side, employment policy relied heavily on family planning (to reduce population growth rates, and hence, labour supply) international migration, training and education policies. Population policy stressed the reduction of both mortality and morbidity rates through a package of incentives within the family planning framework. When considering migration, internal migration should be distinguished from migration abroad. While employment policy encourages migration abroad, it tends to discourage internal migration, whose effect is merely to transfer disguised unemployment in rural areas into direct unemployment in urban areas. To reduce internal migration, a package of incentives was introduced to provide services and facilities in rural areas.

⁷² *The Cost of Creating New Job Opportunities* (CAPMAS, 1987) deals with the updating of standards for drafting the continuous five-year plans. There are sectoral and regional differences in the average and marginal cost of job creation. There are also differences according to occupation. In this context, a distinction must be made between obtaining a loan from the Social Fund For Development and obtaining a job.

⁷³ Ibrahim El-Essaway, Sohair Abou El-Einein and others, *A Theoretical and Practical Study of Savings Capacity in Egypt*.

Training and educational policies were supposed to achieve a better fit between the output of the education and training system and the input required by the labour market. Training programmes centre on vocational and on-the-job training. Close attention was also paid to the reduction of illiteracy. Employment policy took into account variables that affect the supply side indirectly, that is living standards and organizational factors allowing the entry into the labour market of unqualified and unclassified categories of labour.

It was thought that if the priority were to reduce inflation, then an indirect effect would be the reduction of unemployment.⁷⁴

2. Demand side

On the demand side the general direction of employment policy was adumbrated as early as the 1970s, with the very beginning of the structural readjustment and adjustment programme. According to the socio-economic development strategy,⁷⁵ demand policy is founded on the following:

(a) The gradual downsizing of the government and public sector (as a result of reconsidering the social policy of creating job opportunities in both sectors), freezing the wage bill, and privatizing public sector enterprises;

(b) Encouraging domestic private investment and FDI by means of economic and administrative incentives, against a background of economic and political stabilization and liberalization of the market. In this context, employment policy relied heavily on the private sector to create new jobs;

(c) Introducing short-term measures to rein in increasing unemployment and absorb some of the unemployed labour in small-scale and handicraft projects under the umbrella of the social security net (Social Fund For Development).

3. Evaluation of employment policy

It is hard to evaluate employment policy in isolation from its framework of socio-economic development policies, and the internal and external economic and non-economic constraints acting upon it. But there is still room for a few general remarks and analysis of certain specific elements of employment policy, particularly those related to the demand side:

(a) In general, Egypt's employment policy has failed to take into account the probability of return migration, which has indeed been an increasing trend since the second Gulf war. This trend may well be a reason for unemployment among jobless migrants. Furthermore, a basic response to rapidly increasing return migration would be to train and rehabilitate the labour force according to the requirements of labour receiving markets abroad.⁷⁶ The intention to export labour seems to be an integral part of the overall strategy insofar as it contains a whole package of policies and arrangements designed to promote work abroad;⁷⁷

⁷⁴ *An Investigation of the Expected Effects of the Economic Reform Policy in Egypt*, INP study in two volumes, particularly chapters one and five. Also see Heba Handoussa and Gillian Polter, eds., *Employment and Structural Adjustment in Egypt in the 1990s*, introduction.

⁷⁵ *National Strategy for Socio-Economic Development 1997/98-2016/2017*, pp. 404-405.

⁷⁶ This policy choice has been common since 1975. For more analysis about the impact of counter migration, see M.E.Z. El-Arab, *The Future of Unemployment in Egypt in the Light of Local, Regional and World Variables*, pp. 252-256. See also various viewpoints in the research and discussions of the 3rd session of the local conference, *The Migrant Labour Force and its Impact at Home and in Host Countries*.

⁷⁷ This factor plays a role in shaping educational targets; see *The National Strategy*, pp. 316, 319, 323, also p. 339 on training, and p. 404 on employment targets. The strategic basis of employment policy is to encourage out-migration to Arab and African countries (p. 405).

(b) Employment policy objectives have been too ambitious. This becomes evident upon examination of employment targets published in successive five-year plans, particularly the plan 1997/98-2001/2002 and the National Strategy for Socio-Economic Development (1997/98-2016/2017);

(c) Unemployment targets were not met during earlier five-year plan periods. Follow-up data from the period 1982-1992 reveals that unemployment actually increased from 5 per cent to 9 per cent. Official reports interpret the results in terms of a population increase and an expansion of the labour force from 26.4 per cent to 27.3 per cent (supply side). The reports ignore the demand side, though they pay attention to the growth and distribution of investment.⁷⁸ The plans and their underlying strategy need further analysis. Such an analysis would relate employment targets to policies and laws and regulations enacted. This would afford a perspective, first of all, on the importance to be attached to the employment question compared to other socio-economic goals. Such analysis is urgently needed now that the economy has attained a satisfactory level of stability, which was the absolute priority in the 1980s and 1990s. This process of analysis will guide socio-economic policy, investment programmes, choice of technology and other related factors;

(d) Analysis of the plans and their strategy reveals inconsistencies between certain elements of employment and related policy: the freezing of government employment together with continuing constraints on private sector employment; the continuation of privatization arrangements which entail a high probability of increased unemployment; and the lack of rules governing technological choice from the point of view of labour intensity.

4. The extension of the short and medium-term view

One of the most obvious characteristics of employment policy is its reactive nature, whereby policies arise not from an understanding of the problem and its long-term implications, but simply as a reaction to its direct socio-political effects.

The basic solutions recommended by the plans can be summarized as follows:

- (a) Replacement of pensioned labour and those no longer able to work;
- (b) Encouragement of out-migration;
- (c) Absorption of surplus labour in small-scale projects within the framework of a safety net (social fund for development);
- (d) Constraints on internal migration;
- (e) GDP and investment growth rates that outstrip population growth rates.

These are all short-term strategies except the last one. They are characterized also by unrealistic assumptions. The investment programme was hamstrung by inconsistencies and poor coordination. GDP and investment growth rates were not quite adequate for the following reasons:

- (a) They were calculated using the assumption that there would be a huge influx of FDI;
- (b) They relied on current rates of female participation in the labour force and paid little attention to changes caused by the development process itself and through the impact of income distribution and redistribution;
- (c) They ignored the characteristics of the labour market, particularly the increase of child labour.⁷⁹

⁷⁸ For more details refer to follow-up and monitoring reports for the various plans for different years. Also see the reliable summaries of these reports in the first chapters of the *Five-Year Plans 1982/83-1987/88, 1987/88-1991/92, 1991/92-1996/97 and 1997/98-2001/2002*.

⁷⁹ Sometimes this factor is taken into consideration to explain the differences between unemployment rate estimates in the plan document and statistical publications (including census results). See *Five-Year Plan, 1987/88-1991/92*, vol. 1, pp. 320-321.

5. Employment policy in relation to education policy

As indicated above, the increase of child labour and growing unemployment among the educated labour force are indicative of the relative inconsistency between educational and employment policies.

This situation is the result of a nexus of interlinked factors related to inadequate data and methodology of policy design. It reflects the gap between the policy makers' vision of the needs of the labour market and its actual behaviour in the context of endogenous and exogenous forces upon it. It also reflects a socio-political evaluation of education in its relationship to occupations and wages.⁸⁰ A part of the problem is bound up with the quantitative expansion of a higher education system whose graduates are of a modest calibre that meets social needs rather than economic ones.

Despite decision makers' awareness of the imbalance between labour market needs and the output of the educational system, the inertia of past trends is still in evidence (see table 15). The available information shows that education policy has been insufficiently radical to deal with the severity of unemployment: there have been no major changes between the base year and the final year of the five-year plan.

Many of the policies in the five-year plans have not been implemented and are not expected to be implemented in the allotted time. An example is the introduction of the comprehensive secondary school.⁸¹ In addition, the quality of educational output is affected by a wide variety of factors related to the education process itself and to the economic environment, such as public expenditure on education, teacher-pupil ratios, school attendance, the cost of education, curriculum content, duration of education period, the efficiency of teachers, the availability of teaching resources, standards of living and so on.

TABLE 15. A. EGYPT: REGISTERED AND ACCEPTED STUDENTS IN GENERAL AND TECHNICAL SECONDARY SCHOOLS (1996/97 AND 2001/2002)

Type of school	Registered		Accepted	
	1996/97	2001/2002	1996/97	2001/2002 ^{a/}
General secondary school	31.8	32.4	30.0	30.0
Technical secondary school:	68.2	67.6	70.0	70.0
Industrial	29.9	29.2	33.6	33.6
Agricultural	6.8	6.7	8.4	8.3
Commercial	31.5	31.7	28.0	28.1

Source: *Fifth Five-Year Plan*, vol. 2, table 156.

a/ Target.

B. EGYPT: REGISTERED AND ACCEPTED STUDENTS IN UNIVERSITIES (1996/97 AND 2001/2002)

Faculties	Registered		Accepted	
	1996/97	2001/2002	1996/97	2001/2002
Humanities and social sciences	69.4	66.8	67.1	72.1
Practical, physical and mathematical sciences	30.6	33.2	32.9	27.9

Source: *Fifth Five-Year Plan*, vol. 2, pp. 591-592.

⁸⁰ For more details on this factor and its effect, refer to Samia Mustafa Kamel, *The Main Features of Unemployment Among the Educated - Theoretical Background*, pp. 613-630.

⁸¹ Comprehensive secondary school is a recommended system for medium-level education which gathers both general theoretical education curriculums and technical/practical education. Refer to *Five-Year Plan 1997/98-2001/2002*, vol. 1, p. 255.

6. *Evaluation of government efforts to tackle the unemployment problem in Egypt in the short-term*

The evaluation of economic policy has mainly concerned medium and long-term efforts and measures. The main emphasis has been on the creation of new (permanent and temporary) jobs via the expansion of the agro-industrial/handicraft industries and small-scale projects.

These efforts work on three parallel choices:

- (a) Establishing and developing the Social Fund For Development (SFD);
- (b) Sectoral and occupational diversification of the labour force through training;
- (c) Regulating the labour market.

The main goal of such efforts is to mitigate the negative impacts of the adjustment and privatization policies on the employment situation and to create job opportunities for new entrants to the labour market.

(a) *Establishing and developing the SFD*

The SFD was established in 1991 as an integrated part of the adjustment package for social security.⁸² Its main goal was to soften the severe negative impact of economic adjustment, promoting human development by creating employment.⁸³

The means used for job creation are:

- (a) Financing self-employment projects as well as supplying training and technical support;
- (b) Establishing small-scale projects through intermediary and executive agencies.

The available data shows that by July 1998 it had established 78,000 small-scale projects costing LE 1.42 billion. A total of 280,000 jobs were created, of which 200,000 are permanent.⁸⁴

The opportunities created took care of about 15 per cent of the volume of unemployed labour. For the period in question (1991-1998), this is a fairly promising result, providing that medium and long-term measures and solutions are formulated. However, follow-up reports are needed to evaluate the continuation, growth and expansion of the projects. Efforts to finance self-employment opportunities and establish small-scale projects are coming up against two main obstacles.

The first is the inadequacy of financial resources⁸⁵ (relative to the extent of unemployment) and the high costs of establishing small-scale projects. The result is weak projects or a limited number of them.

The second obstacle is the inefficiency of the intermediary and executive agencies, particularly in rural governorates. To remedy this, the fund included programmes for the development of institutional capabilities.⁸⁶ The intermediary and executive agencies are subsidized with between three and seven per cent

⁸² For more details about the historical background of establishing the Social Fund for Development, refer to Al-Gammal, Hussein (1994 and 1997), Al-Ammash, Hussein (1996).

⁸³ The ultimate goal is to achieve community as well as human development via direct targets. For more details see Rashid, Mutassem (1998, p. 251) and Al-Ghamry, Baha'a El-Deen (1998, pp. 211-212).

⁸⁴ Refer to Rashid, Mutassem *The Role of the Social Fund for Development in Creating Employment Opportunities*, pp. 256-257.

⁸⁵ The total resources of the first stage of the Fund (1991-96) amounted LE 2,514 million, of which 43.2 per cent were loans. In the second stage (1997-2000), total resources are estimated at LE 2,623 million, of which 35.2 per cent are loans. Ibid., p. 250.

⁸⁶ Ibid., pp. 257-258; also Al-Ghamry, M. B., *ibid.*, pp. 215-216.

of the Fund's total resources.⁸⁷ The continuation of small-scale projects is threatened by a lack of administrative and marketing experience or technical and legislative knowledge.⁸⁸

(b) *Training*

It has been observed that the rehabilitation of infrastructure and the modernization of productive units were in themselves enough to create job opportunities. Furthermore, this investment policy did not preclude the emergence of spare capacity (related to market behaviour).⁸⁹ The short-term measures to increase the demand for labour relied on training, particularly on 'transformative training' by means of which planners aimed to retrain unemployed or underemployed people to raise their productivity by giving them experience and skills to help them change their occupations, or find new jobs. The main aim of retraining is to deal with the fall-out from privatization. In addition, training became the channel through which new entrants were absorbed into the labour market. It will in the future be the means to cope with increasingly fierce competition from foreign labour forces. There are about 498 special training centres belonging to various ministries, with a capacity of 108,000 trainees per year. There are in addition 13 occupational training centres belonging to the Ministry of Manpower.

Despite the reliance on training as a key factor in tackling unemployment, no more than 64.8 per cent of the available capacity of the training centres has been taken up.⁹⁰ The SFD included training and retraining programmes within the framework of the human development task force.⁹¹

The training programmes are designed in the light of comparative studies and take cognizance of the reasons underlying unemployment in Egypt.⁹² They are based on:

- (i) The judgment of employers in formulating training programmes according to the market's requirements;⁹³
- (ii) A high proportion of the female labour force in training.⁹⁴

There is limited information available on the training programmes run by the SFD, and trainees levels. From the view point of small-scale project requirements, field study has shown that 31 per cent of total labour working in small-scale industries are illiterate, 35 per cent are able to read and write, and 10 per cent have a lower than average level of education.⁹⁵ Only 18 per cent of working labour (according to the survey results)⁹⁶ can receive continuous technological training, whereas 45 per cent need continuous and gradual field training and technical education to raise their productivity.⁹⁷

⁸⁷ M. Rashid, op. cit., p. 257.

⁸⁸ Al-Ghamry, op. cit., pp. 214-215.

⁸⁹ *Five-Year Plan 1992/93-1996/97*, vol. 1, p. 171.

⁹⁰ *Five-Year Plan 1992/93-1996/97*, vol. 1, p. 170.

⁹¹ M. Rashid, op. cit., p. 258.

⁹² Available studies show that one explanation for unemployment, particularly among new entrants to labour market, lies in their low productivity, lack of skills and experience. See Omar Al-Farouk, *The Role of Training in the Labour Market*, pp. 236-237. In this context it has been noted that each year of postgraduate training raises productivity by 5-15 per cent.

⁹³ Omar Al-Farouk Omar, op. cit., p. 639.

⁹⁴ It has been observed that 25 per cent of project finance is devoted to female beneficiaries. Ibid., p. 241.

⁹⁵ Thus some economists conclude that 76 per cent of workers in small-scale industries are technologically illiterate. El-Sayed, Adel M., *Technology Transfer, Methods, Problems and Strategies*, pp. 297-298.

⁹⁶ CAPMAS and INP, *Survey of Small-scale Industries*, Cairo, 1996.

⁹⁷ Adel, M. Al-Sayed, op. cit., p. 297.

In general it can be concluded that training will not help much in the short run. An effective direct impact on unemployment cannot realistically be expected in the short run. The importance of training is in the medium to long term. Effective training requires special levels of education and must continue into the medium and long term. There are special, well-studied programmes which rely on the committed participation of the trainees, employers and the training institutions. In the medium term, training will become a fundamental element of the commercial armoury needed to face down severe competition from foreign labour.

(c) *Regulating the labour market*

Regulation of the labour market according to plan targets will depend on data on the size and nature of the labour force on one hand, and a detailed knowledge of job opportunities, on the other hand.⁹⁸ Detailed market studies and surveys are of assistance to both the labour force and entrepreneurs.⁹⁹ In this context, it should be noted that at the time of writing, detailed 1996 population census results were not yet available. The most recent labour force survey published was undertaken in 1995. There are fewer statistical and econometric studies of the labour market and employment than there were during the comparable period following the 1986 population census.

G. UNEMPLOYMENT PERSPECTIVES IN EGYPT IN THE NEAR FUTURE

Is the strategic goal of eliminating unemployment by the year 2016/2017 attainable? What are the necessary and sufficient conditions that must be satisfied if such a goal is to be attained? As mentioned earlier, there are five potential reasons for unemployment, which may be summarized as:

- (a) Population growth, and the factors affecting it, such as population structure and fertility rates;
- (b) Development trends and patterns;
- (c) Policy choices;
- (d) Structural changes in the economy resulting from policy choices and the development process itself;
- (e) Foreign competition resulting from the openness of the economy and its integration into the global economy.

Related to these are a wide variety of consequential aspects, such as education and training, wage levels and wage determination mechanisms, social preference for certain jobs and a social cost-benefit analysis of jobs.

To reach the strategic goal, it is necessary to investigate key determinants of the aforementioned factors in order to steer them along the desired course.

1. *Predicted unemployment levels*

To predict unemployment growth rates, the following aspects (related to the aforementioned potential reasons) should be considered:

- (a) Relatively high fertility rates (on average 3.89 live births per thousand women per year during the period 1990-1995).¹⁰⁰ They are falling (5 per thousand on average during the first half of the 1980s, dropping to 4.2 per thousand during the second half) but the age structure remains young;

⁹⁸ *Five-Year Plan 1997/98-2001/2002*, vol. 2, p. 229.

⁹⁹ According to the plan programme, labour supply and demand should be studied in detail according to occupation, *ibid.*, p. 130.

¹⁰⁰ Central Agency for Public Mobilization and Statistics, *Annual Statistical Yearbook*, 1996.

- (b) The expected increased participation of women in the labour force;
- (c) The increase in the labour supply, which will be linked to the following:
 - (i) Lower real per capita income as a result of inflation and stabilization and adjustment policies.¹⁰¹ Revised pay scales have led to falling standards of living (especially after the abolition of subsidies and expenditure on social support);
 - (ii) The presence of more educated females in the labour force, owing to social and cultural changes and free education.¹⁰² In this context, the educational status of women has improved more rapidly than that of men, owing to the expansion of female education and other social factors;¹⁰³
 - (iii) The increase in the supply of child labour (3.2 per cent per year) as a result of the high costs of education, the decline in living standards and the father's absence due to residence abroad;¹⁰⁴
 - (iv) Heavy reliance—in achieving planned investment rates—on FDI as well as the domestic private sector. Hence, GDP growth depends on undetermined factors. Analysis of FDI shows it to be far more modest than required.¹⁰⁵

It has been observed that there are parallel outflows of both financial and direct investments.¹⁰⁶ Although foreign investors enjoy a package of incentives, including administrative facilities and guarantees, the availability of skilled labour is crucial. However, it is unlikely that the East Asian model can be emulated, owing to cultural, technological and economic circumstances (including differences in saving rates, labour and total productivity).

There is a preponderance of infrastructural projects in the investment drive. The philosophy of the National Socio-Economic Development Strategy is based on spatial restructuring through the creation of new areas of settlements. These will change the economic, social and demographic map of Egypt. New economic regions require a substantial investment in infrastructure if they are to attract direct investment in manufacturing and the service sector. Such infrastructural investment is not expected to create the number of employment opportunities needed. It is however expected to diversify investment away from traditional activities and areas into large national projects.

¹⁰¹ For more quantitative detail refer to the World Bank's *Development Reports* and *Human Development Reports*. The decrease in real per capita income increases poverty in several ways. See also *Human Development Reports for Egypt 1994-1996*.

¹⁰² Educational costs must be distinguished from educational fees. General secondary schools are supposed to charge either no fees at all or ultra-low, token fees.

¹⁰³ As an example, the variation in rates of girls registered in schools (compared with boys) during the period 1990/91-1994/95 is as follows:

	Females	Males
Preparatory Azhar school	22.4	17.0
Secondary Azhar school	81.9	44.3
Secondary general school	55.6	39.5
Technical secondary school	97.7	74.8

Source: Central Agency for Public Mobilization and Statistics, *Annual Statistical Yearbook, 1996*.

¹⁰⁴ The rate is calculated from annual employment surveys and census data up to 1995.

¹⁰⁵ According to *United Nations World Investment Report, 1996* (Annex 1), the inflows of FDI to Egypt were as follows during the period under consideration (in millions of US\$):

1990	1991	1992	1993	1994	1995
734	253	459	493	1 256	1 000

¹⁰⁶ World Bank reports on world development indicators and United Nations annual investment reports.

Stabilization and adjustment policies have had an impact on the labour market and employment including.¹⁰⁷

(a) The recession which resulted from government spending cuts and the expansion of direct and indirect taxes;

(b) The direct impact on employment of government and public sector downsizing (freezing the wage bill and privatization effects);

(c) The direct impact of openness to the world economy (the effect of international competition on production and investment);

(d) The direct and indirect impacts on investment and GDP growth of net flows of funds and direct investments;

(e) The diversification of technology, labour, manufacturing and services under the influence of international requirements, and consequently more efficient labour utilization and higher productivity;

(f) The process of privatization, which will have the most crucial effect over the coming five years. Although the Egyptian economy has gone a long way down the road of privatization, its effect on employment has still only been partial, for the following reasons:

(i) The privatization process has thus far concentrated on diversification of ownership, by offering to the private sector a number of shares in publicly owned enterprises. However, the private sector's subsequent freedom of action is limited by public sector legislation regulating the remaining shares, which are held by the Government;

(ii) The freedom of the private sector to minimize surplus labour is constrained during the transitional period. The main option open to the new owners is to provide for voluntary redundancy or retirement incentives;

(iii) Legislative constraints;

(iv) Socio-political security constraints.

It is expected that the current labour force in privatized public sector enterprises will be cut by at least 30 per cent over the coming five years unless they expand accordingly and merge with large multinational companies. If expected amendments labour law are introduced, the cuts could rise to 35-40 per cent.

The effects of the other components of structural adjustment policy have reached saturation level, that is, the recession effect of reduced government expenditure and reallocation of financial resources. Diversification of trade, as a result of the open door policy, has had some impact, and these deserve detailed quantitative analysis. The possibility exists of building on the positive effects in order to foster dynamic comparative advantages, within the limits imposed by scientific and technological progress and human development.

2. Future unemployment

(a) Supply of labour

Predictions of the supply of labour are based on expected annual population growth used in the five-year plan (1.77 per cent), the effect of falling standards of living on population growth, and the impact of regional demographic redistribution. In addition, the labour supply is likely to be affected by the increase in

¹⁰⁷ Ahmed Hassan, op. cit.; Heba Handoussa, op. cit., chapter 1; Nagla'a Al-Ahawani, op. cit.; Higher Institute of Arab Studies, op. cit., pp. 269-286.

female participation and the increase in child labour, as has been discussed. The effect of the return of about 2.1 million migrants¹⁰⁸ is assumed to be rhythmic during the coming seven years.

(b) *Demand for labour*

Demand for labour was treated in the estimates as a function of investments in direct domestic capital formation (excluding capital expenditure on infrastructure,¹⁰⁹ FDI, economic policy and technological choice). World competition, despite its importance, was not expected to significantly affect the current picture. FDI has been treated as a time trend function, unless profound changes take place as a result of economic adjustment and incentives. Technological choice is hard to quantify, since it is an outcome of the interaction of social, environmental and economic variables. The lack of essential data and indicators also plays a role.

