

Regional Integration and Creation of Youth Employment in the Mediterranean Region¹

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The Challenge of Youth Unemployment

Unemployment in the Middle East and North Africa region, encompassing several southern and eastern Mediterranean countries, is the highest in the world. Even before the crisis, the expansion of employment opportunities lagged behind economic growth in the region. Unemployment in this region remains, by and large, a phenomenon affecting young people between 15 and 24 years old and, more particularly, young women (International Labour Organization, 2015). Demographic pressures have been a leading cause of the high youth unemployment rates in the region, with large declines in infant mortality rates and high fertility rates over the past fifty years leading to high population growth rates. These rates translated into high labour force growth rates, a phenomenon which started in the 1970s in the northern Mediterranean countries but currently reaching its tipping point in the southern Mediterranean. These demographic pressures are bringing an increasing number of young job seekers into a labour market unable to provide sufficient job opportunities to absorb this wealth of new entrants. Chart 1 shows the ratio between youth and adult unemployment rates in 2015 for southern Mediter-

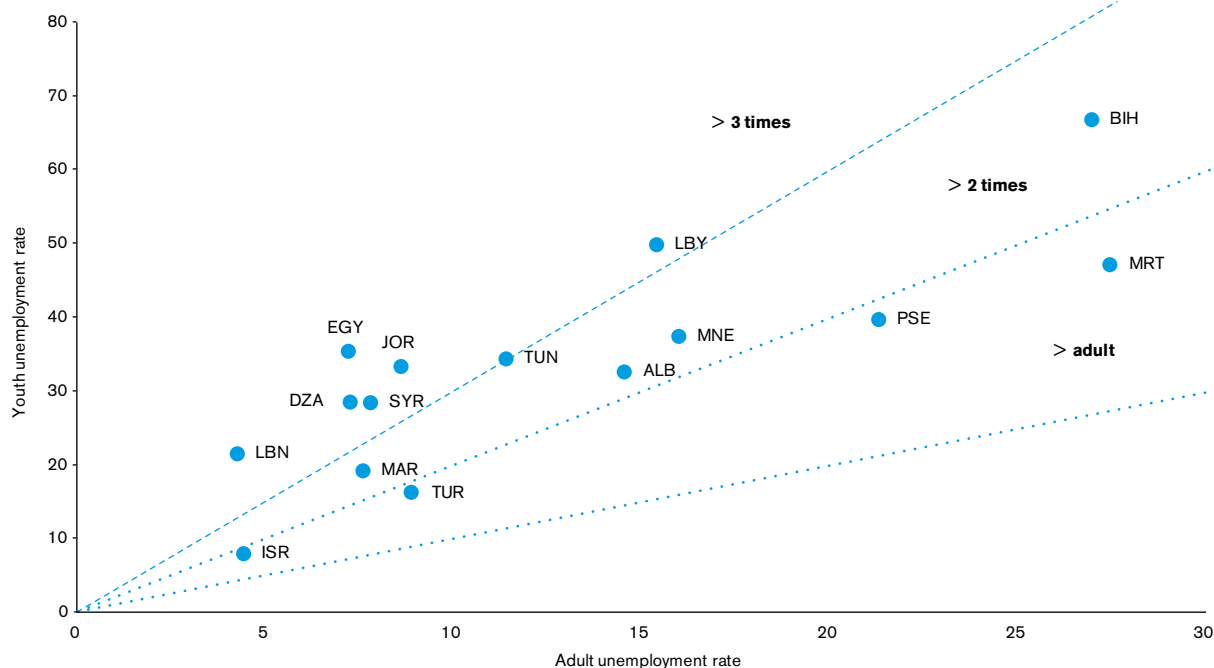
anean UfM countries. The lines represent the number of times when youth unemployment rates are above adult unemployment rates. While considering the very few exceptions, youth unemployment rate is more than three times higher the adult one. Young individuals have greater difficulties accessing jobs than the adult population during their transition from school to work. The main reason is their lack of experience (what is known in the literature as the “experience gap”), but there are several factors that can improve or even worsen this transition (European Training Foundation, 2015a).

