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# ▶ Trade, investment and employment in the Southern Mediterranean Countries

Thematic Report of the “Mainstreaming Employment  
into Trade and Investment in the Southern  
Neighbourhood” project



# ▶ **Trade, investment and employment in the Southern Mediterranean Countries**

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## ► About the METI programme

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Mainstreaming Employment into Trade and Investment (METI) is a programme hosted in the DEVINVEST branch of the [ILO's Employment Policy Department](#), funded by the European Commission (EC) and implemented by the ILO. METI aims to better enable policymakers in Middle East and North Africa (MENA) to incorporate an employment perspective into trade and investment policies. This will support the design and implementation of investment strategies that optimize the quantity and quality of employment creation in the region. These objectives are all the more urgent in the context of post-[COVID-19](#) pandemic recovery.

The programme is facilitating the operationalization of the [EU's External Investment Plan \(EIP\)](#) that aims to support inclusive and sustainable development of the [Southern Neighbourhood region of the European Union](#). It aims to boost public and private investment to create more jobs and higher growth and work towards meeting other [UN Sustainable Development Goals](#). METI was launched in the fall of 2020 and will continue to support policymakers for a four-year period.

For more information, please visit: <http://www.ilo.org/meti>

## ► Executive summary

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Trade, investment and industrial policies are at the heart of economic transformation and of job-rich strategies in developing countries. In the Southern Mediterranean Countries, despite the many reforms adopted over the past decades, structural transformation remains slow and the impact of these policies on job creation remains low, especially for women and youth. This thematic report examines the evolution of these policies and their impact on economic transformation, diversification of exports and the labour market, with a focus on youth and women, and on small and medium-sized enterprises in the region. The report also provides an analysis of future trends that are expected impact to the labour market in the region.

### Overview of the labour market, trade and investment

*Chapter 1 provides an overview of the current economic outlook in the region, with an overview of the labour market and the evolution of trade and investment in the region.*

The Southern Mediterranean Countries has been through significant political and economic turmoil, from the 2011 social movements to the global COVID-19 crisis, with many country-specific events that had a significant impact on the region's economic trajectory. The 2011 social movements, which started in Tunisia and swept through to Egypt, Libya and other countries in the region, were driven mainly by youth striving for economic and social prosperity, for more participation in shaping their countries' development paths and for a democratization of the political systems. Countries like Jordan and Lebanon have also been severely affected by the Syrian Civil War, which started in 2011.

Overall, economic growth in the region has been lower than its potential over the past decade. The disappointing economic growth in the Southern Mediterranean Countries is reflected in the region's labour market outcomes, characterized by a low labour force participation rate, especially for women and youth, high levels of unemployment and informality, and low levels of quality job creation. A decade after the 2011 social movements,

very little has changed for the economic reality of women and youth in the region. For instance, the female labour force participation rate is one of the lowest globally, lower on average than other countries within the same or a lower income category. Similarly, for youth (15–29 years), the labour force participation rate is much lower than the rate for their older peers. The significant share of women and youth not participating in economic activities and not even looking to be economically active hints at the difficulties that women and youth face to participate fully in their countries' economies.

The share of the Southern Mediterranean Countries in global trade did not improve over the past decades. In 2019, the region accounted for about only 0.08 per cent of world merchandise exports in 2019 and 1 per cent of world merchandise imports in the same year.<sup>1</sup> The region's merchandises imports are significantly higher than its exports, with a shift in the dynamic in 2008 and a widened gap since then. The higher growth in imports than in exports, in general, resulted in persistent trade and current account deficits among oil-importing countries in the region. Lebanon, Morocco, Jordan, Tunisia, the Occupied Palestinian Territory and Egypt have been running large and persistent trade deficits for more than a decade. In contrast, the region's oil exporters have historically significant current accounts and trade surpluses, although that has changed in recent years for Algeria. Moreover, the region has important vulnerabilities in trade. These include the high volatility of exports for oil-dependent countries, which was demonstrated in 2020 by the huge drop in oil prices and its impact on the economies of Algeria and Libya. Also, there is a high concentration of export markets, particularly in Europe, especially for North African countries. Finally, despite its relatively open regional economy, there is little intra-regional trade, and non-existent trade between some countries in the region.

The Southern Mediterranean Countries has adopted several reforms to attract foreign direct investment (FDI) over the past decades, including reforms of the regulatory frameworks and the establishment of special economic zones. Despite these reforms, FDI inflows have increased at a relatively low pace in the region between 2005 and 2019. FDI inflows

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<sup>1</sup> Calculations based on UNCTAD data.

represented 2.1 per cent of total GDP in the region in 2019 and have constantly been growing in stocks. However, FDI inflows have been unstable, especially after the 2011 social movements and the impact of the COVID 19 pandemic on the global economy.

In addition to reforms at the national level, efforts have also been made to foster regional integration. The launch of the Union for the Mediterranean (UfM) in 2008 led to noticeable improvements in terms of collaboration and trade intensification. Although trade relationships intensified between several countries in the region, there remains considerable untapped trade potential between the Southern Mediterranean Countries and non-EU or UfM countries.

The nexus between the labour market and trade, investment and industrial policies is particularly important for the Southern Mediterranean Countries. If channelled correctly, through effective institutions and industrial policies that promote structural change, trade and investment policies could help the countries in the region expand their productive sectors, including for SMEs, while creating much-needed quality jobs, including for women and youth. In this context, promoting dialogue and technical cooperation within the region provides an important opportunity to further accelerate these efforts and foster regional integration.

## Trade, investment, industrial and employment policies and their impact on the labour market

*Chapter 2 provides an overview of industrial, trade, investment and employment policies in the region, and their impact on exports and job creation, including in productive and tradable sectors.*

The Southern Mediterranean Countries followed the international trends in terms of industrial and trade policies. After independence, all countries in the region adopted policies to protect and develop their local industries and reduce dependency on the more developed countries in the 1970s and 80s. Many countries in the region started focusing on export promotion and trade liberalization. These policies, however, were implemented at a different pace and intensity across the region. During the

1990s, most countries in the region adopted structural adjustment reforms prescribed by the World Bank and the IMF. With the structural adjustment programmes (SAPs), countries in the region went through a significant wave of privatization. As a result, trade barriers, specifically trade tariffs, progressively and significantly decreased in the region. Over the last two decades and particularly since the mid-1990s, countries in the region have relatively opened their economies and tried to integrate them into the global economy by adopting a set of trade and investment policies that aim to attract foreign direct investment (FDI) and improve their levels of exports. These policies also aimed to improve labour productivity, support SME development, foster the convergence process with developed economies and create more jobs, including quality ones, to absorb the entrants to the labour market. In the 1990s and 2000s, parallel to these substantial trade liberalization reforms, countries in the region embarked on considerable investment reforms either through the revision of the regulatory frameworks or the establishment of special economic zones (SEZs), also called free zones (FZs), free trade zones (FTZs) or export processing zones (EPZs) in order to create mainly fiscal incentives.

Countries in the region have also implemented a number of industrial policies including both transversal and targeted objectives, with a set of policies and measures to improve the market functioning and the business environment and targeted support to sectors that could yield productivity growth and development. Morocco and Egypt stand out in the region as the countries that have put the most effort into designing and implementing industrial policies that combine transversal and targeted interventions. Morocco is the only country to design and implement a repeated self-discovery process, with an updated list of targeted sectors and interventions based on identified economic changes. The design of industrial policies can be significantly improved for all countries in the region. The main gaps remain on the conditionality of support provided to firms,<sup>2</sup> the embeddedness and social dialogue with the private sector and the transparency in the implementation. Most of the countries in the region have some level of public-private dialogue. However, an effective dialogue requires formalized forums, frequency and transparency in the decision-making and deliberations, which remains a weak spot for most countries in the region. Another

<sup>2</sup> This is the carrot and stick feature as described by Dani Rodrik (2008).

major gap is on the implementation and its transparency. There is limited information available on the implementation mechanisms, which suggests that transparency and monitoring and evaluation mechanisms remain to be improved in the region.

In terms of employment policies, not all countries have separate and explicit national employment policies (NEPs), some countries incorporate employment measures in national development plans or other national policies. There are various dynamics that helped the adoption of NEPs. First was the job crisis, which helped put employment policies on the agenda from the early 2000s. Second, the 2020 labour market disruptions arising from the COVID-19 pandemic are confirming the crucial role of employment policies, not only to mitigate the short-term impacts of the crisis, but also to promote recovery and strengthen the resilience of economies and labour markets to adverse shocks in the long-run. Third, employment policy processes have also been stimulated by socio-political crises specific to certain countries. A notable example was the 2011 social movements, in which people's claims and protests also centred around access to employment. From 2010 onwards, this led to the emergence of NEPs in Arab countries such as and **Morocco and Tunisia**.

Overall, these policies did not result in effective structural transformation. Since 2000, the region has gone through a shift of labour from agriculture; however, this shift has been mainly towards services, with at best a relatively stable share of manufacturing and industry in different countries. In terms of outputs, the contribution of the broad sectors to GDP in value-added did not significantly change in the countries in the region. In terms of both employment and outputs, most of the economies in the region are service driven, particularly in Lebanon, in which the share of services in outputs increased to around 80 per cent in 2019. Countries in the region are witnessing an early deindustrialization. Manufacturing, which has been historically the driver of structural transformation for more advanced economies, has a different weight across the region but has been at best stagnant and at worst decreasing in countries in the region.

Trade, investment and industrial policies have generally yielded some positive results in the region, with higher levels of exports pre-COVID-19-pandemic in 2019 than in 2000. However, the results have been uneven across countries in the region. Egypt and Morocco in particular have been driving the export growth in the region, reflecting both

countries' efforts in trade, investment and industrial policies undertaken in the past two decades. Exports of both countries significantly increased since the early 2000s, except for a downward trend between 2011 and 2015. In 2019, both countries had very similar levels of merchandise exports, which is quite remarkable for Morocco, considering the differences in the size of both economies (Egypt's GDP is 2.5 times higher than Morocco's GDP). The evolution of skill and technology intensity of exports in the region shows an increase in the share of medium-skill and technology-intensive and high-skill and technology-intensive manufactures in exports in Morocco, Egypt and Tunisia. This indicates a certain level of sophistication improvement and upgrade of technological capabilities in these economies. However, the region did not witness a significant diversification of exported products, except for some encouraging signs in Egypt, Morocco and Tunisia, including in the electronics and automotive sectors in Morocco and, to a lesser extent, in Tunisia, and electrical machinery in Egypt.

Most countries in the region have not significantly improved their levels of FDI. Inward FDI flows in most countries in the region increased significantly between 2000 and 2008 and have been on a declining trajectory since then, except for Egypt and Morocco. For other countries, pre-pandemic FDI levels have been stagnating at best. FDIs in the region are not yielding the expected results, with most investments concentrated in capital-intensive sectors. Hence, the impact of FDIs in job creation, labour productivity and structural change might not be to the level expected by policymakers in the region. A focus on the domestic linkages with local SMEs should be enhanced to maximise the impact of these FDIs and their contribution to domestic economic outcomes.

Overall, and despite the industrial, trade and investment policies implemented, there hasn't been a significant employment growth in the region in tradable sectors, such as manufacturing and tradable services. Workers in almost all countries are moving out of agriculture, mainly towards the non-tradable and low-productive sectors. However, exports and trade have increased demand for higher skills in the region, particularly in Egypt, Morocco and Tunisia, in line with an increased share of skill and tech-intensive exports. Tradable sectors and particularly manufacturing, were not able to create enough demand for the region's labour force. The share of manufacturing in employment in almost all countries has decreased, except in Egypt. At the same time, the



share of wholesale and retail has almost systematically increased. Other non-tradable sectors such as public administration and education have contributed significantly to job creation. There are some encouraging signs, however, in generally high-skilled tradable services, particularly in Morocco, which is in line with the increasing role that trade in services is playing in the region. Tradable services have significant growth potential in the region; however, they will mostly increase the demand for high-skilled workers. Focusing on high-skilled sectors and other sectors in manufacturing that would absorb the important share of low- and mid-skilled workers seems to be the right approach for countries in the Southern Mediterranean Countries.

The impact of trade policies on the labour market is not only determined by the level of trade liberalization and trade policies but also depends heavily on the adoption of other sets of policies that are coherent with trade policies and that build the necessary environment for their success. As discussed earlier, the quality of industrial policies in the region is relatively low, despite some encouraging signs in Egypt and Morocco. Trade policies need effective industrial policies to yield the expected positive outcomes and provide quality jobs for workers in the region. The impact of both industrial and trade policies in the region depends heavily on the quality of infrastructure. Infrastructure can be defined by physical and soft infrastructure and is an important input to economic development and trade expansion. Physical infrastructure includes roads, connectivity, telecommunications and ports and soft infrastructure includes finance, human capital and the quality of institutions. Overall, the quality of hard and soft infrastructure in the region can be significantly improved to unlock the potential of trade and industrial policies and their impact on the labour market. For instance, the quality of institutions in the region is particularly low. The 2011 social movements marked an attempt to reform the extractive economic institutions that led to endemic corruption, strong rent-seeking business-state ties and ultimately low levels of quality job creation and growth. The success of industrial policies depends on the capacity of the state to establish a transparent and collaborative relationship with the private sector, with a clear set of rules and incentives, and a “carrot-and-stick” attribute that would decrease the rent-seeking approach. Countries in the region should focus on reforming the economic institutions, including the competition laws and agencies, and promoting the rule of law if they are to stand a chance in developing their economies and benefit-

ting from a positive impact of trade and investment on their economies.

## Trade, investment and industrial policies and youth and women in the labour market

*Chapter 3 provides a detailed analysis of youth and women in the labour market in the region, and the evolution of their employment in productive sectors, including tradable ones over the last two decades.*

Youth in the Southern Mediterranean Countries struggle to secure quality jobs and develop their economic potential. The labour force participation rate in the region is lower than 40 per cent for youth and the region also suffers from relatively high shares of youth not in employment, education or training (NEET). Youth unemployment rates in the region are one of the highest globally, ranging from a maximum of 42 per cent in Algeria and a minimum of 19 per cent in Tunisia in 2019. The unemployment rate has increased with the increase in levels of educational attainment, suggesting significant skill mismatches in the countries in the region. Unemployment has increased in particular for graduates and educated youth in the region, including for Tunisia and Jordan, two countries that have achieved relatively important levels of participation in tertiary education.

The tertiary graduates' unemployment is particularly problematic for the region. It indicates low returns of investment in education and might influence future generations' choices and lead to an overall decrease in human capital accumulation in these economies. Moreover, graduate unemployment is an economic and human capital loss for the middle-income countries in the region, considering the high opportunity cost of completing education at higher levels. Graduate unemployment reflects the absence of structural transformation and therefore the incapacity of the economies to create quality jobs for its educated youth. The high levels of youth unemployment and the lack of economic dynamism led to significant migration, including an undocumented one, and brain drain levels in most countries in the region. The share of highly skilled individuals among the migrant population has increased in these countries, reaching 20 per cent among migrant youth in 2017, suggesting a brain drain.

Employed youth in Egypt, Jordan, Occupied Palestinian Territory and Tunisia seem to be doing better when compared to their peers in other countries in the region in terms of participation in tradable sectors. Overall, the share of youth working in manufacturing and in tradable sectors is higher than for older workers. Manufacturing has, in general, increased demand for high skilled youth workers and in most countries, the demand for high-skilled youth has increased faster than for high-skilled older workers. However, youth tend to be more concentrated in low-skilled non-tradable sectors than their older peers, mainly in construction and wholesale and retail. Finally, there is no clear trend for the level of skills: Employed youth tend to be slightly better educated and with higher skills than their adult peers in Egypt and Tunisia and with lower levels of education in Jordan and Occupied Palestinian Territory.

As countries in the region have adopted new development models that are export-oriented, the demand dynamics for female labour should have significantly changed. However, in the Southern Mediterranean Countries, women are still facing structural challenges to participating in the labour market. The female labour force participation rate in the region is among the lowest in the world, with only 22 per cent in 2019. In the region, countries with the highest levels of educational attainments, such as Jordan and Tunisia, do not have the highest levels of female labour force participation rates. The female labour force participation rate is the highest in Libya (32 per cent), where females are less likely to be highly educated than any other country in the region. The low labour force participation rates for women and the overall high levels of education in the region constitute a paradox. In general, women's propensity to participate in the labour force increases with higher levels of education. However, there is no clear correlation between levels of education and levels of labour force participation for women in the region, which indicates that there are structural challenges for women's labour force participation outside of skills challenges.

The low levels of female labour force participation rates in the region are due to a lack of economic dynamism in the region as well as to social norms and stereotypes. Women in the region have generally preferred public sector employment for its formal nature and its security. However, the public sector opportunities have declined since the structural adjustment reforms in the 1990s, despite the important role they continue to play. In parallel, the private sector has been unable to provide the same

quality of jobs offered by the public sector, including for highly educated and married women. Other root causes reinforce and perpetuate the social norms and stereotypes, such as inadequate child-care provision, low access to affordable and public transportation, discriminatory family and labour laws and low wages and economic compensation.

Within the labour force, women in the region experience higher levels of unemployment, despite being more educated than men. There are larger shares of women with higher education than men in the labour force in almost all countries in the region. Palestinian and Jordanian women in the labour force are the most educated, with respectively 63 per cent and 58 per cent with tertiary education in 2019. Yet, unemployment is much higher for women than men in the region, except for Morocco, where the unemployment rate is at similar levels. The high women's unemployment rates can be explained by the same constraints leading to their exclusion from the labour force. Also, it can be explained by the significant number of women in the region, especially in Jordan and Tunisia, queuing for the perceived "female-friendly" jobs, including in the public sector, which is reflected by the long-term unemployment for females.