A simplified approach has been employed to estimate values for indicators of technological change exogenously. With this approach it has been assumed that technological choice is a function of both average productivity in industry, construction transport and communication activities and marginal capital/labour for the whole economy.¹¹⁰

3. *Scenarios and results of estimates*

The estimates were processed according to three scenarios: reference, protective, and full employment scenario.

(a) *Reference scenario*

The main assumptions of the reference scenario are:

- (i) Continuation of the current economic priorities of socio-economic policies, such as low priority for employment targets compared to stabilization and other targets;
- (ii) Continuation of the current rates of domestic saving, FDI and sectoral allocation of investments in fixed assets;
- (iii) A gradual privatization programme within temporal social constraints;
- (iv) A controlled expansion in small-scale projects such as the expansion of the informal sector under the umbrella of a social safety net (Social Fund for Development);
- (v) The world market effect on contraction (or expansion) of the local private sector;
- (vi) Encouraging the migration abroad of labour.

(b) *Protective scenario*

The protective scenario is a modified reference scenario, devised to protect society from the worst political and social insecurity resulting from the effect of adjustment policies on the labour market. This assumes the following:

¹⁰⁸ *Five-Year Plan 1997/98-2001/2002*, vol. 2, p. 212.

¹⁰⁹ Part of the infrastructural effect on employment opportunities is implicitly counted in data on the construction, transport and communication sectors.

¹¹⁰ Detailed information on the author's predictive techniques, formulae, models and database treatment is given in *Testing the Sensitivity of Social and Economic Variables to Changes in Economic Policy*, Cairo (in publication).

- (i) More constraints on privatization (regarding lay-offs) through the creation of temporary jobs in the government sector, self-employment projects, further expansion of small scale projects, and even the creation if necessary of employment opportunities in productive public sector projects;
- (ii) Measures to protect the labour force from the impact of increasing foreign competition on the production of goods and services as well as direct competition in the labour market.

(c) *Full employment scenario*

The main assumption of this scenario is that the first priority of policy makers is to alleviate unemployment through:

- (i) Structural change in the pattern of investment and high rates of both domestic savings and investments;
- (ii) Dramatic changes in inflows of direct investment under a well-designed programme for encouragement of FDI. The main focus of the programme is modernizing education and training subprogrammes to improve the inputs of the labour market and raise their efficiency;
- (iii) A supplementary package of social policies to maintain equilibrium in the labour market;
- (iv) Establishing a scientific basis for technological choice in relation to surplus labour supply;
- (v) Strengthening family planning programmes and related subprogrammes to control the supply of labour.

Future unemployment rates are thus taken to be a result of changes on the supply side subject to socio-economic changes and changes in the international environment. In the first and second scenarios, the same assumptions are used on the supply side. For the third scenario, appropriate modifications have been introduced. The exercise has tested different options for each scenario and different variants for the main influencing indicators. The results summarized in table 14 reflect the average consistent results (details of analysis and techniques to be published separately).

TABLE 16. EGYPT: PREDICTED UNEMPLOYMENT RATES IN EGYPT TILL 2020
ACCORDING TO DIFFERENT SCENARIOS

Expected unemployment rates	Average 2000-2005		Average 2005-2010		Average 2010-2020	
	Lower	Upper	Lower	Upper	Lower	Upper
Reference scenario	10.6	12.8	9.8	11.3	7.4	9.1
Protective scenario	10.1	11.0	9.2	10.5	6.0	6.2
Full employment scenario	6.2	8.7	5.5	7.0	4.8	5.1

III. CASE STUDY: JORDAN

A. MACROECONOMIC DEVELOPMENT

During the 1970s, the Jordanian economy recorded a relatively high growth rate, boosted by government induced investment in the country's infrastructure, expansion of the agricultural sector and the development of basic industries. Rapid economic growth was also fuelled by the inflow of remittances during the second half of the 1970s, particularly from Jordanian workers in the GCC countries. The sharp increase in oil prices and revenues in the GCC countries boosted public spending on economic development, including basic physical infrastructure and the expansion of social services, particularly health and education. As the demand for labour exceeded the local supply, the GCC countries came to rely on expatriate workers from the ESCWA region and further afield.

The Jordanian economy has also developed a relatively modern services sector, including banking: Jordan hosted regional branches of several regional and international banks, which benefited the economy and boosted economic growth. In addition, the country's transport sector benefited from the transit trade with Iraq during the Iran-Iraq war, as the port of Aqaba became the main entrepot for goods to and from Iraq.

These factors, together with the country's highly developed human resources, contributed to rapid economic growth during the 1970s, despite Jordan's narrow production base. Its industrial sector remains relatively small, concentrated mainly on building materials and food processing. However, the country has managed to develop a pharmaceutical industry, which exports to countries in the region and beyond.

Economic growth continued at a relatively high rate until the latter half of the 1980s. As oil prices declined during the early 1980s and particularly after 1982, economic aid from the GCC countries was curtailed, remittances dropped, and in 1985 and 1986 Jordanian workers started to return, leading to an economic crisis. The drop in remittances and aid represented an erosion of two major sources of foreign exchange. This exerted pressure on the country's balance of payments and the Government financial position. The resulting internal and external imbalances were dramatized in 1988-1989 with the sharp devaluation of the dinar. Large increases in the prices of basic goods led to soaring inflation and a rapidly mounting external debt burden. GDP fell on average by almost four per cent a year, from 2,123 million Jordanian dinars (JD) in 1986 to JD 1,873 million in 1989.¹¹¹

This prompted the Government to introduce, in cooperation with the IMF, its first economic stabilization programme: for the period 1989-1993. The programme's main aims were to correct external and internal imbalances, as a first step towards reactivating economic growth, and to reduce the economy's dependence on external assistance. The implementation of the stabilization programme went well during the first year but it had to be temporarily suspended in 1990, as a result of the eruption of the Gulf crisis in August 1990 and the Gulf war in January 1991.

The Gulf crisis and war further debilitated an already weak economy. The country had to absorb more than 300,000 returnees, including more than 70,000 workers. At the same time it suffered the loss of the Iraqi market following the sanctions imposed by the United Nations. The drastically reduced inflow of goods to Iraq depressed the transport and trade sectors in Jordan (the Iraqi market had previously absorbed 30-40 per cent of Jordanian exports).

During the 1987-1991 period, per capita GDP dropped from JD 635.6 to JD 424.8, representing a decline of 33.2 per cent during the period. In US\$ terms, the drop was even sharper owing to the devaluation of the Jordanian dinar. Weak economic growth during the 1987-1991 period was also precipitated by a drop in capital formation, from JD 850 million in 1990 to 444.7 million in 1995 (see table 17).

The Jordanian economy is highly dependent on the outside world not only in terms of domestic consumption, but also for investment. This dependency is attested to by the fact that domestic saving has

¹¹¹ Jordan, *Economic and Social Development Plan, 1993-1997*, p. 9.

been negative, declining as a percentage of GDP from minus 4.5 per cent in 1987 to minus 17.9 per cent in 1991; and total consumption exceeds GDP.¹¹² Thus part of domestic aggregate demand has been met through the import of goods and services.

Concerned about this extreme vulnerability to the outside world, the Government's main objective in implementing the economic stabilization programme was to reduce this high exposure, through balanced development leading to an increase in productivity, competitiveness, and thus, export-led economic development. Another aim was to reduce internal imbalances, as reflected in the widening of budget deficit during the 1981-1985 period. The budget deficit rose from JD 337.9 million in 1981 to JD 364.9 million in 1985. The implementation of the stabilization programme led to a sharp drop in the budget, from JD 367.1 million in 1990 to JD 179.8 millions in 1992, while as a percentage of GDP it fell from 13.7 per cent to 5.1 per cent (see table 17). However, this relative success casts a long shadow: goods and services that had been subsidized now rose in price, and unemployment rose as a result of public sector downsizing.

TABLE 17. JORDAN: MACROECONOMIC INDICATORS

	1974	1981	1985	1990	1991	1992	1993	1994	1995	1996	1997
GDP (at current prices, in millions of JD)	247.3	1 180.3	2 020.2	2 668.3	2 855.1	3 493.0	3 801.7	4 201.3	4 654.6	5 144.3	..
GDP growth (real growth) %	5.9	8.7	3.0	0.9	1.8	16.1	5.6	8.1	6.9	5.2	5.0
Total consumption (millions of JD)	297.5	1 331.6	2 076.1	2 640.5	2 781.6	3 439.0	3 568.6	3 764.5	4 104.4	4 587.5	..
Gross fixed capital formation (millions of JD)	65.6	587.9	444.7	850.1	738.5	1 208.8	1 422.7	1 451.0	1 547.4	1 801.0	..
Government revenues (millions of JD)	183.1	591.2	791.0	1 106.2	1 390.7	1 634.7	1 485.1	1 775.9	2 143.9	2 136.3	..
Government expenditure (millions of JD)	194.4	647.1	805.7	1 120.1	1 234.3	1 348.7	1 414.1	1 504.2	1 697.5	1 741.4	..
Budget deficit/surplus (including grants) (millions of JD)	(11.3)	(55.9)	(14.7)	(13.9)	156.4	286.0	71.0	271.7	446.4	394.9	..
Budget deficit/excluding grants (millions of JD)	..	(337.9)	(364.9)	(367.1)	(405.5)	(179.8)	(456.3)	(273.9)	(318.8)	(238.7)	..
Workers' remittances (millions of JD)	105.6	340.9	402.9	331.8	306.3	573.1	720.7	784.3	871.7	1 094.8	..
Current account (millions of JD)	1.3	359.3	346.7	326.4	368.9	614.0	878.7	855.6	952.0	1 321.3	..
As percentage of GDP											
Gross fixed capital formation	26.5	49.5	24.5	31.9	25.9	34.6	37.4	34.5	33.2	35.0	..
Government revenues	74.0	50.0	39.2	41.5	48.7	46.8	39.1	42.2	46.1	41.5	..
Government expenditure	78.6	54.8	39.9	42.0	43.2	38.6	37.2	35.8	36.5	33.8	..
Budget deficit (excluding grants)	..	28.6	18.1	13.7	14.2	5.1	12.0	6.5	6.8	4.6	..
Workers' remittances	42.7	28.9	19.9	12.4	10.7	16.4	17.2	16.8	18.7	21.3	..
Current account	0.5	30.4	17.2	12.2	12.9	17.6	23.1	20.4	20.5	25.7	..
Trade balance	..	68.1	37.7	37.8	34.8	41.8	41.7	32.4	28.9	34.1	..

Source: ESCWA, based on national sources.

Two dots (..) indicate that data are not available.

¹¹² Calculated from Jordan, *Economic and Social Development Plan 1993-1997*, p. 19.

On the other hand, the stabilization programme was less successful in reducing the external imbalances. The first two years of the implementation of the programme witnessed an improvement in the trade balance. The trade deficit dropped from US\$ 1,763 million in 1987 to just over one million in 1989, before rebounding to US\$ 1,519 million in 1990,¹¹³ owing to the jump in imports to meet the needs of the returnees from the GCC countries.

Economic growth in Jordan rebounded in 1992, as the economy overcame the negative repercussions of the Gulf crisis, optimism about the peace process took hold: there was a construction boom and agriculture performed strongly. GDP grew by 16.1 per cent, up from 1.8 per cent the year before (see table 17). Although economic growth slowed down in subsequent years, it remained satisfactorily higher than population growth, which means that per capita GDP improved during these years. According to published Government figures, GDP grew by 5 per cent, 8 per cent, 5.6 per cent and 4.7 per cent, during the four years 1993-1996, respectively.^{114,115} Economic growth was boosted by the inflow of capital fueled by progress in the peace process, a rebound in the mining sector, as a result of the increase in world demand for phosphates, and also prudent monetary and fiscal policies introduced under the economic stabilization and reform programme.

Inflation, as measured by the cost of living index (CLI), also improved as a result of the drop in fiscal deficit, and the introduction of non-inflationary methods, such as treasury bills and the stability in the exchange rate of the dinar. The index, which grew by 25.3 per cent in 1984 and 16.1 per cent in 1990,¹¹⁶ dropped to 2.3 per cent in 1995, before increasing to 6.5 per cent in 1996. The increase in inflation in 1996 was attributed to the increase in the general sales tax from 7 per cent to 10 per cent and the removal of the wheat subsidy. In 1997, inflation was estimated to have dropped back to 3 per cent.

As indicated above, the external sector imbalances remained unresolved, as illustrated by the continued worsening of the balance of trade. The trade deficit rose from US\$ 1,018 million in 1989 to its highest level of US\$ 2,149 million in 1992. Although the deficit dropped in both 1994 and 1995 to US\$ 1,362 million and US\$ 1,347 million, respectively, it rose again in 1996 to US\$ 1,753 million and was expected to drop slightly in 1997 to US\$ 1,607 million.¹¹⁷ The trade deficit arises from a continued increase in imports which is not matched by a faster growth of exports. This situation stemmed from the fact that the production base in Jordan remains relatively narrow and a large portion of domestic aggregate demand has to be met through imports. Meanwhile exports failed to meet expectations (an evident improvement notwithstanding) in the face of stiff competition for new markets while its biggest market, Iraq, was largely closed owing to United Nations sanctions.

B. LABOUR POLICY

Unemployment is probably the country's most serious economic and social problem. Labour policy is therefore focused on reducing the prevailing high unemployment rate, aiming to tackle the problem from both the supply side and the demand side.

On the supply side, the main focus has been on intensifying Government and public efforts to reduce population growth, which reached an average annual rate of 3.7 per cent. A large proportion of the Jordanian population is young, which causes the labour supply to expand, with a demographic bulge in the lower age groups. The population under 15 years of age represented 51.6 per cent of the total population in 1979, falling to 43 per cent in 1991 and 41.4 per cent in 1994. The population of employment age (15-64) rose from 46.4 per cent in 1979, to 54 per cent in 1991 and 56 per cent in 1994.

¹¹³ Jordan, *Economic and Social Development Plan 1994-1997*, p. 26.

¹¹⁴ Central Bank of Jordan, *Thirty-third Annual Report, 1996*, p. 18.

¹¹⁵ These figures were revised downward by the Government in 1998: the economic growth rates for 1996 and 1997 were lowered to only 0.8 and 2.2 per cent, respectively. However, these new figures were not officially published and not therefore used in the analysis.

¹¹⁶ Jordan, *Economic and Social Development Plan 1993-1997*, p. 22.

¹¹⁷ The Central Bank of Jordan, *Monthly Statistical Bulletin*, vol. 34, No. 3 May 1998, p. 3.

The average annual growth of the population of employment age was 5.3 per cent between 1979 and 1991.¹¹⁸ During the 1991-1996 period, this rate is estimated to have reached nearly 6 per cent, owing to the influx of returnees in 1991 and the youth of the population. However, this situation is expected to improve.

The rapid expansion of the labour supply is expected to continue, boosted by increased female participation, continued high population growth, students dropping out of school and joining the labour market, and greater numbers of graduates from universities and other educational institutions.

The supply of labour is likely to continue, in the short to medium term to grow faster than demand. Jordan's total labour force increased from 435,400 in 1981 to 791,500 in 1991 (see table 18), representing an annual average growth rate of 4.7 per cent. During the 1991-1997 period, the total labour force (including non-Jordanians) increased from 791,500 to 1,041,000, an average annual increase of 5.3 per cent. This figure conceals a noticeable acceleration, from an average annual growth rate of 4.3 per cent during the 1991-1994 period, to 5.5 per cent during the 1994-1997 period. The expected acceleration in the growth of the labour force over the next few years will be mainly driven by increased female participation, which is currently very low compared with the other countries in the region. It should however be noted that there is under-reporting of the participation of women in the labour force, particularly in agriculture, the informal sector and among the self-employed.

TABLE 18. JORDAN: STRUCTURE OF THE LABOUR FORCE

	1973	1981	1985	1990	1991	1992	1993	1994	1995	1996	1997
Population (millions)	..	2.3	2.7	3.5	3.7	3.8	4.0	4.1	4.3	4.4	4.6
Labour force (thousands)	..	435.4	502.4	630.1	791.5	838.0	887.3	893.6	935.9	948.0	1 041.0
Total participation			18.9	18.6	18.0	21.4	22.2	21.8	21.8	21.5	22.6
Female participation			8.3	11.7 ^{a/}	13.4	13.7	14.0	13.5	13.9	13.6	..
Unemployment rate	11.1	3.9	8.0	16.8	18.8	15.0	18.8	15.0	14.2	12.0	13.2
Unemployment ^{a/}											
		1982	1986	1987	1991	1993	1994	1995	1996	1997	
Male unemployment (percentage)			4.0	11.6	13.3	14.4	16.0	12.9	12.0	10.6	10.7
Female unemployment (percentage)			16.2	24.9	27.0	34.1	35.3	28.3	28.0	21.1	27.2

Source: ESCWA, based on national sources.

^{a/} For 1986.

Two dots (..) indicate that data are not available.

As a percentage of total population, the labour force in Jordan increased from 18.9 per cent in 1981 to 21.4 per cent in 1992 and reached 22.6 per cent in 1997 (see table 18). This percentage remains far below other countries in the region and can be attributed mainly to the low female participation. (It is also explained by the high percentage of the population below 15 years of age, and hence, below employment age.) The expected expansion of the labour force, as more women join it, will be a healthy development, but it will raise the already high unemployment rate, unless economic growth accelerates to at least 7 per cent. The country's total active population (aged 15-64) is projected to reach 1.5 million by the year 2000 and 2.3 million by the year 2010. As a proportion of the total population, that means an increase from 29.4 per cent in 2000 to 33.8 in 2010.

The main factors behind the current low participation of women in the labour force are:

- (a) Early marriage;
- (b) Stiff competition in the labour market and discrimination in favour of men;

¹¹⁸ Jordan, *Economic and Social Development Plan, 1993-1997*, p. 38.

¹¹⁹ Jordan, *Economic and Social Development Plan, 1993-1997*, p. 38.

- (c) Social traditions which keep women out of both education and employment;
- (d) Low remuneration for women's work, which is frequently insufficient incentive for women to engage in formal work outside the home;
- (e) Wage inequality which particularly discourages the participation of women in the private sector;
- (f) Competition from expatriate workers, who accept lower salaries and longer working hours, thus preferred by the private sector.

C. THE STRUCTURE OF THE LABOUR FORCE

From 1981 to 1991, total participation in the labour force remained below 20 per cent. This can be attributed to the fact that population growth was higher than the increase in employment. During the period 1981-1990, average annual population growth was 5.8 per cent while employment grew by an average rate of 4.9 per cent. Then in 1992 total participation rose to 21.4 per cent, as the result of the influx of the returnees from the GCC countries following the Gulf crisis of 1990-1991. During the 1992-1997 period, total participation remained stable, between 21.4 and 22.6 per cent. Female participation in the labour force increased from as low as 7.2 per cent in 1980-1981 to 13.6 per cent in 1996, compared with 18.9 and 21.7 per cent for Egypt, and 18.1 and 17.7 per cent for Yemen, and in developing countries further afield: 27.7 per cent and 37.2 per cent in Indonesia, 31.9 per cent and 40.4 per cent in the Republic of Korea, and 44.5 per cent to 49.4 per cent in Vietnam.

The most striking feature of the labour market in Jordan is its combined role as both a source and recipient of labour. The increased demand for labour in the GCC countries during the 1970s created employment opportunities for Jordanian workers. Though this helped reduce unemployment in Jordan and brought in more foreign exchange (increased remittances), it precipitated a labour shortfall in various sectors of the economy in Jordan, and thus put pressure on domestic wages. The shortfall was in part made up by an influx of expatriate workers who were prepared to accept lower wages and longer working hours than nationals and thus exerted a countervailing, downward pressure on domestic wages. Their presence has contributed to low overall female participation in the labour force in Jordan. Expatriate workers were engaged in various sectors—particularly agriculture, construction and the services—mainly in a private sector eager to cut costs by means of cheap labour.

However, the number of expatriate workers continued to increase even after the 1990-1991 Gulf crisis and the return of Jordanian workers from the GCC countries. As a proportion, expatriate labour increased from 9.8 per cent in 1991 to 13.2 in 1996, reflecting strong continuing demand.

There is a marked imbalance in the distribution of the labour force, most being located in the main cities, particularly the capital. In 1989, Amman housed 68.9 per cent of workers in establishments employing five or more people. This can be attributed to two factors. First, the pull factor, whereby most economic activities are generated in the main cities; and second, the push factor, whereby an overcrowded agricultural sector fuels migration from rural to urban areas. By 1996 Amman's share dropped to 40 per cent as economic activities became more evenly distributed among provincial cities.

The gender distribution of the labour force is skewed in favour of men. Female participation increased from 8.3 per cent in 1985 to 13.4 per cent in 1991 and 13.6 per cent by 1996 (see table 18). If expatriate workers are excluded, the proportion is seen to have risen from 13.4 per cent in 1991 to 14.3 per cent in 1996. Despite this improvement, female participation remains low by both regional and international standards. Efforts to redress the imbalance should be intensified. This should involve a job creation strategy to ensure that the new female workers are not merely an addition to the unemployment statistics.

D. EMPLOYMENT BY ECONOMIC ACTIVITY

Owing to the narrow productive base of the Jordanian economy and the low contribution of agriculture and manufacturing to GDP, most employment opportunities are created in the dominant sector of the economy: services.

In 1979 for example, the contribution of the agricultural sector to GDP was 5.6 per cent, while it employed about 11.3 per cent of the total labour force. In 1991 its contribution had increased to 7.7 per cent of GDP, while its workforce was down to 7.4 per cent of the total labour force (see table 19). This reflects increased productivity, and the forcing out of employment from agriculture into other sectors. The agricultural sector in Jordan is relatively capital-intensive, relying to a large extent on mechanized production techniques.

TABLE 19. JORDAN: STRUCTURE OF THE LABOUR FORCE (EMPLOYMENT BY SECTOR)
(Percentage)

	1979	1986	1987	1988	1989	1990	1991	1992	1994	1995	1996
Agriculture	11.3	7.6	7.4	7.6	7.2	7.3	7.4	6.4	6.6	6.9	9.4
Manufacturing, mining and quarrying	9.4	10.7	10.5	10.3	10.4	10.2	10.3	10.5	13.9	14.4	12.8
Electricity/gas and water	0.6	1.1	1.7	1.6	1.4	1.3	1.3	0.7	1.4	1.4	1.8
Construction	15.7	12.5	10.5	10.0	9.7	9.9	9.8	7.6	9.5	10.0	9.8
Trade and restaurants	10.2	9.8	10.2	10.0	10.2	10.1	15.3	10.3	17.6	16.2	17.0
Transport and communications	6.6	7.7	8.3	9.0	8.8	8.5	8.8	6.5	8.6	9.2	8.2
Financial services ^{a/}	..	1.9	2.9	3.4	3.1	3.2	3.2	3.0	1.5	1.6	1.6
Public administration	..	47.9	48.4	48.1	49.2	49.5	48.9	55.0	40.9	40.3	39.4
Total	100	100	100	100	100	100	100	100	100	100	100

Source: ESCWA, based on national sources.

^{a/} In 1979, the financial services and public administration data were combined.

Figures do not add up owing to rounding.

Two dots (..) indicate that data are not available.

The expansion in recent years of manufacturing and mining (and quarrying) activities is clearly reflected in their increased contribution to GDP.

In 1979, the manufacturing sector contributed 15.8 per cent of the country's GDP,¹²⁰ while it employed 9.4 per cent of the total labour force (see table 19). By 1996, its share of GDP reached 18.5 per cent, while it employed about 12.8 per cent of the labour force. The fact that productivity in the manufacturing sector grew by a higher rate than its workforce is attributable to increased efficiency consequent upon stiff competition faced by an outward-looking sector in its efforts to penetrate foreign markets.