These very high unemployment rates, particularly among the youth, have important economic and social consequences. On the one hand, labour market conditions is one of the most relevant pull factors to explain migration flows from certain countries to others with better labour prospects, not only to the European Union but also to other parts of the world. In fact, immigration among youth is clearly increasing and the destination areas are also changing from the traditional ones, EU countries no longer being the only main destination (United Nations, 2016). On the other hand, high unemployment rates are also discouraging youth from participating in the labour market (European Training Foundation, 2015b) in a region where NEET (Not in Employment, Education or Training) rates are also very high. For instance, and according to the latest estimates of the International Labour Organization with available Eurostat statistics for 2014, the NEET rate for the 15-24 age group is 23% in Algeria, 28% in Egypt, 16% in Israel and 25% in Jordan and Tunisia, while in the European Union it stands at around 12.5%.

¹ This article summarizes part of the findings in the forthcoming IEMED-EMEA report “Youth Employment and Regional Integration in the Euro-Mediterranean Region. Qualitative and Quantitative Economic Analysis on Whether and How Regional Integration Could Lead to Youth Employment” by AYADI, R.; KOSTAS, F.; PAROISSOS, L.; PANAGIOTIS, K.; RAMOS, R.; SESSA, C.; SESSA, E.; APPRIOUAL, A. and ALBINAYA, R.

CHART 1

Youth and Adult Unemployment Rates in Non-EU UfM Countries in 2015



Source: prepared by the authors using ILO data. ISO 3-digit country codes used to identify the countries.

Skill Mismatches and Insufficient Labour Demand

A striking feature of this phenomenon specific to the region is that education is not a guarantee against unemployment. Data suggest that the youth unemployment rate in the region increases consistently with the level of education attained. In countries such as Egypt, Jordan or Tunisia, young people who have completed their tertiary education are found to be two to three times more likely to be unemployed than those with primary education or less (ILO, 2015). The opposite is the case in more developed and developing regions where unemployment decreases as the level of education rises. The main reason for these high unemployment rates for more educated workers is the existence of skill mismatches in labour markets across the region. In order to improve the situation, governments could reform education and training systems in order to develop adequate skills (UNESCO, 2016). Moreover, intermediation systems can also be improved to achieve more efficient job matching.

Putting aside the factors described above, which are mainly related to labour supply, labour demand remains the prime determinant of how many and what types of jobs are created, and most labour markets in northern and southern Mediterranean countries have important constraints as regards this area. First, macroeconomic conditions and the institutional frameworks are not supportive of business development and job creation, as regularly highlighted in the World Bank Doing Business reports or by the World Economic Forum (2016). Labour market regulations are identified as an important impediment to employment creation and, more broadly, a core constraint to business expansion. The negative effects of a rigid regulatory framework and the resulting risk-averse behaviours of employers are particularly severe for first-time job seekers. Second, the high share of the public sector in terms of employment (Behar and Mok, 2013) and the high presence of informal firms and jobs (OECD, 2009) also represent an important limit to the creation of high quality jobs and to greater growth in productivity, as previously noted.

Regional Integration and Job Creation

As highlighted by the UfM's ad hoc work group on job creation (2016), labour market policies should not only concentrate on the supply side but they should be designed as a comprehensive package of measures involving supply and demand policies and looking to establish positive synergies between them. The main policy objectives should be to improve workers' employability and achieve better matches, as well as create more and better opportunities for employment by means of a sustained and inclusive growth in demand. Governments should increase resources devoted to more efficient active labour market policies (ALMPs), and focus on vocational and educational training, orientation, intermediation and career guidance.

