

Introduction

By various measures, development performance in the Arab region during the four decades leading up to 2010 had been on the right track, with a steady rise in life expectancy and mean years of education, especially among youth and women.¹ However, employment consistently lagged behind. In the past three decades, the share of the Arab region's working-age population expanded by 17 per cent, while the employment-to-population ratio increased by less than 1 per cent, resulting in the lowest level of employment creation amongst all regions for the same period. At the same time, most of the employment creation happened in the informal private sector and the public sector. The gap between the working-age population and the generated jobs requires rethinking the developmental model that has reigned in the region since the 1990's. Regional analyses including the first Arab Human Development Report of 2002² and the Arab Human Development Report of 2009³ set out four cross-cutting stylized facts which form the basis for the main question of this report, namely, why the formal private sector in the Arab world is not creating enough decent and inclusive jobs. These four facts are as follows:

- The mainstream political economy narrative which claims that Arab States have systematically disbursed subsidies and rents to their constituencies in exchange for little or no public policy accountability: This authoritarian bargain, as it is often referred to, is associated with the formation of rentier

and low-productivity economies with wide deficits in youth participation and gender equality, a large informal sector and a limited role of the formal private sector, particularly in employment creation;⁴

- Major human development progress recorded in key health and education indicators, which has left the region with a more educated and youthful labour force: However, and despite relatively high growth rates of the gross domestic product (GDP) from 1990 to 2010, opportunities for aggregate productive and decent employment have fallen short. Jobs were mainly created in informal low value-added production and the public sector, which also added to political polarization. Consequently, aggregate labour productivity and real wages stagnated or dropped in real terms. This has led to a disenfranchisement of large segments of Arab youth, especially those with higher educational qualifications. Predictably, a minority were drawn into extremism and conflict;⁵
- The low inclusivity of women: As highlighted by the International Labour Organization (ILO) and the United Nations Development Programme (UNDP) in 2012,⁶ the main difference between the employment profile of the region and others is the extremely low women participation rate which, as the report argues, caused by not enough jobs being produced by

¹ ESCWA, 2014.

² United Nations Development Programme (UNDP), 2002.

³ UNDP, 2009.

⁴ UNDP, 2002; and ESCWA, 2014.

⁵ International Labour Organization (ILO) and United Nations Development Programme (UNDP), 2012.

⁶ Ibid.

Arab economies, structural constraints and gender dynamics that discriminate against women. Digging deeper into the root cause of this deficit, the report points to inclusive growth and structural transformation deficits associated with governance practices, social contracts and macroeconomic policies that resulted in poor inclusiveness outcomes;

- The regional discussion about the size of the public sector in employment which might crowd out formal private-sector employment: While acknowledging that there is no easy way to determine the optimal size for the public sector, the challenge facing Arab countries is not so much a bloated public sector (even though this may be the case in some countries), but rather the failure of public-sector policies leading to a more successful economic structural transformation and diversification. This failure pressures many Governments, especially in oil-rich economies, to create inclusive public employment opportunities with limited employment in the formal private sector. An enlarged public employment can thus be regarded as a plausible side effect of the social contract, especially as a reward for the politically well-connected elite.

In light of these complex dynamics, the role of the formal private sector is clearly underestimated. The objective of this study is to examine why the growth of the formal private sector and potential consequent employment creation have been held back in the Arab region. The study examines the reasons behind the endemic failure of the formal private sector to grow and generate jobs. It also provides concrete solutions to reverse this trend. The study is primarily concerned with outcomes that are 'inclusive' and lead to policies that favour growth driven by higher productivity, higher employment and better use of technology for more

equitable employment outcomes, especially for women, who are at a major disadvantage.

Labour market deficits cannot be tackled without factoring in the impact of COVID-19 on labour markets. In addition to occupation, conflicts, political instability, poor governance, rentier economic policies, and an outdated social contract, which are the root causes of widespread human suffering, including the lack of job opportunities, the current pandemic, with its interrelated impacts, has added another layer of complexity on the humanitarian, social and economic fronts. In this context, rising poverty headcount trends witnessed during 2010-2019, regardless of how they are measured, are not surprising, as shown in a recent paper published by the Economic and Social Commission for Western Asia (ESCWA).⁷ The pandemic thus only amplifies an existing trend of rising poverty caused by inappropriate strategic choices made by Arab Governments during the past four decades. As argued by ESCWA and the Economic Research Forum (ERF),⁸ these choices have produced enduring effects on poverty, inequality and vulnerability in Arab countries. This is reflected in one of the most glaring ramifications of the pandemic, namely, that 16 million additional persons are expected to fall into poverty by 2021.

Chapter 1 of this study provides an overview of the Arab labour market supply. It investigates demographic shifts, education and labour market trends, and productivity using World Development Indicators⁹ and ILOSTAT¹⁰ databases.

This supply-side profiling of the labour market is complemented in chapter 2 by an in-depth analysis of the demand for jobs using the World Bank Enterprise Survey. The chapter provides an overview of the employment-demand and productivity status of the formal private sector in non-oil-producing Arab States and provides a

⁷ Abu-Ismaïl, K., 2020.

⁸ ESCWA and Economic Research Forum (ERF), 2019.

⁹ World Bank (n.d.). Worldwide Development Indicators.

¹⁰ See <https://www.ilo.org/ilostat>.

benchmark against other regions. The analysis in chapter 2 investigates the impact of different factors on private-sector employment creation and productivity, including, but not limited to, firm characteristics, factor inputs, the business environment, the role of technology, and output elasticities. Multiple key innovations are discussed in chapter 2, which also presents many key stylized facts. The chapter presents investigations into the following points: first, the share of capital and labour in production and how this share depends on changes in characteristics of companies and the entire sector; second, the high productivity, capital intensity and low total-factor-productivity (TFP) nexus among Arab countries; and third, the impact of innovations on employment creation and how product-versus-process innovations impact employment creation in the Arab world. The discussion on sectoral performance is followed by an analysis of national factors that hinder private-sector development for employment creation in selected Arab countries.

Chapter 3 examines the findings of previous chapters from a gender perspective, which reveals that women employed in the region are generally clustered in quasi-public firms and in sectors that are deemed female-friendly. Among the examined sectors, computer-related fields and manufacturing have the highest female shares of full-time employment; and export-oriented firms have become a good source of employment for women. Hence, the growth of such firms could facilitate a reduction in gender disparities

within Arab labour markets. Attracting foreign investment may boost private-sector employment and is associated with additional employment of women. However, for this to be sustained, there is a need to address gender disparities by, first, challenging prevalent sociocultural perceptions to allow mobility and access of women across all economic sectors, including capital-intensive fields, and, second, reforming labour laws to encourage female economic participation in the formal private sector.

Chapter 4 shows the way forward to design national policies for more inclusive and decent employment creation in the medium and long term. The precarious economic position of many Arab countries makes such a revision necessary. However, it must be noted that policymakers need solutions to short-term challenges, especially how to respond to the COVID-19 crisis. To this end, a number of policy interventions are drawn from recent policy briefs by ILO and ESCWA that argue the need to expand current systems of social protection and support businesses to maintain employment. It is further suggested that, in some countries, implementing employment-guarantee schemes may be a policy option worth considering. Furthermore, chapter 4 pays particular attention to supporting small and medium-sized enterprises (SMEs), especially in their ability to increase innovation, growth and employment. A solution to this issue would be a key entry point for the region to solve its fundamental employment and productivity challenges.