However, a concentration on these mainly capital intensive manufacturing activities, producing mainly for exports, will not significantly reduce unemployment in Jordan, even though there has been an increase in employment opportunities in the sector.

The contribution to total GDP of the commodity-producing sectors (agriculture and manufacturing plus electricity, water and construction) first increased and then declined during the period under review. It increased to 32 per cent in 1979 and 38.5 per cent in 1981, before falling back to 35.5 per cent in 1991. In 1996, it rose slightly to 36.6 per cent.¹²¹ Their contribution to employment fell from 37 per cent in 1979 to 25.1 per cent in 1991, before increasing to 33.8 per cent in 1996. The relative proportions of their workforces have fluctuated in line with their contributions to GDP.

The services sector remains the most important source of employment in Jordan, contributing almost two-thirds of jobs. The Jordanian economy depends to a great extent on the services sector, including trade, banking, insurance and government services. However, Government services are expected to generate

¹²⁰ Central Bank of Jordan, *Annual Report, 1993*, p. 17.

¹²¹ Central Bank of Jordan, *Annual Report, 1982*, p. 7 and 1993, p. 17.

relatively less employment in coming years, reflecting the downsizing efforts currently underway as part of the economic stabilization and reform programme.

The proportion of employment generated by the services sector rose from 63 per cent in 1979 to 71.3 per cent in 1991, reflecting mainly the role played by the Government as employer of last resort. By 1996, the sector's share had dropped slightly to 66.2 per cent, reflecting retrenchment in Government employment as part of the economic reform programme. Those in the Government services sector dropped from about 44 per cent in the 1991-1993 period to just over 30 per cent in 1996. This came through the application of an employment retrenchment programme that included a freeze on recruitment, and an early retirement programme. The shift came as a natural consequence of the diminishing role of Government in economic activities, and the trend is set to continue over the next few years.

The other two sectors to have provided an increasing proportion of employment are trade, hotels and restaurants, and transport and communications. The proportion of employment in trade increased from 10.2 per cent in 1979 to 15.3 per cent in 1991, reaching 17 per cent in 1996, higher than manufacturing and almost twice that of agriculture in that year. Trade would have contributed far more jobs were it not for the economic sanctions against Iraq, considering that 30 to 40 per cent of Jordanian exports were formerly destined for Iraq. The sector did however benefit from recent trade liberalization and deregulation. These provided incentives to the private sector to increase efficiency and productivity, and hence open up new markets in place of Iraq.

The transport and communication sector managed to increase its share of employment during the 1980s, benefiting from the transit trade to Iraq, which during the Iran-Iraq war relied heavily on the Port of Aqaba. Total employment provided by the sector rose from 6.6 per cent in 1979 to 9 per cent in 1988, when the Iran-Iraq war came to an end. Despite the slight drop to 8.2 per cent in transport and communications' share of employment in 1996 (see table 19), the sector remains an important employment generator. Its share will increase once the United Nations sanctions on Iraq are lifted, especially if Iraqi imports and exports resume their former dependence on Aqaba.

E. UNEMPLOYMENT

Unemployment is both cyclical and structural. The cyclical unemployment problem is reflected in the general mismatch between the supply of labour and the demand for labour in the economy as a whole. This mismatch has been a consequence of low economic growth, and the concentration of employment in the services sectors, particularly trade and tourism, which are vulnerable to external developments, like the peace process, or sanctions against Iraq. The shares of the productive sector, which are less vulnerable to external shocks, are low and diminishing, reflecting the crowding out of employment from the agricultural sector. The structural pattern of unemployment in Jordan reflects the mismatch in several sectors which have suffered labour shortages, particularly construction and services. This stems from the outflow of Jordanian workers to the GCC countries during the second half of the 1970s, as a result of the increase in demand for labour in these countries following the sharp jump in oil revenues, and the launching of massive economic projects including infrastructure.

The movement of Jordanian workers to the GCC and other labour receiving countries created labour shortages in the domestic economy, particularly in certain sectors, hence the employment of expatriate workers to fill the gaps. There was a sharp influx of expatriate workers, and by 1980, their number reached 70,000.¹²² However, the cyclical unemployment problem has remained an undiminished cause for concern in view of the domestic economy's failure to grow sufficiently to absorb the rapid rise in the labour supply. The narrow economic base of the country, particularly the modest contribution by the agricultural sector, had led to the concentration of demand for labour in the services sector.

Analysis of the Jordanian economy exemplifies the intimate link between growth of GDP and employment. During the late 1970s, the economy achieved a high growth boosted by workers' remittances

¹²² Jordan, *Five-Year Plan for Economic and Social Developments 1981-1985*, p. 14

and economic aid, particularly from the GCC countries, and the launching of an ambitious economic and social development programme. During the period 1973-1975, GDP grew by an average annual growth rate of 5.9 per cent.¹²³ By 1976, unemployment dropped to an all-time low of 1.6 per cent, which can be regarded as a natural base level of unemployment. During the second half of the 1970s, there was no unemployment problem in Jordan; on the contrary, several economic sectors had to rely on expatriate workers to bridge the gap between the increased demand for labour and the relatively rigid labour supply. The economy achieved full employment. However, a relatively large part of this employment was not generated by the domestic economy but by the economies of the GCC countries.

During the period 1982-1987, unemployment increased from 4.3 per cent to 8.3 per cent. This was a reflection of two factors. The first was the sharp drop in economic growth in Jordan from 7.7 per cent in 1983 to 2.1 per cent in 1986 and 2.8 per cent in 1987, that is to say well below the average rates of growth of the population (3.7 per cent) and the labour force (about 5 per cent). The second factor was the economic recession in the GCC countries that stemmed from the sharp drop in oil prices and revenues, which led to: (a) the sharp cut in economic aid to Jordan, as a result of the severe public spending cuts that slashed their economic assistance to other developing countries; and (b) the return of Jordanian workers, with diminishing demand for expatriate workers in the GCC countries. The fall in economic growth at home coupled with the return of Jordanian workers amounted to an instant recipe for a significant increase in unemployment.

During the period 1992-1997, official figures show that the Jordanian economy achieved an average annual growth rate of 7.8 per cent, a sprightly recovery from the stagnation of the period 1987-1991. The period 1992-1997 witnessed the implementation of the economic stabilization programme which heralded further economic liberalization and deregulation. The period also saw increased foreign investment, which reflected optimism surrounding progress in the peace process, particularly during the period 1993-1995.

However, despite rapid economic growth, unemployment fell only slightly to 13.2 per cent in 1997, down from 18.8 per cent in 1991. The substantial decoupling between the performance of the economy and the unemployment situation can be attributed to two main factors. The first is the downsizing of the public sector, particularly Government services, leading to a fall in the proportion of total employment provided by the Government from more than 40 per cent before 1990 to just over 30 per cent in 1997. This was achieved through a freeze on recruitment and early retirement programmes. The second factor is the pattern of economic growth: achieved in sectors that are not labour intensive, such as infrastructure. This demonstrates that although economic growth is important in reducing unemployment, it must be in sectors that generate employment.

F. THE PATTERN OF UNEMPLOYMENT

Unemployment among women is disproportionately high. During the period 1982-1993, the unemployment rate among men quadrupled from 4 to 16 per cent. However, that figure was still less than half that for female unemployment in 1993: during the same period, female unemployment soared from 16.2 to 35.3 per cent. This trend alone could well have discouraged female participation in the labour force, which remained very low. By 1993, female participation was only 14 per cent compared with the general labour participation rate of 22.2 per cent. Men's access to the labour market was much easier than their female counterparts. The low female participation rate can be attributed to a higher illiteracy rate among women, the preference for male workers, particularly in the private sector, early marriage for women, and relatively low wages for women, which make the economic benefits of female participation relatively modest. During the period 1994-1997, female unemployment dropped slightly to 27.2 per cent, down from 35.3 per cent in 1993. Female participation is expected to increase at an accelerating rate over the next few years as female illiteracy falls, as social traditions become less of a barrier, and as the trend continues for women to marry later. However, there remains a 17 percentage point difference between the rates of unemployment for females and males.

When unemployment is correlated to education, it becomes apparent that joblessness is most severe among those with an intermediate level of education, followed by those with preparatory education only. These two categories accounted for 36.1 per cent of the unemployed in 1991, rising in 1992 to 46.3 per cent

¹²³ Jordan, *Five-Year Plan 1976-1980*, p. 15.

(see table 20). This is in sharp contrast to the relatively low level of unemployment among illiterate workers (5.2 per cent in 1991, 2.3 per cent in 1996) or those holding university degrees (10.4 per cent in 1991, 9.9 per cent in 1996; see table 20). This picture confounds the expectation that unemployment will hit people harder the less education they have. One explanation is that when during the 1970s and 1980s, the educated and skilled workers left for the GCC countries, unskilled workers were able to find employment owing to the increase in demand for labour. Furthermore, much work in both construction and transport requires little or no formal education, so these two sectors remain a source of employment for illiterate workers in addition to agriculture. However, as the economy becomes increasingly based on traded goods, increasing numbers of skilled workers will be needed; as the demand for unskilled labour tails off, unemployment among the illiterate labour force is expected to increase.

In terms of age, the highest unemployment is to be found, as expected, among the youngest (aged 15-29): 74.4 per cent in 1991 (calculated from table 20). Within this group, the highest unemployment rate was in the 25-29 age group. This had serious implications, as this group represents new graduates. In 1996, unemployment in the 15-29 age group dropped to 73.9 (this slight improvement reflects a drop in unemployment among new graduates). The high unemployment among the young reflects the difficulty of finding a job with little or no work experience in times of high unemployment. In addition, those with little or no experience are among the first to lose their jobs at times of retrenchment. This pattern holds true for all countries. The high unemployment rate among the most highly educated represents a loss of skilled human resources which reflects negatively on productivity and the quality and competitiveness of output. High unemployment among the young educated labour force represents a low return on education and a high social cost relative to economic benefit. The relative proximity of the labour markets in the GCC countries is another factor that led to high unemployment among young educated workers. During the 1970s and early 1980s, most of the migrant workers were young and educated. When they returned to Jordan after the Gulf crisis, many swelled the ranks of the unemployed, but some who found work effectively displaced unskilled workers in older age brackets who had remained in the country.

TABLE 20. JORDAN: UNEMPLOYMENT BY AGE AND EDUCATION
(Percentage)

By age	1991	1994	1995	1996
15-19	6.2	12.5	17.3	13.4
20-24	46.4	43.5	38.4	38.4
25-29	21.8	20.8	24.1	21.9
30-34	6.9	7.4	8.3	9.6
35-39	3.6	3.6	4.5	4.7
40-44	4.7	3.0	3.4	3.6
45-49	4.6	3.3	2.6	2.7
50-54	3.3	2.6	2.1	1.6
55-59	1.9	1.6	2.0	2.9
60-64	0.6	0.9	0.6	1.5
65+	—	0.2	0.4	0.6
Illiterate	5.2	2.5	2.5	2.3
Read and write	11.4	4.9	4.8	5.9
Elementary	17.6	17.3	17.1	14.5
Preparatory	23.5	24.9	22.8	22.0
Basic/vocational	2.5	5.1	5.4	3.6
Secondary	15.6	15.1	14.7	16.4
Intermediate (institute)	12.6	24.8	20.7	24.3
B.Sc.	10.4	9.8	11.0	9.9
Higher diploma	1.0	0.2	—	0.2
M.A.		0.4	0.6	0.5
Unspecified	0.2	0.1	..	0.1

Source: ESCWA, based on national sources.

A dash (—) indicates that the amount is nil or negligible.

Two dots (..) indicate that data are not available.

Unemployment among young educated workers in Jordan has been complicated by measures taken to downsize the public sector and freeze recruitment to government offices. Depressed wages in the public sector and the absence of a minimum wage in the private sector have not led to an increase in the generation of employment, owing to the rigidity of demand for labour. This situation can be explained by the fact that wages in the public sector are fixed for a long period and are not mobile; in addition, the majority of employment in Jordan is in the non-trade sector, where there is a weak link between the level of employment and changes in the wage market. This in turn helps explain the weak link between growth of GDP and growth in employment, which implies a low employment elasticity of output. Therefore, it is important to move towards an outward-looking, export-led economic strategy that will increase the portion of employment in the traded goods sector and away from infrastructure and construction. The implementation of economic reform is expected to lead in this direction. When a higher proportion of the labour force has thus shifted to the traded goods sector, a closer proportionality will exist between employment and the growth of wages and economic growth. This could contribute to a fall in unemployment.

The country's Five-Year Development Plan called for GDP to grow at an average of 6 per cent and employment at an average of 5.4 per cent, giving employment output elasticity of 0.9. This ratio is relatively high compared to previous experience: employment elasticity was only 0.23 per cent during the period 1975-1979 and 0.37 per cent in the manufacturing sector in the period 1975-1980, 1.41 per cent in the period 1981-1985 and 1.04 per cent in the period 1986-1992.¹²⁴ A gain in employment of close to unity is difficult to achieve for two reasons: first, it eliminates any increase in productivity and any increase in demand for labour will be met entirely by an increase in employment (rather than partly achieved by an increase in productivity); second, public sector employment, which is generally of lower productivity, is expected to fall (owing to the retrenchment programme) while private sector employment increases.

G. THE IMPACT ON EMPLOYMENT OF THE STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM PROGRAMME

The Jordanian Government, in cooperation with the IMF and the World Bank, adopted a stabilization programme to restore external and internal imbalances, and achieve economic deregulation and growth leading to full employment. The main objectives of the programme were:

- (a) To reduce public deficit as a percentage of GDP from 18 per cent in 1991 to 5 per cent in 1998;
- (b) To stabilize the exchange rate of the local currency and reduce inflation through:
 - (i) Floating interest rates on deposits;
 - (ii) Controlling the growth of public debt;
- (c) To reduce the deficit in both trade and current accounts and eliminate these deficits by 1998;
- (d) To promote exports through the adoption of outward-looking, export-led economic development;
- (e) To reduce imports, particularly of consumer goods, by providing incentives to increase the domestic supply of these goods;
- (f) To apply a flexible currency exchange rate that will assist exports;
- (g) To eliminate price distortions to increase economic efficiency and productivity;
- (h) To downsize the public sector through the reform of state-owned enterprises, with a view to increasing their efficiency and productivity. This includes giving them financial independence and reducing Government subsidies, which used to constitute a large part of the fiscal deficit.

¹²⁴ ILO, *World Employment, 1996/1997, National Policies in a Global Context*, p. 154.

The implementation of the structural adjustment and economic reform programme achieved most of the planned objectives. The budget deficit as a percentage of GDP dropped to 4.6 per cent in 1996, down from 7.5 per cent in 1991. The inflation rate as measured by the change in the cost of living index also dropped from 8.2 per cent to 2.4 per cent in 1991, before surging again to 6.5 per cent in 1996. Economic growth, as measured by growth of GDP, accelerated in 1992 to 16.1 (official figures). During the period 1992-1996 GDP grew by an average 8.4 per cent per year, which is fast in view of the fact that during the economic reform programme, the Government applied restrictive fiscal and monetary policies to reduce the budget deficit and inflation. The impact of the economic reform programme on unemployment has been limited. The economic expansion that has accompanied the implementation of economic reform (evidenced by the rapid growth of GDP) has exceeded the target projections, and has played a role in absorbing the additional members of the workforce, including some of the more than 70,000 returnees. This more than offset the loss of employment in the public sector. These figures, if they are proven to be correct, indicate that the overall consequences of economic reform in Jordan have not been negative, even in the short run. Continued high economic growth, even during the implementation of the programme, and the return of a few Jordanian workers to several GCC countries, can account for the relative stability of the unemployment rate in Jordan during the implementation of the economic reform programme.

Unemployment, which rose during the first two years of the reform programme to reach a peak of 18.8 per cent in 1993, dropped in 1996 to 12 per cent, and although the rate increased in 1997 to 13.2 per cent, it remained generally stable during the 1995-1997 period. (However, unofficial figures put the unemployment rate in Jordan in 1996 at 27.1 per cent.)¹²⁵

These figures are in sharp contrast with the estimates of the Ministry of Planning, which projected an unemployment rate of 25.4 per cent in 1998, the last year of the implementation of the economic reform programme, up from its 1992 level of 18.8 per cent. The difference between the projected and actual figures can be explained by the difference between projected and actual GDP. Projected economic growth during implementation of the economic reform programme was 3.7 per cent on average, compared to official figures for the period 1992-1997 of 7.5 per cent.

However, the most important effect of the economic reform programme on employment policy in Jordan is the diminishing role of the Government as employer of last resort. The public sector, which used to be the largest employer in the Jordanian economy, is in the process of being downsized, which will reduce its role in economic activity and in employment generation. The impact on employment will depend on the speed of downsizing and the response of the private sector in providing alternative employment opportunities. The private sector's role will depend on the success of the Government in the implementation of the economic reform programme and the incentives that will be provided to the private sector. In addition, the inflow of FDI will continue to be a major factor in boosting economic growth, as it helps bridge the domestic investment-saving gap, particularly since domestic saving in the country remains very limited: far below the level that could drive economic growth as planned.

H. GOVERNMENT POLICIES TO TACKLE UNEMPLOYMENT

Government efforts to reduce unemployment can be summarized as follows:

- (a) The restructuring of the national aid fund that provides assistance to poor families;
- (b) Provision of the minimum acceptable level of basic services through infrastructure projects for poor areas. This project, which is partly financed by the World Bank, will upgrade and expand basic services to poor areas and camps;
- (c) Creation of micro-enterprises financed on a sustainable basis to generate employment for unemployed and poor families;

¹²⁵ Jordan University, Center for Strategic Studies, *Studies on Unemployment in Jordan, Summary of Preliminary Conclusions* (in Arabic), 1997, p. 9.

(d) A training and employment support programme, which is partly financed by the World Bank, to establish a training fund for the poor. The main objective of this fund is to upgrade skills to meet the requirements of the labour market. The project will investigate the skills needed in the labour market and provide appropriate training for the unemployed poor. An additional objective of the training fund is a follow-up study on those trainees, to monitor their performance and ensure that their training was appropriate for the labour market;

(e) A social security package. This is a ten-year plan, although financial resources have only been earmarked for three years. The total finance needed for the ten-year period is US\$ 1 billion, which will be partly financed by the World Bank and the Arab Fund for Economic and Social Development (AFESD);

(f) In addition, the Government has intensified its efforts to improve economic relations with the GCC countries, to reabsorb some of the returnees back into the GCC labour market. There has been some success so far, as both Qatar and the United Arab Emirates have permitted the return of a limited number of Jordanian workers. Although these efforts are a vital and potentially substantial part of Government moves to reduce unemployment, they will necessarily remain of limited scope in the immediate future as the economies of the GCC countries are currently hamstrung by the sharp drop in oil prices. Their current financial straits will aggravate their budget deficits and lead to reduced public spending, which will depress economic growth, and hence, demand for labour at least in the short-term;

(g) Among the Government's efforts to reduce unemployment is the creation of a programme for poor families (independent of the national aid fund). The project provides small loans (JD 1,000) to families to establish productive projects. It has established about 600 projects since its creation in the late 1970s. The project is totally financed by charitable non-governmental organizations (NGOs) such as Care Foundation;

(h) A programme for the employment of disabled people. The main objective of the project is to provide training and help them find jobs. Labour law in Jordan calls for 2 per cent of staff in both public and private sectors establishments to be drawn from among the disabled;

(i) Local youth training and social development centres. Ten of these have been established to train young people for possible local employment.

However, it is evident that most of these programmes are of a limited nature devoted mainly to the poor, the young and the disabled. They are not interconnected at a national level. In addition, there are no welfare payments to the unemployed and no unemployment insurance scheme in Jordan. Government efforts are limited by lack of financial resources and heavily dependent on regional and international financial institutions, as well as NGOs.

I. THE INTER-LINKAGES BETWEEN MACROECONOMIC POLICY AND EMPLOYMENT POLICY

During the period of rapid economic growth in the late 1970s and early 1980s, an expansionary macroeconomic policy was applied. This policy was financed by remittances from Jordanian workers in the GCC countries and the inflow of economic aid from these countries, particularly Saudi Arabia. During this period, there was no unemployment problem: unemployment was 1.6 per cent in 1976, 3.9 per cent in 1981 and 4.3 per cent in 1982. The increased demand for labour, both at home and in the GCC countries, led not only to the fall in unemployment but to labour shortages in certain economic sectors as a result of the out-migration of labour. This led to increased wage pressure on domestic wages and salaries and, therefore, to a general imbalance in the structure of wages, with the best wages on offer in those sectors undergoing the most severe labour shortages, particularly construction and the agricultural sector. During this period, the Jordanian labour market was both a source and recipient of labour, as demand in certain sectors had to be met by expatriate labour, particularly from Egypt, Sudan and the Syrian Arab Republic.

During the above mentioned period, fast economic growth and the increased demand for labour in the GCC countries created demand for labour that matched labour supply, with a consequential sharp drop in

unemployment. However, had it not been for the increased external demand for labour, unemployment would have been much higher.

This became a reality during the period 1986-1989 with the return of a number of Jordanian workers and at the same time an economic slowdown leading into recession at the end of the period. The drop in demand for labour in the GCC countries that stemmed from the economic recession, reflecting a sharp drop in oil prices and revenues, and the economic slowdown at home, led to increased unemployment in Jordan during the period. The macroeconomic policy applied was restrictive, so as to reduce budget deficit, control inflation and stabilize the exchange rate. This policy was not linked to employment policy, as the main concern of the Government was to reduce the macroeconomic imbalances resulting from the drastic fall in workers' remittances and economic assistance from the GCC countries. During this period, unemployment jumped to 10.3 per cent in 1989, up from 4.3 per cent in 1982.

As a result of the economic crisis that hit the country during 1988-1989, the Government had to suspend the implementation of the five-year economic and social development plan for 1986-1990, to implement the economic liberalization and structural reform programme for the period 1989-1993. For the first two years, 1989-1990, the programme succeeded in restoring macroeconomic stability. However, the eruption of the Gulf crisis and war in 1990-1991 led to the suspension of the programme, as a crisis management policy was introduced to cushion the effects of external shocks, particularly the problem of returnees and the cut in economic aid. There was therefore virtually no link between macroeconomic policy and employment policy during the period. As a result unemployment jumped to 18.8 per cent in 1991, up from 10.3 per cent in 1989. The already serious unemployment problem was further aggravated by the return of more than 70,000 Jordanian workers from the GCC during the crisis.

Thus during the economic crisis of 1989-1991, macroeconomic policy was devoted to the management of domestic aggregate demand, through the application of a restrictive macroeconomic policy that entailed public spending cuts and reduced imports, and a freeze on recruitment.

J. EDUCATION POLICY AND EMPLOYMENT POLICY

Education policy in Jordan has aimed to develop human resources, eliminate illiteracy, and establish a scientific and research base. During the late 1970s, the objective was added of upgrading the productivity of Jordanian labour, to be able to compete in the labour markets of the GCC countries. The country devoted an increased portion of its public spending on education and training. The private sector has been an active participant in the expansion of education, particularly higher education. Several universities in Jordan are established and financed by the private sector, and several of these were established as joint ventures between private sector parties in Jordan and GCC countries. As in many developing countries, education policy in Jordan has focused on the expansion of basic and higher education, regardless of the needs of the labour market. The Government in Jordan has recognized this problem and has set a target of 50 per cent of those enrolled in secondary education to be in technical education by the year 2000, up from the current official figure of about 35 per cent.