As a result of meagre labour force participation rates and high levels of unemployment, the share of women in employment is very low across all countries in the region, ranging from 14 per cent in Jordan to 32 per cent in Libya. Women tend, in general, to work in a limited number of sectors, mostly in services. North African economies tend to be more inclusive for women, as women in Algeria, Morocco, Tunisia and Libya tend to work in more diverse sectors, including agriculture and manufacturing. For instance, in Libya, women represent 45 per cent of employment in manufacturing and 31 per cent of employment in agriculture. In Morocco, women represent a significant share of employment in agriculture (37 per cent) and manufacturing (29 per cent). Tunisian and Algerian women are more represented in manufacturing (43 per cent and 36 per cent) than in services (28 per cent and 22 per cent). In employment, women in Egypt and Tunisia suffer from a relatively large gender wage gap, with the mean gap using monthly earnings being respectively at 14 and 9 per cent. However, in Jordan, the gender wage gap is less of a concern as it is estimated on average at only 2 per cent using the monthly earnings.

Overall, women are more shifting out of tradable sectors towards non-tradable ones in the region.

This is mainly driven by a shift of labour of agriculture that has not been replaced at similar levels in other more productive tradable sectors. This trend is however more pronounced for women than for men. The share of manufacturing female employment has decreased in almost all countries, with the exception of Egypt, while it remained relatively stable for men. Male employment in tradable services has generally increased, while it remained either stable or decreased for women. Tradable services represent in general a very small share of female employment in the region, at lower levels than men and their share in employment has been mainly increasing for men. Women in the region tend to be concentrated in a handful number of sectors, mainly high-skilled services such as education, healthcare and public administration. The share of these sectors in female employment has significantly increased in almost all countries, translating to the increase of high-skilled female workers in the region's labour force. Also, the share of wholesale and retail has significantly increased for female workers in most countries in the region.

### Policy orientations based on analysis in Chapters 1, 2 and 3

Overall, the slow structural change and the early deindustrialization that countries in the region are experiencing reduces the capacity of the economy to create productive and quality jobs for its relatively young and increasingly educated population. The high adjustment costs that trade policies and increased competition impose on firms and workers, especially vulnerable ones, might lead to sub-optimal outcomes. In the case of the Southern Mediterranean Countries, this has led to a decreased participation of women in tradable sectors in the labour market. The structural issues that women and youth face in the labour market, beyond the impact of trade policies, negatively impact labour productivity growth and output growth in the region, with an economic potential that remains untapped. Increased youth and women labour participation would help to improve economic outcomes in the region through increased human capital accumulation and increased household income, potentially leading to further consumption and an increase in local demand, and, finally, a decrease in the dependency ratio.

Addressing this requires integrated trade, industrial and domestic policies that reduce the possible unequal impact of trade liberalization on

the labour market. Women in the region tend to be highly educated and engage mainly in formal employment; therefore, focusing on high-skilled tradable sectors that could absorb this labour force is crucial for women's economic empowerment and inclusive trade and investment policies. Industrial policies should be used as a transmission channel for trade and investment policies to realize a productive structural change and yield the intended results, including creating opportunities for women and youth to benefit from trade liberalization and sophistication of exports. Countries in the region should focus on structural transformation to reverse the early deindustrialization and foster long-term and inclusive growth.

Policymakers in the Southern Mediterranean Countries need to incorporate employment issues into trade and investment policies and design and implement trade and investment interventions that ultimately optimize the quantity and quality of employment created in the region. This would require adopting effective and modern industrial policies that would act as transmission channels to yield an inclusive and positive impact of trade policies on the region's labour markets. Active and passive labour market policies and programmes can be used as a tool to facilitate labour mobility, facilitating the reshuffling of productive factors and improving the capacity of vulnerable workers to face the significant adjustment costs imposed by trade liberalization. Moreover, investment in physical infrastructure can foster employment creation and trade expansion by facilitating labour mobility and reducing the adjustment costs of workers and firms to trade liberalization. Investment in infrastructure can also foster trade expansion by lowering the trade-related transaction costs, including communication costs, domestic transport costs, time and money spent in ports on border procedures and international transport costs. Overall, a well-developed physical infrastructure can reduce the non-tariff barriers to trade.

### Future trends in the labour market

*Chapter 4 provides an analysis of the COVID-19 impact on the labour market and potential pathways for recovery, as well as future trends that might disrupt the labour market in the region, with a focus on the technological revolution.*

The COVID-19 crisis has resulted in severe economic and social consequences for the Southern

Mediterranean Countries. All countries in the region have witnessed a significant GDP contraction, with a more pronounced decrease in Libya and Lebanon (in the case of Lebanon, this is mostly due to the significant ongoing social and economic crisis). The IMF estimates a recovery in almost all countries in the region, except for Lebanon, where the economic and social situation remains highly uncertain. However, considering the health crisis, these estimations for recovery might be too optimistic. The level of investment has also significantly dropped in most countries in the region, except for Jordan and Libya. The COVID-19 crisis is also impacting the macro-economic balances in the countries, with an increase of the gross debt (as a percentage of GDP) in most countries and a decrease in public revenues. In most countries in the region, public revenues dropped in 2020, driven by the shock on the real economy.

Trade and particularly exports in the region have significantly dropped due to the pandemic. Most countries in the region have exported fewer goods and services in 2020, except for Egypt, which witnessed a 3 per cent growth in goods exports between 2019 and 2020. Exports of goods in 2020 have decreased in Libya in particular, driven by the oil crisis. While high-income countries are currently slowly recovering, it remains unclear how the recovery will be for the Southern Mediterranean countries.

The COVID-19 pandemic has severely affected the labour market in the Southern Mediterranean Countries. As witnessed across the world and as expected, the COVID-19 crisis has led to relatively significant job layoffs in the region, and most businesses have reported severe drops in sales and outputs due to the COVID-19 crisis. Moreover, the crisis has impacted the level of wages of workers and incomes for households in a significant manner in the region. However, wage-employed workers in the public sector have been the least concerned by wages decrease. Most countries in the region have adopted relatively quickly several measures to reduce the impact of COVID-19 on their economies, despite relatively low incidence of the health crisis in the second quarter of 2020, during which most of these measures have been adopted. The measures have three main objectives: simulating the economy, protecting jobs and incomes, and protecting workers in the workplace.

The recovery from the COVID-19 crisis in the Southern Mediterranean Countries will strongly depend on the effectiveness and speed in tackling

the health crisis. Globally, there are signs of recovery in international trade, especially within high-income countries; however, the pathways for recovery in the region remain uncertain. International travel remains highly disrupted, directly impacting a strategic sector in most countries: the tourism sector. Recovery in FDI is also highly uncertain, and particularly for new greenfield projects in the manufacturing sector, outside of the extractive industries.

The investment and production dynamics within some sectors that are particularly important for countries in the region, such as the textiles and apparel, pharmaceuticals, and electronics and automobile equipment, might shift to favour more nearshoring and reshoring activities. Another pathway to recovery includes the level of public and private investment into productive sectors that could upgrade technological capabilities and strengthen the local manufacturing sector. The COVID-19 crisis highlights even further the importance of industrial policies and of developing the local production capabilities. Industrial and trade policies should therefore be geared towards not only integrating countries in the region in the global value chains (GVCs) but also towards building high-growth SMEs in high-productive sectors, which could strengthen the countries' resilience in the case of a new global pandemic and significant disruptions in the GVCs. Other pathways to recovery are the levels of investment in human capital and the bandwidth within government to drive key and reforms that promote structural transformation.

Other trends might shape the future of work in the region and globally, driven by the technological revolution that might be accelerated with the COVID-19 crisis. The future of work and the impact of new technologies on the labour market are among the most debated questions today. The adjustment costs to these new technologies might be high, especially for low-skilled workers currently engaged in routine-based tasks that are more likely to be computerized and automated than other tasks. This might lead to an increase in inequality among low- and high-skilled workers, as high-skilled workers are generally not involved in routine-based tasks and as the new technologies are likely to increase the demand for this segment of workers. More broadly, technological innovation might slow down or disrupt the convergence process and widen the inequality gap between high-income and low- and middle-income countries.

Innovation in technologies is evolving at an exponential and unprecedented pace and affect all

economic sectors. Technologies that are likely to be the most disruptive are artificial intelligence, big data, the internet of things and connected devices, text, image and voice processing, robotics, 3D printing and modelling, cloud computing and biotechnology.

While globally the impact of these technologies on the labour market and the share of jobs that will be automated is highly debated, for countries in the Southern Mediterranean Countries, the impact of technologies is linked to another central and critical question: will these technologies slow down or accelerate their convergence process, and will they provide an opportunity for these countries to “leap-frog” and bridge the productivity and knowledge gap with high-income countries? Technologies such as artificial intelligence (AI) are likely to be labour-saving, which would devalue the main competitive advantage that most low- and middle-income countries have. The threat of automation in low- and middle-income countries is more a concern within the manufacturing sector, considering the historic role that this sector has played in structural transformation. Manufacturing, which has historically absorbed mostly low-skilled labour engaged in repetitive tasks, could be highly exposed to automation. In manufacturing, three main technologies are expected to disrupt the industry: robotics and AI, 3D printing and the internet of things. These technologies can be combined and are most likely to be adopted in parallel to respond to the increasing demand for customized and personalized products in different sectors. Within manufacturing, different sectors are exposed in different ways to the automation threat, with automotive and transport equipment, pharmaceuticals and electronics and cars components being the sectors identified by the literature as the most at risk for automation.

The impact of these technologies on the labour market and the extent to which countries will benefit from this ongoing revolution will likely be determined by at least four main variables that influence the potential adjustment costs in different economies. These are: the pace of innovation and technological change globally, which is currently growing exponentially; the level of digital infrastructure in each country; the level of skills and its readiness for technology in each country; and the absorption rate

of technology by firms globally and in each country. The absorption rate of technology by firms globally and in the Southern Mediterranean Countries will be influenced by the cost of technologies compared to labour costs, as well as by the adoption of the current levels of human capital within firms, and their capacity understand, to invest and adopt these technologies. The absorption rate of firms heavily affects the potential for automation.

Overall, it is very difficult to assess the impact of these technologies on the labour market in the Southern Mediterranean Countries. It is easier to assess how technology will shape the demand for skills than it is to estimate its effect on job losses. There seems to be a consensus on the role of human capital in the future of work and that the highest disruption caused by technological change will most probably be on the demand for skills. As discussed above, routine tasks are the most likely to be highly automated, which would decrease the demand for low-skilled workers. Moreover, soft skills or cognitive skills are expected to gain momentum and importance as these are skills that are unlikely to be automated, which would increase the demand and the premium for these skills. Therefore, the quality and composition of human capital in the Southern Mediterranean Countries and the level of investment to prepare workers in these countries for the technological revolution will play a significant role in the adjustment of their economies to the future of work and represent important variables that would determine if countries in the region would witness more job displacement or more job replacement and creation.

## Policy orientations based on analysis in Chapter 4

Policymakers in the region need to proactively align industrial trade and employment policies with the technological revolution. This includes designing and implementing proactive and anticipative education and training policies to prepare the labour force and workers for the disruptions in the labour market. There is a need to invest in developing digital and soft skills for all workers, including for low-skilled workers who will be the most affected by the technological revolution.

# ▶ Chapter 1

**Overview of the labour  
market, trade and investment  
in the Southern Mediterranean  
Countries**

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## ► Chapter 1. Overview of the labour market, trade and investment in the Southern Mediterranean Countries

### 1.1. Overview of the Southern Mediterranean Countries

The Southern Mediterranean Countries<sup>3</sup> is an economically diverse region that includes countries with different natural endowments, economic structures and economic development stages. The economies in the region can be assigned to three main categories: a) oil-exporters such as Algeria; b) those that are more diversified and trying to emerge as knowledge-based economies, such as Egypt, Jordan, Tunisia, Lebanon and Morocco, and c) economies impacted by war and occupation, such as the Occupied Palestinian Territory. Libya could fall under categories a) and c), as the country has been going through a series of conflicts and civil unrest since 2011. Most countries in the region are lower-middle-income countries, except for Lebanon and Jordan, classified as upper-middle-income countries (table 1).<sup>4</sup>

The Southern Mediterranean Countries has been through significant political and economic turmoil, from the 2011 social movements to the global COVID-19 crisis, with many country-specific events that significantly impacted their economic trajectories. The 2011 social movements, which started in Tunisia and swept through to Egypt, Libya and other countries in the region, were mainly driven by youth striving for economic and social prosperity, for more participation in shaping their countries' development paths and for a democratization of the political systems. Countries like Jordan and Lebanon have also been severely impacted by the Syrian civil war which started in 2011.

Overall, economic growth in the region has been lower than its potential, with average real gross domestic product (GDP) growth in different countries below levels in emerging and developing Asia.

Jordan witnessed the highest levels of growth in the 2000s, with an average real GDP growth of 7 per cent between 2000 and 2009. However, even for Jordan, GDP growth was lower than the average in emerging and developing Asia (around 8 per cent). Economic growth in most countries has been slowly recovering since 2011; however, it remains in general at pre-2011 levels. In 2019, the region recorded around 4 per cent of GDP growth,<sup>5</sup> mainly driven by growth in Egypt (real GDP growth at around 6 per cent in 2019). Other countries in the region have witnessed lower levels of growth, except for Lebanon, which experienced a pre-pandemic recession with -7 per cent GDP growth in 2019 (figure 1). The region represents about 3 per cent of the world's population, with an average population growth of around 2 per cent in 2019, with the highest level being in the Occupied Palestinian Territory (around 3 per cent) and the lowest in Lebanon (0.1 per cent).<sup>6</sup>

The 2011 social movements unevenly impacted the countries in the region. Egypt, Tunisia and Libya are the countries that witnessed the most profound political and economic changes. Tunisia organised three free elections between 2011 and 2019 and had peaceful power successions during the same period. However, despite this relative success, the country has been challenged economically in the last decade. The Tunisian economy produced lower outputs, with lower GDP growth since 2011 than between 2000 and 2010. Real GDP growth recorded an average of 1 per cent between 2011 and 2019 as opposed to 4 per cent between 2000 and 2010. The country also witnessed a sharp increase in the debt-to-GDP ratio (from 39 per cent in 2010 to 72 per cent in 2019). Overall, the economic cost of the Syrian conflict in the Middle East and North Africa (MENA) region,<sup>7</sup> captured by the foregone economic growth or the loss in GDP relative to the "no-war" counterfactual in Syria, is estimated at US\$200–300 billion (World Bank, 2017).

3 Algeria, Egypt, Jordan, Lebanon, Libya, Morocco, the Occupied Palestinian Territory and Tunisia.

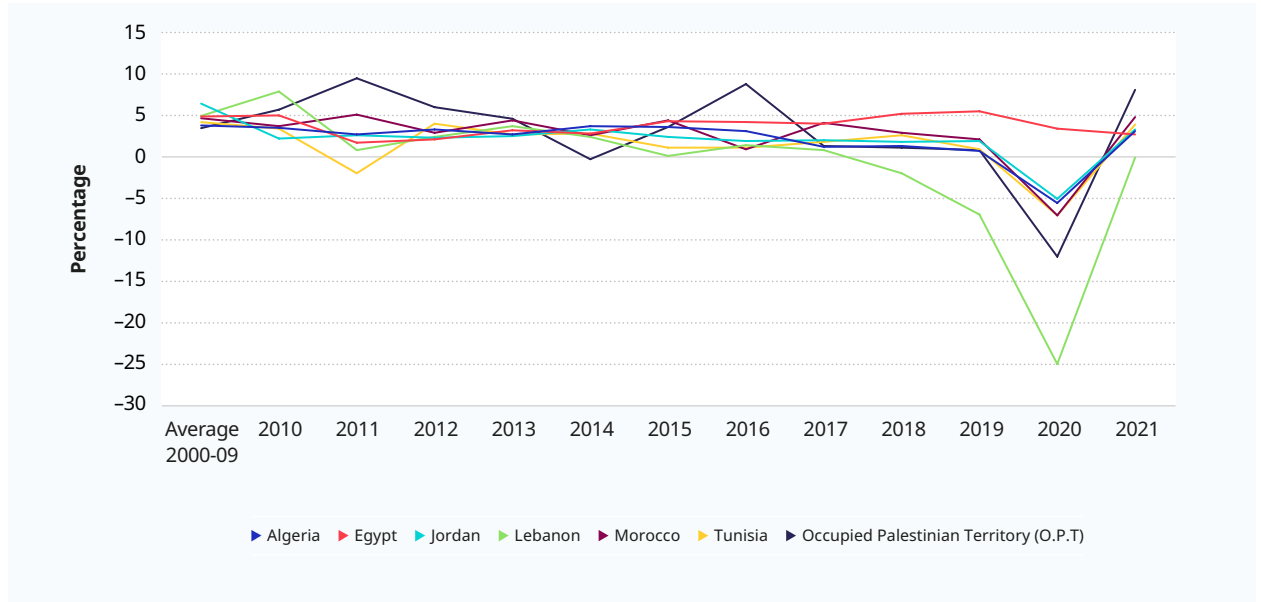
4 Classification according to the [World Bank country classification](#).

5 The level of GDP growth in each country was calculated based on the GDP in current US\$ between 2018 and 2019, with data provided by the [World Bank World Development Indicators](#) (WDI).

6 Data calculated based on WDI data.

7 Definition of the MENA region: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Occupied Palestinian Territory, Qatar, Saudi Arabia, Syria, Tunisia, United Arab Emirates and Yemen.

