Jobs, Growth, Gender and Governance in the Arab World

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The Employment Challenge in the Arab World

• Creating 90 million new jobs by 2020 or doubling the current level of employment.

• In the next two decades the labor force will expand by 74 million new workers. The expansion of the labor force in the next two decades is equal to the cumulative increase over the period 1950-2000.

• Currently, the labor force is increasing by 3.1 million workers per year compared to 2.5 million in the 1990s and 1.7 in the 1980s.

• The current unemployment rate is around 15 percent affecting more than 12 million workers.
Four World Bank development reports focus on areas of central concern to policymakers, researchers and outside observers:

• Unlocking the Employment Potential of the Middle East and North Africa: Toward A New Social Contract

• Better Governance for Development in the Middle East and North Africa: Enhancing Inclusiveness and Accountability

• Trade, Investment and Development in the Middle East and North Africa: Engaging the World

• Gender and Development in the Middle East and North Africa: Women in the Public Sphere
The Arab world needs a new development model to unlock its potential.

- From public sector dominated to private-sector driven
- From closed and passive to more open and active
- From oil dominated and volatile to more stable and diversified

And the challenge of job creation requires a comprehensive approach to reform.
The private sector in Arab countries remains underdeveloped.

Note: Measured by gross fixed capital formation as a percent of GDP. Regional averages weighted by current GDP. Europe and Central Asia 5 includes Latvia, Poland, Slovenia, Bulgaria and the Ukraine. Latin America and the Caribbean 4 includes Chile, Brazil, Peru and Venezuela. South Asia 4 includes Bangladesh, Pakistan, Nepal and India. Arab 8 includes Algeria, Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia and Yemen.
Exports outside of oil have been limited.
OPEC oil exports from Arab economies, per capita

Constant 2000 US$

$10,000

$8,000

$6,000

$4,000

$2,000

$0

1972 1980 1998 2004*

* Estimate.
Non-oil exports remain largely below potential.

Note: Regression is based on 42 countries, but values for 8 low income countries, including Yemen, are not reported because of negative values. Arab9 = Algeria, Egypt, Jordan, Lebanon, Morocco, the Republic of Yemen, Saudi Arabia, Syria, and Tunisia.
Oil has dominated development... ...affecting growth but not producing jobs

Real oil prices (left) and GDP growth (right)
The economic transitions require three fundamental transformations:

• Reducing governance gaps in inclusiveness and accountability

• Promoting greater participation of women in economic activity, in order to utilize all their potential/talent

• Improving the quality of educational outputs which meet the needs of the new economy
Indicators of governance are well below potential in the Arab world.

Better Governance Cannot Wait

• A vigorous state role in improving public administration is essential to establishing the conditions that will permit economies to grow.

• Governance reforms are needed to enhance the investment climate required for the emergence of a vibrant private sector.

• Governments need the institutional and regulatory instruments to manage the difficult process of transition under conditions of vulnerability.

• Governance reforms are essential to permit governments to credibly articulate and realize a new vision of state–society relations.
Participation of women in economic activity is also well below potential.
Understanding the Obstacles of the Past Is Critical.

• **Soft budget constraints**: External revenues cushioned the impact of economic stagnation and permitted governments to adopt limited reforms while postponing difficult decisions.

• **Political challenge** from radical movements meant that economic and political reforms were de-linked as governments responded by reviving political control and national security concerns.

• As a result, **top-down management of reform** by decree replaced earlier efforts to generate support for economic reform by opening the political arena.
Moving the reform process forward requires from the countries of the region . . .

• A change from the selective, top-down approach to economic reform that sidesteps the need for political change to secure the legitimacy of reform and government credibility, which is no longer adequate.

• Governments will need to revive national conversations about the restructuring of redistributive programs and a redefining of the terms of the social contract.
What does it all mean for Yemen?

The challenges highlighted above apply in a stunning manner to Yemen:

• Yemen needs to create more than 4 million jobs over the next 20 years, with labor force growing at more than 4% per year, one of the highest rates in the world.

• The private sector, which needs to create these jobs, remains weak: only about 10% of GDP invested in non-oil sector. This rate needs at least to double.

• Yemen needs to diversify its economy which has been too dependent on oil revenue for the last decade. Its non-oil exports are extremely low at about the MENA average of 7% of GDP.
Yemen needs also to achieve the fundamental transformations

Yemen has made good progress in some areas: macro stability, education, infrastructure, trade liberalization. But the three fundamental transformations I discussed above need to take place in Yemen:

- A drastic improvement in governance, with more inclusion in the decision-making, and increased accountability; which mean rule of law, respect of property rights, better public sector management
- Achieving more inclusive access to education and health services for women, and greater participation in economic activity
- Overall improvement in educational attainment and better labor skills which match the needs of the economy as it transforms.
But Yemen is facing much much greater urgency…

While it has to achieve these transformations, it has also to deal with an additional challenge: **time is running out, as oil—the main source of revenues and foreign exchange earnings—is rapidly declining.** This has many implications:

- Reduction in GDP growth and the level of income,
- Risks of jeopardizing public finances with unsustainable fiscal deficit
- The needed adjustment will put into question the achievements in building human and physical capital so badly needed for long term growth
- The needed adjustment may also create social problems, lead to increased poverty which undermines the climate for private investment

Unless Yemen adjusts in an orderly way to the decline of the oil revenue, it will not be able to meet the employment challenge and achieve any sustainable reduction in poverty. Yemen is in need of a major overhaul of its development strategy for it to meet the difficult challenges ahead. With speed of reform is of the essence.