The private sector, which plays an active role in the expansion of higher education, can play a similar role in the expansion of vocational training. This is all the more important insofar as the private sector will play an increasingly central role in the productive sectors of the economy, and hence, in employment generation.

The implementation of these policies will enhance coordination between the country's education system and employment policy. This will focus on the needs of the domestic economy, as the external demand for Jordanian labour is not expected to reach the levels of the 1970s and early 1980s.

K. THE EDUCATION SYSTEM AND EMPLOYMENT POLICY

The main objectives of education policy in Jordan have been:

- (a) To achieve 100 per cent enrolment in basic education;

- (b) To reduce student drop-out to a minimum;
- (c) To increase vocational training;
- (d) To contribute to manpower training to meet the economic development needs;
- (e) To reduce and eventually eliminate illiteracy.

L. SHORT-TERM OUTLOOK

Unemployment in Jordan is expected to continue to present a serious problem for policy makers in the country. The mismatch between the labour supply (growing about 4.6 per cent annually) and demand for labour is expected to persist during the next few years. According to available data, the labour supply is currently growing by 4.6 per cent annually and assuming employment elasticity of 0.9 per cent, as suggested by the current five-year development plan, that means the economy has to grow by 5.1 per cent just to absorb the new entrants to the labour market. If we assume 0.6 per cent employment elasticity, the economy has to grow by 7.7 per cent to absorb new entrants to the labour force. The official figures indicate that during the period 1992-1997, the economy grew by an average of 7.8 per cent per year, which could explain the stability of the unemployment rate during the period. However, if these figures prove to be on the high side and average annual growth dropped to less than 7 per cent, the unemployment figures would also have to be revised upward.

According to the economic reform programme, the economy was expected to achieve an average annual growth rate of 3.7 per cent during the period 1992-1998.¹²⁶ The labour force was expected to grow by 4.6 per cent per year.¹²⁷ Total demand for labour was projected to grow by 149,700 during the period 1992-1998 as the total labour force demand was expected to increase from 790,900 in 1992 to 940,600 in 1998.¹²⁸ According to the projections, the number of unemployed would jump from 173,000 in 1992 to 319,700 in 1998 (a rate of 17.9 per cent in 1992 to 25.4 per cent in 1998).¹²⁹ The projection was made before the implementation of the economic reform programme and was based upon the assumption that GDP would achieve an average annual growth rate of 3.7 per cent, with employment elasticity at 0.7 per cent. However, the official figures show actual GDP growth almost double the projected rate while employment elasticity rose to 0.9 per cent. These two factors were responsible for the stability of the unemployment rate that prevailed during the implementation of the economic reform programme.

Economic growth will continue to be the most important factor in reducing the level of unemployment, provided this growth is achieved by employment generating sectors, particularly the traded goods sector, rather than non-trade sectors, such as construction and transport. However, the unemployment problem is expected to increase over the next few years, as the economy is expected to slow down, as the peace process stalls, as economic sanctions remain in force against Iraq and recession persists in the GCC countries. The latter will limit the return of Jordanian workers to GCC countries even if political relations improve. If the official unemployment figure is accurate, unemployment in Jordan is high, but if the unofficial rate is nearer to the truth, the problem is much more serious. In either case the country faces a major unemployment problem which the domestic economy alone cannot tackle, so there is a need to strengthen regional cooperation to increase the flow of Jordanian workers back to the GCC market. In the long-run there is a need to manage the domestic labour supply to bring it down to match demand for labour. This can be achieved, among other things, by reducing the high current levels of population growth.

The expected increase in the role of the private sector in employment generation will continue to be limited by the current contraction in aggregate demand, a side-effect of the economic reform programme. The expected drop in public investment, as part of the diminishing role of the state in economic activity, will

¹²⁶ ESCWA and the Ministry of Planning in Jordan, *Proceedings of the Expert Group Meeting on Unemployment in the ESCWA Region*, E/ESCWA/POP/1994/2, p. 169.

¹²⁷ Ibid.

¹²⁸ Ibid., p. 171.

¹²⁹ Ibid.

also discourage the private sector, at least during the short-to-medium-term, from assuming the public sector's mantle as principal investor and generator of employment.

Although there has been an improvement in the performance of the export sector, which benefited from both the currency devaluation in 1988, and the improvement in productivity, its performance has been limited. The main factor has been the continued relative closure of the Iraqi market, which remains under the United Nations sanctions. This has limited the capacity of the trade sector to generate employment and absorb labour. However, this could be rectified if and when sanctions are lifted.

On the supply side, the expansion of the labour supply is expected to accelerate as, firstly, a large portion of the population is currently of working age and secondly, it is expected that women will increasingly participate in the labour force, as more are educated and become more interested in getting jobs. The most likely consequence is increased unemployment.

However, if a comprehensive and lasting peace in the Middle East is achieved, it could lead to a significant increase in business confidence in the region, which in turn would lead to an increase in the inflow of FDI, as well as other forms of finance for the region. Coupled with successful implementation of the economic reform programmes, this would lead to accelerated economic growth in the countries of the region, including Jordan, and thus help reduce unemployment.

IV. CASE STUDY: LEBANON

A. MACROECONOMIC DEVELOPMENT

The civil war in Lebanon during the period 1975-1990 led to a destruction of the country's physical infrastructure, labour migration and flight of capital. These factors led to a sharp drop in economic activity during the war period. During this period there were no formal fiscal or monetary policies, owing mainly to lack of government authority over a large area of the country. The sharp drop in Government revenues, owing to the collapse of the tax system, prompted the Government to fund expenditure through deficit finance, which led to mounting budget deficits. This, in turn, led to inflation and depreciation of the local currency.

The end of the war in 1990 brought a return of political stability, which together with the application of a tight monetary policy, led to macroeconomic stability. The Government also reduced its reliance on money creation to finance its budget deficit, and increased its issuance of treasury bills. These measures resulted in relative economic stability and encouraged the inflow of FDI. Government economic policies led to the stabilization of the currency exchange rate, a decline in inflation rates and a sharp rise in economic growth during the period 1992-1995.

GDP increased from 4.5 per cent in 1992 to 8 per cent in 1994 before falling to 6.5 per cent in 1995 (see table 21). Inflation fell sharply back from its 1992 peak of 120 per cent and by 1994 dropped to 8 per cent before increasing to 10.5 per cent in 1995 (see table 21). The exchange rate of the domestic currency also improved, as it appreciated against the dollar from an average of 1,713 Lebanese pounds (LL) to the US dollar in 1992 to an average of 1,539 in 1997.

Budget deficits have been financed through borrowing from the central bank and/or the issuance of treasury bills in the local market, as well as the international financial markets. Large budget deficits remained a major problem for the country's decision makers. The deficit has increased sharply during the period 1992-1997: from LL 1,081 billion in 1992 to LL 5,409 billion in 1997, a five-fold increase (see table 21). As a proportion of GDP, the budget deficit rose from 11.38 to 23.48 per cent during the same period. There was also a sharp increase in net domestic debt, from LL 4,383 billion in 1992 to LL 22,006 billion in 1997, again, a more than five-fold increase. The soaring net domestic debt was mainly caused by the expansion in the Government's current expenditure; investment expenditure was financed through external borrowing.

The economic rebound during 1992-1995 was boosted by the implementation of the country's reconstruction plan, Horizon 2000, which led to a boom in the construction sector. The plan was estimated to cost US\$ 13.8 billion. To encourage domestic investment, and as part of its economic stabilization programme, the Government reduced taxes on business profit to a flat rate of 10 per cent. The Government has also increased its reliance on the issuing of treasury bills to finance budget deficit.

The Government kept monetary policy tight, aiming to attract investment, particularly foreign investment, through high interest rate on deposits, which also supported the exchange rate of the local currency. This led, among other things, to an increase in deposits in local currency, as people borrow in foreign currencies and convert to Lebanese pounds, to benefit from the interest rate differential. However, this policy, while bringing stability to the exchange rate and helping to control inflation, had an adverse effect on investment, particularly in the construction sector. This led to lower economic growth: GDP grew by 4 per cent in both 1996 and 1997 (see table 21), reflecting, in 1997, the impact of the Israeli bombardment of the South and the subsequent Qana massacre, which also led to a fall in the inflow of foreign capital. Deadlock in the peace process also had a negative impact on the economic growth in both 1996 and 1997.

In addition, the large trade deficit acted as a constraint on economic growth. Government efforts to control budget deficit led to a drop in public sector investment, which also contributed to the slowdown in economic growth. The Government is facing a major problem in trying to control the budget deficit, and hence, reduce domestic debt. More than 40 per cent of Government current expenditure is devoted to pay domestic debt, which leaves little room for manoeuvre as it seeks to simultaneously cut expenditures and raise public salaries (in response to urgent trade union demands).

TABLE 21. LEBANON: MACROECONOMIC INDICATORS

	1990	1991	1992	1993	1994	1995	1996	1997
GDP (billions of US dollars at current prices)	2 812	4 151	5 545	7 537	9 110	11 122	12 996	14 957
Real GDP growth (%)	3.5	22.7	4.5	7.0	8.0	6.5	4.0	4.0
Total consumption (billions of LL)	2 812.9	5 024.5	1 0615.6	14 802.2	16 784.5	15 689.5	17 343.4	18 449.5
Gross fixed capital formation (billions of LL)	761	1 407.2	2 879	4 380	4 611	4 174	4 878	5 157.7
Government revenues (billions of LL)	126.4	522.2	1 138	1 855	2 241	3 033	3 533	3 753
Government expenditure (billions of LL)	794.1	1 196.2	2 219	3 017	5 204	5 856	7 225	9 162
Total budget deficit (billions of LL)	667.7	674	1 081	1 162	2 963	2 823	3 692	5 409
Inflation rate (%)	..	..	120	29.1	8	10.6	8.9	7.8
Current account (millions of US dollars)	1 068	2 462	(2 763)	(3 692)	(4 060)	(4817)	(4 703)	—
Export of goods and service (millions of US dollars)	494	539.1	601	686	737	982	1 066	642
Imports of goods and services (millions of US dollars)	2 525.1	3 743.2	3 786	4 907	5 541	6 722	6 922	7 456
Trade balance (millions of US dollars)	(2 031.1)	(3 204.1)	(3 185)	(4 221)	(4 804)	(5 740)	(5 926)	(6 814)
As percentage of GDP								
Government revenues	4.5	12.6	10.3	13.0	14.7	17.5	19.7	17.8
Government expenditure	28.2	28.8	17.4	25.9	26.8	31.2	31.6	27.9
Budget deficit	23.7	16.2	11.4	8.9	19.4	15.7	18.1	23.5
Current account	38.0	59.3	48.0	49.0	44.6	43.3	36.2	..
Imports of goods and services	89.8	90.2	68.3	65.1	60.8	60.4	53.3	49.8
Exports of goods and services	17.6	12.9	10.8	9.1	8.1	8.8	8.2	4.3
Trade deficit	72.2	77.2	57.4	56.0	52.7	51.6	45.6	45.6

Source: ESCWA, based on national sources.

Two dots (..) indicate that data are not available.

A dash (—) indicates that the amount is nil or negligible.

Although the current macroeconomic policy has helped to control inflation, stabilize the exchange rate and increase the inflow of foreign capital, it has had an adverse effect on investment, as high interest rates discourage investors from taking long-term decisions, particularly during a period of uncertainty about the peace process.

B. LABOUR POLICY

The main objectives of labour policy in Lebanon are:

- (a) To combat unemployment through increased employment generation;
- (b) To create a more efficient labour market;
- (c) To expand labour-intensive economic projects to create jobs;
- (d) To expand and upgrade skills, to increase productivity and thus the ability to compete at home and in the regional labour market;
- (e) To undertake studies in the field of employment and employment generation to determine the best employment policy for the economy.

For this purpose, the Government established the National Establishment for Employment in 1997 to formulate and implement national employment policies. The Establishment is headed by a Director General and includes a Board of Directors headed by the Minister of Labour and is composed of:

- (a) The director General of the Ministry of Labour;
- (b) Five members representing employees from different economic sectors;
- (c) Three members representing the University of Lebanon, the Directorate of Technical and Vocational Education, and the Educational Centre for Research and Development.

C. THE STRUCTURE OF THE LABOUR FORCE

The labour force in Lebanon, as in any other ESCWA member country, is characterized by a predominance of male workers and low female participation. Female participation has increased slightly, from 14.3 per cent in 1970 to 18.5 per cent in 1995.¹³⁰ This can be attributed to increased female education, a contention supported by the fact that the participation of women in the labour force in the 25-29 age group rose from 20.3 per cent in 1970 to over 31 per cent in 1995,¹³¹ while the participation of the age group with secondary education (15-19) fell from 14.8 per cent in 1970 to only 6.4 per cent in 1995. The greatest female participation rate was in the 25-29 age group, which demonstrates that recent graduates are the most active in terms of employment participation. The lowest rate of participation was among the age groups with only secondary education and those over 55 years of age.¹³²

Marriage is another factor that reduced the participation of women in the labour force. The participation of single women rose for all age groups and remained relatively high, while that of married women remained low. The participation of single women in the age group 25-29 rose from 51.9 per cent in 1970 to 67.1 per cent in 1993, while that of married women rose only from 8.9 per cent to 10.4 per cent.¹³³

In contrast to marriage, education is a major factor that led to the increase in the participation of women in the labour force. In 1993, the participation of university-educated women reached 80 per cent for the age group of 25-29, compared with only 17.1 per cent of illiterate women.

D. EMPLOYMENT BY ECONOMIC ACTIVITY

The Lebanese economy has always been predominantly a service economy, as the agricultural sector is small both in terms of output and employment generation. Employment in the agricultural sector did, however, slightly increase during the civil war period 1975-1990, as large numbers of people left the main cities to escape the war and headed for rural areas, where agriculture is predominant. During the period 1970-1990, employment in agriculture therefore remained relatively unchanged at around 19 per cent of the total labour force. After the end of the civil war and the return to political stability, the agricultural sector shed its excess labour and employment in the sector dropped sharply, reaching 9.3 per cent by 1996, down from 19.1 per cent in 1990 (see table 22). Employment in manufacturing remained relatively unchanged during the period 1970-1987, see with a slight drop representing the impact of the civil war on the sector and the drop in output. Employment in the sector dropped from 18.8 per cent in 1970 to 17.3 per cent in 1987, rising in 1996 to 19 per cent.

The most important sector in terms of employment generation in Lebanon has been the services sector, which provides over 55 per cent of total employment. This is a reflection of the general orientation of the Lebanese economy with its heavy dependence on the services sector, its narrow productive base, and the limited proportion of employment generated by the agricultural sector. The importance of the services sector is undiminished: it generated proportionally more jobs after the end of the civil war, and in 1996, for example, close to two-thirds of the labour force was engaged in the services sector, up from 55.7 per cent in 1970 and close to its share of 65.3 per cent in 1987 (see table 22).

¹³⁰ دراسة عن واقع المرأة اللبنانية بين الأعوام ١٩٩٥ و١٩٩٧، أرقام ومعاني، اللجنة الوطنية لشؤون المرأة اللبنانية، طبعة ١٩٩٧، ص ٤٥.

¹³¹ المرجع السابق.

¹³² المرجع السابق، ص ٤٨.

¹³³ المرجع السابق.

TABLE 22. LEBANON: EMPLOYMENT BY ECONOMIC ACTIVITY, 1970, 1987, 1990, 1994 AND 1996
(As percentage of total labour force)

	1970	1987	1990	1994	1996
Agriculture	19	12	19.1	14.7	9.3
Manufacturing	18.8	17.3	18.8	18.8	15.1
Construction	6.5	5.4	6.3	8.3	11.6
Services	55.7	65.3	55.8	57.8	64.0

Source: ESCWA, based on national and international sources.

Analysis of the labour force in terms of level of education reveals a sharp decrease in the proportion of illiterate workers and those with less than an elementary level of education. Between 1970 and 1996, the proportion of illiterate workers dropped from 29.4 per cent to only 7.2 per cent, while that of workers with less than an elementary level of education dropped from more than 35 per cent to only 8.2 per cent during the same period (see table 23). At the same time, there was a sharp increase in the share of those with secondary education, from 6.3 per cent in 1970 to 17.8 per cent in 1996, while the share of those with a university degree rose from 4.3 per cent to 16.7 per cent over the same period (see table 23). The sharp increase in those with both secondary and university levels is indicative of an increasingly skilled labour force. The emphasis on skills has been prompted by the need to compete not only in the domestic labour market, but also in the GCC countries. Most Lebanese workers in the GCC countries are white collar workers in management, particularly in the services sector, including tourism where they have the skills and experiences. In the GCC countries, demand for Lebanese workers has not drastically fallen off (unlike the demand for other workers from the ESCWA region) as they are employed mainly by a comparatively buoyant private sector. They were not sharply affected during the Gulf crisis, as was the case for Jordanian and Yemeni workers for both political and economic reasons.

TABLE 23. LEBANON: LABOUR FORCE BY LEVEL OF EDUCATION, 1970, 1987 AND 1996

Education level	1970	1987	1996
Illiterate	29.4	12.4	7.2
Below elementary	35.3	9.7	8.2
Elementary	15.2	26	28.6
Intermediate	9.5	21.6	21.5
Secondary	6.3	15.5	17.8
University	4.3	14.8	16.7

Source: ESCWA, based on national sources.

E. LABOUR FORCE PARTICIPATION

Total labour participation during the period 1990-1996 ranged between 24.6 and 25.7 per cent (see table 24). This range represents a drop from the 1987 level of 30.2 per cent, explained largely by the migration of labour: most of those who migrated to the GCC countries and elsewhere were of working age. Labour participation is considered low compared with other developing countries such as India (44 per cent in 1996), Indonesia (48.4 per cent) and Vietnam (51.5 per cent). Within the ESCWA region, it is lower than Jordan and Egypt. Male participation (53.1 per cent in 1996) is higher than female participation (14.7 per cent).¹³⁴ The main factors underlying low labour force participation are the low participation of women in the labour force, increased enrolment in education, and the migration of labour. However, participation is expected to rise rapidly as more women join the labour force and migration declines.

¹³⁴ الجمهورية اللبنانية، إدارة الإحصاء المركزي، دراسات إحصائية، الأوضاع المعيشية للأسر في عام ١٩٩٧، شباط/فبراير ١٩٩٨، ص ٣٣.

TABLE 24. LEBANON: POPULATION, TOTAL LABOUR FORCE AND LABOUR FORCE PARTICIPATION, 1985, 1987 AND 1990-1996

Population (millions)	2.7	2.7	3.6	3.7	3.8	3.9	3.9	4.0	4.1	..
Labour force (thousands)	769	816	887	912	946	964	996	1 000	1 100	..
Labour force participation (percentage)	28.5	30.2	24.6	24.6	25.0	24.7	25.5	25.7	25.7	..

Source: Banque du Liban, *Annual Report*, various issues.

Two dots (..) indicate that data are not available.

The labour force in Lebanon grew by an average of 4.6 per cent annually during the period 1985-1996, compared to average population growth of about 3 per cent. If this trend persists, it will lead to an increase over the next few years in labour force participation pushed higher by increased female participation and the return of migrant labour. Although such a trend would be an economically healthy sign, it could lead to an increase in unemployment, if the employment situation does not improve sufficiently. The increase in the labour force will be accompanied by a drop in labour migration, particularly to the GCC countries.

F. EDUCATION POLICY AND THE LABOUR MARKET

1. *Enrolment in education*

Those of school and college age (aged 5-20) accounted for 30.9 per cent of the population in 1997, down slightly from the 1970 level of 38.5 per cent.¹³⁵ The proportion enrolled in basic education rose as high as 95.4 per cent¹³⁶ in 1997, compared with 77 per cent in 1991-1992. For the 10-14 age group, enrolment reached 93.9 per cent, compared with 62 per cent in 1991-1992. The enrolment ratio drops sharply at secondary school level (69.3 per cent in 1997)¹³⁷ although it is a marked improvement on the 1991-1992 figure (only 40 per cent).¹³⁸ The most important observation is that 36.6 per cent of those of secondary school age (aged 15-19) was expected to have left the education system for the labour market in 1997.¹³⁹

Enrollment in technical education represented about 3.4 per cent of the total in general education and about 48.9 per cent of the total in secondary education in 1974-1975 (just before the start of the civil war). By 1994-1995, the ratio of enrolment in technical education reached 8.6 per cent of the total in general education and 64.8 per cent of the total in secondary level of education.¹⁴⁰

The most significant feature of the data is the increase in enrolment in technical education at the expense of total enrolment at the secondary level of education, which dropped between 1991/92 and 1994/95. Enrollment in technical education accounted for 48.9 per cent and 64.8 per cent of enrolment at the secondary level in 1991/92 and 1994/95, respectively. In 1996, enrolment in technical education reached 48,064, representing a sharp drop back to 31.2 per cent of total enrolment at secondary level and 5.8 per cent of the total in public education.¹⁴¹

¹³⁵ المرجع السابق.

¹³⁶ Ibid.

¹³⁷ Ibid.

¹³⁸ Banque du Liban, *Annual Report*, 1990, 1991 and 1992, p. 147.

¹³⁹ الجمهورية اللبنانية، إدارة الإحصاء المركزي، دراسات إحصائية، الأوضاع المعيشية للأسر في عام ١٩٩٧، شباط/فبراير ١٩٩٨، ص ٣٩.

¹⁴⁰ Calculated from Banque du Liban, *Annual Report*, 1995, p. 131.

¹⁴¹ Banque du Liban, *Annual Report*, 1996, p. 121.

The next most significant observation is the level of female enrolment: 49.9 per cent of total enrolment in the education system as a whole in 1994/95. This is the highest among ESCWA member countries. At the secondary level alone, the ratio of females was 53.4 per cent.¹⁴²

2. *The structure of the education system*

The education system in Lebanon is dominated by the private sector. This state of affairs is an inheritance from the war years, which weakened the authority of the central Government. Only about 30 per cent of students in general education in 1995-1996 were enrolled in public schools (compared with 45 per cent in 1972-1973).¹⁴³ This proportion, which stemmed from the limited capacity of public schools, owing to the destruction of educational infrastructure during the war, raised the cost of education, and hence led to a higher leakage of students from the education system into the labour market. This leakage is encouraged by the low living standards of large segments of population. In addition, there is no compulsory education system in Lebanon, a fact which serves to encourage students to drop out of the education system and join the labour market. In 1996-1997, about 36.6 per cent of those of secondary school age (aged 15-19) dropped out and were assumed to have joined the labour market.¹⁴⁴

3. *Educational reform*

The reform of the education system has been one of the most important elements of the country's reconstruction plan, Horizon 2000. The education system has been allocated US\$ 1,530 millions, 13.1 per cent of the plan's total funding.¹⁴⁵ The reform of the education system will include the reconstruction of physical infrastructure, rebuilding of damaged public schools, the expansion of education services, the introduction of vocational elements into the education system to increase awareness of the importance of technical education and vocational training, and the reform of technical education to provide the skills required by the economy. The aim of the programme is to achieve universal enrolment in education, particularly at elementary level (already encouragingly high). Reform of the public education system will result in an increase in its share of total enrolment and will thus restore a better balance between public and private education, particularly in basic education. The shift will occur primarily because the cost of public education is lower than that of private education. It will moreover be assisted by automatic promotion at elementary level of pupils from one year-class to the next, a new policy designed to reduce the numbers currently dropping out of the education system.