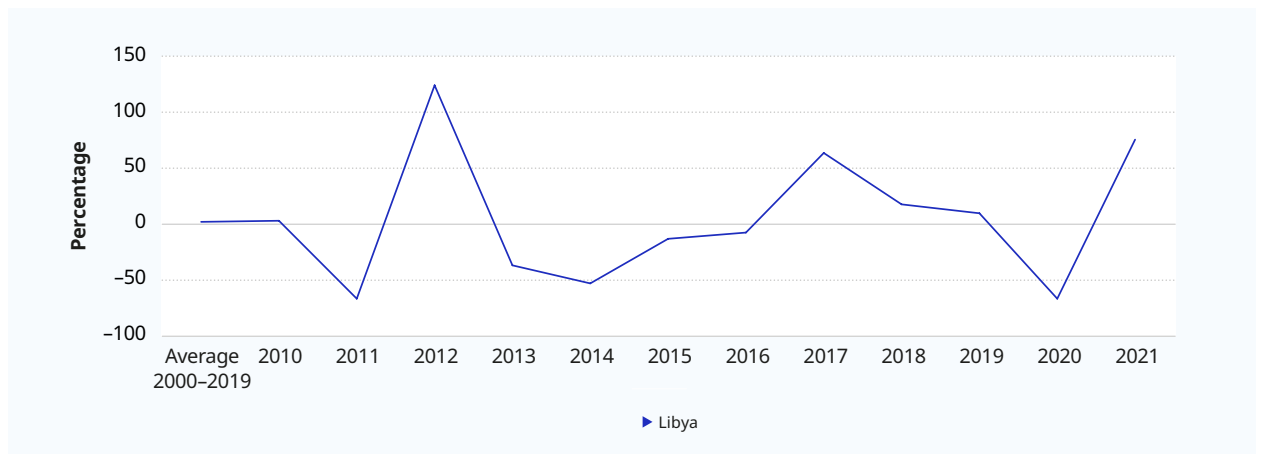
▶ **Figure 1: Economic growth in the different in the Southern Mediterranean Countries, real GDP growth rate (percentage)**



**Note:** 2020 data is estimated; 2021 data is a projection.

**Source:** IMF, World Economic Outlook, October 2020.

▶ **Figure 2: Economic growth in Libya, real GDP growth rate in per cent (estimation for 2020, projection for 2021)**



**Source:** IMF – World Economic Outlook, October 2020.

The COVID-19 global pandemic has severely impacted all countries in the region, with most countries witnessing a recession in 2020, except for Egypt. According to an IMF projection, the real GDP growth in Egypt in 2020 reached a bit less than 4 per cent. In Egypt, the COVID-19 measures were lighter than other countries in the region, and the revenues from

the Suez Canal, a huge contributor to the Egyptian economy, have remained relatively stable in 2020, with a slight decrease of 3 per cent from 2019 to 2020.<sup>8</sup> Libya has had the most unstable economic growth in the region over the last decade, with sharp variations throughout the years (figure 2). After what seemed a promising recovery during 2017-18, the

8 Reuters, "Egypt's Suez Canal annual revenues decline 3% in 2020 to \$5.61 bln", 3 January 2021.

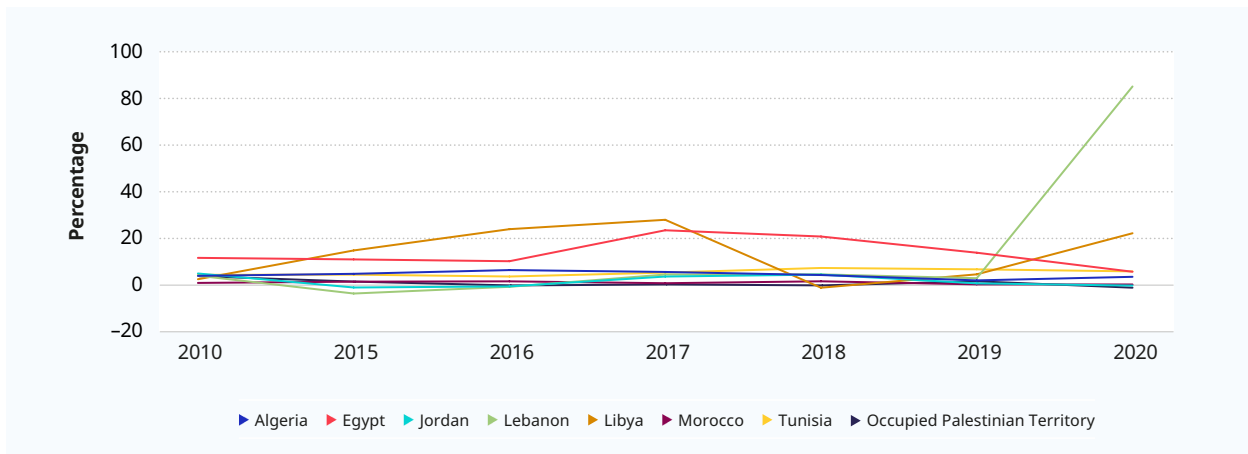


massive drop in global oil prices in 2020 has significantly impacted the Libyan economy, which registered a record recession of 67 per cent in 2020 (real GDP). In Algeria, the other major oil and gas exporter in the region, the recession in 2020 was less severe, with a real GDP growth of -6 per cent. This could be explained in part by the fact that Algeria is relatively less dependent on natural resources than Libya.

The huge drop in economic output in Lebanon is not only linked to the COVID-19 crisis. Since 2019 Lebanon has been witnessing severe economic, political and social turmoil, culminating in the first sovereign default of the Government in March 2020. The recent crisis started in October 2019 after

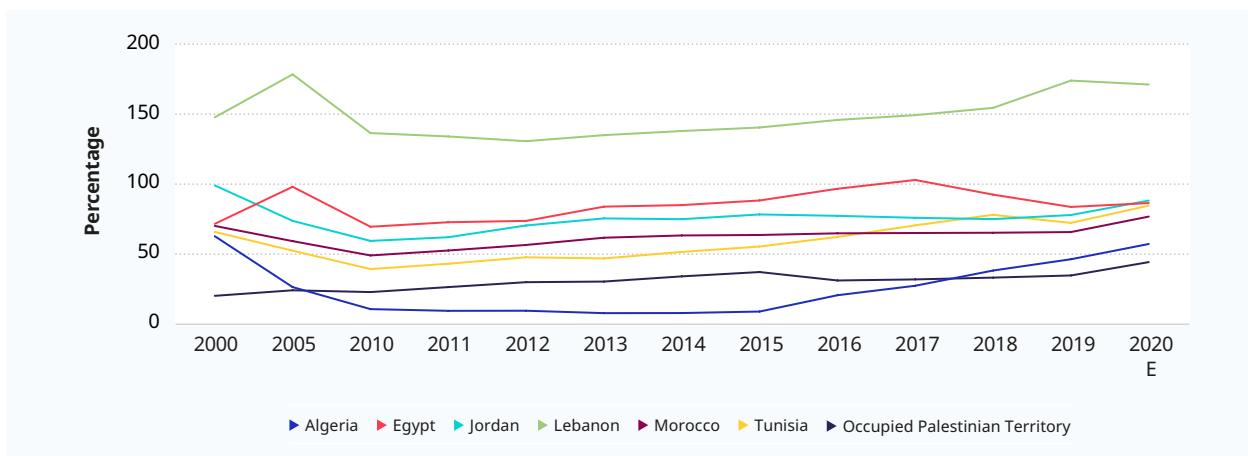
a sudden stop in capital inflows, which increased the already-peaking public debt and plunged the local currency. Lebanon has historically had the third-highest public debt globally (an average of 147 per cent of GDP between 2000 and 2019)<sup>9</sup> and the highest public debt in the region (figure 4), without carrying out the necessary reforms to boost the economy. The lockdown measures imposed to reduce the spread of the COVID-19 crisis exacerbated the economic crisis. Inflation reached more than 85 per cent in 2020, only five years after deflation in 2015 (figure 3). The huge spike in consumer prices is mainly linked to the massive plunge of the currency value, after a severe decrease of capital inflows that revealed what has been described by

► Figure 3: Inflation rate in the region (percentage)



Source: IMF, World Economic Outlook, October 2020.

► Figure 4: Gross debt per cent of GDP



Source: IMF, World Economic Outlook, October 2020. Gross debt per cent GDP is missing for Libya.

9 Source: IMF, World Economic Outlook, October 2020.

► **Table 1: Main macro-indicators in 2000, 2010, 2019**

Countries	Indicators	2000	2010	2019
<b>Algeria</b>	Population	31,041,235	35,977,455	43,053,054
	GDP per capita (current US\$)	1,765	4,479	3,974
	Life expectancy at birth (in years)	70.6	74.9	76.7 (2018)
<b>Egypt</b>	Population	68,831,561	82,761,235	100,388,073
	GDP per capita (current US\$)	1,450	2,646	3,019
	Life expectancy at birth (in years)	68.6	70.3	71.8 (2018)
<b>Jordan</b>	Population	5,122,493	7,261,539	10,101,694
	GDP per capita (current US\$)	1,652	3,737	4,406
	Life expectancy at birth (in years)	71.7	73.4	74.4 (2018)
<b>Lebanon</b>	Population	3,842,778	4,953,061	6,855,713
	GDP per capita (current US\$)	4,492	7,762	7,584
	Life expectancy at birth (in years)	74.5	78.4	78.8 (2018)
<b>Libya</b>	Population	5,357,891	6,197,663	6,777,452
	GDP per capita (current US\$)	7,143	12,065	7,686
	Life expectancy at birth (in years)	70.9	72.0	72.7 (2018)
<b>Morocco</b>	Population	28,793,679	32,343,389	36,471,769
	GDP per capita (current US\$)	1,335	2,840	3,204
	Life expectancy at birth (in years)	68.7	74.4	76.5 (2018)
<b>Occupied Palestinian territory</b>	Population	2,922,153	3,786,161	4,685,306
	GDP per capita (current US\$)	1,476	2,557	3,562 (2018)
	Life expectancy at birth (in years)	71.0	72.8	73.9 (2018)
<b>Tunisia</b>	Population	9,708,350	10,635,244	11,694,719
	GDP per capita (current US\$)	2,212	4,142	3,318
	Life expectancy at birth	73.2	75.0	76.5 (2018)

Source: WDI.

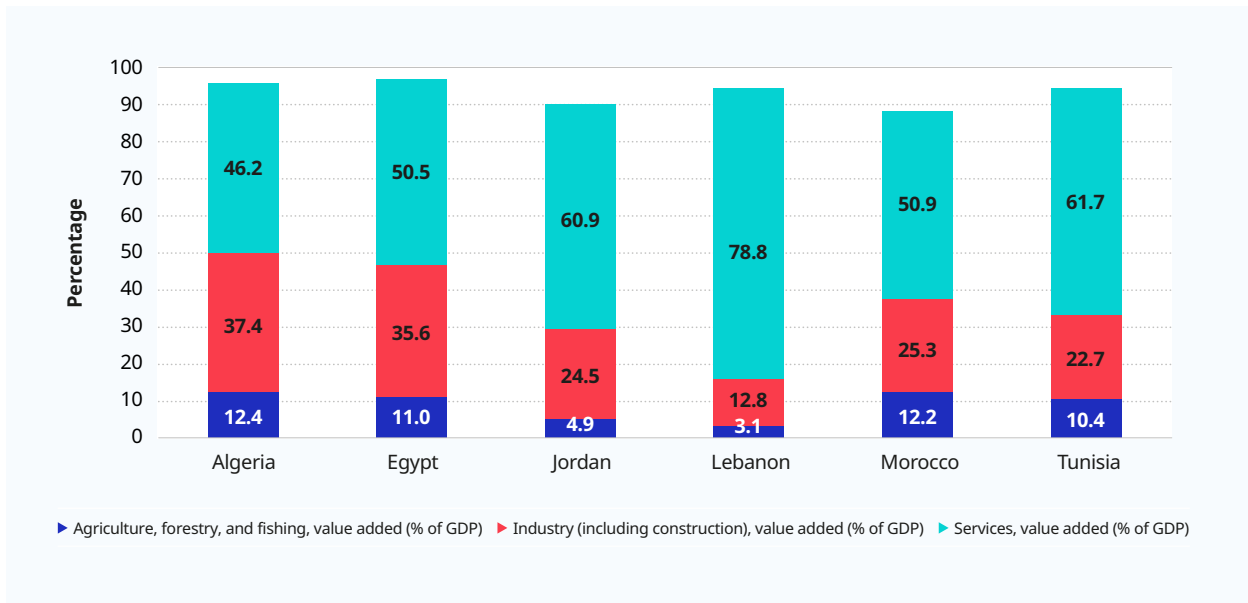
many sources as a Ponzi scheme organized by the Central Bank of Lebanon, to keep the value of the Lebanese pound pegged to the US dollar.<sup>10</sup>

In terms of economic structure, economies in the region are predominantly service based, with high levels of services contribution to GDP in value-added and employment (figures 5 and 6). Lebanon has the highest share of services in economic output and employment in the region, with

services contributing up to 79 per cent to GDP in value-added and with 65 per cent of employment. Jordan also has relatively high levels of employment in services with 73 per cent of the employed population being in services. Algeria and Egypt have the highest levels of industry participation to GDP in value-added in the region, with respectively 37 per cent and 36 per cent in 2019. In terms of employment in industry, Tunisia is the leading country in the region with 34 per cent, followed by Algeria

10 The Economist, "Deconstructing the Lebanese central bank's Ponzi scheme", 7 November 2020.

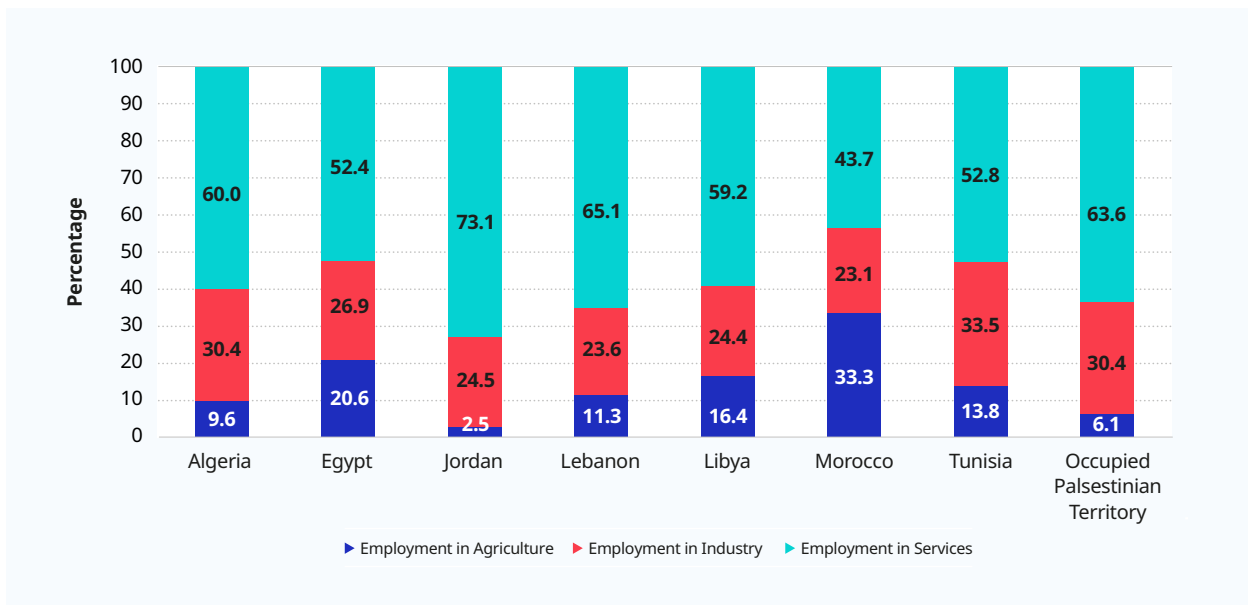
► **Figure 5: Sectoral participation to GDP in value-added (%) in the Southern Mediterranean Countries in 2019**



**Note:** The value-added shares presented in the World Development Indicators for agriculture, industry and services do not always add up to a 100 per cent due to FISIM (Financial Intermediation Services Indirectly Measured) and net indirect taxes. GDP is measured at purchaser prices in this indicator.

