

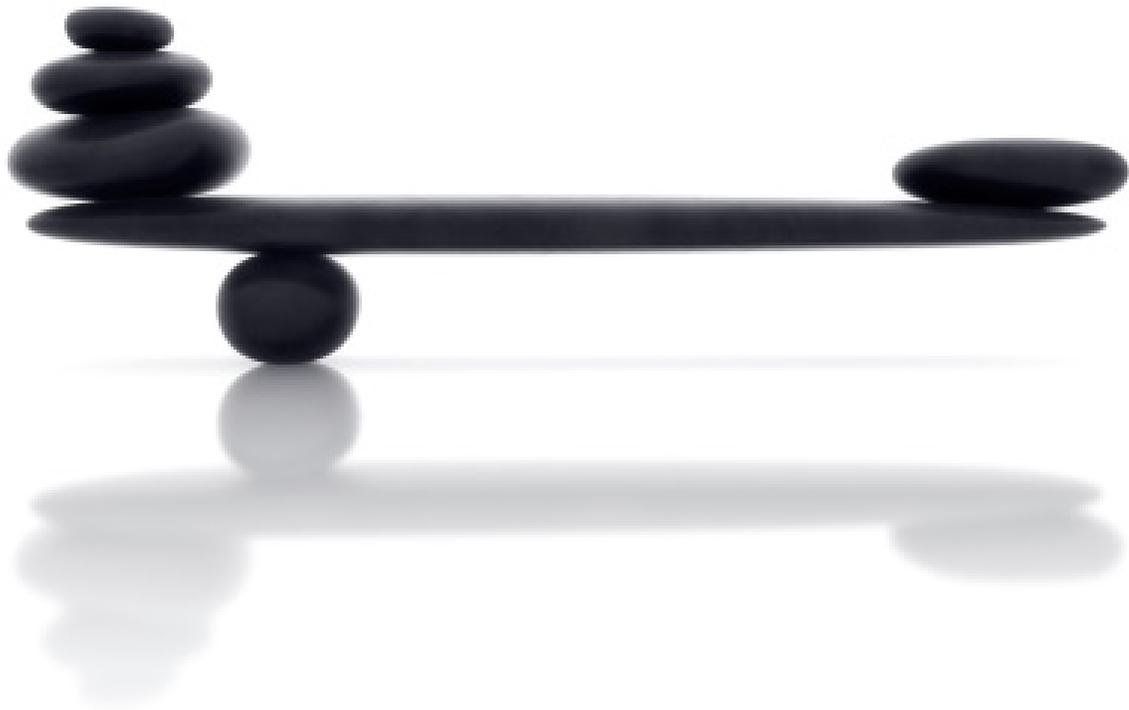
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LABOR MARKETS IN THE MIDDLE EAST  
AND NORTH AFRICA

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# LABOR MARKETS IN THE MIDDLE EAST AND NORTH AFRICA

One issue that is often ignored during discussions of economic integration and economic development is the labor markets in the Middle East North Africa (MENA) region. There is quite a bit of economic integration in terms of the labor market. This is important, yet the role of the labor markets is often ignored, particularly in Egypt. The economic picture in Egypt is quite grim today. Private consumption for foodstuff has fallen 50 percent, and the consumption of durable goods has fallen 80 percent. The overall economic climate is not as good as it once was. During the Mubarak years the economy grew at a fairly solid four or five percent per year. This is not great for a developing country, but still a decent growth level. This past year the growth rate has fallen to approximately one and a half percent, with economists predicting it will stay at this level. The financial situation is also quite grim, but this has received far less attention, largely because the Egyptian Central Bank held 36 billion dollars in foreign exchange currency prior to the revolution. However, they are now spending roughly 2 billion dollars a month to maintain the currency at current levels, causing foreign exchange reserves to fall to 22 billion dollars. This gives Egypt approximately six to 12 months before they run out of foreign currency reserves if the status quo remains. Simultaneously, high yields of 13 and 14 percent are being demanded currently for Egyptian bonds. The inflation rate is also now in the double digits, but has slowed down. All of these problems will only worsen through 2012.

The political and economic aspects of the current social unrest need to be examined and addressed. Egypt has experienced low wage growth over the past 30 years which has led to high inequality and some poverty, though the poverty is mitigated to some degree by remittances coming from the Gulf. While corruption does play a role in the continued prevalence of subsistence wages, another driving factor often ignored is population growth. Population growth over the past 30 years has been close to two percent annually, double that of the United States and more than double many of the European Union nations. While this may seem to not be that dramatic, when compounded over 30 to 40 years, this makes a huge difference in terms of per capita income growth. There are policy issues that should be addressed with regard to this. There is still a real sense that no matter how transparent and democratic, no matter how sound the Egyptian government's economic policy, there is a fundamental problem with the labor market due to population growth. The very large pool of labor tends to push down wages and simultaneously increase the profits of Egyptian companies. This increases both income and wealth inequalities. This is important, but not sufficient in fully explaining the social unrest. Tunisia has passed policies to create family management programs which have successfully led to a lower population growth rate. Yet, Tunisia experienced waves of social unrest. Tunisia suffered these waves of social unrest due to political and structural issues. Tunisia is a relatively small country with a

fairly specialized production. The U.S. has some sectors that are labor intensive and others that are capital intensive, allowing a more diversified economy that creates a relatively stable unemployment rate. Small countries that trade more or less freely with other countries have a structural problem as free trade leads to specialization. This has complications in terms of social inequalities. The official unemployment rate in Tunisia has held fairly steady at around ten percent over the past 30 years. During this time period the Tunisian government created policies to increase the number of citizens receiving associate and bachelor's degrees. While the overall unemployment rate has held steady, the unemployment rate of college graduates increased from five percent in the early 1980s to over 15 percent immediately before the revolution. This has created a large labor market imbalance, as individuals going to college and ending up unemployed means the skills they learn in college might not be useful in Tunisia. This heavy encouragement of higher education is appearing to be not very constructive. There is a comparable situation in the U.S., where too many individuals are attending law school, creating a large number of recent graduates with substantial college loan debt and low job prospects. The proportion of money in MENA countries like Egypt, Tunisia and others that is spent on education is quite high and the outcomes these countries are getting from these expenditures are lower than expected.

The labor markets in the Gulf are also good to examine. A large proportion of the labor markets in the Gulf tend to consist of foreigners, with the highest proportions in Qatar and the UAE, respectively. The Gulf states have also achieved a good level of economic diversification as measured by the growth of non-oil and non-natural gas GDP, with an annual growth rate of between three and six percent outside of those two sectors. These growth rates match up closely with the growth rates of foreign workers in the Gulf. The Gulf labor markets are very well integrated, both regionally and globally. This has contributed to reductions in poverty in North Africa and Syria, where remittances account for close to five percent of GDP. However, economic integration with the GCC is lacking, with less than ten percent of trade coming from within the region. One reason for this is the Gulf states are importing consumption goods and food that come from outside the Gulf region. There has been an effort at monetary integration within the GCC, which is good for bringing political leaders and actors together, but misguided from an economic point of view. The economics differ enough from each country that they do not really fall into an optimal currency area. As can be seen from issues occurring in the Eurozone, monetary integration requires a common optimal currency area, not just political will, in order to be successful. There have been a number of good efforts, but the GCC still has work to accomplish in terms of the political economy of decision-making in the GCC.

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