However, despite these reform measures, the link between the education system and the labour market in Lebanon remains very weak. The general orientation of the education system is still towards general education with little emphasis on applied science and technology. This has created excess supply in several specializations, such as lawyers, while there are shortages in other important specializations. This mismatch between the output of the education system and the needs of the economy has encouraged labour migration and resulted in unemployment among university graduates in certain occupations. In addition, the curricula in both general and technical education date from the 1960s,¹⁴⁶ so can scarcely be considered in themselves to contribute much to an improved quality of education. Moreover, the limited capacity of public schools has had an adverse effect on the quality of education, and hence, contributed to a fall in enrolment in favour of private education.

It is important for Lebanon to improve the quality of education, including technical education, not just to provide the skills needed to raise, but also to be able to compete in regional and international labour markets. The need for labour migration is expected to continue for several years to come, owing to the limited absorption capacity of the domestic economy. Therefore close coordination between the education

¹⁴² United Nations Development Programme (UNDP), *Sustainable Human Development in Lebanon*, January 1997, p. 87.

¹⁴³ UNDP, *Sustainable Human Development in Lebanon*, January 1997, p. 89.

¹⁴⁴ الجمهورية اللبنانية، إدارة الإحصاء المركزي، دراسات احصائية، الأوضاع المعيشية للأسر في عام ١٩٩٧، شباط/فبراير ١٩٩٨، ص ٣٩.

¹⁴⁵ UNDP, *Sustainable Human Development in Lebanon*, January 1997, p. 91.

¹⁴⁶ UNDP, *Sustainable Human Development in Lebanon*, January 1997, p. 89.

system and the labour market is an urgent necessity, which should not be delayed any further, in view of increased competition both at home and abroad for skills, and the sharp drop in the demand for unskilled labour. This is very important for Lebanon, where the services sector is the most important both in terms of output and employment generation. The services sector dwarfs the productive sector, particularly the agricultural sector, and since it is highly competitive in terms of employment and output, its demand for labour will focus on qualified and skilled staff. Moreover, this will remain especially true of employment generation by the private sector in Lebanon (82.8 per cent in 1996).¹⁴⁷

Although education was destined to receive more than 13 per cent of investment allocations in the Horizon 2000 reconstruction plan, during the past few years expenditure in education has proportionally fallen. In 1982, education received LL 3.2 billions, representing 11.7 per cent of total government expenditures. This increased to 12.5 per cent in 1992, with education receiving LL 206.6 billion.¹⁴⁸ However, by 1996, it dropped to 4.9 per cent despite an increase in education spending in pound terms to 315 billion, up from 206.6 billion in 1992.¹⁴⁹

In 1997, spending on education dropped, in pound terms, to 314 billions, down from 315 billion pounds in 1996. It remained unchanged as a proportion of total government expenditures, owing to the overall fall in government spending to 6,370 billion pounds in 1997, down from 6,450 billion pounds in 1996.¹⁵⁰ This fall, part and parcel of the restrictive fiscal policy applied to reduce the fiscal deficit is expected to have an adverse effect on the education system. However, if the budget allocations for the Ministry of Culture and Higher Education and the Ministry of Technical and Vocational Education are added to that of the Ministry of Education, the proportion is seen to increase to 10.6 per cent of total government expenditures.¹⁵¹ However, this is still less than in 1992. Technical education in Lebanon is dominated by the private sector, as is general education. In 1996, the public sector accounted for only about 21.8 per cent of total enrollment in technical education, that is, only 10,494 students out of a total of 48,064 enrolled in technical and vocational education in 1996.¹⁵² The share of the public sector in technical and vocational education in 1996 was lower than its share of general education, 30.6 per cent.¹⁵³ This is not, however, an unhealthy state of affairs, as private sector involvement in technical and vocational education reduces the burden on the Government budget and it is, in theory, more likely to closely reflect the needs of the labour market than the public sector.

However, in Lebanon, coordination between technical and vocational education, on one hand, and market needs, on the other hand, remains weak. In terms of skills, the private sector is focused on the needs of the regional labour markets, which are dominated by the tourism sector. This policy has been inherited from the oil boom era and the civil war period in Lebanon, when employment policies were directed towards meeting the needs of the regional and international labour markets. It is also based on the years before the war, when Lebanon took the highest regional share of tourism, before losing its share to other countries both in and beyond the ESCWA region, such as Cyprus. There should therefore, be an overhaul of the structure and priorities of technical and vocational training in Lebanon, so as to focus more on the skills needed by the domestic economy without thereby neglecting the needs of regional labour markets, in view of the continued need for labour migration in years to come.

Although the pattern of enrolment in technical education is satisfactory, there should be a re-orientation of priorities in the sector to take into consideration the increased shift of employment policy towards the domestic economy. Cooperation between the Ministries of Labour and Technical Education

¹⁴⁷ الجمهورية اللبنانية، ادارة الاحصاء المركزي، دراسات احصائية، الأوضاع المعيشية للأسر في عام ١٩٩٧، طبعة شباط/فبراير ١٩٩٨، ص ٤٣.

¹⁴⁸ Banque du Liban, *Annual Report*, 1990, 1991 and 1992, p. 151.

¹⁴⁹ The Economist Intelligence Unit, *Country Profile, Lebanon 1996-1997*, p. 26.

¹⁵⁰ Ibid., *Lebanon 1997-1998*, p. 33.

¹⁵¹ Banque du Liban, *Annual Report*, 1996, p. 120.

¹⁵² Ibid., p. 125.

¹⁵³ Ibid., p. 123.

would permit an evaluation of the skills needed by the economy and a reorientation of technical education to provide those skills.

G. THE UNEMPLOYMENT PROBLEM IN LEBANON

High unemployment is one of the most important and intractable economic problems facing the Lebanese economy. Unemployment rose during the 1990s owing to the dearth of job opportunities abroad, particularly in the GCC countries, and the rapid growth of the labour supply swelled by an acceleration of female participation. During the 1970s and the first half of the 1980s, the unemployment problem was mitigated by the increase in demand for labour in the GCC countries as well as countries outside the region. Owing to the relatively high skills of the Lebanese workers, they were in high demand in the region's labour markets, particularly in the services sectors, such as tourism and trade.

Then the Gulf crisis and subsequent slower economic growth in the GCC countries—together with moves to indigenize labour, particularly in the public sector—hit expatriate labour hard. The result during the past few years has been a sharp rise in unemployment in Lebanon, which suffers from a relatively narrow economic base at home, with a very modest agricultural sector, which now employs far fewer people.

The labour supply grew at a faster rate than average economic growth during the period 1992-1997, driving unemployment up. The supply was swelled by excess labour from the agricultural sector, where employment dropped from 19.1 per cent of the total labour force in 1990 to only 9.3 per cent in 1997. Although there was an increase in employment by the construction sector, boosted by the reconstruction plan Horizon 2000, the sector remains small and employment fell back in the last two years, as growth in the sector slowed down and severe competition was generated by expatriate workers willing to accept lower salaries and work longer hours. Unofficial estimates for expatriate workers in Lebanon vary from 250,000 to one million depending on whether seasonal workers are included or not. Even if we take the lower estimates of 250,000, this is equivalent to about 25 per cent of the national labour force in Lebanon: but their work is needed, particularly in construction and agriculture.

Unemployment in Lebanon can be attributed to the following:

(a) There is a mismatch between the supply of labour supply and demand for labour. The labour supply has been growing at a higher rate than the demand for labour, which depends to a high degree on economic performance;

(b) There is a high rate of leakage from the education system to the labour market, particularly in the lower socio-economic strata of society, reflecting the cost of education and other economic factors. It is estimated that only ten per cent of those at elementary school level will finish their education at university level. The highest rate of students dropping out of education is at secondary level (the 15-19 age group). They are invariably unskilled, command only a low salary and are likely to be the first to lose their jobs if there are lay-offs;

(c) Lack of coordination between the education system and the labour market. Despite relatively high enrolment in technical education in Lebanon, compared with other ESCWA member countries, there is still a mismatch between the skills required by the economy and the output of the technical and general education systems. This stems from a lack of coordination between these two important sectors and the fact that the structure of technical education still harks back to the era before the civil war. The curricula mostly dated back to the 1960s, when the economy was based on only a few services sectors, such as finance and tourism;

(d) A sizeable proportion of university graduates have specialized in areas for which there is insufficient demand, leading to high unemployment among university graduates, such as lawyers. This stems from a lack of coordination between the education system and the labour market, despite the dominance of the private sector in both education and training in Lebanon;

(e) Returnees see little incentive to enter the domestic labour market, where wages are much lower than they receive abroad. Furthermore, production methods and techniques differ substantially from those with which they were familiar abroad;

(f) There is a severe competition from expatriate workers in several economic sectors (but not agriculture). This is particularly true for unskilled construction workers. The Lebanese private sector prefers to employ expatriate workers willing to accept lower wages, harsher working conditions and longer hours than nationals;

(g) A decline in employment by an agricultural sector squeezed in regional markets owing to the high cost of production. Employment in the agricultural sector increased during the war period, as people left the main cities for the rural areas, where agriculture is the main economic activity. But after the end of the civil war employment in the sector dropped sharply.

H. THE STRUCTURE OF UNEMPLOYMENT IN LEBANON

Total unemployment rates remained stable, between 8.6 per cent in 1985 and 7.1 per cent during the period 1987-1992 (see table 25). During the period 1993-1996, there were several estimates of the unemployment rate. The central bank estimated an average of between 8 to 14 per cent during the period 1993-1995.¹⁵⁴ The official Government figure in 1996 was between 8.1 and 8.9 per cent.¹⁵⁵ This figure was based on the survey of living conditions of families in 1997 based on a sample of 16,864 families in different parts of the country. The study concluded that employment among women was slightly lower than among men (7.2 per cent for women and 9 per cent for men). This is to be expected in view of the customarily low participation of women in the labour force.

TABLE 25. LEBANON: TOTAL UNEMPLOYMENT RATE, 1970,
1985, 1987, 1990 AND 1996
(Percentage)

	1970	1985	1987	1990	1992	1996
Total unemployment rate	8.1	8.6	7.1	7.1	7.1	8.9

Source: ESCWA based on national sources.

Unemployment in Lebanon in 1996 was highest among those of school age (15-19), followed by those of university age (20-24). In 1996, unemployment among the latter was running at 17.8 per cent.¹⁵⁶

In terms of education, the unemployment rate in 1996 was highest among males with only a primary level of education (31.6 per cent), followed by males with an intermediate level of education (21.8 per cent) and lowest among males with a university degree (6 per cent). For females, unemployment in general was lower despite the noticeable increase in their participation in the labour force between 1970 and 1995. The participation rate rose from 14.3 per cent to 18.5 per cent between 1970 and 1995, while unemployment among women increased only slightly from 5.3 per cent to 5.6 per cent.¹⁵⁷

Of the unemployed in 1996, about 29 per cent had primary education, 22.9 per cent secondary education and only 7.9 per cent a university degree. This would suggest that unemployment was higher among the unskilled and semi-skilled than the illiterate or those holding university degrees. These unskilled and semi-skilled workers face competition from expatriate workers, particularly in the construction sector, which boomed immediately after the end of the civil war. These unskilled also compete with expatriate

¹⁵⁴ Banque du Liban, *Annual Report*, several issues.

¹⁵⁵ Central Statistical Administration, Statistical Studies, *The Living Conditions of Families in 1997*, February 1998, p. 39.

¹⁵⁶ Ibid., p. 137.

¹⁵⁷ دراسة عن واقع المرأة اللبنانية في الأعوام ١٩٩٧ و ١٩٩٥، أرقام ومعاني، اللجنة الوطنية السنوية للمرأة، طبعة ١٩٩٧، ص ٥١.

workers in the agricultural sector. Moreover regional demand for unskilled workers has dropped over the past few years, and hence migration is no longer an option for them (unlike for skilled workers). Unemployment rates fall sharply with increased education as skilled workers enjoy a higher demand for their labour at home than the semi-skilled and unskilled; and they face little competition from expatriates.

Official rates of unemployment are put at 8.9 per cent during the period 1995-1996, compared to unofficial rates between 12 and 14 per cent.¹⁵⁸ The latter figures are closer to reality, taking into consideration both the economic slowdown in 1996, and political unrest in several African countries, which host Lebanese expatriates.

The absence of official figures on unemployment clears the way for estimates of unemployment rates, with the exception of 1996, for which the official rate was put at 8.9 per cent. This figure, though extremely useful, must unfortunately be treated with some circumspection, as it is based upon a survey of the living condition of Lebanese families undertaken without a specific focus on unemployment.

Despite the varying estimates of unemployment and the absence of sequential data, which hampered the preparation of this study, all the indications are that the country is facing a major unemployment problem. The limited volume of employment generated by the Lebanese economy, with its small productive sector (unlikely to expand rapidly in view of the low productivity of much of its current labour force) make it difficult to foresee a rapid improvement. The unemployment problem in Lebanon has been both frictional and cyclical. The frictional element is precipitated by the forcing out of excess labour from the agricultural sector to the services and construction sectors, while the cyclical unemployment is a consequence of the mismatch between the fast-growing supply of labour and the demand for labour at home. During the 1970s and part of the 1980s, this problem was mitigated by the migration of labour not only to the GCC countries, but also to other countries outside the region including several African countries. The services sector in Lebanon used to be a very active generator of employment owing to its regional comparative advantages, particularly in tourism and financial services. However, the civil war has almost eliminated this comparative advantage, owing to the flight of capital and expertise during the war and the emergence of other markets (tourism, capital markets and also trade). For Lebanon, to regain its market share and its comparative advantage, it needs to invest heavily in infrastructure and training. This would lead to an expansion in employment generation in the services sectors, particularly tourism, which is a labour intensive industry.

The construction sector, which in 1996 employed about 11.6 per cent of the labour force is not expected to expand over the next few years. On the contrary, it has already contracted, as the reconstruction boom soon slowed down. So it is expected that the sector will soon shed much of its workforce, adding to the already serious unemployment problem in the country.

In addition, the trade sector, a labour-intensive sector, is facing problems stemming from the overall economic recession in the region in the last two years. The sector, which is very sensitive to economic growth, not only nationally but also in the region, has not generated new jobs. On the contrary, the 1996 figures reveal workers being forced out of the trade sector. These figures, which show unemployment according to previous activity, reveal that 23.1 per cent of those out of work had been working in the trade sector.¹⁵⁹ However, if those without previous work are added, the proportion of those forced out of the trade sector becomes 15.1 per cent.¹⁶⁰ The highest proportion of those unemployed (34.9 per cent) were new entrants to the labour market (those with no experience, mostly young). The same figures show that the agricultural sector continued to shed workers, as 5.2 per cent of the unemployed in 1996 had come from the agricultural sector.¹⁶¹

¹⁵⁸ UNDP, *Sustainable Human Development in Lebanon*, January 1997, p. 70.

¹⁵⁹ Lebanon, National Establishment for Employment, in cooperation with International Labour Office and UNDP, *Study of the Labour Market*, Beirut, 1997, table 6.

¹⁶⁰ Ibid.

¹⁶¹ Ibid.

I. MACROECONOMIC POLICY AND LABOUR POLICY

During the past three years of the implementation of the economic reconstruction plan Horizon 2000, macroeconomic policy was expansionary, so as to restore and expand basic services after years of civil war, and to implement the reconstruction plan. Government expenditures leapt in 1992 to LL 2,435.4 billion, from 1,196.2 billion in 1991.¹⁶² Capital investment also increased to LL 161 billion, compared with 33 billion in 1991, and as a proportion of total expenditure, it rose to 15 per cent, up from only 6 per cent in 1991.¹⁶³ The expansion in Government public spending, together with the increase in the inflow of private capital, reflected the return of stability to the country, and led to 4.5 per cent growth in GDP in 1992.¹⁶⁴ Economic expansion continued in 1993 and 1994, boosted by the inflow of FDI, attracted by monetary and political stability in the country. The capital account in the balance of payment rose to US\$ 3,107 millions in 1992, up by 300 per cent from its 1990 level of US\$ 637 million. Both the expansion of fiscal policy and the increase in the inflow of FDI led to an acceleration of economic growth. In 1993, GDP grew by 7 per cent, up from 4.5 per cent in 1992. In 1994, GDP grew by 8 per cent, boosted by the construction boom, in addition to the expansion in electricity generation and air transportation. The inflow of foreign investment continued in 1994, as reflected in the increase in the capital account in 1994 to US\$ 5,602 million, up from US\$ 4,791 millions in 1993.¹⁶⁵ Public spending continued to grow rapidly, reaching LL 5,204 billion in 1994, up from LL 3,017 billion¹⁶⁶ in 1993, an increase of 85.7 per cent.

While public spending continued to rise, public capital spending dropped to LL 1,216 billion and LL 1,223 billion in 1995 and 1996, respectively, compared to LL 1,250 billion in 1994. This drop in capital spending came as a result of the scaling down of the reconstruction plan, and as a part of the Government's efforts to control the deficit. Interest on the domestic government debt reached LL 2,653 billion in 1996, which was more than double the capital investment in that year.¹⁶⁷ The inflow of foreign investment dropped slightly in 1995, as reflected in the balance of the capital account, which dropped to US\$ 5,073 millions in 1995, down from US\$ 5,190 millions in 1994. This had an adverse effect on economic growth, which dropped to 6.5 per cent in 1995, from 8 per cent in 1994.

In both 1996 and 1997, economic growth declined to 4 per cent, down from 6.5 per cent in 1995. This reflected the restrictive fiscal policy the government introduced to contain the budget deficit. Public investment was reduced in 1996 and 1997, by 10 per cent and 45 per cent, respectively.¹⁶⁸ In addition to the scaling down of public investment, the restrictive monetary policy introduced to protect and stabilize the exchange rate of the pound and to attract foreign investment, discouraged long-term borrowing for investment purposes. This had an adverse effect on economic growth, as did the sharp drop in the construction sector, as evidenced by the fall in the volume of construction permits (granted for less than twenty million square metres in 1996, down from nearly 35 million in 1995). Private investment also dropped in 1996 to 4,314 billion pounds, down from 4,772 billion pounds in 1995.¹⁶⁹

The shift in macroeconomic policy in 1996 and 1997, to control fiscal deficit, together with the tight monetary policy, had a negative impact on economic growth, which, in turn, is expected to have had an adverse effect on employment. The contraction of the construction sector, in particular, was estimated to have had the most drastic effect on employment in both 1996 and 1997. This coincided with a fall in employment in the agricultural sector.

¹⁶² Banque du Liban, *Annual Reports*, 1990, 1991 and 1992, p. 63.

¹⁶³ Ibid.

¹⁶⁴ Lebanon, Ministry of Finance, *1998 Budget Report*, p. 5.

¹⁶⁵ Banque du Liban, *Annual Report*, 1994, p. 79.

¹⁶⁶ Lebanon, Ministry of Finance, *1988 Budget Report*, p. 8.

¹⁶⁷ Ibid., p. 9.

¹⁶⁸ UNDP, *Development Cooperation, Lebanon, 1997*, p. 3.

¹⁶⁹ Ibid.

The application of restrictive fiscal and monetary policies is not conducive to employment generation, as employment is closely linked to economic growth. However, the focus of Government policy during the past few years has been the restoration of macroeconomic stability, the implementation of the reconstruction plan and the attraction of foreign investment. Owing to its very limited contribution to both output and employment generation, the public sector's role in reducing unemployment will be mainly confined to creating an appropriate economic environment for the private sector. In 1996, the government provided 13.6 per cent of employment.¹⁷⁰ It is not expected that this share will greatly increase over the next few years, especially with the imminent scaling down of the reconstruction plan. An expansionary fiscal policy will have a positive impact on employment as it will encourage the private sector—still dependent on Government projects—to make long-term investment plans that will lead to a reduction of unemployment. Meanwhile, the role of the Government will be concentrated on education and training, which will indirectly enhance the employment opportunities for the national work force not only in the domestic economy, but also in regional and international labour markets.

The absence of peace in the Middle East will continue to adversely affect economic growth and political stability, and discourage foreign investment in the country and the ESCWA region as a whole. Moreover, a sharp increase in imports and only modest growth of exports will continue to constrain economic growth, and thus job creation. Increased imports mean increased employment in the exporting countries and less employment at home. Although increased exports would lead to an increase in employment generation at home and some import substitution, the government would still need to actively promote growth in the productive sectors, particularly the agricultural sector. This would lead to fewer imports of basic food commodities, and a virtuous circle of increased domestic demand, creating employment in the agricultural sector.

For the Government to implement a more expansionary macroeconomic policy it needs to solve the problem of mounting public debt. The servicing of domestic debt accounts for about 40 per cent of total Government expenditures, which leaves little room for expansion without creating inflationary pressures. One solution would be the increased use of treasury bills as a source of public finance, but the interest payable on those treasury bills would need to be kept high to attract investors, and could thus have an adverse effect on other forms of investment, with more widespread negative implications for the investment climate. The other possible solution is FDI.

Regional cooperation will continue to be a very important part of efforts to generate employment in Lebanon. The direct impact of labour migration is not, however, expected to be an important factor over the next few years, owing both to the economic situation in the GCC countries and to the latter countries' policies of promoting their own national labour force. However, indirect factors, such as an increase in intra-regional trade, direct investment in Lebanon and outsourcing could lead to significant job creation. Lebanon needs to reorientate its labour policy, particularly in terms of education and training, to benefit from regional cooperation on unemployment. It must above all encourage skills, and hence the efficiency needed to compete with other countries, particularly in South-East Asia. Moreover, labour costs at home must be low enough to attract other forms of regional cooperation, such as direct investment in projects in Lebanon and outsourcing.

Therefore, labour policy has to be reintegrated into the overall macroeconomic policy in Lebanon, to generate employment at home and encourage employment generation in the region. Labour policy can also be integrated into trade policy so as to encourage the production of export commodities that are labour-intensive, in order to benefit from the comparative labour advantage, and hence boost exports. Labour policy should also be part of the country's foreign policy, particularly since migration will continue to be an important option for Lebanese job seekers.

¹⁷⁰ Lebanon, the Central Statistical Administration, *Living Conditions of Families in 1997*, February 1998, p. 43.

J. SHORT-TERM OUTLOOK

The excess supply of labour is expected to persist over the next few years and beyond. The narrow economic base of the country limits the demand for labour in the productive sector, particularly the agricultural sector. The services sector, which has been traditionally the main sector both in terms of employment and output, is not expected to sharply increase its share of employment over the next few years. This is a reflection of competition, the scaling down of the reconstruction plan and economic performance both at home and in the region. If the gap experienced in the last two years between the growth of the labour supply (4.6 per cent) and GDP (4 per cent) persists, it will increase unemployment, unless external employment were to make up the employment short fall. The fall in employment in the trade sector, together with similar falls in the agricultural and construction sectors, would also swell the ranks of the unemployed. Limited employment opportunities in the reformed public sector will have an adverse effect on employment generation in the country over the next few years.

The continued lack of coordination between the labour market and the education system has led to an excess supply of certain specializations and severe shortages in others. This situation will have an adverse effect on employment generation until it is rectified. The improvement in education within the national labour force, as reflected in the increase in numbers of those with a secondary education, has not led to a concomitant improvement in productivity. This is because the education system in Lebanon, as in any other ESCWA member country, still focuses on quantity of education not quality. In Lebanon the problem is compounded by outdated education curricula, which go back to the 1960s.

Low wages and salaries have an adverse effect on employment. They discourage women from participating in the labour market, because of the meagre economic rewards, and cause the job market to stagnate, as a large portion of the labour force takes on more than one job thus closing off avenues for new entrants to the labour market. This partly explains the high proportion of young people among the unemployed, which is expected to persist in the coming years.