**Source:** WDI.

► **Figure 6: Sectoral employment in the region in 2019 (% total employment)**

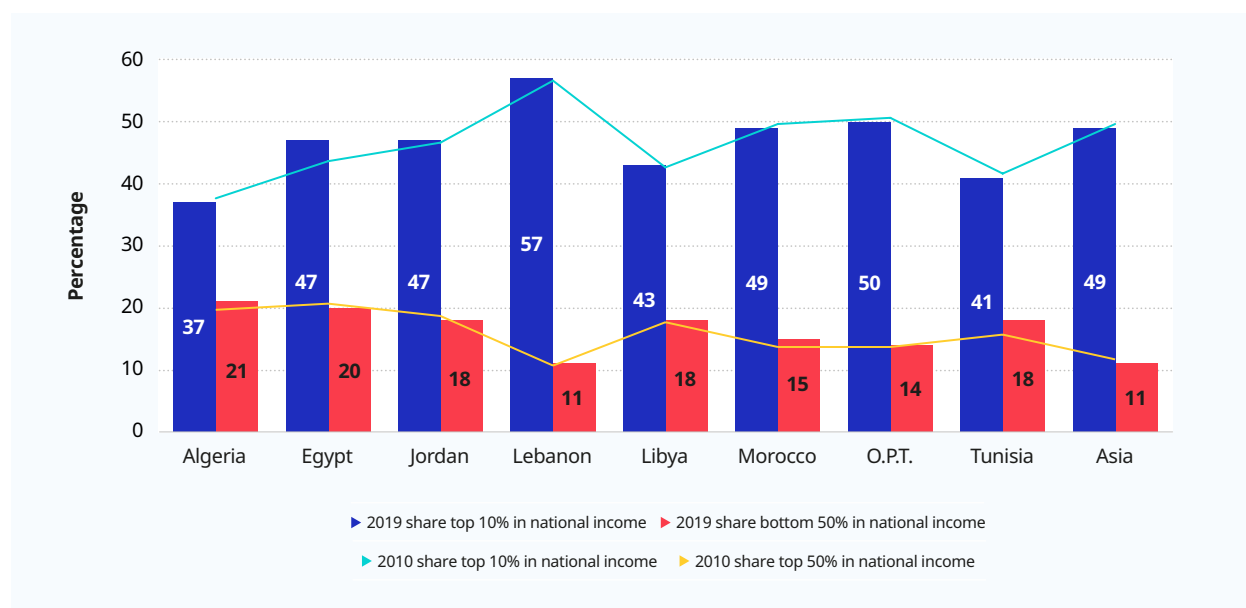


**Source:** ILOStat.

and Occupied Palestinian Territory (30 per cent) and Egypt (27 per cent). Agriculture plays a small role in terms of value-added and employment, with its lowest contribution to GDP value-added being in Lebanon (3 per cent) and lowest contribution to employment being in Jordan (2 per cent).

The wave of social movements that the region witnessed is rooted in the lack of economic dynamism in the region and inequality. Alvaredo et al. (2018) study inequality in the Middle East, including in Egypt, Jordan, Lebanon and the Occupied Palestinian Territory and find that the region appears to be the

► **Figure 7: Share of the top 10 per cent and the bottom 50 per cent in national income, 2010 and 2019**



Source: World Inequality Database.

most unequal region in the world, with a top decile income share of 64 per cent, compared to 37 per cent in Western Europe, 47 per cent in the US and 55 per cent in Brazil. According to the World Inequality Database, in 2019, the share of the top 10 per cent in national income varies from 37 per cent in Algeria to 57 per cent in Lebanon, the most unequal country in the region. Respectively, the share of the bottom 50 per cent in national income is the highest in Algeria at 21 per cent and the lowest in Lebanon at 11 per cent in 2019. These levels have remained relatively stable since 2010, despite the 2011 social movements, which aspired to more equality in the region. These stable inequality levels are a consequence of the lack of economic dynamism in the region and are linked to what can be described as rent-seeking economies in many countries as well as a significant participation of the military in economic activities, mainly in Algeria, Egypt and Jordan. High-income inequality weakens the social contract and can be considered as a constraint to sustainable growth as illustrated by Ostry et al. (2014), who provide evidence that inequality is a robust determinant of faster and more durable growth.

### 1.1.1. The labour market in the region at a glance

The disappointing economic growth in the Southern Mediterranean Countries is reflected in the region's

labour market outcomes. The last decade, marked by the 2011 social movements, has put the labour market failures under the spotlight and put pressure on policymakers in the region to adopt policies that foster job creation and labour market inclusion for all in their economies.

The working-age population (15–64) in the Southern Mediterranean Countries is estimated at more than 145 million people, with approximately half of it being in Egypt. The labour force participation rate in the region varies from 39 per cent in Jordan to 50 per cent in Libya in 2019 with an average of 47.3 per cent in 2019, at much lower levels than the global rate (around 67 per cent), Southeast Asian countries (around 75 per cent) and sub-Saharan African countries (around 68 per cent). Women and youth are particularly vulnerable in the region's labour market, with significantly lower labour force participation rates and higher unemployment in general (details in chapter 3). For instance, the female labour force participation rate is one of the lowest globally, lower than other countries within the same or a lower income category. The female labour force participation rate varies in the region from 13 per cent in Jordan to 27 per cent in Libya (2019), compared to 49 per cent for middle-income countries in the same year. In sub-Saharan African countries, mostly low-income countries, the female labour force participation rate is around 63 per cent, reflecting the necessity of sub-Saharan women to

► **Table 2: Unemployment rate in different countries in the region, 2005–19 (percentage)**

Total	2005	2011	2014	2015	2016	2017	2018	2019
Algeria	15.3	10.0	10.2	11.2	10.2	12.0	11.9	11.8
Egypt	-	11.8	13.1	13.1	12.4	11.7	9.8	7.8
Jordan	-	-	-	-	-	18.1	18.3	16.8
Lebanon	-	-	-	-	-	-	-	11.4
Libya	19.2	19.0	18.9	18.9	18.8	18.6	18.5	18.3
Morocco	11.0	8.9	9.7	9.5	9.3	9.2	9.1	9.0
Occupied Palestinian Territory	20.0	17.6	20.5	23.0	23.9	25.7	26.3	25.3
Tunisia	12.9	18.3	-	15.2	15.6	15.3	-	-

**Sources:** ILO statistics department, based on micro-data for Egypt, Jordan, Lebanon, Occupied Palestinian Territory and Tunisia; ILO modelled estimates for Algeria, Libya and Morocco.

engage in any economic activity to participate in the household's income. For youth (15–29), the labour force participation rate is relatively higher than women, at 35 per cent in 2019, but at much lower levels than the total labour force participation rate. The significant share of women and youth not participating in economic activities and not even looking to be economically active hints at the difficulties that women and youth face to participate fully in their countries' economies. High youth unemployment and inactivity rates were at the heart of the 2011 social movements, led mainly by youth in the region. A decade after these important events, very little has changed for the economic reality of women and youth in the region.

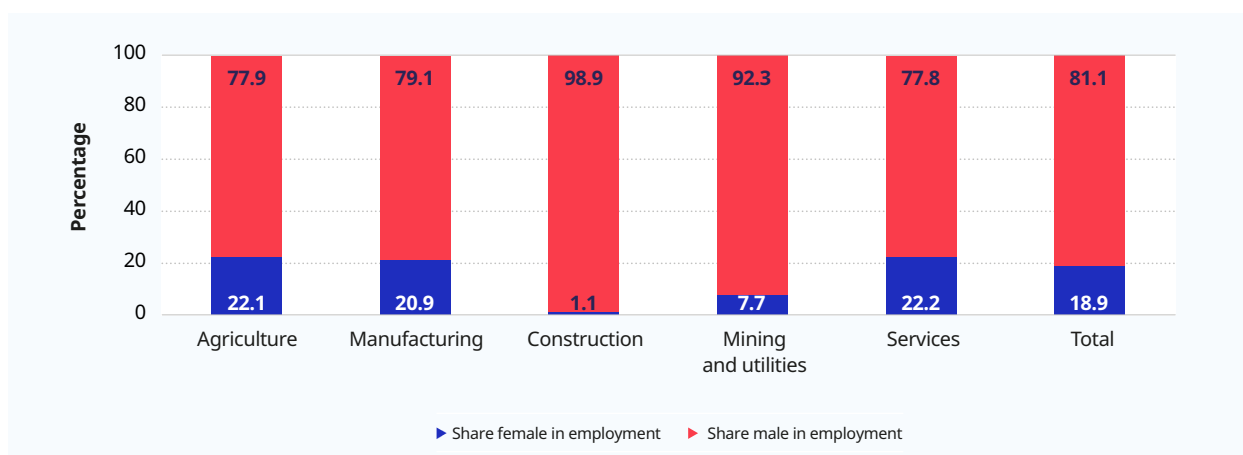
In general, the region has had negative job outlooks (more details in the next chapter). The unemployment rate is relatively high in the region and has not significantly decreased since 2011 (table 2). The highest unemployment rate is in the Occupied Palestinian Territory, where unemployment has increased substantially between 2014 and 2019. In most countries, the unemployment rate is expected to significantly increase in 2020, reflecting the massive effects of the global COVID-19 pandemic on economies in the region and globally.

The countries of the region are facing challenges both on the demand and the supply side of the labour market. Job creation or labour market demand is severely constrained by what could be described as a rent-seeking economy which may have led to the concentration of wealth and job creation in the hands of a few industrialists. This

ultimately does not promote competition, innovation, or sustainable job creation. Combined with challenges such as the weak development of the financial sector and its concentration on the banking offer, it limits the expansion and development of small and medium enterprises (SMEs). SMEs could be a critical source of value-addition and innovation in the region and an engine of decent jobs to absorb the new entrants to the labour market. SMEs already play an important role in job creation in most emerging economies as highlighted by Ayyagari et al. (2011). The authors find that more than 50 per cent of formal jobs in developing countries are in small firms, and SMEs provide approximately two thirds of jobs in all countries, both developed and developing countries. However, SME development is more constrained in emerging economies, including in countries in the region. For instance, according to Bruhn (2016), in high-income countries, over 70 per cent of large firms started out as SMEs, compared to about 60 per cent in lower-middle income countries.

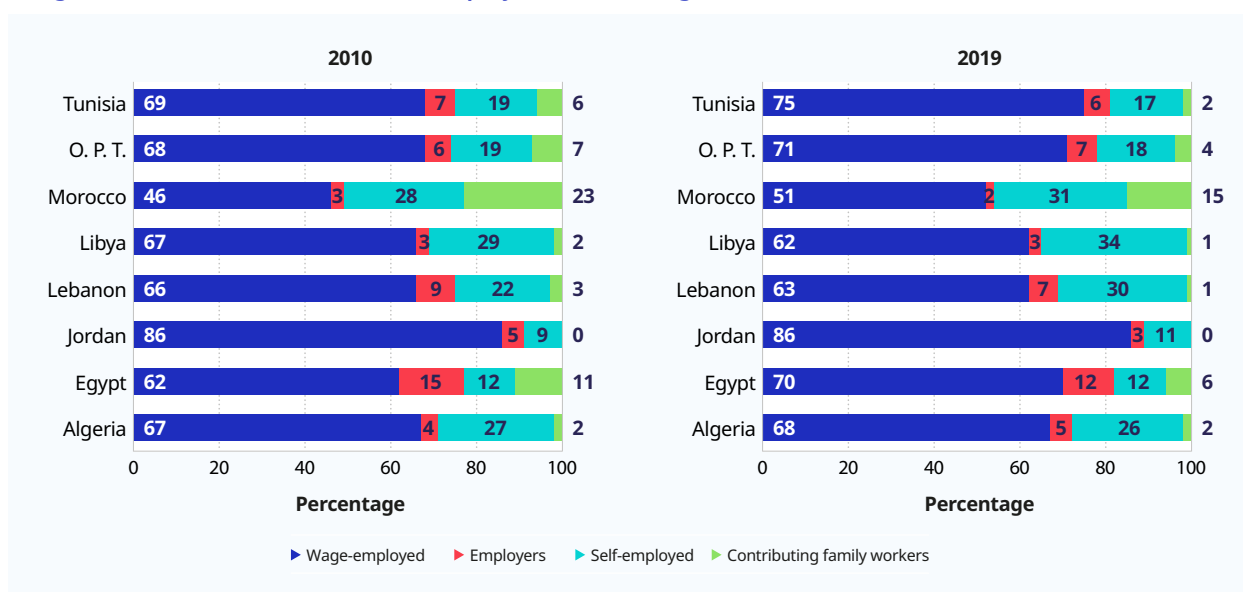
On the supply side, the region suffers from a significant skills mismatch among youth entering the labour market, which leads to high youth unemployment, particularly among the educated. During the last decades, countries in the region have experienced a sharp increase in education levels and in particular a strong increase in the number of graduates joining the labour market. However, in parallel, the unemployment rate of educated youth has substantially increased (more details in chapter 3).

► **Figure 8: Share of female and male in employment per sector in the region in 2019**



Source: Author's computation based on ILO data.

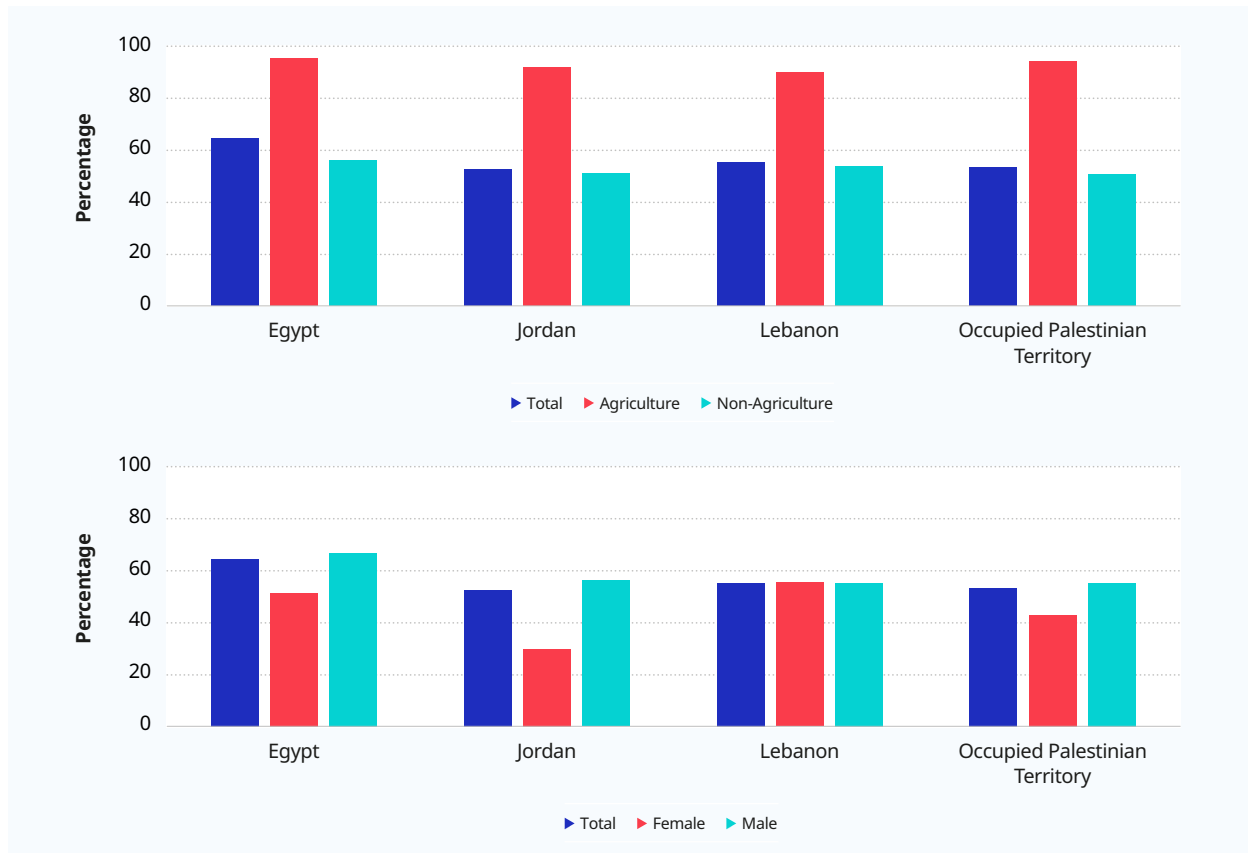
► **Figure 9: Evolution of the status in employment in the region, 2010–19**



Source: ILO data.

The exclusion of women and youth from the labour market represent structural challenges in the region. Women comprise merely 18 per cent of total employment in the region and their participation in the labour force is meagre (figure 8). As women tend to be highly educated in the region, this constitutes a substantial human capital and economic loss for the region. For their part, youth represent the future of the economy and their exclusion or low levels of participation might lead to substantial productivity and human capital losses in the long run.

The share of wage employment has increased in most countries in the region since 2010, including in Algeria, Egypt, Morocco, Occupied Palestinian Territory and Tunisia (figure 9). In Jordan, the share of wage employment remained constant at 86 per cent, the highest level in the region, whereas in Lebanon and Libya it decreased slightly between 2010 and 2019. Since the 2011 social movements, some countries in the region have used employment in the public sector as a last resort. For instance, in Tunisia, the 38-2020 law was passed

► **Figure 10: Informal employment in selected countries in the region by sector and gender in 2019**

Source: ILOSTAT (online website); data missing for Algeria, Libya, Morocco and Tunisia.

guaranteeing public sector employment for the long-term unemployed with higher education.

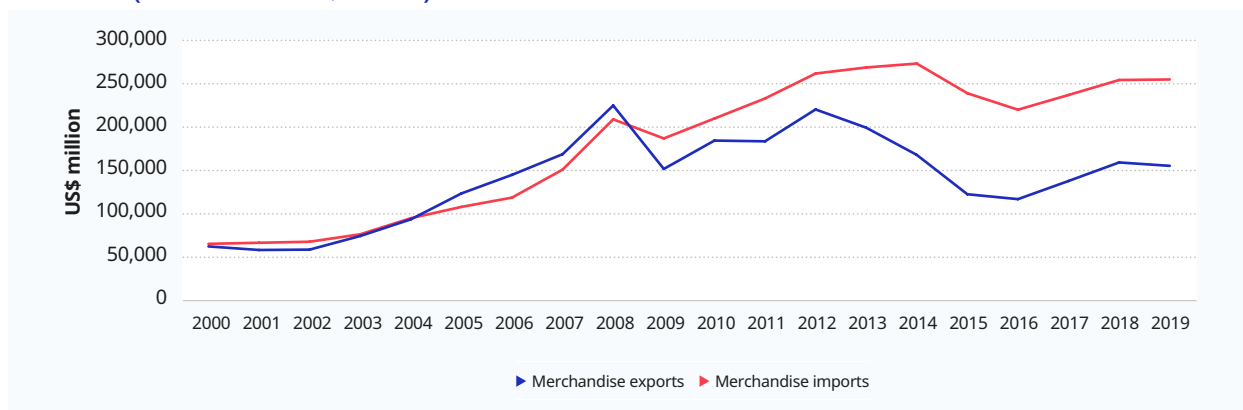
Another important characteristic of the labour market in the region is the high levels of informal employment. In Egypt, Jordan, Lebanon and the Occupied Palestinian Territory, the share of informality represents more than 50 per cent of total employment, with the highest levels being in Egypt with 64 per cent (figure 10). Unsurprisingly, informal employment is the norm for employment in agriculture, with more than 90 per cent of workers working informally. Women tend to be less represented in informal employment than men. However, this does not indicate that women have a higher quality of jobs. While women in the region have one of the lowest labour force participation rates globally, a significant share of their employment is generally in the public sector, which generally offers formal and wage-employment jobs. In other words, women in the region tend to either engage in formal and relatively good-quality jobs or not engage at all in the labour market.

