New Economic Crisis, New Risks for Young People

The economic slump that began in the housing and financial markets of the United States is likely to result in a renewed jobs crisis for the Middle East. GDP growth in the region is expected to slow to 3.3 percent in 2009, compared to an estimated 5.8 percent in 2007 and 5.5 percent in 2008.[27] While countries vary in their relative positions in coping with the crisis (See Box 7), for many of them the downturn coincides with a peaking youth bulge (See Figure 5 on page 22). As a result, labor force pressures are at their highest: regional labor force growth over the next five years will average nearly 2.7 percent, while the increasing number of young new entrants will be more educated and have higher expectations in terms of job quality. In light of these severe labor supply pressures, policy makers should not only be concerned about how young people fare in today's labor market but also ensure that policies forged during the downturn support their future human capital development.

Box 7: Savers, Spenders and Strugglers: A Typology of Middle East Economies in The Global Downturn

The **Savers** are oil-exporting countries with high levels of foreign exchange reserves, including most countries in the Gulf Cooperation Council (GCC). Due to their large financial capacities and the reserves that were built up during the oil boom, they are in the best position to weather the economic shock of the downturn. In Saudi Arabia, despite expectations of a current account deficit in 2009 (-7.9 percent of GDP) foreign exchange reserves will remain at about $21 billion. Kuwait's foreign exchange reserves are expected to slightly decline from $17 billion in 2008 to $16 billion in 2009, but the country is expected to maintain a positive current account balance of 5.5 percent of GDP.

The **Spenders** are countries that have used their oil-exporting revenues in recent years to implement costly populist policies. Countries like Iran, Iraq and Algeria have larger populations and greater social needs than the GCC countries, but they have not built up high levels of reserves, and are therefore more vulnerable to decreasing oil prices. For example, with less than four months of imports in its Oil Stabilization Fund, Iran will be forced to adjust to lower oil prices by cutting spending in order to balance external and internal deficits. Iran is forecasted to have a budget deficit of 5 percent of GDP and a current account balance of -3.8 percent of GDP in 2009. Iran and other spender economies face the immediate challenges of adjustment to finance these imbalances.

The **Strugglers** are countries that are more integrated into the global economy and are thus highly exposed to the risks of the downturn in global demand. Countries like Jordan, Egypt and Morocco may face decreases in foreign direct investment (FDI), exports, workers' remittances, and foreign aid. In Egypt, for example, FDI is expected to decline from 6.2 percent of GDP in 2008 to 2.8 percent of GDP in 2009. The country is forecast to have a budget deficit of 7.1 percent of GDP in 2009 and a current account balance of -1.0 percent of GDP. Between 2008 and 2009, exports from Egypt are expected to decline from $30 billion to $22 billion. The high exposure of these struggling economies will have a significant impact on both their firms and households, with the pressure felt by their whole populations.

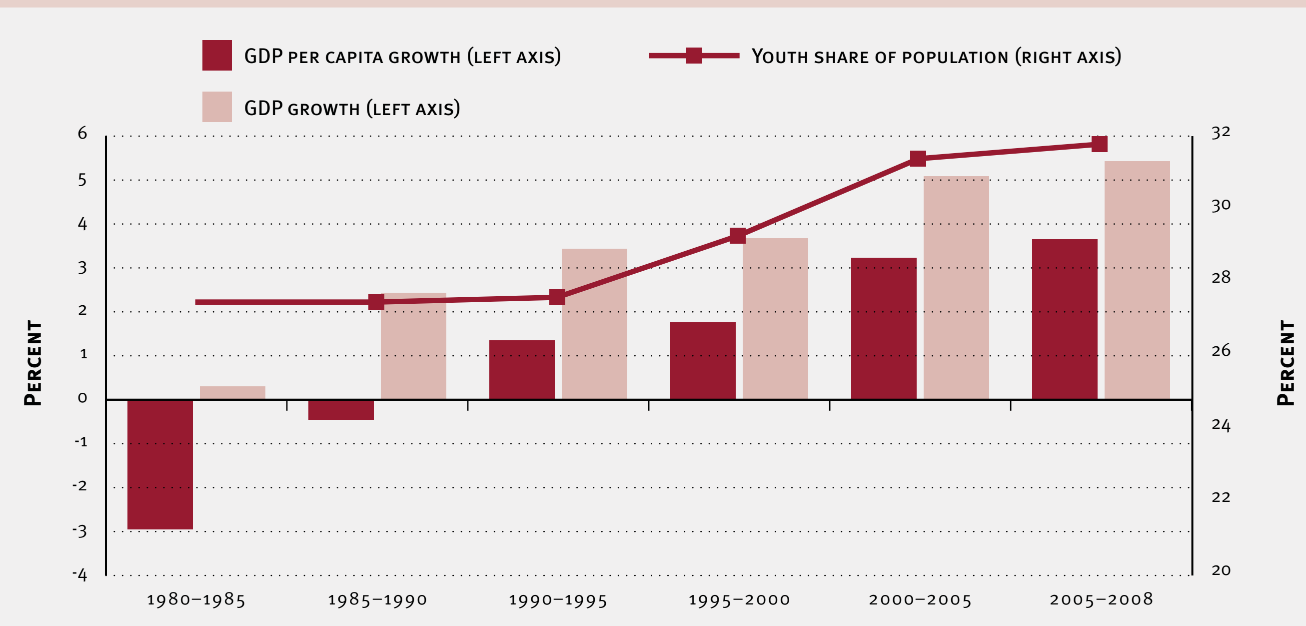
Source: Data from Economist Intelligence Unit (EIU) Country Reports, April 2009.