The prevailing macroeconomic policy does not include a job creation strategy, and hence any increase in employment generation will have to flow from increased GDP. The boom in construction has created new job opportunities (more than 11 per cent of all employment in 1996 was in construction). But they are expected to diminish due to the scaling down of construction permits and the high interest rates that prevent businessmen from engaging in construction. The economic slowdown, both at home and in the GCC countries in 1998, will limit employment in trade, one of the most important job creation sectors.

The rapid prevailing growth of the labour supply is expected to continue over the next few years, boosted by continued leakage from the education system to the labour market, the acceleration of the participation of women in the labour market and the return of migrant workers from the GCC countries and elsewhere, particularly Africa.

The role of the private sector will be important in determining the pattern of employment in Lebanon over the next few years. The public sector's small share of total employment (only 13.6 per cent in 1996) is not expected to increase and may even decrease. Therefore, the role of the private sector will to a large extent determine the level of employment in the country. The private sector in Lebanon prefers to employ expatriate workers as they accept lower wages, longer hours and poorer working conditions. This preference has had a negative impact on the employment of nationals and it contributes to the worsening of unemployment in the country.

The development of the productive sector is an essential element in any Government job creation strategy. In Lebanon, the agricultural sector has been forcing workers out. Although this is a commonplace phenomenon in almost all ESCWA countries, it will have a serious effect on employment. The development of the agricultural sector would be an important step towards stabilizing employment in the sector and then reversing the trend, so that it becomes a source of new employment. However, for this to happen, the sector has to be given high priority, particularly in terms of agricultural credit as well as technical assistance in the form of subsidies to enable it to sustain the tough competition. Tourism is another economic sector which can generate employment. The country has a comparative advantage in tourism, owing both to its

experience before the civil war and the richness and variety of its tourist attractions. The sector has achieved rapid growth in the past few years and is expected to continue to do so, provided that political stability prevails: so as a labour-intensive sector its role in employment generation is expected to expand.

Reform of the education system, in particular increased enrolment at secondary level, and a concomitant fall in leakage to the labour market, would lead to slower growth of the labour force. This would have an indirect positive effect on employment. Closer coordination between the education system and the labour market will result in a reduction in structural unemployment by providing the economy with skills that are needed and reduce the supply of people with skills that are not needed. Such coordination is urgently needed and will be a vital element in any job creation strategy.

Economic performance will to a great extent determine the level of employment over the next few years. The economic performance of the country will be enhanced by a shift of macroeconomic policy towards a more expansionary strategy, an inflow of FDI and progress in the peace process. A change in the direction of economic policy is not anticipated in the immediate future in view of the persistent budget deficit. The inflow of FDI, which will probably continue undiminished (still attracted by high interest rates) is unlikely to herald rapid growth. This is closely linked to political stability both in the country and in the region and progress in the peace process. The peace process has been deadlocked for the past two years and the immediate future is not promising; it is thus expected to continue to represent a barrier to economic growth in the country and in the region.

Regional economic cooperation has been and will continue to be an important element in the Lebanese employment picture. Migration will continue to be an important factor in reducing unemployment. The domestic economy, with its narrow productive base, will not be able to provide enough job opportunities to absorb the excess labour supply. The provision of external employment outlets will be an important element in any job creation strategy to be considered by the Government. However, this requires prediction of the future needs of the labour markets in the GCC countries in order to be able to provide the skills needed. These skills must enable Lebanese workers to compete with their counterparts from other labour-exporting countries, not only in the ESCWA region but also in South and South-East Asia. This is a question of education and training. To increase the demand for labour and hence reduce unemployment, the country should also try to induce major industrial and commercial establishments in the region to set up branches in Lebanon, as part of their outsourcing activities.

V. CASE STUDY: YEMEN

A. MACROECONOMIC DEVELOPMENT

The Yemeni economy is characterized by:

(a) A high exposure to external shocks. This stems from its heavy dependence on the external world for imports and for the inflow of foreign savings to bridge the wide savings gap. It also depends on the outside world for imports to meet a large portion of domestic aggregate demand;

(b) Limited sources of domestic finance, such as oil revenues, which remained limited by both modest production capacity and low oil prices. Oil revenues are currently absorbed by increased imports of basic commodities, particularly wheat;

(c) A limited domestic resource base. Agriculture, which is the most important economic sector in the country, is limited by the area of cultivable land, scarce water resources, and traditional farming techniques. It has also been adversely affected by the migration during the 1970s and 1980s of farmers to the GCC countries;

(d) Heavy reliance on deficit finance, which aggravated inflationary pressures, particularly during the period 1990-1994.

All these characteristics have had a negative impact on economic growth in the country and have rendered the economy highly susceptible to external shocks such as the Gulf Crisis of 1990-1991.

The economy of Yemen witnessed unfavourable internal and external pressures during the period 1990-1995. The internal pressures included the return of 731,000 Yemenis from the GCC countries during the Gulf crisis and war of 1990, price increases after their return and the need to fairly rapidly increase imports to meet their basic needs, and the sharp increase in unemployment, as the returnees included more than 300,000 workers. The external pressures included a cut in economic assistance from the GCC countries, particularly Saudi Arabia, the main donor country, and a sharp reduction in the inflow of remittances, which represents the most important source of foreign exchange.

The situation worsened in 1994, with the eruption of the internal military conflict that resulted in severe damages to several installations, and agricultural and industrial products. It also led to increased unemployment, a deterioration in the exchange rate of the local currency, a sharp rise in the fiscal deficit, and soaring inflation as the Government printed money to meet the accumulated budget deficit and to finance the war. The budget deficit rose as a proportion of GDP from 8 per cent in 1990 to 16.5 per cent in 1994, while inflation rose from 29.5 per cent to 45.8 per cent during the same period, and the local currency depreciated from 11.7 Yemeni rials to the US dollars to Yrls 50. Unemployment rose from 12.3 per cent to 16 per cent during the same period.

This unsustainable situation prompted the Government to formulate measures to restore both internal and external imbalances as a first step towards economic and institutional reform to reactivate economic growth, and control inflation and the budget deficit.

Immediately after the war came to an end, the Government, in consultation with the IMF, formulated the first part of its economic reform programme. The stabilization programme for 1995-1997 was thus adopted and implemented. The country's economy, as measured by GDP, grew at an average annual rate of 3.7 per cent during the period 1990-1995.¹⁷¹ This rate was considered relatively satisfactory in view of the prevailing internal and external economic and political pressures.

¹⁷¹ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 35.

In sum, the country's unification, merging two systems in May 1990, put a heavy burden on the Government's budgetary and economic systems. Shortly after the unification, the second Gulf crisis erupted, with severe repercussions for the Yemeni economy. Then in 1994, the country witnessed an armed internal conflict which entailed severe economic losses. These crises hampered economic growth and aggravated macroeconomic conditions in the country. Budget deficits rose sharply both in rial terms and as a percentage of GDP. In 1994 the budget deficit reached Yrls 44.2 billion, up from just 6.1 billion in 1991: as a percentage of GDP, the deficit rose to 46.4 per cent, up from 4.2 per cent during the same period (see table 26). Imports of goods and services jumped from Yrls 53.7 billion in 1991 to Yrls 328.7 billion in 1996, while as a percentage of GDP, they rose from 36.8 per cent, in 1994 to 50.2 per cent in 1996 (see table 26).

TABLE 26. YEMEN: MACROECONOMIC INDICATORS

	1991	1992	1993	1994	1995	1996	1997
GDP (billions of Yrls at current prices)	146.0	182.8	220.1	268.8	447.8	655.2	740.6
Total consumption (billions of Yrls)	155.1	189.7	244.0	267.0	437.8	553.7	572.4
Gross fixed capital formation (billions of Yrls)	23.9	35.5	44.5	60.9	114.1	166.0	205.5
Exports of goods and services (billions of Yrls)	20.8	23.1	33.2	43.5	118.2	264.2	320.1
Imports of goods and services (billions of Yrls)	53.7	65.5	101.4	102.7	215.9	328.7	357.4
Total Government expenditure (billions of Yrls)	44.1	57.0	69.0	87.1	124.1	207.7	292.8
Total Government revenues (billions of Yrls)	38.0	34.2	38.1	42.9	93.3	232.2	301.2
Budget deficit (billions of Yrls)	6.1	22.8	30.9	44.2	30.8	24.5	8.4
As percentage of GDP							
Total consumption	106.2	103.8	110.8	99.3	97.8	84.5	77.3
Gross capital formation	16.4	19.3	20.2	22.2	25.1	25.3	27.7
Exports of goods and services	14.2	12.6	15.1	16.2	26.4	40.3	43.2
Imports of goods and services	36.8	35.8	46.0	38.2	48.2	50.2	48.3
Government expenditures	30.2	31.2	31.3	32.4	27.7	31.7	39.5
Government revenues	26	18.7	17.3	16.0	20.8	35.4	40.7
Budget deficit	4.2	12.5	14.0	16.4	6.9	3.7	1.1

Source: ESCWA, based on national sources.

Inflation rose sharply during the period 1991-1994: the consumer price index rose from 23.4 per cent in 1991 to 45.8 per cent in 1994. Inflation was fueled by a worsening budget deficit and the Government policy of financing through money creation. In addition, the sharp increase in imports pushed prices up generally, the more so as devaluation of the currency forced up the local prices of imports.

The local currency depreciated rapidly during the period 1990-1995. It dropped from Yrls 11.7 to the US dollar in 1990 to Yrls 50 in 1995 (this is the official rate);¹⁷² the unofficial rate was even lower: it dropped from Yrls 15.59 to the dollar to Yrls 94.2 during the same period.¹⁷³

In terms of the structure of GDP, there has been a slight increase in the contribution of the agricultural sector, rising from 28.1 per cent in 1990 to 31.2 per cent in 1995. This can be explained by two factors: first, the return to agriculture of some of the returnees from the GCC countries, most of whom had been engaged in agricultural activity before migrating, and second, an upturn in agricultural production owing to better weather conditions (as the agricultural sector in Yemen remains highly susceptible to the weather conditions). However, the most important development in the structure of GDP was a rapid expansion of mining and quarrying, rising from 14 per cent in 1990 to 17.1 per cent in 1995. This substantial increase can be attributed to the expansion in oil production during the period. Average daily production increased from 194,596 barrels per day (bpd) in 1990 to an average of 343,800 bpd in 1995.¹⁷⁴ On the other hand, there was a fall in Government services' share in GDP, from 15.8 per cent to 8.3 per cent, with downsizing implemented as part of the national economic reform programme.

¹⁷² Ibid., p. 40.

¹⁷³ Ibid., p. 42.

¹⁷⁴ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 42.

B. ECONOMIC REFORM

The economic stabilization programme was initiated in 1995 after the economic situation drastically deteriorated. Inflation rocketed to over 60 per cent, the budget deficit grew as a result of expenditure related to the war of 1994 and subsequent reconstruction. The budget deficit reached 16.4 per cent of GDP in 1994 and the exchange rate of the domestic currency deteriorated sharply as the country's foreign reserves fell and the Government continued to rely on deficit financing. The economic reform programme in Yemen, as in many other developing countries, consisted of two parts.

The first, the stabilization programme, aimed at controlling inflation and the budget deficit and stabilizing the exchange rate of the domestic currency. This was successfully implemented during the period 1995-1997 (a three-year programme). The tight monetary policy yielded results in 1996, as inflation dropped and the exchange rate settled in the range of Yrls 60-70 to the US dollars. The budget deficit fell as a percentage of GDP following a decrease in Government subsidies and an increase in revenues. In 1997 it fell to 3.5 per cent, down from 16.5 per cent in 1994. Inflation was also reduced during the three year period from about 70 per cent to 27 per cent in 1996 and to less than 20 per cent in 1997.

In 1997, the Government introduced the second part of the economic reform programme by initiating an enhanced structural adjustment programme with the assistance of the IMF, which granted US\$ 512 million, as a stand by loan for 1997-2000. Part two of the economic reform programme includes deeper structural reform, fiscal, monetary and institutional. It aims to reduce the budget deficit to 2 per cent of GDP; to reform fiscal policy (expenditures and revenues); to reform the tax system by eliminating tax exemptions not included in the investment law, and to extend the general sales tax to services; to reform the customs system; to abolish the remaining subsidies; and to implement the privatization programme.

In the area of employment law, the programme calls for the creation of a labour retrenchment fund that will provide assistance to workers made redundant as a consequence of the reform programme which includes the privatization and the downsizing of the public sector.

The budget deficit is expected to improve with the reduction in subsidies; the reduced wage bill expected to result from the reduction in the number of employees; the increase in revenues brought by the sales tax on services; and earnings from the privatization of state-owned enterprises.

However, it remains to be seen how the Government can cut public sector employment at a time of increased unemployment. Moreover, public support for economic reform in general, and privatization in particular, is likely to wane with increasing unemployment and the expected increase in the prices of goods and services, as a result of the cut in subsidies and other aspects of economic reform. These factors, and the devaluation of the domestic currency have already led to a drop in living standards, particularly for government employees on a fixed income and their dependents.

C. THE STRUCTURE OF THE LABOUR FORCE

The Yemeni labour force can be described in the following terms:

(a) The predominance of unskilled and semi-skilled workers and shortages of skilled workers;

(b) The labour market is both a provider and recipient of labour. This situation arose due to migration to the GCC countries of workers in search of jobs and higher wages, and because of specific shortages, particularly of teachers and doctors. To fill the gap, the Government relied on expatriate teachers and doctors, particularly from Egypt and Sudan. Migration to the GCC countries created general shortages in certain sectors, particularly agriculture, and thus contributed to the slowdown in agricultural growth;

(c) The low participation of women in the labour force. This stemmed from the fact that illiteracy remains high among women (76 per cent in 1994, compared with 37 per cent for men).¹⁷⁵ Social traditions

¹⁷⁵ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 140.

have also discouraged women from participating in the labour force. However, women remain very active in the informal sector and in the agricultural sector: at home they often had to take over the role of their husbands who were working abroad;

(d) A high percentage of young workers. More than 50 per cent of the population is within the 0-14 age group, which accelerates the already rapid growth of the labour force;

(e) Low participation of the labour force. The 1994 population census revealed labour participation rate of only 20.7 per cent. In 1996, the labour participation rate increased slightly as a result of growth of the labour force (4.9 per cent) in excess of population growth (3.7 per cent). This compares to a rate in Finland of 50.4 per cent, or among other developing countries of 48.4 per cent in Indonesia or 51.5 per cent in Vietnam.¹⁷⁶ Female participation in Yemen is even lower: less than 20 per cent in 1996 (17.7 per cent) compared to 37.2 per cent and 49.4 per cent for Indonesia and Vietnam, respectively;¹⁷⁷

(f) The continued dominance of agriculture in employment generation despite a decline in recent years. The share of total employment provided by agriculture fell from 61.2 per cent in 1998 to 50.1 per cent in 1997. The sector's share of GDP is much more modest (only 28.8 per cent) as a result of low productivity. Despite its continued importance as a source of employment it has been shedding workers. If that trend continues, other sectors will have to absorb the agricultural workers forced off the land over the next few years;

(g) Increased local migration from rural to urban areas, induced by the attraction of the main cities and low wages in rural areas. This has led to greater urban unemployment than rural unemployment, 11.5 per cent as against 8.4 per cent (in 1994, for which year detailed data are available).

The labour force in Yemen rose from 2.63 million in 1991 to an estimated 3.5 million in 1997 (see table 27), representing an average annual growth rate of 4.9 per cent. This outstripped population growth of 3.7 per cent. The high growth rate of the labour force stems from the overall demographic picture. The age group 0-14 accounted for more than 50 per cent of the total population in the 1994 census (the last census). The growth of the labour force is also fueled by the large number of students dropping out of the education system. Much of the labour force is of school and college age (6-24). The ranks of unskilled labour are thus swelled by the entry into the labour force of young people who have failed to complete their basic education. According to the 1994 census, more than 53 per cent of the labour force was illiterate and only 3.1 per cent were university graduates.¹⁷⁸ This represented a severe structural imbalance. What the country needs, however, is skilled and/or semi-skilled workers able to raise productivity, and hence help the economy to compete globally, particularly in the tradeable goods sectors. This issue is directly linked to education and training policy, which should focus on the needs not only of the domestic economy but also the regional labour market, particularly the GCC countries, in case there is a call for a return of a substantial number of workers to these countries.

TABLE 27. YEMEN: TOTAL LABOUR FORCE
(Millions)

Male	2.13	2.20	2.30	2.40	2.60	2.60	2.80
Female	0.50	0.55	0.60	0.60	0.60	0.70	0.70
Total	2.63	2.75	2.90	3.00	3.20	3.30	3.50
Labour forces as percentage of the total population							
Labour force participation	19.70	19.90	20.20	20.20	20.70	20.70	21.10

Source: ESCWA, based on data provided by the Ministry of Planning and Development.

¹⁷⁶ ILO, *World Labour Report, 1997-1998*, pp. 262-264.

¹⁷⁷ Ibid.

¹⁷⁸ Data from unpublished sources.

D. EMPLOYMENT BY ECONOMIC ACTIVITY

The productive sectors of the economy remain the most important sectors in terms of employment generation despite a decline from 72.1 per cent in 1981 to 63.6 per cent in 1997 (see table 28). Their share could have been even higher had it not been for migration to the GCC countries. Their share of total employment generation (63.6 per cent in 1997) was slightly higher than their share in the country's GDP (62.3 per cent). However, analysis of the agricultural sector alone shows its share of employment to be much higher than its contribution to GDP (50.1 per cent compared to 28.8 per cent respectively in 1997). Low productivity in agriculture is a result of its dependence on traditional techniques, and unreliable weather conditions.

In terms of employment by sector, the most important development in the past few years has been the increased proportion of employment provided by Government services (5.9 per cent in 1987, 11.4 per cent in 1997) followed by employment in trade (6.2 per cent and 10.5 per cent). However, the share of Government services is expected to drop as a result of downsizing of the public sector, as part of the implementation of the economic reform programme. Like the agricultural sector, Government services will continue to shed excess labour which will have to be absorbed by other sectors, particularly manufacturing, trade and fishing.

Mining and quarrying, a capital-intensive sector, generated little employment despite its growing contribution to GDP (in 1997, 0.3 per cent of employment but 18.4 per cent of GDP). The manufacturing sector remains limited both in terms of share in GDP and employment. It provided 3.8 per cent of employment in 1988, rising to 4.6 per cent in 1997 (see table 28). On the other hand, its share of GDP dropped from 9.5 per cent in 1989 to 8.1 per cent in 1997. The manufacturing sector in Yemen is still dominated by oil refining, which in 1997 represented more than 47 per cent of all industrial activity in the country. Since manufacturing sector is both capital and labour-intensive, its expansion is expected to lead to an increase in employment generation. As the sector is dominated by the private sector it should be able to expand as a result of economic liberalization and deregulation. In 1995, the private sector accounted for 75 per cent of total manufacturing output, and provided 85 per cent of manufacturing jobs.¹⁷⁹ The fishing sector, an important agriculture activity able to achieve high growth rates, owing to the rich coastline, is expected to contribute heavily to output and employment generation.

TABLE 28. YEMEN: EMPLOYMENT BY ECONOMIC ACTIVITY
(Percentage)

Agriculture, forestry and hunting	61.2	60.2	54.5	50.1
Mining and quarrying	0.2	0.5	0.3	0.3
Manufacturing	3.8	4.2	3.9	4.6
Electricity and gas	0.7	0.5	0.5	0.4
Construction	6.2	5.6	6.5	8.2
Transport and communication	3.5	4.6	4.5	4.9
Trade and restaurants	6.2	9.7	10.0	10.5
Finance and real estate	0.3	0.9	1.1	1.2
Government, personal and social services	12.5	13.9	18.8	8.0
Others	5.9	..	..	11.4
Total	100.6	100.1	100.1	99.6

Source: ESCWA, based on national sources.

Note: Percentages do not add up to 100 per cent because of rounding.

Two dots (..) indicate that data are not available.

¹⁷⁹ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 101.

E. EDUCATION POLICY

In Yemen, there has been a very weak link between education and employment policy. This can be seen in the imbalance between enrolment in general education and enrolment in technical education and vocational training.

The education policy of Yemen has focused on expanding basic education to reduce illiteracy, particularly among women. According to the 1994 census, illiteracy among women was more than 76 per cent, compared to 36.5 per cent for men.¹⁸⁰ To expand basic education, education policy concentrated on increased enrolment, and on general education at the expense of technical education and vocational training. In 1997, for example, only 12.4 per cent of students at the secondary level were enrolled in technical education (this compares with figures of 44.8 per cent for Belgium for 1993/94 or 29.3 per cent for Denmark during the same academic year).¹⁸¹ Only 2.1 per cent of students at secondary level went on to vocational training institutions. These structural imbalances in the education system lead to a similar imbalance in the structure of the labour force and deprive the economy of necessary skills. In marked contrast to the surplus of unskilled workers, there is a skills shortage, which, aggravated by migration to the GCC countries, created a gap which has had to be filled by importing workers.

High illiteracy and low enrolment in technical education and vocational training adversely affected employment policy in Yemen. An active employment policy requires coordination between the education system and the labour market, to restore a vital balance between the objectives of the education system and the needs of the economy.

The development of human resources, through education and training, helps in the accumulation of capital, and the promotion of modern techniques and technology. This is particularly important in the trade sectors, where competition, both at home and abroad, has been very high during the period of economic liberalization and deregulation. The upgrading of skills is important for the country, not only to meet the needs of the domestic economy, but also to compete in regional markets if and when the possibility arises for the return of Yemeni workers to the GCC countries. The upgrading of skills and the development of human resources in general require the expansion of the education and training sectors to absorb new entrants to the education system, particularly in Yemen, where more than 50 per cent of the population is in the 0-14 age group. This, in turn, requires the allocation of substantial funds to expand the education system to meet their needs.

Enrolment in secondary education rose by 161.8 per cent from 1990 to 1995, partly because of the returnees. Although enrolment in technical education centres rose by 148.8 per cent during the same period 1990-1995, the total number remains very low compared with the total number in secondary education. In 1991, enrolment in technical education amounted to only 6 per cent of the total in secondary education. Despite the doubling of this proportion to 12.4 per cent in 1997, the total is far too low for the volume of skills needed. Total enrolment in higher education increased by 153.8 per cent during the same period.¹⁸² In 1995, the number of students enrolled in technical education centres was only about 18 per cent of those enrolled in the universities, which demonstrates that education is biased towards general education.

The expansion of higher education is driven by popular demand as much as it is by economic necessity. Despite the cost of higher education per student compared to basic education, governments, not only in Yemen, but also in developing countries in general, are putting more emphasis on higher education.¹⁸³

¹⁸⁰ Ibid., p. 140.

¹⁸¹ The United Nations Educational, Scientific and Cultural Organization (UNESCO), *Statistical Year Book, 1996*, pp. 3-188 and 3-189.

¹⁸² Ibid., p. 38.

¹⁸³ Therefore, there is a need for educational reform, not just in Yemen, but in the other ESCWA member countries, to reduce the emphasis on the expansion of higher education and focus more on basic education and technical education and training. This focus will help in two ways: first, it will reduce Government expenditure on education, and thus help reduce fiscal deficit, second, it will provide the economies with much needed skills. There should be a balance between public demand for higher education and the economy's need of skills at lower levels of education. The social benefit of higher education should not be the sole factor driving education policy: it must be weighed up against the needs of the economy.