### 1.1.2. Trade and investment in the Southern Mediterranean Countries at a glance

Over the past few decades, and particularly since the mid-1990s, countries in the region have taken steps to open their economies and integrate them into the global economy by adopting trade and investment policies aimed at attracting Foreign Direct Investments (FDIs) and improving their levels of exports. These policies also aimed to improved labour productivity, foster the convergence process with developed economies and create more jobs, including quality ones, to absorb the entrants to the labour market.

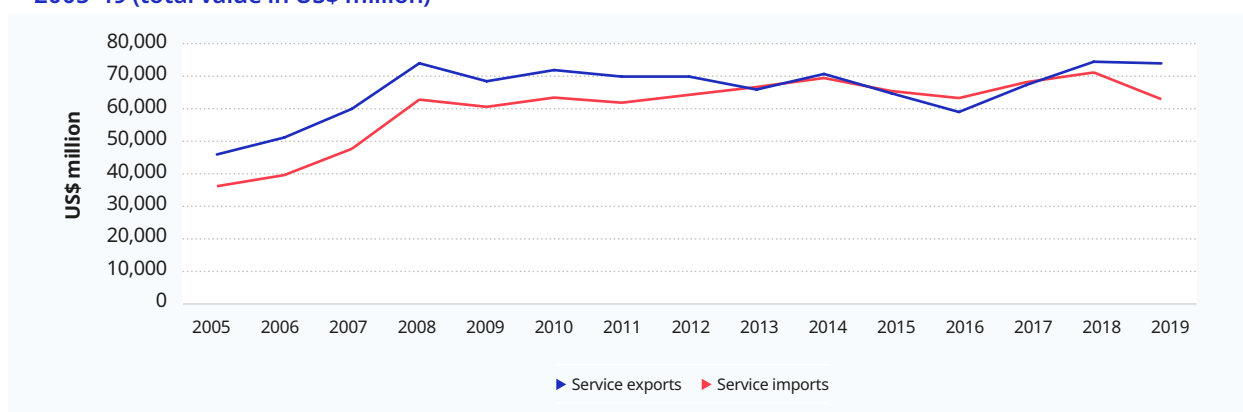
These efforts translated into significant trade reforms and liberalization since the 1990s. These reforms included the adoption and implementation of several Free Trade Agreements (FTA), trade liberalization measures through significant tariffs reduction and investment measures aiming to attract FDIs in their economies (more details about the

▶ **Figure 11: Evolution of merchandise imports and exports in the Southern Mediterranean Countries, 2000–19 (total value in US\$ million)**



Source: UNCTAD.

▶ **Figure 12: Evolution of services imports and exports in the Southern Mediterranean Countries, 2005–19 (total value in US\$ million)**



Source: UNCTAD.

evolution of trade policies in the region in the next chapter). Among the FTAs, the Euro-Mediterranean Free Trade Area, which includes all the countries in the Southern Mediterranean Countries, is highly strategic to the region, considering the importance of Europe as a trading partner.

Despite these relatively significant trade reforms, the share of the Southern Mediterranean Countries in the global trade remains very low. The region accounted for about only 0.08 per cent of world merchandise exports in 2019 and 1 per cent of world merchandise imports in the same year.<sup>11</sup> From 2000 to 2009, the level of merchandise exports increased significantly in the region, with an average annual growth of 7 per cent. However, merchandise exports witnessed two episodes of a significant drop in the

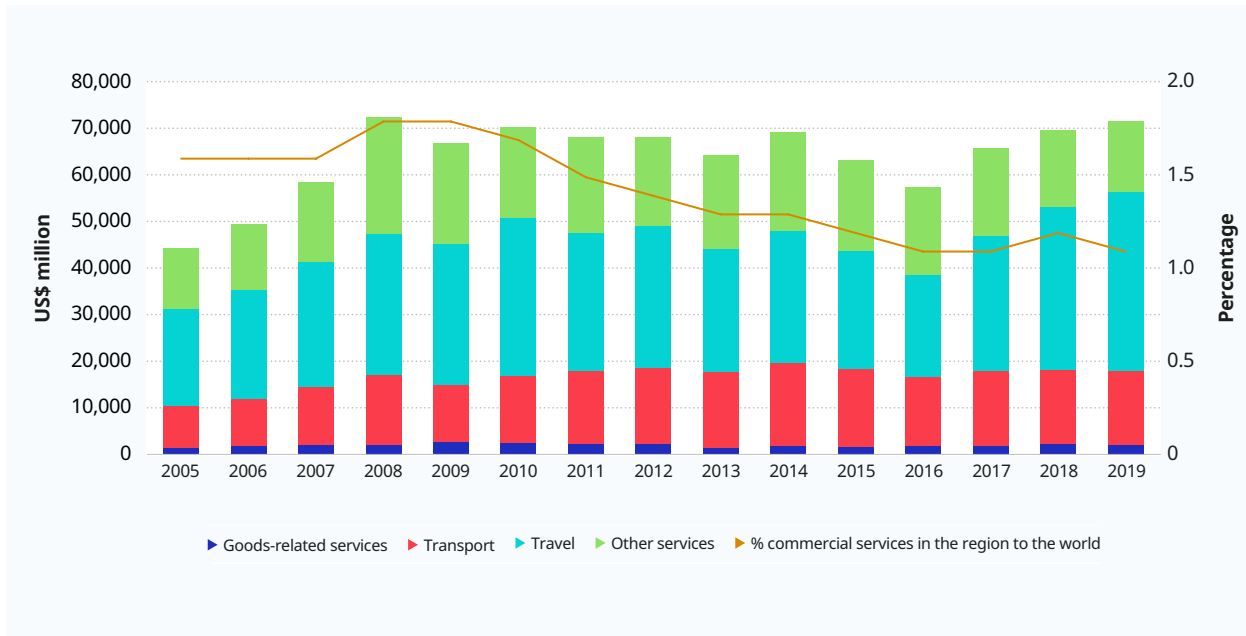
last 20 years (figure 11): the first from 2008 to 2009 during the global financial crisis, and the second from 2012 to 2016, in the years following the 2011 social movements. Another sharp drop is expected in 2020 due to the COVID-19 crisis. Notably, the oil-exporting countries in the region (such as Algeria and Libya) are expected to witness a significant decline in their total exports in 2020 due to the drop in oil prices. The level of the region’s merchandise imports is significantly higher than its exports, with a shift in the dynamic in 2008 and a widened gap since then, as demonstrated by figure 11.

Contrary to the merchandise trade, the region is overall a net exporter of services since 2017 (figure 12), reflecting the high growth of trade in services globally and the growing importance of

<sup>11</sup> Calculations based on UNCTAD data.



► **Figure 13: Evolution of trade in services by category in the Southern Mediterranean Countries and share of the region to the world (total value in US\$ million)**



Source: UNCTAD.

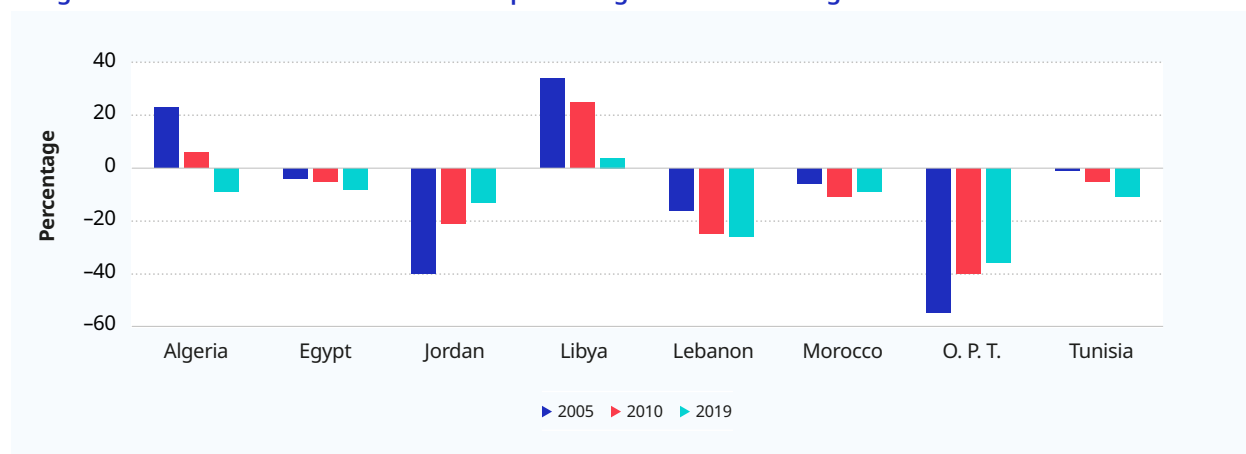
the services sector in the region. Travel represents the biggest share of the exports in services and has been significantly growing over the past years. The exports in services represent half the value of exports in the region; however, the sector is promised steady growth driven by the global dynamic. The region has enormous potential for e-commerce and the digital economy overall, especially considering the relatively high levels of education of the labour force and considering the global dynamic. For instance, global e-commerce increased by 44 per cent over the past five years and is now worth US\$28 trillion, with business-to-business e-commerce making up more than 86 per cent of its value (UNCTAD, 2017). The region could widely benefit from this, as it generally has a relatively good digital infrastructure and a relatively well-educated and young labour force that could perform the different types of digital activities.

The higher growth in imports than in exports, in general, resulted in persistent trade and current account deficits among the oil-importing countries in the region (figure 14). Lebanon, Morocco, Jordan, Tunisia, the Occupied Palestinian Territory and Egypt have been running large and persistent

trade deficits for more than a decade. In contrast, the region's oil exporters have historically significant current accounts and trade surpluses, but that has changed in recent years for Algeria.

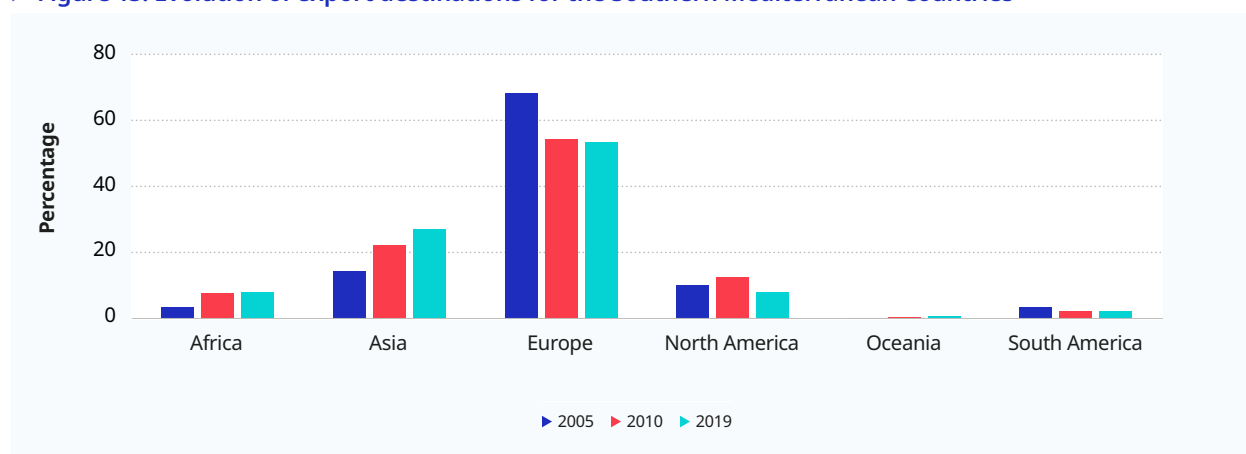
The region has important vulnerabilities in trade. First, oil-exporting countries are exposed to the high volatility of their exports, which was demonstrated in 2020 by the huge drop in oil prices and its impact on the economies of Algeria and Libya. Second, there is a high concentration of export markets in Europe, especially for North African countries (figure 15). For instance, in 2019, around 54 per cent of the region's merchandise exports were to Europe, 48 per cent to countries of the European Union, mainly to France, Italy, Spain and Germany (the four countries represent 37 per cent of regional exports). However, there are some signs of diversification with increasing trade with Asia, with a higher level of trade with some Asian countries, with Asia representing 27 per cent of the region's merchandise exports in 2019. For instance, exports from the region to China increased by 24-fold from US\$290 million in 2000 to about US\$7.06 billion in 2019.<sup>12</sup> Imports from China have also risen significantly in the last decades, reaching US\$32.5 billion in 2019

► **Figure 14: Evolution of trade balance as a percentage of GDP in the region**



**Source:** UNCTAD. Data for Algeria and O.P.T. for 2019 are missing and were replaced by data from 2018.

► **Figure 15: Evolution of export destinations for the Southern Mediterranean Countries**



**Source:** Observatory of Economic Complexity.

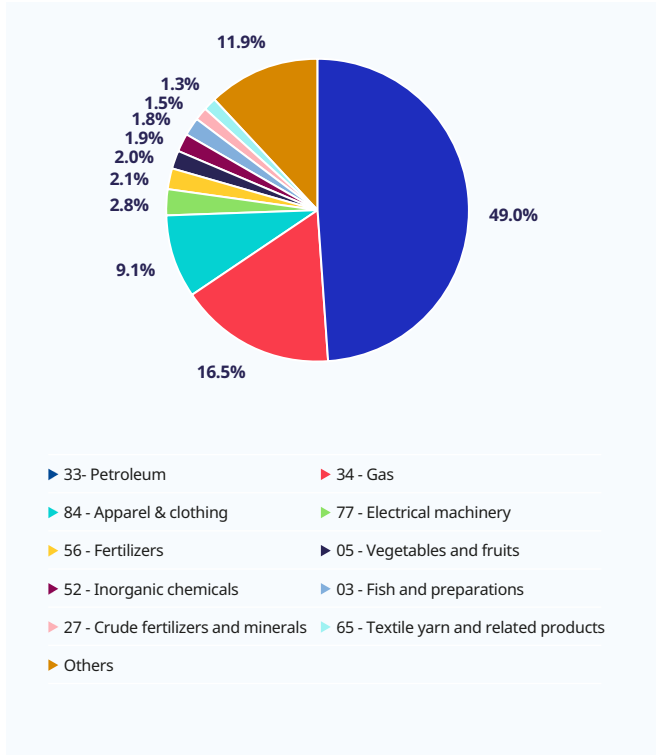
from US\$1.8 billion in 2000 and US\$18.8 billion in 2010. Trade with sub-Saharan African countries has significantly increased between 2000 and 2010 but has been constant since then. Sub-Saharan African countries can offer important opportunities for the Southern Mediterranean Countries, especially for North African countries, as most African countries remain at very early stages of industrialization.

There is some evidence of product diversification in the region's exports; however, this remains relatively low, especially considering the significant trade and investment reforms adopted in countries in the region. The share of oil and gas products in total merchandise exports decreased from 65.6 per cent in 2000 to 43.2 per cent in 2019 (figures 16 and 17). The share of chemical products increased

from 2.8 per cent to 6.4 per cent from 2000 to 2019. Another product that increased significantly is road vehicles, becoming one of the top ten products exported in the region in 2019 and representing 2.9 per cent of total merchandise exports. However, the share of apparel and clothing, a historic product since the 1970s in the region, decreased from 9.1 per cent to 6.5 per cent between 2000 and 2019. Overall, there is some level of diversification; however, not at a speed required for an economic transformation in the region.

The Southern Mediterranean Countries have adopted several reforms to attract FDIs over the past decades, including regulatory frameworks and the establishment of special economic zones. Several countries have put in place several Special

► **Figure 16: Share of products in the Southern Mediterranean Countries' exports in 2000**



► **Figure 17: Share of products in the Southern Mediterranean Countries' exports in 2019**



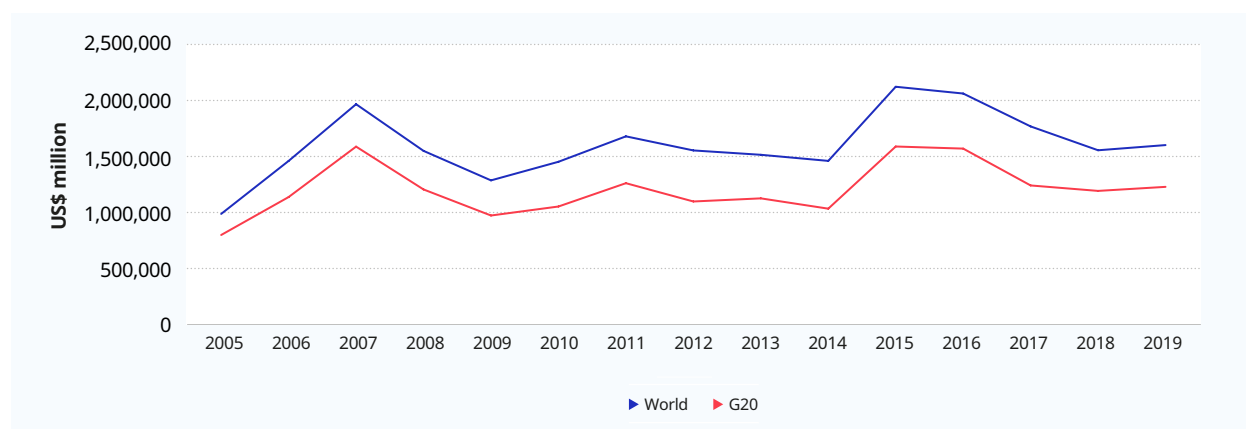
Source: Author's calculation based on UNCTAD data.