Regarding employment creation, more and better jobs can be generated by improving competition in product markets through deregulation, but also by investing in infrastructure and adopting smart specialization strategies that would bring more benefits from further regional integration. In fact, better coordination between countries in the region through deeper regional integration could boost employment through different channels. It is widely accepted that providing better access to markets through the elimination of trade barriers could create new opportunities for competitive firms which, in turn, would increase labour demand and contribute to generating new jobs in the region. The elimination of tariffs on imports could allow domestic prices to fall to the lowest in the region. Initially, domestic production falls, but domestic consumption increases and total imports also increase. Larger markets as a result of regional integration may allow firms to exploit economies of scale, thus driving down costs and prices to local consumers. It may also increase the range and variety of products which are available to consumers. The reduction in tariffs leads to trade creation among the participants in the liberalized region.

The effects of tariff reduction on economic welfare can be broken down into three parts: the gain to consumers from lower domestic prices, the loss of profits to producers and the loss of tariff revenue to the government. Under standard assumptions, consumer gain exceeds the losses for producers and governments from reducing tariffs and there is an

overall gain in national welfare as a result of such a policy change. Similar results are obtained for non-tariff barriers. A part of trade creation, trade diversion, also occurs: imports from a third external country are now displaced by imports from partners that are now cheaper in relative terms, and this also contributes to job creation.

However, although the effects of further integration would be positive in the medium and long run, there could be an initial displacement of workers. In particular, trade liberalization induces an expansion of export-related sectors, but, at the same time, there is a reduction in the local demand for import-competing sectors that displaces workers in these sectors to non-tradable activities or alternatively to newly created sectors. In fact, further economic integration can generate clear productivity gains. Importing, in theory, creates more competition forcing domestic firms to become more efficient or, if not, to disappear, and it also provides better access to new technologies and knowledge transfer. Those firms that ride the wave of continuing transition toward higher productivity in tradable activities typically pay higher wages to their workers, and these workers tend to have greater skills and be in less routine occupations; but low-skilled workers and workers undertaking routine jobs could be put at risk. This is why policy efforts should take these dynamics into account and be devoted to minimizing the negative effects of this transition.

Better coordination between countries in the region through deeper regional integration could boost employment through different channels

If closer integration via competition improves the efficiency with which factors are combined it is also likely to induce greater investment. While this additional investment is taking place, countries may experience a medium-term growth effect. If such investment is associated with faster technical progress or accumulation of human capital, long-run growth rates may also be improved. Lastly, other economic aspects can also be added to the trade effects al-

ready described. In particular, infrastructure development could be improved, providing better access to markets through more efficient transport networks that could also attract more foreign direct investment, thereby reinforcing the positive effects of labour market integration.

Using a Computable General Equilibrium model, Ayadi et al (2017) have quantified the impact on youth employment creation of deeper regional integration among Mediterranean countries. If the current regional integration is maintained and countries take action to reduce public budget deficits, to improve their trade balance and to upgrade their infrastructure, youth unemployment rate is predicted to fall from 25.7% in 2015 to 17.6% in 2040 (amounting to the creation of no fewer than 4.4 Million jobs). This situation has been compared with a scenario of deeper regional integration considering two different layers: the gradual abolishment of tariff and non-tariff barriers, and process harmonization among countries and increased governance. Under this alternative scenario, an additional 570,000 youth jobs are created, as compared with the shallow integration scenario. This positive impact is due to the improvement in overall economic activity (lowering the investment risk supports economic growth more effectively than removing tariff barriers) and a better alignment of skilled labour with capital.

The main assumption underlying this vision is that enhancing the position of the Mediterranean countries would require a stronger, accelerated and deeper regional integration process using a multidimensional, comprehensive and novel policy agenda regarding infrastructure, innovation and industry (underlined in a co-development strategy) implemented across several sectors: transport, energy and de-carbonization, water, digital economy, blue economy and sustainable urban development. It would also require strengthened cooperation on innovation, R&D, education, employment and youth employability programmes, as well as developments in social agenda issues (e.g. youth and women empowerment). The guiding principles and targets of

this new policy for the region will develop a new constructive dynamic, which will boost investment, regional projects and infrastructure development. This, in turn, will have a multiplier effect in terms of economic growth and job creation.

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