The Government has tried in the first five-year plan to restore some balances between the increase in general enrolment in basic education (planned to reach 90 per cent by the year 2000) and enrolment in technical education. The first priority in education policy during the plan period (1996-2000) was to meet the needs of the economy for various skills.¹⁸⁴ However, no specific percentages were attached to the target of increased enrolment in technical education, so it remains to be seen how this objective can be met, particularly during a period of contraction in public spending (as part of the reform programme).

The plan calls for the extension of vocational training to various parts of the country, particularly rural areas, where most workers are still unskilled. It calls for balance in the country's labour force in general by increasing the proportion of skilled workers, but here again, no details are provided on how this important objective is to be achieved.

The link between education policy and employment policy is also weakened by the problems facing basic education, particularly after 1990, which witnessed the return of more than 750,000 Yemenis from the GCC countries. This has led to the over-stretching of social services, particularly education services, reflected in the increase in average class sizes and teacher-pupil ratios, lowering the quality of education. Poor basic education will have a knock-on effect on subsequent levels of education, including technical education. Government efforts to expand education, including the recruitment of high school graduates without proper qualifications as teachers, may have helped extend the reach of the education system but achieved nothing for its quality. There is a need to increase the participation of women in education by increasing enrolment in both basic education and higher education. Such a policy will lead to increased participation of women in the labour force, currently very low.

F. GOVERNMENT STRATEGY IN EDUCATION AND TRAINING

Government strategy in these two important areas requires reform of the education system to meet its developmental objectives. This means expanding, deepening and integrating the training system to meet the market's need for skills. The current five-year plan envisages comprehensive reform. Its aims are to: enlarge training centres and facilities; to extend training facilities to much more of the country; to increase coordination between currently widely dispersed training centres; to prepare a training master plan; and to expand the role of the private sector.

However, these goals need to be worked up into a detailed plan with a timetable and funding. Additional Government spending will be needed, as well as assistance from donor countries and international financial institutions.

G. MACROECONOMIC POLICY AND EMPLOYMENT POLICY

Macroeconomic policies during the period 1990-1994 focused on the basic needs of the population, particularly after the sharp increase in population caused by the returnees. There was a sharp increase in imports when the productive sectors proved insufficiently flexible to respond to the rapid consequent increase in domestic demand. This led to a deterioration in the balance of trade. Public spending soared, first to finance the unification of the country and second, to finance the cost of the internal conflict. As the budget deficit grew, internal economic imbalances worsened.

During this period, there was no link between macroeconomic policies and employment policy, so unemployment rose as the economy grew more slowly than the labour force (4.9 per cent per year).

After 1994, macroeconomic policies shifted as a result of the implementation of the stabilization and economic reform programme, which entailed a restrictive macroeconomic policy. This succeeded in achieving economic stability, reduced both internal and external imbalances, stabilized the local currency and reduced the inflation. Macroeconomic stability led to a general improvement in the economic

¹⁸⁴ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 143.

environment in the country. The result in 1995, assisted by increased oil production and agricultural output, was economic growth of 9.34 per cent.¹⁸⁵

However, the improvement in economic conditions in 1995 did not lead to a similar improvement in the employment situation. Employment dropped as a result of public sector retrenchment. This was part and parcel of Government efforts to cut public spending at a time when its wage bill accounted for more than half of all public spending.

The drop in employment in the public sector was not compensated for by an increase in private sector employment. The private sector remained cautious and watchful, its doubts reinforced when it became apparent that the purchasing power of the population had fallen as a result of management of aggregate domestic demand (by means of higher prices and lower subsidies), liberalized interest rates, and unemployment following public sector redundancies.

The current objectives of the country's macroeconomic policy are bound up with implementation of the economic reform programme. Its aims are to restore economic stability, encourage the participation of the private sector, and stimulate the inflow of foreign direct investment. In addition, the policy aims to downsize the public sector both in terms of its participation in the productive sectors of the economy and as employer of last resort. This latter objective is expected to put additional pressure on the employment situation. It is not expected that the drop in public sector employment will be made good by a concomitant increase in employment generation by the private sector. There will be a short to medium-term transitional period, during which employment will rise.

Economic growth during the period 1990-1995 (which averaged 3.7 per cent) was lower than the average annual growth of the labour force. This low economic growth, public sector retrenchment and private sector caution have led to a drop in employment generation in recent years.

On the supply side, the rapid growth of the labour force, boosted by a high population growth, must be met by faster economic growth. Therefore, the country's First Five-Year Plan for Economic and Social Development calls for an average annual growth rate of 7.2 per cent.¹⁸⁶ But this goal looks very ambitious. The litany of prevailing economic conditions is a sobering one: domestic saving remains very limited, workers' remittances are not expected to increase significantly, the inflow of FDI is not expected to increase fast enough, at least during the first few years of the plan, oil prices remain far below their 1995-1996 level, oil production has levelled off, and agricultural production, the most important component of the country's GDP, remains heavily dependent on favourable weather conditions. The private sector could play a major role in boosting economic growth, but it is reluctant to act before assessing economic reform programme (after its conclusion).

The current mismatch between the supply of and demand for labour, constrained by relatively low economic growth, is not expected to be resolved by increased employment generation in the country over the next few years. As long as the economy remains heavily dependent on the external world (in terms of the inflow of financial resources, imports, and employment), it will be buffeted by global fluctuations. Only when domestic saving increases, and when the current dependence on a volatile agricultural sector is relieved by alternative production, only then will the country attain economic stability conducive to higher economic growth and increased public and private sector employment.

To summarize, during the period 1990-1996, there was no link between the country's macroeconomic policy and employment policy. Conversely, macroeconomic policy was directed to the management of the country's aggregate domestic demand. It involved restrictive monetary and fiscal policies and was not conducive to employment generation. During the period 1990-1996, the creation of employment was not a high priority. The priority was the implementation of the economic reform programme, and the achievement of macroeconomic stability. To mitigate the negative effects of the reform

¹⁸⁵ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 35.

¹⁸⁶ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 27.

programme on employment, the country formulated the first five-year plan for economic and social development, with economic growth of 7.2 per cent per annum envisaged for the period 1996-2000.

H. UNEMPLOYMENT

High unemployment is the product of high population growth, on the one hand, and the rigidity of the productive sector, particularly the agricultural sector, on the other hand. The sharp reduction in the number of Yemeni workers migrating to the GCC countries has worsened the unemployment problem. Moreover, the fastest growing sector in the economy, mining and quarrying, is capital-intensive and has not contributed to a reduction in unemployment.

Unemployment in Yemen is both cyclical and structural. Cyclical unemployment is represented by the gap between a high supply of labour and low demand for labour, while structural unemployment is illustrated by labour shortages in certain sectors, such as education and health, coexisting with surplus labour in other sectors, particularly agriculture.

Unemployment has been aggravated in the past three years by the freeze on public sector recruitment and subsequent downsizing, as a result of the implementation of the economic reform programme. This downsizing occurred during a period of slow economic growth when the private sector was unable to absorb those made redundant.

Unemployment surged from 12.3 per cent in 1990 to 18.3 per cent in 1997 (according to official figures, see table 29). The unemployment rate reached its peak in 1994 (25 per cent, double its 1990 level).

TABLE 29. YEMEN: UNEMPLOYMENT RATE, 1990-1997
(Percentage)

	1990	1991	1992	1993	1994	1995	1996	1997
Unemployment rate	12.3	14.5	15.1	15.7	25.0	16.4	9.0	18.2

Source: ESCWA, based on unpublished data provided by the Ministry of Planning and Development as well as other national sources.

Analysis of the structure of unemployment reveals that the majority are in the younger age groups, reflecting the demographic bulge of young population and a leakage from the education system on to the labour market. This can be seen from the slow enrolment rate at the basic education level: only 64.5 per cent in 1994,¹⁸⁷ so the remainder are presumed to have joined the labour force. It is worth noting that the low participation of women served somewhat to restrain growth of the labour force. Had the participation of women been higher than a mere 17.7 per cent, the labour force could have increased by much more than the 4.6 per cent recorded.

Leakage from the education system to the labour market does nothing to increase labour productivity, as most of the young workers take on manual work requiring minimal skills or none. The result is a swelling of the ranks of illiterate, and unskilled labour in the country.

Analysis of age statistics reveal the greatest unemployment among the young population: 31.9 per cent of the unemployed were aged 10-24 in 1991. By 1994, this group accounted for 59.3 per cent (calculated from table 30). This age group includes those of school and college age and might thus be expected to include a certain number of young people making the transition from education to work, but the statistics reveal a very much more serious youth unemployment problem than that.

Unemployment drops in the older age groups. In 1991, those aged 59 accounted for 22.8 per cent of total unemployment, falling even lower in 1994 to 11.6 per cent (calculated from table 30). The return of a number of Yemeni workers to the GCC labour market could explain this drop.

¹⁸⁷ Yemen, *First Five-Year Plan for Economic and Social Developments (1996-2000)*, p. 140.

In 1991, more than 89 per cent of the unemployed were male and the rest were female. In 1994, the proportion of unemployed males dropped slightly to 88.2 per cent, while that of females rose slightly to 11.9 per cent (see table 30). This is a reflection of the preponderance of men in the labour force. In addition, there has been an increase in demand for female workers, particularly in the education and health services (which also currently employ a large number of expatriates).

TABLE 30. YEMEN: UNEMPLOYMENT BY AGE, SEX AND EDUCATION
(Percentage)

By age	1991	1994
10-14	8.0	14.7
15-19	9.2	23.9
20-24	14.7	20.7
25-29	13.9	12.2
30-34	10.7	6.9
35-39	11.9	5.5
40-44	8.0	3.9
45-49	6.2	3.1
50-54	5.6	2.8
55-59	3.0	1.8
60-64	4.3	1.9
65+	4.5	2.6
Total	100	100
By level of education		
Illiterate	45.0	49.8
Read and write	36.7	26.5
General education	17.8	21.7
University degree B.Sc.	0.3	1.5
Unspecified	0.2	0.5
By sex		
Male	89.1	88.1
Female	10.9	11.9

Source: ESCWA, based on data provided by the Ministry of Planning and Development.

In 1991, about 45 per cent of the unemployed were illiterate, while 36.7 per cent had relatively little education but were able to read and write (see table 30). These two categories, into which unskilled labour is subsumed, represented 81.7 per cent of total unemployment in Yemen in 1991. Most had been engaged in agriculture. They had no skills of interest to other sectors. In 1994, illiterate workers accounted for very nearly half the unemployed (see table 30), while those able to read and write accounted for 26.5 per cent, down from 36.7 per cent in 1991. That drop can be explained either by a slowdown in leakage between education and the labour market or by the return of Yemeni workers to the GCC labour markets.

Unemployment among university graduates is low. In 1990, only 0.3 per cent of all unemployed people were university graduates (rising only to 1.5 per cent in 1994). There is evidently strong demand for their services. Graduate unemployment is likely to remain low over the next few years: the scarcity of skills leaves graduates much in demand and keeps their wages high.

I. GOVERNMENT EFFORTS TO TACKLE UNEMPLOYMENT

The Government is fully aware of the complexity of the unemployment problem, particularly after introduction of the economic reform programme, which led to a downsizing of the public sector. The Government is also aware that, to reduce unemployment, economic growth must be pushed to higher rates than the growth of the labour force. To reduce or partly mitigate, the impact of the implementation of the economic reform programme on unemployment, the Government formulated the First Five-Year Plan for

Economic and Social Development. The plan projects average annual GDP growth of 7.2 per cent, leading to 3.5 per cent growth of per capita income during the plan period (1996-2000).¹⁸⁸

The plan calls for the following measures to reduce unemployment:

- (a) To fund projects that create employment, particularly for those on a low income;
- (b) To promote small-scale labour-intensive projects;
- (c) To give priority to labour-intensive projects;
- (d) To nurture appropriate skills and align them with the needs of the economy;
- (e) To encourage the creation of private employment agencies;
- (f) To promote close coordination between the education system and the labour market, to provide skills;
- (g) To increase enrolment in technical education to over 12 per cent in the year 2000, up from its current very low level of 6.7 per cent;
- (h) To encourage and facilitate labour migration, particularly to GCC countries, to ease the excess labour supply in the domestic economy.

However, despite these commendable efforts, the plan failed to meet its targets during its first two years. GDP was estimated to have achieved an average growth rate of 5.4 per cent (as compared to the 7.2 per cent target). However, economic growth was arguably satisfactory, in view of prevailing regional and domestic economic conditions. The growth rate was higher than the estimated annual growth rate of the labour force, which is a good sign reflecting stabilization of the unemployment rate. The target was ambitious, as it coincided with a reform programme applying restrictive monetary and fiscal policies.

This level of growth could play a major role in the stabilization of unemployment provided it reflected growth in sectors that are labour-intensive rather than capital-intensive. But in reality the economic growth recorded during 1996 and 1997 was mainly due to rapid growth of mining and quarrying, and oil production. By contrast, growth in agriculture was only 2.4 per cent (more than 3 per cent below the average for the economy as a whole). The manufacturing sector achieved an average annual growth rate of 9.3 per cent.¹⁸⁹ However, the manufacturing sector is small and requires skills that are in short supply among the labour force, so its impact on unemployment over the past two years was rather limited.

Moreover, Government efforts to reduce unemployment have concentrated on the demand side of the equation. To reduce unemployment, measures must be taken to rein in the labour supply, currently estimated to be expanding by over 4 per cent a year. This should include efforts to stabilize population growth (3.7 per cent annually). This, in turn, requires the introduction of a national family planning programme. In addition, the Government should take measures to keep children and adolescents in school. This, in turn, needs the enforcement of compulsory education at the primary school level, and an improvement in education services and educational infrastructure to encourage higher participation. It remains to be seen whether the planned target for enrolment at primary school—90 per cent by the year 2000—can be met, given the current state of the education system.

Furthermore, the participation of the private sector is absolutely necessary if unemployment is to be reduced. The Government job creation plan should include the private sector in its training efforts. The private sector should participate more actively in expanding training activities in Yemen to compensate for the cut in public spending as a result of the implementation of economic reform programme. The private

¹⁸⁸ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 27.

¹⁸⁹ Calculated from Yemen, Ministry of Planning and Development, *Statistical Year Book, 1997*, p. 385.

sector has not been very active in this area so it has ample room for greater involvement. Successful implementation of the economic reform programme will give the private sector considerable incentive to participate in economic activities in general, including education and training. The private sector has already taken the leading role in the manufacturing sector, both in terms of production and employment generation. In 1994, for example, the latest year for which data are available, 85 per cent of employment in the manufacturing sector¹⁹⁰ was generated by the private sector.¹⁹¹ This is a clear indication of the important role of the private sector in both the expansion of manufacturing and the generation of employment. This role can and is expected to expand to include other economic sectors as a result of economic liberalization and deregulation.

To reduce unemployment, the Government has promoted the Yemenization of jobs to reduce the number of expatriate workers, particularly in education and health. However, this is expected to take time, depending on the number of graduates trained by the faculties of education, medicine and related disciplines. Job replacement is expected to be gradual, depending on the domestic supply of these skills, and is not therefore expected to have a substantial impact on the level of unemployment over the next few years. Moreover, any rush to implement job replacement plans would risk causing immediate and long-term damage to the quality of services provided. This will have to be borne in mind during a period of rapid growth and expansion of education and health services, driven by high population growth.

J. SHORT-TERM OUTLOOK

Unemployment in Yemen is expected to remain the most important challenge facing the economy over the next three years. The current gap between a high supply of labour and low demand for labour is expected to persist. The labour supply is expected to continue to grow at a high rate, boosted by high population growth, drop-out of pupils from the education system and an acceleration in the participation of women in the labour force.

On the demand side, economic growth is not expected to pick up strongly in the coming few years, despite the 7.2 per cent target. During the first two years of the five-year plan, demand for labour was below target. The low level of skills sharply reduces the mobility of labour between the agricultural and manufacturing or services sectors. Regional demand for labour has fallen sharply and currently there are only limited job opportunities in the GCC countries, and for these there is now tough competition both from within the region and South and South-East Asia.

Structural unemployment is also expected to continue, as enrolment in technical education has not improved sufficiently dramatically to satisfy the domestic economy's need for basic skills. This means continued reliance on expatriate workers and further postponement of Yemenization of the labour market. The Government target of 12 per cent enrolment in technical education by the year 2000 remains a limited step in view of the huge skills gap.

The economy's current heavy dependence on external economic assistance and workers' remittances increases its vulnerability to external shocks, such as the Gulf crisis of 1990. This vulnerability reduces the Government's flexibility in choosing an appropriate mix of macroeconomic measures, as it will always have one eye on the reduction or mitigation of the adverse effects of external developments.

The mining and quarrying sector has been one of the fastest-growing sectors and contributed to the relative improvement in the performance of the economy during both 1996 and 1997. But this is not expected to have a major impact on employment, as it is not a labour-intensive sector. This sector has been hit by the drop in oil prices.

The export sector, apart from the export of oil, remained very weak. This, coupled with the rapid growth of imports, put additional constraints on the financial position of the country. Being small, the export

¹⁹⁰ Excluding oil refining.

¹⁹¹ Yemen, *First Five-Year Plan for Economic and Social Development (1996-2000)*, p. 101.

sector has only a limited creating capacity. The import sector is of no significance in reducing unemployment: on the contrary it helps create jobs in the exporting countries. A restoral of balance to external trade through increased exports would however create more job opportunities.

The unemployment problem in Yemen requires measures that will lead to a reduction in the growth of the labour supply and an increased demand for labour. It is important to bridge the current gap between an excessive supply of labour and stagnant demand. This will entail taking measures to curtail population growth and keep children in school longer. Family planning must be promoted and education services improved. At the same time measures should be taken to promote economic growth, particularly in labour-intensive sectors, to generate employment opportunities. This means focusing on those investment projects that are in productive sectors. Promotion of the private sector (in terms of both investment allocation and employment generation) should be a central part of any government job creation strategy.

VI. REGIONAL COOPERATION

Regional cooperation played a major role during the 1970s and the first half of the 1980s in easing unemployment in ESCWA member countries, particularly Egypt, Jordan and Yemen. The 1970s, which witnessed a sharp increase in oil prices and revenues, witnessed also the implementation of huge infrastructure projects by the region's major oil exporting countries. These countries, which had a capital surplus but a shortage of labour, relied heavily on expatriate workers to implement these massive projects. There was thus in the 1970s a massive migration of workers from those ESCWA member countries with an excess supply of labour to those with a shortage. In Saudi Arabia, for example, which hosted the largest number of expatriate workers in the region, the total number of non-Saudi workers was 1.5 million in 1980 and increased to 2.7 million in 1985,¹⁹² an average annual growth rate of 11.7 per cent, compared with an average annual growth rate of the Saudi labour force of 3.7 per cent.¹⁹³ Moreover, by 1997 expatriates in Saudi Arabia totaled more than 5 million, most of them workers. In Oman, the total expatriate labour force was 60,100 in 1976, representing more than 32 per cent of the total labour force.¹⁹⁴ By 1995, the total was 496,200, representing 64.8 per cent of the total labour force. The expatriate labour force in Oman grew by an average 12.8 per cent per year, compared to 6 per cent average annual growth of the national labour force.

In 1975, the number of expatriate workers was 484,000 in Saudi Arabia, 217,600 in Kuwait, 234,100 in the United Arab Emirates and 70,000 in Oman.¹⁹⁵ By 1985, the numbers reached 2.7 million in Saudi Arabia, 386,800 in Kuwait, 460,000 in the United Arab Emirates, and 191,000 in Oman.¹⁹⁶ As a proportion of the total labour force, expatriate workers increased from 25.2 per cent in 1975 to 62.7 per cent in 1985 in Saudi Arabia, from 70.2 per cent to 74.6 per cent in Kuwait, and from 84 per cent to 87.6 per cent in the United Arab Emirates.¹⁹⁷

On the supply side, labour migration represented an important outlet for ESCWA member countries with excess labour, particularly Egypt, Jordan and the region's least developed country, Yemen. Migration helped ease unemployment in Egypt although it led to labour shortages in some sectors, including to an extent agriculture, in which it contributed to increasing wage pressure. Most of Egyptian migrants were engaged in the construction sector (38 per cent), followed by the services sector (31 per cent).¹⁹⁸

In 1985, 376,000 Jordanian workers left the country (4.3 per cent of these to Saudi Arabia).¹⁹⁹ They represented about 42 per cent of the total national labour force. The consequences were not only sharply reduced unemployment in Jordan during that period, but also labour shortages in several key economic sectors, including agriculture, construction and services. This in turn led to an influx of expatriate workers, particularly from Egypt and the Syrian Arab Republic, to fill the gap.

By 1985, about 900,000 Yemeni workers, representing about 20 per cent of the country's national labour force, had migrated to the GCC countries,²⁰⁰ most of them (88.3 per cent) to Saudi Arabia because of geographical proximity.

¹⁹² Saudi Arabia, Ministry of Planning, *Fourth Development Plan, 1980-1985*, p. 36.

¹⁹³ Ibid.

¹⁹⁴ Oman, Ministry of Development, *Fifth Five-Year Development Plan, 1996-2000*, p. 12.

¹⁹⁵ ٣٠. التعتل في دول الإسكوا، وقائع اجتماع الخبراء حول التعتل في دول الإسكوا، عمان ٢٦-٢٩ تموز/يوليو ١٩٩٧، ص ٣٠.

¹⁹⁶ العدد السابق.

¹⁹⁷ العدد السابق.

¹⁹⁸ اللجنة الاقتصادية والاجتماعية لغربي آسيا، أثر عودة العمالة المهاجرة، دراسة استطلاعية بالنسبة لبعض الدول المصدرة للعمالة في منطقة اللجنة الاقتصادية والاجتماعية لغربي آسيا (E/ESCWA/DPD/86/14)، ١٩٨٦، ص ٢٢.

¹⁹⁹ العدد السابق.

²⁰⁰ العدد السابق.

However, after 1985, the reverse trend became the norm, as increasing numbers of migrant workers returned to their home countries, due to several factors including:

(a) The sharp drop in oil prices (beginning in 1982) that brought oil revenues to their lowest level since 1975. The oil exporting countries were forced to cut public spending. They applied restrictive fiscal policies that led to economic recession, which depressed the demand for labour, including expatriate workers;

(b) The decline in labour demand as the major infrastructure projects, which had employed huge numbers of unskilled expatriate workers, reached completion;

(c) Increased participation of the national labour force owing to increased spending and expansion in education and technical training;

(d) The focus of the GCC countries on the indigenization of their labour force, and hence reduced reliance on expatriate workers;

These factors led to an increasing proportion of local citizens in the labour force. In Saudi Arabia, the Government aimed to create 659,900 new jobs by the year 2000.²⁰¹ In addition, the Government planned to reduce the number of expatriates working in the services sector by 161,700 and replace them with nationals.²⁰²

In Qatar, the inflow of expatriate workers has begun to level off, and the outflow has accelerated. During the 1993-1996 period, the inflow of expatriate workers grew by an annual average of 13.6 per cent, while the outflow grew by an average of 23.1 per cent.²⁰³ Available data indicate that more than 54 per cent of those who came during the period 1993-1996 have since departed.²⁰⁴

Oman is the exception. The number of expatriate workers has not dropped during the past several years, owing to strong continued demand for labour and the inability of the national workforce to meet this high demand. Even during the Gulf crisis, the number of expatriates in Oman continued to rise. During the period 1991-1995, the inflow of expatriate workers grew by 12.8 per cent per year, outstripping the planned target of 3.5 per cent.²⁰⁵ Expatriate workers accounted for 59.9 per cent of the total labour force in 1991, rising to 64.8 per cent in 1995, leaving the national labour force a shrinking minority.²⁰⁶

The pattern of indigenization of the labour force in the GCC countries is patchy. While there has been a slowdown in the influx of expatriate workers into Saudi Arabia, and to a lesser extent, the United Arab Emirates, there has been an increase into Oman. Indigenization of the labour force entails several challenges, including:

(a) The reluctance of the private sector, which employs the largest percentage of expatriate workers, to push up its wages bill by employing nationals, who command higher pay and work shorter hours than expatriates;

(b) The reluctance of nationals in GCC countries to work in certain occupations for economic and social reasons.