Economic Zones (SEZs) and Free Trade Zones (FTZs), following a model of “plug-and-play”, which has facilitated FDI inflows in the region. These zones generally offer a wide range of services, including financial services and logistics and facilitate access to land and production facilities. However, political instability, weak governance and law enforcement and weak regulatory environment remain the main challenges and binding constraints to trade and investment in the region.

FDI inflows have increased at a relatively low pace in the region between 2005 and 2019 (figure 19). FDI inflows are mostly driven by multinational enterprises aiming to diversify their markets or reduce their production costs. The FDI inflows and total inward FDI stock in the region increased by 80 per cent between 2008 and 2019. In the Southern Mediterranean Countries, FDI inflows represented 2.1 per cent of total GDP (US\$, current prices) in 2019 along with consistent growth in stocks. However, FDI inflows have been unstable, especially after the 2011 social movements. In 2019, FDI inflows to North Africa decreased by 11 per cent to US\$14 billion, with reduced inflows in all countries except Egypt. In 2019, the Southern Mediterranean Countries received about 1.04 per cent of the World's FDI inflows. Comparatively, sub-Saharan Africa received about 3 per cent of the world's FDI inflows in 2019<sup>13</sup> and Latin American and Caribbean countries about 11 per cent of global inflows in 2018 (OECD, 2020a). It is worth noting that both the Southern Mediterranean Countries and sub-Saharan Africa received the same levels of FDI inflows as a share of their GDP (around 2 per cent in 2019). Given the different levels of development across the two regions, the level of FDI in the Southern Mediterranean Countries could be higher, contributing more to decent job creation and technology transfer in the region. The Southern Mediterranean Countries is generally more developed than sub-Saharan Africa, as most countries in sub-Saharan Africa are low-income countries, and the region is closer to high-income countries that play an important role in the global value chains and in FDI.

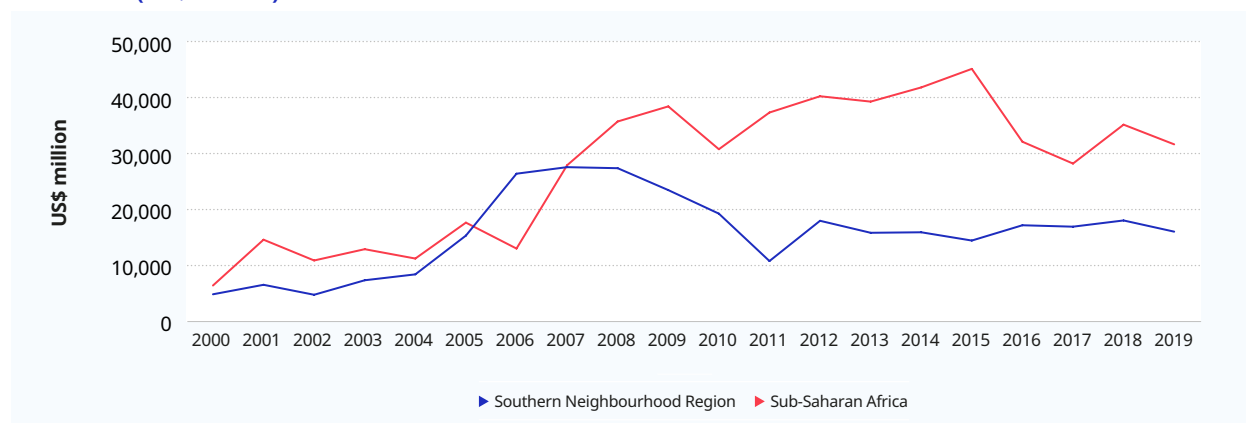
13 Source: UNCTAD.

▶ **Figure 18: FDI inflows in the world and G20 countries, 2005–19 (US\$ million)**



Source: Author’s computation based on UNCTAD data.

▶ **Figure 19: FDI inflows in the Southern Mediterranean Countries and sub-Saharan African countries, 2000–19 (US\$ million)**



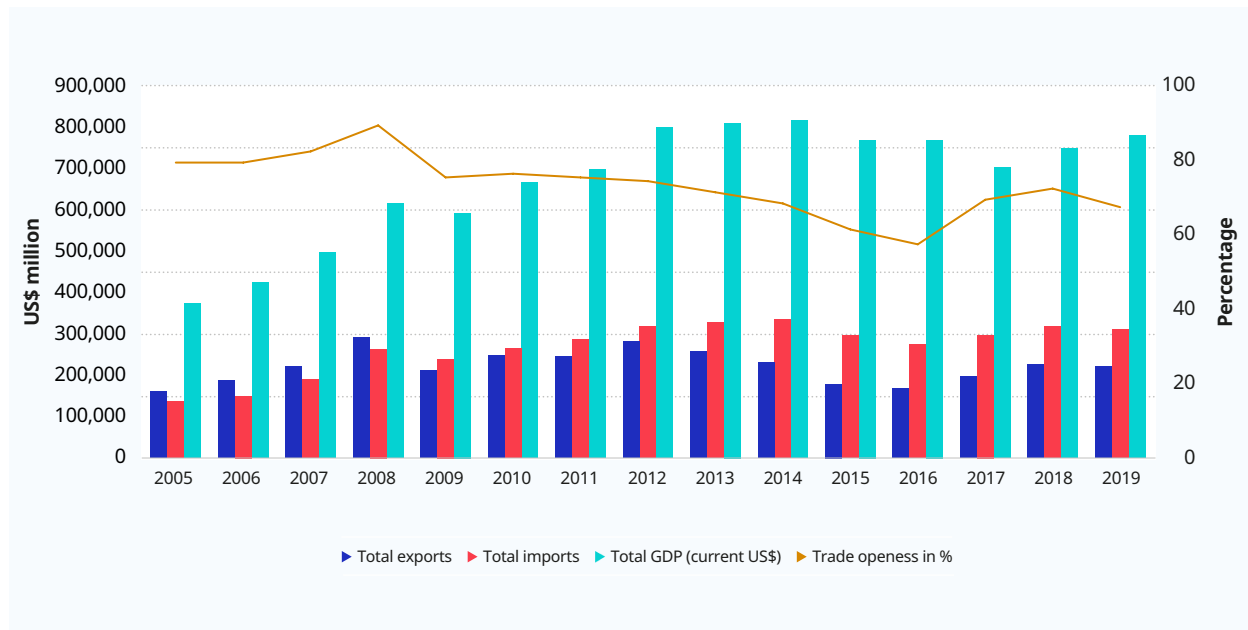
Source: Author’s computation based on UNCTAD data.

### 1.1.3. Intra-regional trade and regional integration

Another vulnerability in trade in the region is the extremely low intra-regional trade. The region is relatively an open regional economy; however, intra-region trade remains very low and, in some cases, inexistent. The region’s trade openness, defined as the value of exports plus imports over GDP, is at around 68 per cent GDP in 2019, declining from 80 per cent in 2005, but remains at higher levels than the OECD countries (around 61 per cent) and middle-income countries (around 49 per cent) (figure 21). The trade openness in the region was impacted by both the global financial crisis and the 2011 social movements. The level of trade openness has been steadily increasing before the global financial crisis in 2008 and fell by 14 per cent points

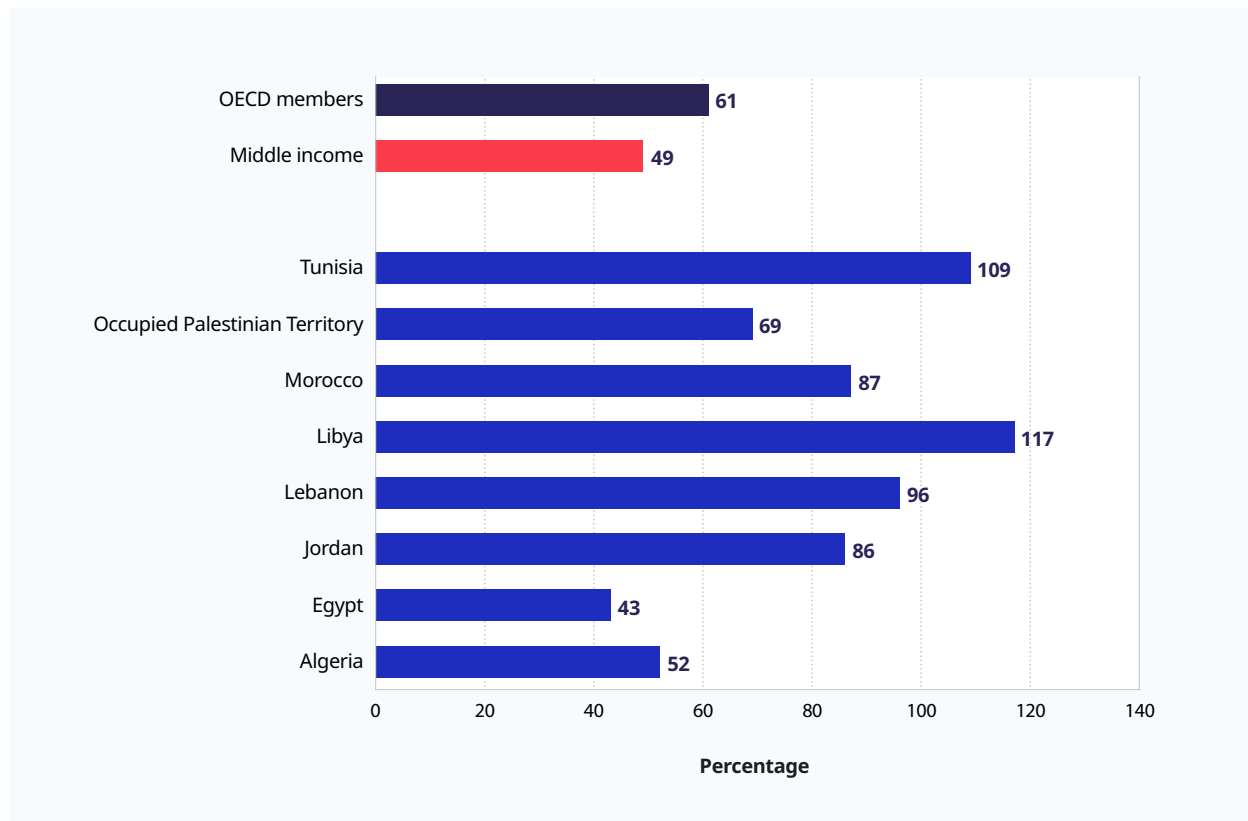
between 2008 and 2009, reflecting the so-called “great trade collapse” (Baldwin, 2009) and decreased between 2011 and 2016, before picking up between 2016 and 2018, driven by an increase in Egyptian exports. Libya and Tunisia are the most open countries in the region, with respectively trade openness at 117 per cent and 109 per cent of GDP in 2019. However, and despite these important levels of openness, intra-regional trade represents less than 10 per cent of imports and exports (table 3). Some countries within the region do not even trade with each other. North African countries tend to trade less within the region than other countries, as most of their exports are destined to European countries, mainly France, Germany, Italy and Spain. The most-traded products within the region are mineral products. For instance, Tunisia imports more than 87 per cent of its petroleum gas from Algeria.

► Figure 20: Evolution of total imports, exports, GDP (US\$ million) and trade openness in the region, 2005–19



Source: WDI for GDP and UNCTAD for trade figures.

► Figure 21: Trade openness in different countries in the region in 2019, compared to OECD and middle-income countries



Source: WDI.

► **Table 3: Levels of exports and imports within the region in 2019 (percentage)**

Country	% of exports to the region to total exports	% of imports from the region to total imports
Algeria	7.2	4.7
Egypt	10.5	1.3
Jordan	6.7	6.3
Lebanon	5.4	3.1
Libya	0.9	9.9
Morocco	1.2	3.0
Occupied Palestinian Territory	32.3	34.8
Tunisia	5.5	20.2

**Source:** The Observatory of Economic Complexity.

Intra-regional trade remains very low with a significant untapped export potential between countries in the region, as is illustrated by the untapped export potential calculated by the International Trade Centre (ITC). The ITC estimates the untapped export potential for countries both at the intensive and the extensive margin. The untapped export potential is calculated for a country's exports with different regions, providing valuable insights on the potential of a regional integration in the Southern Mediterranean Countries and the complexity of products that could be traded within the region. For instance, in **Egypt**, the products with the most untapped export potential to North Africa include chemical products, fertilizers and machinery, which are products with a certain level of sophistication (table 4). High- and medium-skill and technology-intensive manufactures represent 61 per cent of the top ten products with untapped export potential from Egypt to North Africa and 58 per cent in exports from Egypt to the world. The structure of skills and technology of the top ten products with untapped export potential is more sophisticated for exports from Egypt to North Africa compared to Egypt to the world. The untapped export potential from Egypt to the Middle East is slightly less sophisticated than to the world; however, chemicals are among the top three sectors with the most untapped export potential (figure 24) to the region. For **Jordan**, the untapped export potential of the top ten products to North Africa is more sophisticated than to the Middle East, which highlights the current weak trade with North Africa (table 5). The sectors with the most untapped export potential from Jordan to North Africa and the Middle East region include chemical industries (chemical products and

fertilizers) and machineries (figures 26 and 27). For **Morocco**, the share of high-skill and technology-intensive manufactures among the top ten products with untapped export potential with North Africa is higher than with the world as a market (table 6). The untapped export potential of Morocco with the Middle East is also concentrated in technology and high-value addition sectors (figure 30) and the top ten products are highly sophisticated with 70 per cent of them being high-skill and technology intensive manufactures. For **Tunisia**, intra-regional trade could increase exports in high-value addition sectors (table 7). For instance, machineries and fertilizers are among the sectors and products with the highest untapped export potential with North Africa and the Middle East (figures 32 and 33), and high-skill and technology intensive manufactures represent respectively 34 and 58 per cent of the top ten products.

These elements suggest that increased intra-regional trade could positively impact the development trajectory of these countries and support the structural transformation in the region by stimulating exports of sophisticated products that require more technological know-how. Intra-regional trade could also offer an opportunity for MENA to boost economic growth and job creation through potentially lower non-tariff barriers and trade costs than other regions. However, this requires investing in the necessary infrastructure between different countries in the region, which remains under-developed. In a recent report, *Regional Integration in the Union for the Mediterranean*, the OECD (2021) indicates that cross-border infrastructure represents a significant gap for trade within the North Africa and Middle East region.

► **Table 4: Comparison of the sophistication of products with untapped export potential from Egypt to the world, North Africa and the Middle East**

Untapped export potential – Egypt to the world (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products
High-skill and technology-intensive manufactures	4,191.1	12,084.5	35%
Medium-skill and technology-intensive manufactures	2,771.7		23%
Low-skill and technology-intensive manufactures	1,200		10%
Labour-intensive and resource-intensive manufactures	3,921.7		32%

Untapped export potential – Egypt to North Africa (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products	Untapped export potential – Egypt to the Middle East (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products
High-skill and technology-intensive manufactures	245.4	754.7	33%	High-skill and technology-intensive manufactures	914.6	3,188.9	29%
Medium-skill and technology-intensive manufactures	217.1		29%	Medium-skill and technology-intensive manufactures	832.5		26%
Low-skill and technology-intensive manufactures	120.1		16%	Low-skill and technology-intensive manufactures	643.4		20%
Labour-intensive and resource-intensive manufactures	172.1		23%	Labour-intensive and resource-intensive manufactures	798.4		25%

**Note:** We use the [UNCTAD classification](#) for the top products. For food products: fruits and vegetables are considered labour-intensive and resource-intensive products, and processed foods products are considered as low-skill and technology-intensive products.