While the full effects of the slowdown on the region's labor markets will take place with a lag, adjustments in labor demand and employment are already underway. According to forecasts from the International Labor Organization (ILO), unemployment in the Middle East and North Africa is estimated to increase by 3 million in 2009.[28] Young people are particularly vulnerable, as youth employment is highly sensitive to fluctuations in economic conditions. Research on labor market conditions in developed countries has shown that an increase in total unemployment by one percentage point reduces the employment rate of youth by 1.1 to 1.8 percentage points.[29] In the Middle East, given the large youth population and labor market rigidities, the differential impact on young people could be even greater.

In the Middle East's formal private sectors, labor laws protect established workers and thus as growth opportunities decline and firms downsize, young people are more likely to lose their jobs. This is especially true for young migrant workers, who will return home to labor exporting countries like Egypt, Morocco and Yemen, placing an added strain on domestic labor markets. Though young people can fall back on their families as an informal social safety net, most do not have access to formal social protection mechanisms or unemployment insurance.

Moreover, since the majority of new entrants end up in the informal sector, this sector is likely to become a refuge for young people during the downturn, compressing already low wages. Thus, not only the quantity but also the quality of jobs available to young people risks deteriorating. Weakened labor market outcomes may impose new costs on societies across the Middle East, such as the depreciation of skills and lower lifetime earnings for young people enduring long periods of unemployment or low quality employment. In turn, these outcomes not only delay the transition to adulthood further, but

FIGURE 5: THE YOUTH POPULATION AND ECONOMIC GROWTH IN THE MIDDLE EAST, 1980–2008



Source: International Monetary Fund, United Nations Population Prospects, 2008.

also heighten the sense of discontent and frustration among youth. In some countries like Yemen and Egypt, labor reallocation or internal reverse migration back to agriculture and subsistence activities could increase the incidence of poverty.

Responses in the region must conform to existing reform goals to improve the welfare of young people. During tough times, governments might be tempted to increase government jobs and public sector wages as a quick fix to growing public dissatisfaction with high unemployment rates. Similarly, efforts to protect jobs through increasing labor market regulations may safeguard workers from job losses in the short-term, but may decrease firm competitiveness and create disincentives for future hiring among the private sector (See Box 8). Most importantly, these policies have distributional effects, extending the benefits to mature workers while placing the cost of adjustment on young workers.

To contain the crisis and ensure recovery, the Middle East, like everywhere, will also face competing arguments for what kind of economic system can best serve its people. Mounting social and political pressures could weaken the reform agenda designed to promote private sector growth and increased integration into the global economy. Rather than a reversal of open market policies, the crisis should serve as an opportunity for increasing competitiveness, promoting job creation, and developing a better skilled workforce to take advantage of a new global economy.

Box 8: Recent Job Protection Policies in the United Arab Emirates (UAE)

The labor market in the UAE, as in most Gulf countries, has long been defined by labor market segmentation between the public sector, which employs most nationals, and the private sector, which largely employs expatriates. In recent years, private firms have increasingly hired nationals into their workforces.

In February 2009, the UAE government issued a decree that prohibits private sector employers from laying off national workers for any reason, unless the worker engaged in serious misconduct.[30] While this policy is designed to protect the jobs of workers during tough economic times, the policy could actually have the opposite effect in the long run by providing strong disincentives for worker productivity and for firms to hire Emirati nationals in the first place.

In the future, firms will be more hesitant to hire young nationals because of new restrictions on dismissing Emirati workers. Instead, they will hire foreign nationals (whom they can dismiss) or older Emiratis with a proven record of experience rather than take a risk on hiring a young Emirati with unknown skills or qualifications. Thus, imposing a permanent solution to a temporary problem might actually do more harm, proving to be counterproductive to the country's overall goal of increasing employment of Emirati nationals in the private sector.