²⁰¹ The Economist Intelligence Unit, *Country Report, Saudi Arabia*, 3rd quarter, 1998, p. 16

²⁰² Ibid.

²⁰³ دولة قطر، وزارة شؤون الخدمة المدنية والاسكان، إدارة العمل، النشرة السنوية للعمالة الوافدة والمغادرة.

²⁰⁴ العدد السابق.

²⁰⁵ Oman, Ministry of Development, *Fifth Five-Year Plan 1996-2000*, p. 110.

²⁰⁶ Ibid., p. 111.

Their reluctance to work in private sector, where pay and working conditions compare unfavourably with public sector jobs.

Regional cooperation in employment benefited both labour-exporting countries and those with a shortage of labour. The former benefited in the following ways:

(a) Migration represented an important outlet for excess labour, and thus helped rein in unemployment;

(b) Migration increased the productivity of migrant workers, who were exposed to modern production techniques and management methods in the GCC countries;

(c) International migration reduced domestic migration from rural to urban areas by providing an outlet for the young unskilled rural population, which could otherwise have ended up in the urban centres and pushed up the already high urban unemployment rate;

(d) Workers' remittances contributed to the foreign exchange reserves of the labour-exporting countries, and thus somewhat alleviated their foreign exchange problem.

For the countries with a shortage of labour, regional cooperation provided a labour force that quickly bridged the gap between soaring demand for labour and the only gradually increasing local supply. It was thanks to regional cooperation that GCC countries were able to relatively quickly implement their massive economic projects, especially infrastructure. Regional cooperation also extended to social services, such as education and health, where specialists from labour-exporting countries contributed to both expansion and upgrading, and hence, indirectly assisted rapid growth of the educated national labour force in these countries.

The 1990-1991 Gulf crisis tore into the political and economic fabric of the ESCWA region, adding an unwelcome political dimension to weak economic cooperation. In the area of employment, the crisis accelerated the outflow of expatriate workers from the GCC countries, with the exception of Oman. The crisis added an element of urgency to the gradual return of expatriate workers to their home countries that had begun during the 1985-1986 economic recession. More than 300,000 Jordanian, 750,000 Yemeni and 600,000 Egyptian workers and their families left the GCC countries. Their arrival home aggravated already severe unemployment problems at a time of economic recession (which was largely a spill-over from recession in the GCC countries).

Although nearly a decade has passed since the eruption of the Gulf crisis, regional cooperation in general, and on employment issues in particular, has not recovered. There has been no massive return to the GCC countries of workers from labour-exporting countries, least of all from countries that expressed unwelcome political views on how to handle the Gulf crisis, particularly Jordan and Yemen. There has been a limited return of those expatriates to the GCC countries, particularly in the last two years, but nothing to compare with the 1970s and 1980s. Most of those who returned, particularly from Jordan—and mainly through private connections, with a minimum of Government intervention—work in education and health. Progress in political relations could accelerate this process, but it will remain constrained by economic factors.

Public employment in the GCC countries has been constrained by cuts in public spending following the sharp fall in oil prices. In addition, there has been retrenchment in public sector employment, as part of the economic reform policies being gradually implemented by the GCC countries. Both economic slowdown and the reform programmes dampened demand for labour. These countries' efforts to indigenize their labour forces served to further decrease the demand for expatriate workers.

The second phase of economic development in the GCC countries will focus more on the development of competitive industries and services, and less on the implementation of massive infrastructure projects requiring mainly unskilled labour. As a result, the limited number of expatriate workers who return will be mainly skilled workers, technicians and professionals.

Regional cooperation in the area of employment will mainly be a private sector process. This is in sharp contrast to the first phase of cooperation, when government-to-government agreements formed the mainstay of cooperation. The nature of the economic systems, and shifts in macroeconomic policies, have given the private sector in several ESCWA member countries a prominent role both in terms of output and employment generation. The role of the public sector as employer of last resort has been terminated both in the GCC countries and in the more diversified economies, where the result is surplus labour.

New approaches to regional cooperation—which will yield benefits in terms of the generation of employment without requiring the migration of labour—will include the following:

(a) The promotion of investment in labour-exporting countries by countries with a capital surplus but a labour shortage. This will stimulate indigenous investment and economic growth, leading to an increased demand for labour at home, particularly if investment is directed towards productive sectors;

(b) The promotion of intra-regional trade in the context of trade liberalization and economic reform. The expansion of tradeable goods production and exports, particularly in the more diversified countries with a labour surplus, will increase the demand for labour. In other words, intra-regional trade, which has been very low indeed (mostly around 8 per cent) could become an important generator of employment, stimulated by the private sector's quest for quality at a low cost;

(c) Outsourcing of segments and components of the production of goods and services. This is a relatively recent industrial strategy, whereby parts of the production cycle of a company are farmed out to another country, where labour costs are comparatively low. The method has been successfully applied by major industrial corporations, shifting production facilities to developing countries, where labour costs remain considerably lower than in fully industrialized countries like the United States of America, where brisk demand for labour and low unemployment can create additional wage pressures. This process has not been tried in the ESCWA region, but the potential exists. For example, industrial corporations in Saudi Arabia or the United Arab Emirates could drastically reduce their overall costs by building part of their production facilities in Egypt, Jordan or other ESCWA countries with a labour surplus and low labour costs.

Future regional economic cooperation in general, and employment generation in particular, will be under the aegis of the private sector, where it is less likely to be ambushed by political factors.

The private sector in the GCC countries prefers expatriate workers, particularly from South and South-East Asia. For employers and investors, the quality and cost of labour are paramount. Therefore, workers from ESCWA countries with a labour surplus will have to compete in the GCC countries in terms of skills (and working conditions, as their competitors from South and South-East Asia work longer hours for lower wages). Technical and vocational training programmes must be designed to provide the equal of the training received by their Asian competitors, if workers are to offer the skills needed not only locally but in the region's labour markets.

VII. COMPARATIVE ANALYSIS

This section will provide a comparative analysis of employment structure, labour supply, female participation in the labour force, education policy and labour policy as well as unemployment in the countries concerned.

Average unemployment in these countries in 1996 was 9.5 per cent. In 1996 the highest unemployment rate according to official figures was recorded in Jordan (12 per cent), followed by both Egypt and Yemen (9 per cent) and Lebanon (8.9 per cent). However, unofficial and alternative sources suggest that unemployment was much higher. In Jordan, for example, unofficial figures put unemployment at over 27 per cent in 1996. In Yemen, unemployment was estimated in the first five-year development plan to have been 25 per cent in 1994, compared with a rate derived from the population census of 9 per cent. The discrepancy can probably be attributed to differences in estimates of economic growth.

In terms of the structure of the labour force, there is a close similarity between Jordan and Lebanon. Both have a narrow productive base, including an agricultural sector small both in terms of output and employment generation. In 1996, the agricultural sector accounted for 9.4 per cent of employment in Jordan and 9.3 per cent in Lebanon (see table 31). In both countries the services sector accounts for a relatively high proportion of employment. In 1996, the proportion of employment provided by the services sector reached 66.2 per cent in Jordan and 64 per cent in Lebanon. Both economies can be regarded as dominated by the services sector.

TABLE 31. COMPARATIVE ANALYSIS: THE STRUCTURE OF THE LABOUR FORCE, 1996
(Percentage)

	Egypt	Jordan	Lebanon	Yemen
Agriculture	34.0	9.4	9.3	50.1
Manufacturing	14.5	14.6	15.1	5.3
Construction	6.3	9.8	11.6	8.2
Services	45.2	66.2	64.0	36.0
Total ^{a/}	100	100	100	99.6

Source: ESCWA, based on national sources.

^{a/} May not always add up to 100 due to rounding.

In Yemen, by contrast, the agricultural sector is the source of employment generation. It absorbed more than half the labour force in 1996, five times the proportion for Jordan or Lebanon. The agricultural sector in the latter countries is forcing workers out, which is a reflection of continued rural-urban migration and low and declining real wages in the agricultural sector. In Egypt, the agricultural sector remains the second most important sector in terms of employment generation, with more than one third of the total labour force. The services sector employs more than 45 per cent, and this is expected to increase, boosted by further FDI in this sector. In addition, the manufacturing sector is expected to provide more employment, with the rapid expansion of manufacturing projects in different parts of the country. The services sector in Yemen employs about 36 per cent of the labour force but this may increase as it is expanding rapidly, boosted by private sector investment. The structural adjustment and economic reform programme in Yemen is expected to further enhance the role of the services sector in generating employment in Yemen, particularly trade and tourism.

The manufacturing sector generates a mere 5.3 per cent of employment in Yemen (compared to nearly a third in both Lebanon and Jordan). Were it not for the mining and quarrying sector, this figure would be substantially lower. The oil industry in Yemen, including oil refining, is capital-intensive and thus only an extremely modest generator of employment.

In 1996 the construction sector provided 6.3 per cent of employment in Egypt, 9.8 per cent in Jordan, 11.6 per cent in Lebanon and 8.2 per cent in Yemen (see table 31). By 1996 the sector in Jordan had contracted somewhat. In 1991 the return of Jordanian workers and their families from the GCC countries (as a result of the Gulf crisis) had precipitated a construction boom.

In Lebanon, on the other hand, the sector rebounded strongly in the last few years, as a result of the economic reconstruction plan, Horizon 2000. However, the construction sector in Lebanon is expected to provide less employment over the next two years as the sector's growth decelerates, reflecting a stagnant housing sector in Lebanon and the scaling down of the reconstruction plan. The construction sector is not expected to pick up strongly in any of these countries in terms of employment generation in the next few years, except perhaps for Lebanon, which could expect a rebound in the construction sector if and when current macroeconomic policy becomes more expansionary. However, the construction sector will remain a major sector in terms of employment for semi-skilled and unskilled workers unable to make their way in the more competitive world of the services sector.

The total labour supply is estimated at 17.8 million in Egypt, 0.9 million in Jordan, 1.1 million in Lebanon and 3.3 million in Yemen. The highest rate of growth of the labour supply is in Yemen (4.6 per cent), followed by Lebanon (over 4 per cent) and Jordan (3.8 per cent). These relatively high growth rates stem from continued high population growth (over 3 per cent in both Jordan and Yemen), large numbers of children and young people leaving the education system for the labour market, the overall youth of the population and an acceleration of female participation in the labour force. For all these reasons, these high growth rates are expected to continue undiminished over the next few years, aggravating unemployment in the short to medium term.

Female participation in the labour force remained low in all the countries under review in 1996, ranging from 13.6 per cent in Jordan to 17.7 in Yemen (see table 32). The low participation of women in the labour force can be attributed to several factors including: high female illiteracy; early marriage, particularly in Jordan and Yemen; social customs that discourage women from receiving education and taking up employment; low wages and salaries, which reduce the economic benefit of work; and the tendency in the private sector to employ male workers in preference to female workers. However, female participation in the labour force is expected to be driven up in due course by the increased enrolment of girls in the education system.

TABLE 32. COMPARATIVE ANALYSIS, 1996

	Egypt	Jordan	Lebanon	Yemen
Population (millions)	61.3 ^{a/}	4.4	4.13	15.9
Population growth rate	2.0 ^{a/}	3.7	2.2	3.7
Labour supply (millions)	17.8 ^{a/}	0.95	1.26	3.3
Male participation (percentage)	84.7	86.4	85.3	82.3
Female participation (percentage)	15.3	13.6	14.7	17.7
Employment participation rate (total)	29.3 ^{a/}	21.5	25.7	20.7
Employment in public sector (percentage)	33.3	34.9	13.6	15.0 ^{b/}
Employment in private sector (percentage)	66.7	64.1	82.8	85.0 ^{b/}
Unemployment (percentage)	8.3 ^{a/}	12.0	8.9	9.0
Male (percentage)	..	10.6	9.0	
Female (percentage)	..	21.1	7.2	
Enrolment in technical education as percentage of enrolment in secondary education	..	30.5	63.7	15.6

Source: Calculated from national sources.

^{a/} 1997 figures.

^{b/} In the manufacturing sector.

Two dots (..) indicate that data are not available.

Total participation in the labour force in general remains low: 27.3 per cent in Egypt, 20.7 per cent in Yemen, 21.5 per cent in Jordan and 22.5 per cent in Lebanon. The low proportions can be attributed to the existence of a large portion of the population below employment age and the low participation of women in the total labour force. The proportions are likely to increase as greater numbers of young people join the labour force (including women). Although this is in general a healthy development, it will aggravate already serious unemployment in these countries unless appropriate measures are taken to provide jobs.

Three of the four countries under review are both exporters and importers of labour, but for different reasons. In Jordan, the migration of a large number of Jordanian workers to the GCC countries in the late 1970s and early 1980s created labour shortages in various economic sectors, particularly in the agricultural and construction sectors, which in turn put pressure on domestic wages in these sectors and increased the inflow of expatriate workers to fill the gaps. In Lebanon, by contrast, the inflow of expatriate workers was driven by the relatively low wages in the agricultural sector and the preference of the private sector for expatriate workers for reasons of cost. The expatriate workers in the agricultural sector in Lebanon are seasonal workers and do not represent tough competition for the national workers. In the construction sector, however, they do compete with the national labour force as they accept lower wages and longer working hours. In Yemen, the influx of expatriate workers was for entirely different reasons. The rapid expansion in education and health services, on one hand, and the limited supply of qualified doctors and teachers, on the other hand, necessitated the inflow of qualified teachers and doctors from other countries in the region, particularly Egypt. Moreover, expatriates took up certain jobs that the national work force refuse to do, for social reasons, such as refuse collection.

In all the countries under review, large numbers of children abandon their education and join the labour market. The largest numbers are in Yemen and Lebanon. The pull factor is the need of an extra pair of hands to help their families. The push factor is the cost of education, which many poor families perceive as a drain on resources, especially when the alternative is to send children out to work.

Enrolment in technical education and vocational training is low, particularly in Yemen (in 1996 only 12.6 per cent of total enrolment at high school level) and Jordan (30.5 per cent). This stems from the focus of the education policies in these countries on the expansion of basic general education and higher education, rather than technical education and vocational training (equally important to the economies of these countries). The education policies were focused on reducing illiteracy, achieving universal enrolment in elementary education and the expansion of the education of women. To this end, both Jordan and Yemen introduced laws making basic education compulsory (and in Jordan making education compulsory up to the 12th grade). In Lebanon the minimum working age was raised to 14 to increase enrolment in basic education.

The demand for labour in these countries has not matched the supply. The demand for labour has been constrained by slow economic growth; saturation in certain sectors, especially agriculture, particularly in Yemen and Lebanon; increased reliance on capital-intensive economic projects rather than labour-intensive projects; and the absence of an employment generation strategy. These factors have limited employment growth and widened the gap between the fast growing labour supply and increasingly sluggish economic growth. Employment generation has also been hampered by the mismatch between the skills provided by the education system and those demanded by the economy. There was a lack of coordination between the education system and the labour market while the education system continued to concentrate on theory at the expense of practical knowledge. Thus the labour market was starved of important skills but awash with others. High illiteracy, especially among workers forced out of a saturated agricultural sector, particularly in Yemen and, to a lesser extent, in Jordan and Lebanon, limited the employment opportunities open to them. The continued downsizing of the public sector serves to further depress demand for labour. The private sector in these countries, which plays an important role in employment generation, prefers to employ expatriate workers. This does nothing to alleviate unemployment.

The slow growth of demand for labour has also been attributed to macroeconomic policy in these countries. During the past few years, Egypt, Jordan and Yemen have been implementing structural adjustment and economic reform programmes. During the implementation period, both countries have applied tight monetary policy (to stabilize the exchange rate of their local currency, and control inflation) and

restrictive fiscal policy to reduce the widening budget deficit. This policy mix, while succeeding in stabilizing the macroeconomic environment, has led to a drop in public spending including capital spending. This, together with inadequate investment by the private sector, produced very sluggish economic growth, particularly in Yemen. The slowdown in economic growth has aggravated the unemployment problem.

In all three countries, the priority has been the stabilization of macroeconomic policy in order to stabilize the exchange rate, control inflation, reduce the budget deficit, and encourage the inflow of FDI. Employment policy, though important, had to play a secondary role during the period under consideration. Unemployment increased during the period under review in both Jordan and Yemen as a result of public sector downsizing.

In the countries under review the link between macroeconomic policy and employment policy during the past few years has been weak. The priority (stabilization of the macroeconomic environment) necessitated public spending cuts which adversely affected economic growth. There was, however, an active employment policy, including measures taken within the context of the economic reform programme and directed mainly towards poor families. These measures were inadequate to achieve full employment. This policy should be better integrated into overall economic policy so as to manage the widening gap between the supply of labour and the demand for labour.

This gap is expected to persist. The growth of the supply of labour is likely to be boosted by rapid population growth, an acceleration of female participation in the labour force and the large numbers of children who will continue to abandon the education system and join the labour market. The demand for labour will be heavily dependent on economic growth, which will be affected by sources of economic growth, the rapidity with which workers are ejected from a saturated agricultural sector and the availability of external employment opportunities. The most important factor in determining employment growth in the coming years will be the extent of any structural shift towards export-led economic growth. A significant role will also be played by an agricultural sector with a stable demand for labour. However, this is a long-term goal; in the short to medium-term, the unemployment problem will persist in these countries, as the domestic economy will not be able to provide enough jobs, particularly in view of the paucity of jobs abroad. The unemployment problem will be compounded by unskilled workers unable to find work in highly competitive economic sectors. In this connection, a comprehensive programme of training and retraining is needed to assist them.

VIII. RECOMMENDATIONS

Management of the labour supply will be the most important step to reduce the current high rates of unemployment in the countries reviewed. This can be achieved by, among other things, controlling population growth, particularly in Jordan and Yemen, where it still exceeds 3 per cent per annum, and by keeping children and young people in education instead of the labour market. An active population control strategy will be crucial in the coming years.

Government action is needed to shift the structure of the labour force to accommodate the new jobs that could result from the implementation of the structural adjustment and economic reform programmes. These programmes are expected to lead to new jobs in certain sectors, particularly trade and services but a reduction in jobs in the traditional sectors. This shift requires a concomitant shift in the employment policies of member countries, so as to meet the expected increase in demand for labour in these sectors and at the same time absorb the labour force ejected from the traditional sectors. An active employment policy will be required to adapt to these shifts. The structural adjustment programmes are expected to lead to an increase in transitional unemployment, as a result of public sector downsizing.

The implementation of the structural adjustment and economic reform programme should lead to a shift in investment priority towards labour-intensive projects. If investment takes advantage of the relatively cheap labour costs in Egypt, Jordan and Yemen it will at the same time create employment opportunities for the labour force.

There should be closer coordination between the education system and the labour market in these countries. The current situation has resulted in unemployment among skilled workers in some areas while depriving the economy of skills needed in other areas. Coordination between education and the labour market should include frequent analysis of the economy's needs for skills so as to tailor vocational training accordingly. The quality of education, particularly technical education and vocational training, needs to be improved to take on board new technologies, production techniques and management methods. This can be achieved, among other things, by updating relatively old curricula, improving interaction between domestic centres of technical education and the outside world and closer interaction with the labour market. The involvement of the private sector in technical education and vocational training is a prerequisite in updating and expanding technical education.

There should be a shift in education policy in these countries towards the expansion and upgrading of basic education and technical education. This is a prerequisite for the provision of skills, especially as economic reform leads to a greater demand for skills. There is currently a gross mismatch between the limited supply of skills and those needed. The current bias towards a general academic education has led to the oversupply of certain skills and shortages in others. It has created an oversupply of university graduates in certain countries and in certain specializations, but an acute shortage of technicians.

There should be an expansion in enrolment in technical education and vocational training. Current rates of enrolment are very low (with the exception of Lebanon), particularly in Yemen. These countries should aim at achieving parity between enrolment in secondary education and that in technical education and vocational training, not only to furnish their own economies with much needed skills but also to enable their workers to compete in highly competitive regional labour markets.

Employment policy should be an integral part of macroeconomic policy. Such integration will put employment policy at the forefront of the economic agenda. It will also lead to close coordination between employment policy, education policy, investment policy and the privatization policy. This integration might also lead to the formulation of job creation policies that are not yet fully a part of the strategic armoury of the member countries. An active job creation strategy must be an important component of efforts to reduce unemployment in these countries, especially in terms of investment allocation.

There should be a more vigorous government job creation strategy. It should include increased investment in small labour-intensive projects, where employment elasticity is higher, a gradualist approach to public sector downsizing and an intensive training and retraining programme for those made redundant by public sector retrenchment to help them find jobs in the private sector.

The most effective strategy in terms of job creation is an outward-looking export-oriented economic policy. However, for this strategy to be successful the necessary skills must be available (see above). The trade sector, which is expected to benefit from the ongoing implementation of structural adjustment and economic reform, will achieve a fast growth rate, and hence increase its share of employment. Every effort, therefore, should be made to enhance output and employment. Efforts should also be made to promote export capacity in labour intensive activities and the role of small enterprises. Production methods and technologies promoted should be aligned with the objective of expanding exports and producing at the highest level of efficiency.

The current economic reform programmes are not employment friendly. They should therefore be accompanied by social measures to mitigate the short-term negative impact on employment generation. However, with the exception of Egypt, the existing social safety nets are too weak to cope. They must therefore be strengthened and extended to assist the unemployed as widely as possible. The gradual implementation of reform policies, particularly the privatization component, will somewhat lessen their negative social repercussions.

Due attention should be paid to the development of the productive sector, particularly the agricultural sector, to reduce saturation of the labour market. This can be done by increasing investment in the sector, providing credit facilities to farmers and by integrating the agricultural sector and other economic sectors, particularly transport and manufacturing.

Economic development should be balanced, including traditional sectors (agriculture) and modern sectors (manufacturing and services). A heavy bias towards the modern sector would be at the expense of the agricultural sector, and therefore accelerate rural-urban migration. This would in turn aggravate urban unemployment, as the modern sector would be largely incapable of absorbing the unskilled and semi-skilled workers ejected from a saturated agricultural sector.

The promotion of regional cooperation is an important and complementary factor in reducing unemployment in countries in the ESCWA region with a labour surplus. The limited labour absorption capacity of the economies of these countries, particularly in the short to medium term, requires the provision of external outlets to ease unemployment. Non-traditional methods of regional cooperation are expected to play a greater role than the traditional intergovernmental facilitation of labour migration characteristic of the 1970s and early 1980s (now severely constrained by economic and demographic conditions in the GCC countries). The promotion of both interregional trade and capital inflow will boost employment in the more diversified countries with a labour surplus. The GCC countries will be able to take advantage of low labour costs there by means of outsourcing. This is particularly important during an era of increasing globalization, when costs must be reduced to a minimum to maintain a competitive edge. In the ESCWA region this relatively new approach has not been widely tried, so there is room for expansion. Increased economic growth and employment will result from the promotion of FDI from ESCWA countries with a capital surplus to areas suffering from a shortage of capital. The role of the private sector is expected to expand in the wake of the liberalization of trade and capital movement among ESCWA member countries. The movement of goods and capital will be driven more by considerations of profit and cost, and less by political factors.

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