**Source:** Authors' computation based on data from [International Trade Center](#).

► **Table 5: Comparison of the sophistication of products with untapped export potential from Jordan to the world, North Africa and the Middle East**

Untapped export potential – Jordan to the world (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products
High-skill and technology-intensive manufactures	2,047.3	3,245.8	63%
Medium-skill and technology-intensive manufactures	76		2%
Low-skill and technology-intensive manufactures	76.5		2%
Labour-intensive and resource-intensive manufactures	1,046		32%

Untapped export potential – Jordan to North Africa (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products	Untapped export potential – Jordan to the Middle East (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products
High-skill and technology-intensive manufactures	121.2	243	50%	High-skill and technology-intensive manufactures	313.7	1,049.9	30%
Medium-skill and technology-intensive manufactures	7.4		3%	Medium-skill and technology-intensive manufactures	24.8		2%
Low-skill and technology-intensive manufactures	17.6		7%	Low-skill and technology-intensive manufactures	55.7		5%
Labour-intensive and resource-intensive manufactures	96.8		40%	Labour-intensive and resource-intensive manufactures	655.7		62%

**Source:** Authors' computation based on data from [International Trade Center](#).

► **Table 6: Comparison of sophistication of products with untapped export potential from Morocco to the world, North Africa and the Middle East**

Untapped export potential – Morocco to the World (category of products)				Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products
High-skill and technology-intensive manufactures				4,380.6		40
Medium-skill and technology-intensive manufactures				1,600	11,071	14
Low-skill and technology-intensive manufactures				0		0
Labour-intensive and resource-intensive manufactures				5,090.4		46%

Untapped export potential – Morocco to North Africa (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products	Untapped export potential – Morocco to the Middle East (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products
High-skill and technology-intensive manufactures	138.8		42%	High-skill and technology-intensive manufactures	475.5		70%
Medium-skill and technology-intensive manufactures	0	333.4	0%	Medium-skill and technology-intensive manufactures	0	681.3	0%
Low-skill and technology-intensive manufactures	18		5%	Low-skill and technology-intensive manufactures	0		0%
Labour-intensive and resource-intensive manufactures	176.6		53%	Labour-intensive and resource-intensive manufactures	205.8		30%

Source: Authors' computation based on data from [International Trade Center](#).

► **Table 7: Comparison of the sophistication of products with untapped export potential from Tunisia to the world, North Africa and the Middle East**

Untapped export potential – Tunisia to the world (category of products)				Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products
High-skill and technology-intensive manufactures				648.4		70%
Medium-skill and technology-intensive manufactures				0	921.1	0%
Low-skill and technology-intensive manufactures				58.5		6%
Labour-intensive and resource-intensive manufactures				214.2		23%

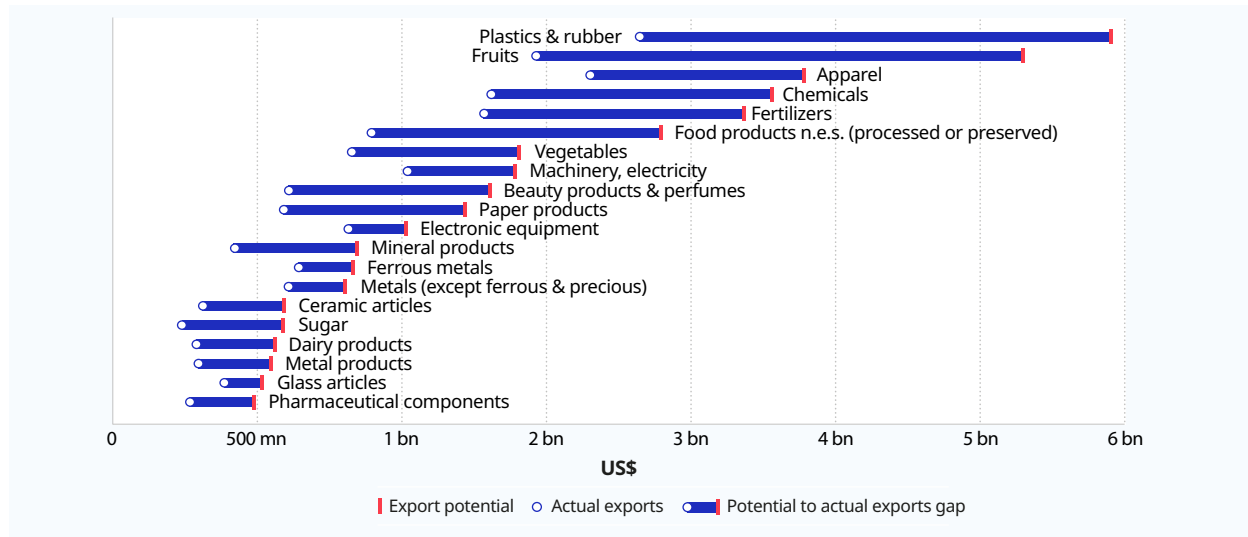
  

Untapped export potential – Tunisia to North Africa (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products	Untapped export potential – Tunisia to the Middle East (category of products)	Total category (US\$ million)	Total top 10 products (US\$ million)	% in top 10 products
High-skill and technology-intensive manufactures	28.2		34%	High-skill and technology-intensive manufactures	158		58%
Medium-skill and technology-intensive manufactures	0	82.1	0%	Medium-skill and technology-intensive manufactures	20.3	273.5	7%
Low-skill and technology-intensive manufactures	5.5		7%	Low-skill and technology-intensive manufactures	43.9		16%
Labour-intensive and resource-intensive manufactures	42.4		52%	Labour-intensive and resource-intensive manufactures	51.3		19%

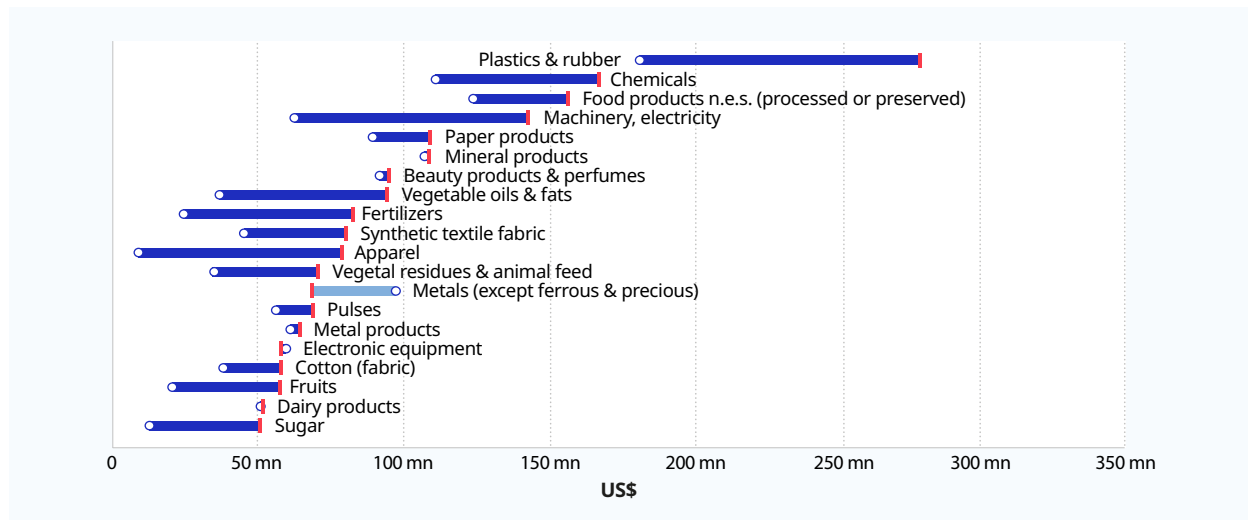
Source: Authors' computation based on data from [International Trade Center](#).



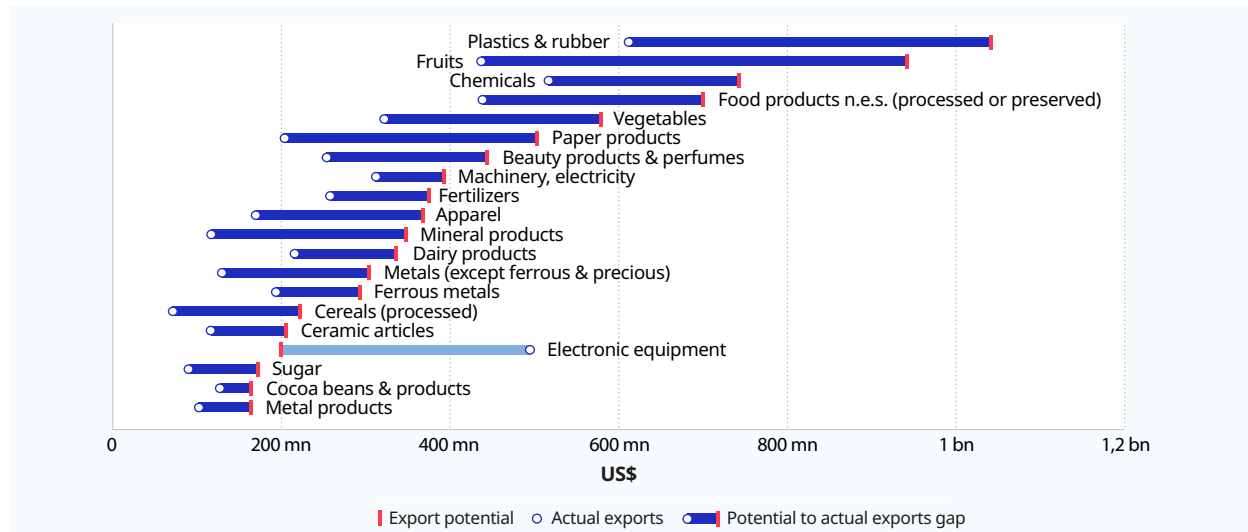
► Figure 22: Untapped export potential from Egypt to the world by sector (in US\$)



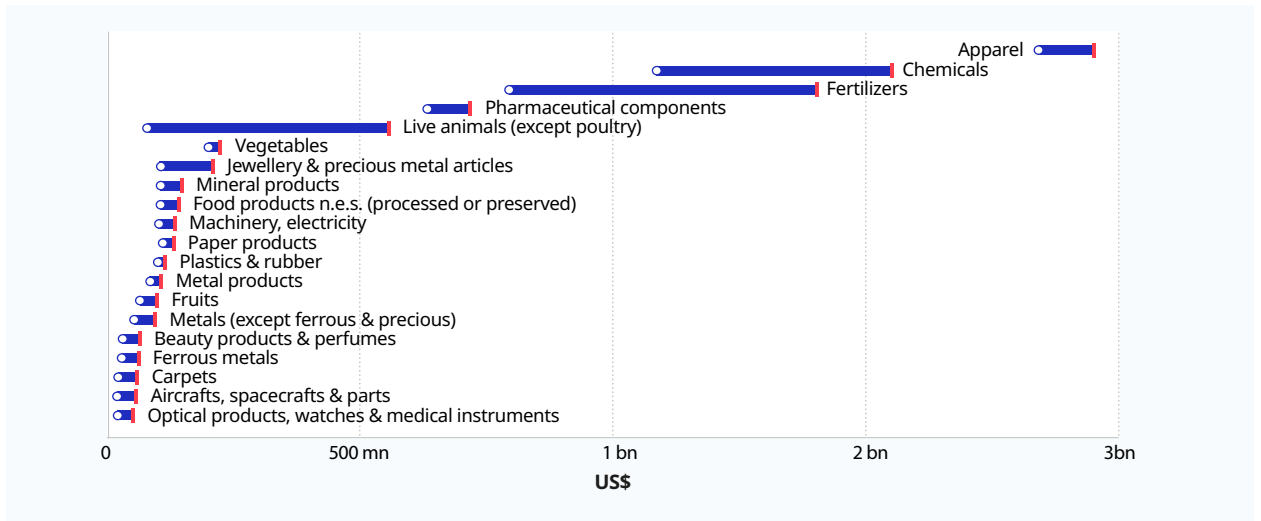
► Figure 23: Untapped export potential from Egypt to North Africa by sector (in US\$)



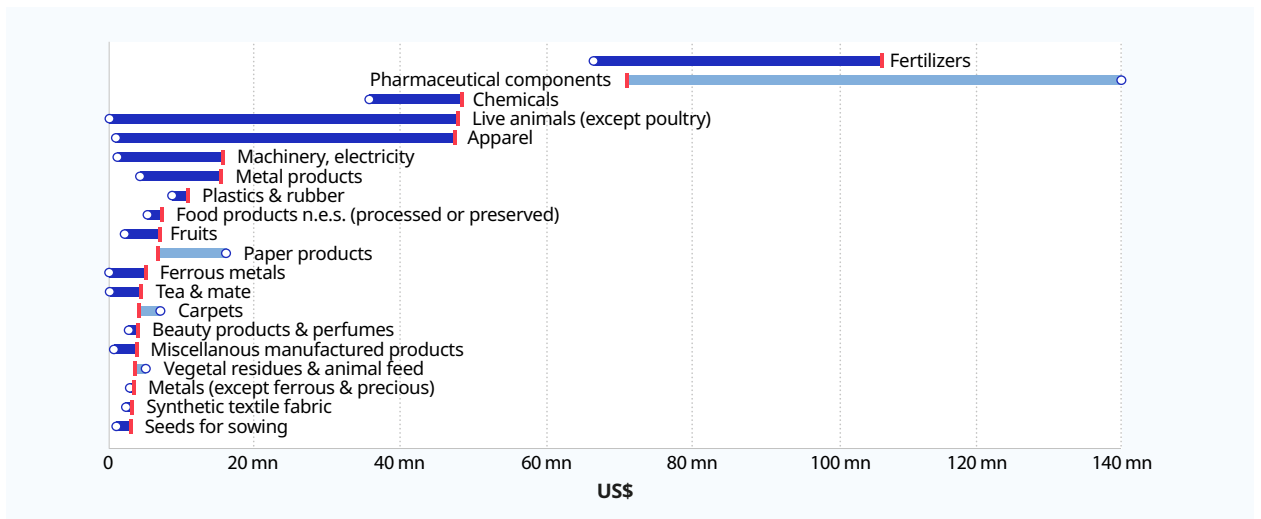
► Figure 24: Untapped export potential from Egypt to the Middle East by sector (in US\$)



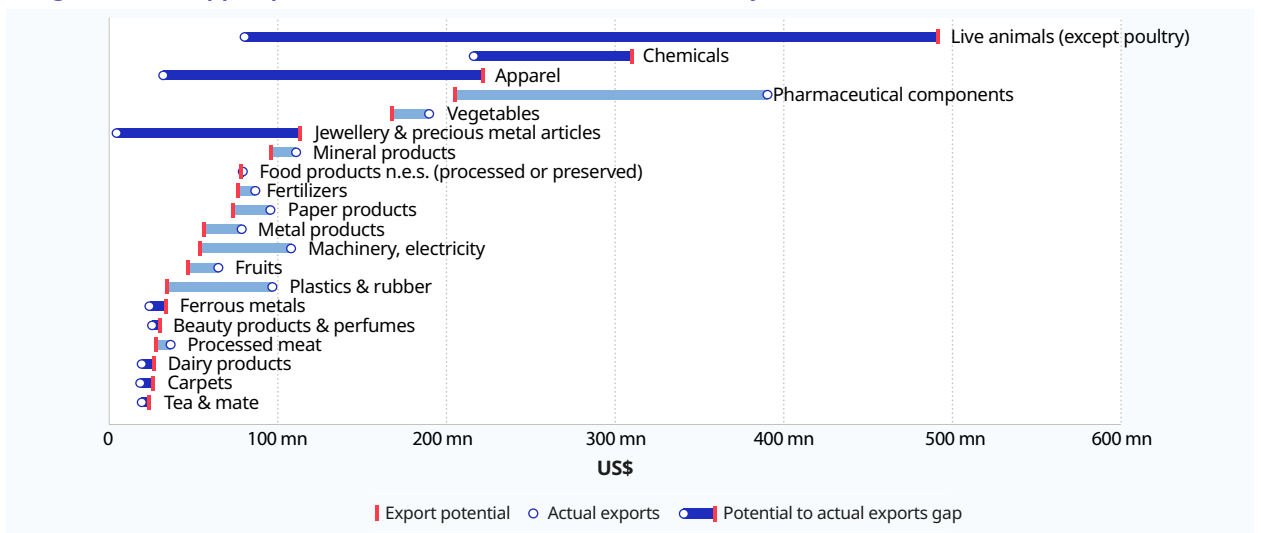
▶ Figure 25: Untapped export potential from Jordan to the world by sector (in US\$)



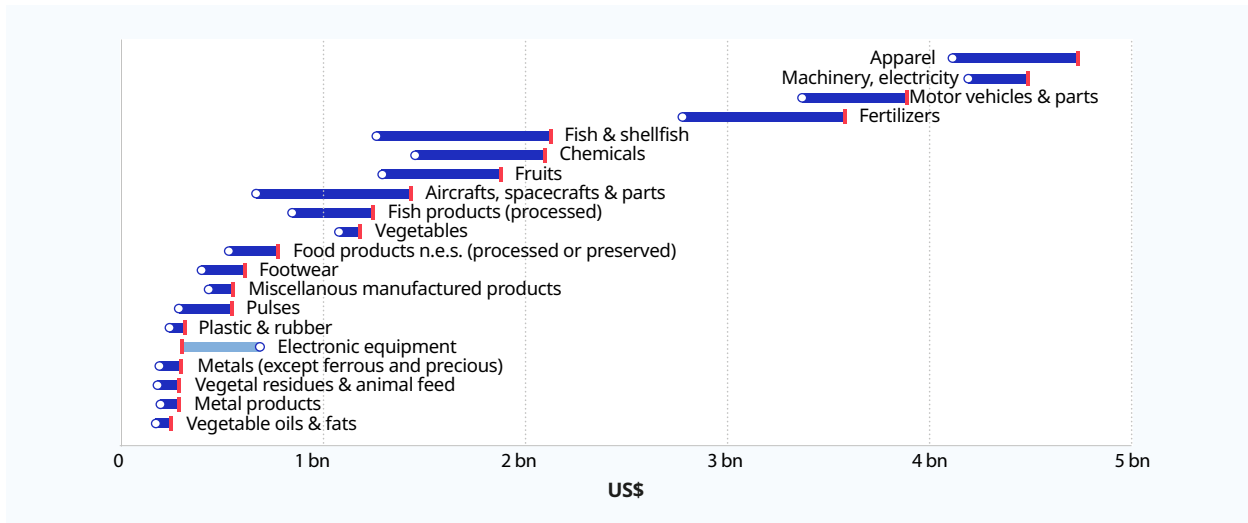
▶ Figure 26: Untapped export potential from Jordan to North Africa by sector (in US\$)



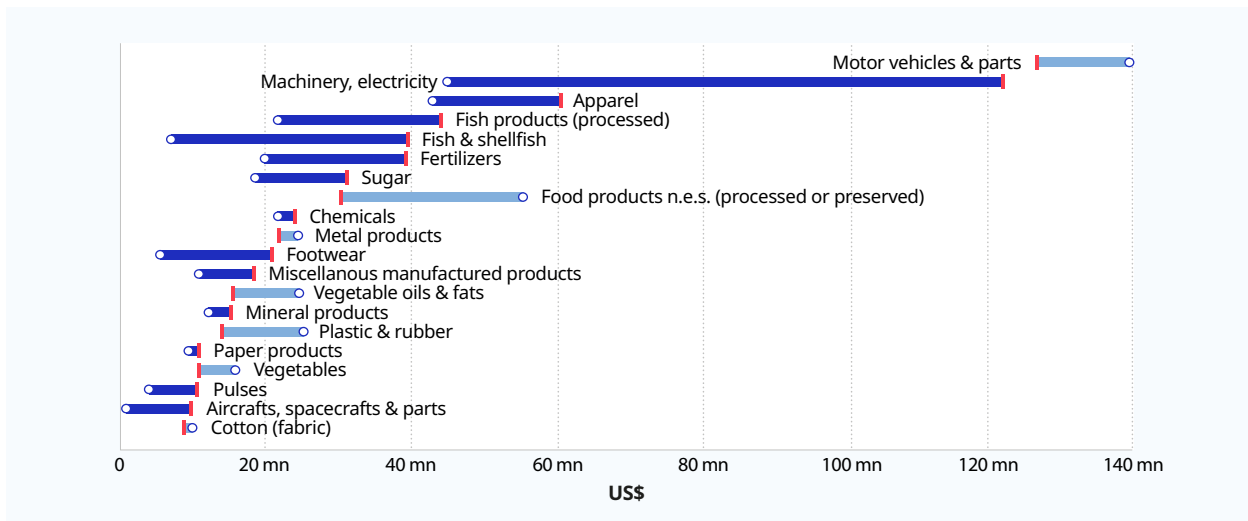
▶ Figure 27: Untapped potential from Jordan to the Middle East by sector (in US\$)



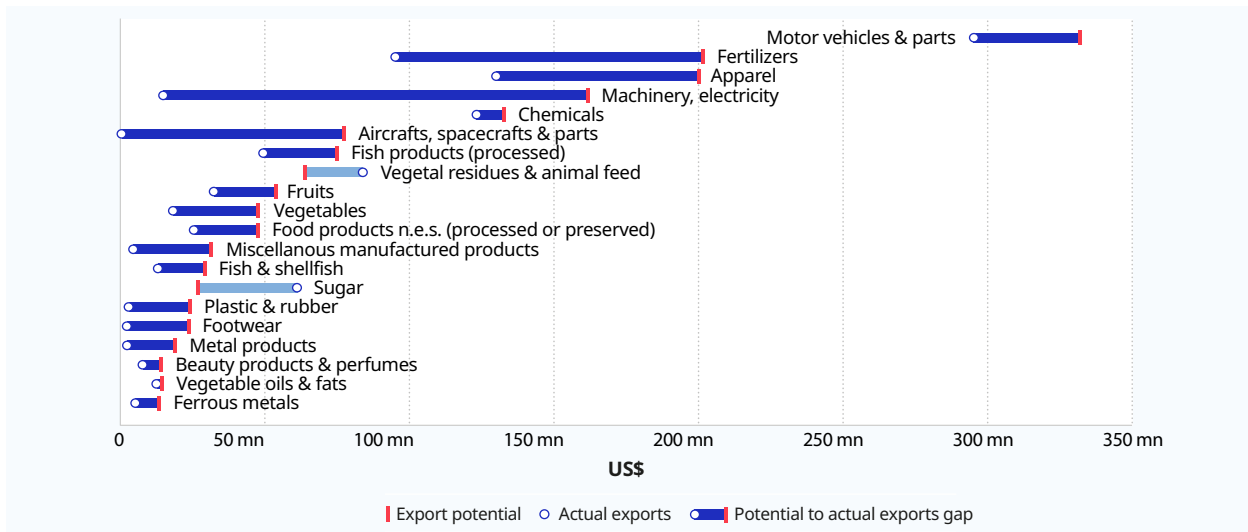
► Figure 28: Untapped potential from Morocco to the world by sector (in US\$)



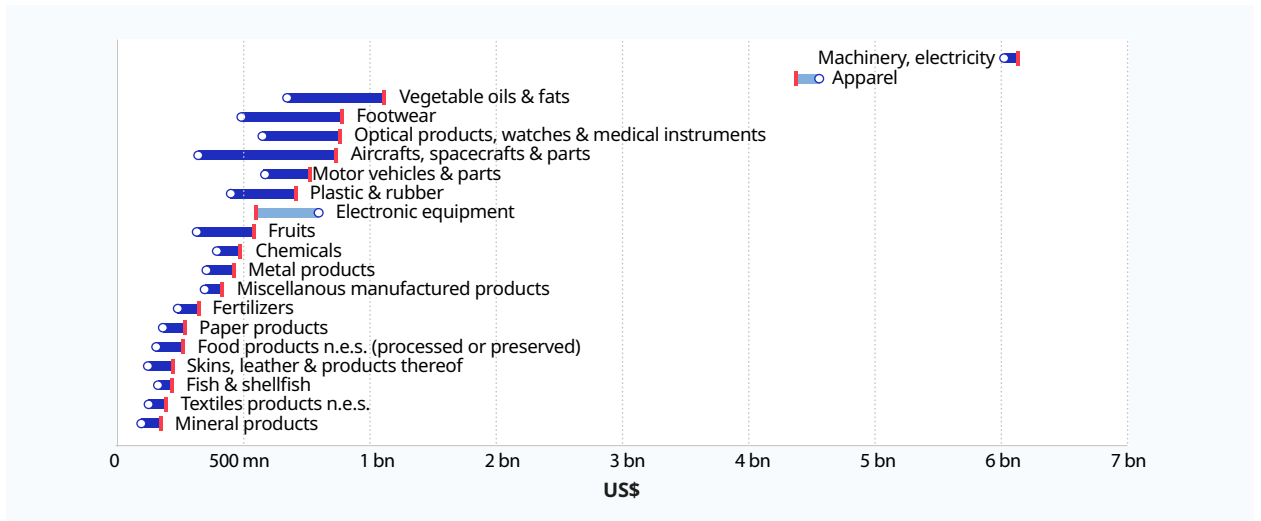
► Figure 29: Untapped export potential from Morocco to North Africa by sector (in US\$)



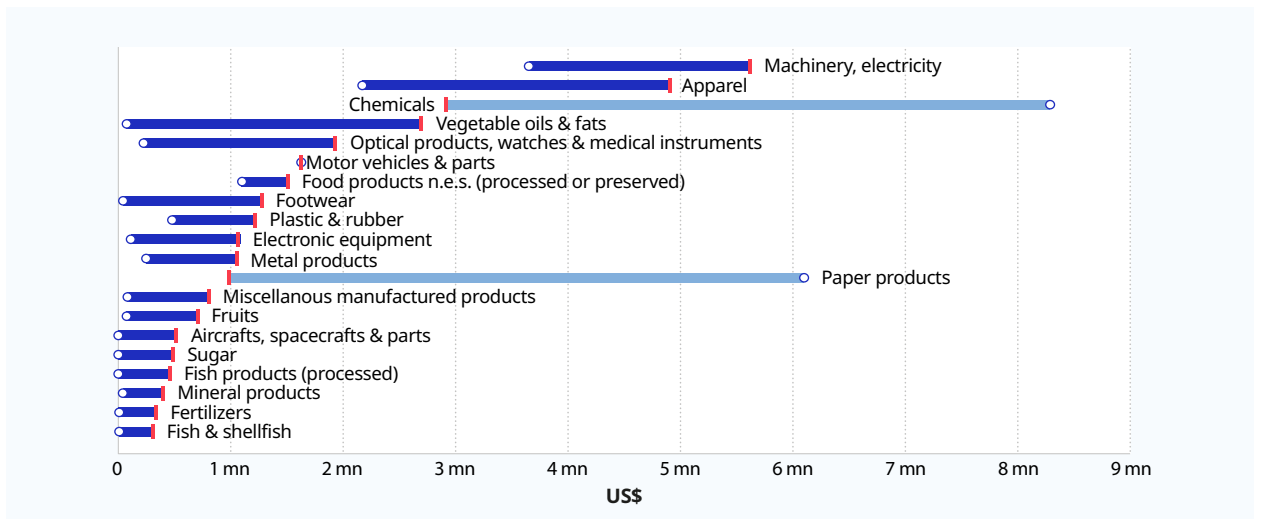
► Figure 30: Untapped potential from Morocco to the Middle East by sector (in US\$)



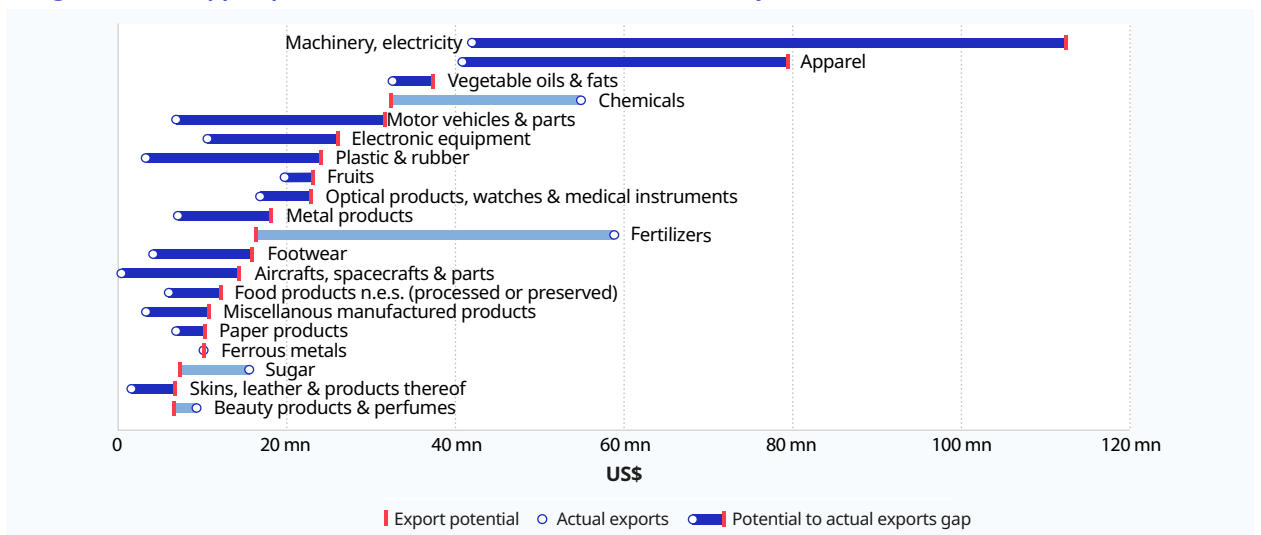
► Figure 31: Untapped export potential from Tunisia to the world by sector (in US\$)



► Figure 32: Untapped export potential from Tunisia to North Africa by sector (in US\$)



► Figure 33: Untapped potential from Tunisia to the Middle East by sector (in US\$)



Source: ITC export potential map.

### ► Box 1: Role of the European Union in the UfM and engagement in the Southern Mediterranean Countries

The European Union has historically been at the centre of the Barcelona Process and the establishment of the Union for the Mediterranean (UfM) and continues to play a significant role in initiatives under the UfM. Recently and as a response to support a recovery from COVID-19 in the region, the EU launched the New Agenda for the Mediterranean, aiming to relaunch the Euro-Mediterranean partnership and unleash the Southern Mediterranean Countries' untapped potential by facilitating a green, digital, resilient and just recovery, guided by the 2030 Agenda for Sustainable Development. This New Agenda focuses on key themes for the region including human development, good governance and the rule of law, resilience, prosperity and the digital transition, peace and security, migration and mobility and the green transition. For the period 2021–27, the European Commission proposes to mobilize up to €7 billion under the Neighbourhood Development and International Cooperation Instrument. This support includes provisioning for the European Fund for Sustainable Development as well as for guarantees and blending under the Neighbourhood Investment Platform, which would help mobilize private and public investments of up to €30 billion in the Southern Neighbourhood.

**Source:** EC (2021). Fact Sheet: [Towards a renewed partnership with the Southern Neighbourhood](#).

Despite noticeable improvements over the last two decades, the countries in the Southern Mediterranean are not very well integrated with the Union for the Mediterranean countries outside of the European Union. Since the mid-1990s, important initiatives took place for regional integration with the Northern Mediterranean Region, notably through the Barcelona Process in 1995 and the launch of the Union for the Mediterranean (UfM) in 2008. The UfM was launched as an inter-governmental organization to strengthen regional integration and increase trade between countries in the UfM region.<sup>14</sup> Countries in the Southern Mediterranean trade mainly with EU countries, with a relatively low integration with other UfM countries such as the Western Balkan countries. In 2018, the EU represented more than 95 per cent of the exports within the UfM region and 93 per cent of its export to the world (OECD, 2021). However, there has been some progress. In 2018, for example, North African UfM countries and Levant UfM countries exported respectively 10.5 per cent and 16.8 per cent of their total exports to non-EU UfM countries, compared to 5.5 per cent and 15.2 per cent in 2005 (OECD, 2021). Despite this improvement, especially for North African countries, there remains a considerable untapped trade potential between the Southern Mediterranean Countries and non-EU UfM countries.

### 1.1.4. The nexus between trade, investment and the labour market

Trade and globalization offer significant opportunities for economic development through the expansion of productive sectors and the catch-up and learning of technology. Trade and globalization also offer, at least in theory, the growth potential for productive and decent jobs that could help the Southern Mediterranean Countries provide suitable economic opportunities for their increasingly educated labour forces.

Historically, there was a focus on the impact of trade policies on growth and income per capita, typically using computable general equilibrium models. The impact of trade on employment has been frequently regarded as a by-product of growth and trade expansion, rather than as something that required the monitoring and design of specific policies. More recently, the impact of trade policies on the labour market and employment has been increasingly studied, especially in low- and middle-income countries, characterized by significant institutional and market failures and high transaction costs.

In theory, trade liberalization reforms are expected to lead to aggregate productivity gains in opening-up economies. Trade liberalization leads to increased competition with foreign firms and the production of products with higher technology, quality and potentially lower prices. This imposes

<sup>14</sup> UfM countries include countries in the Southern Mediterranean Countries, countries in the European Union, Israel and Western Balkans countries such as Albania, Bosnia and Herzegovina and Montenegro.

significant adjustments to industries and firms previously protected by high tariffs. Ultimately, at least in theory and in a well-functioning market, uncompetitive activities and firms are forced to exit and activities while firms that can bear the adjustment costs and adapt to the new competitive landscape continue operating and become more productive. Productive factors, including capital and labour, that are liberated from uncompetitive activities and firms are absorbed by competitive ones, leading to an efficient transfer of productive factors and eventually resulting in aggregate productivity gains. In the traditional trade theory, the reshuffling of productive factors is done across sectors, or, as in the “new” new trade theory, across firms in the same sector or in different sectors. Melitz (2003) demonstrates the firm heterogeneity effects of trade policies and provides important evidence for the “new” new trade theory. The author finds that exposure to trade leads to productive firms entering the export market, forcing the least productive ones to exit. The author also finds that these inter-firm reallocation effects lead to growth in the aggregate industry productivity, ultimately resulting in welfare gains.

In the case of middle-income countries, like in the Southern Mediterranean Countries, this reshuffling might be costly for firms and workers, due to important existing market failures. These include the under-development of infrastructure and the financial offer, the ineffective competition policies and the relatively low human capital. Haltiwanger (2011) indicates that the reallocation and reshuffling of productive factors across sectors or firms, is an inherent feature of developed and well-functioning markets and economies. In developed countries, firms must constantly and rapidly adjust to new technologies and to a high level of competition, leading to the exit of uncompetitive firms and the development of more competitive ones. Haltiwanger (2011) indicates that in low- and middle-income countries, achieving this allocative efficiency is costly and difficult due to the failures in the business climate and economic institutions. This might lead to a sub-optimal impact of trade liberalization on the labour market, with more job destruction than job creation, with high adjustment costs for low-skilled and vulnerable workers. Vulnerable workers, such as youth and women in the Southern Mediterranean countries, would be unable to bear these adjustment costs and secure jobs in the productive firms and tradable sectors and might ultimately move to the non-tradable sectors and even to informality.

The impact of trade and investment policies on the labour market can be summarized in four categories:

1. The impact of trade policies on the quantity of jobs, captured by the number of jobs created in the tradable sectors and the aggregate level of unemployment.
2. The impact of trade policies on the quality of jobs, measured by the impact on workers' wages and the demand for skills.
3. The impact on the informal economy: tradable sectors are generally with higher levels of skills; hence, trade liberalization might increase the demand for higher skills, displacing low-skill workers to the informal economy and untradable sectors.
4. The impact of trade policies on inequality: even if trade facilitates growth in average per capita incomes and wages, the effects are not uniform, with possible negative impacts on vulnerable groups, including women and youth in developing countries, as these groups tend to be over-represented in low-skilled jobs.

There is some evidence suggesting that trade policies might lead to more job destruction than job creation in low- and middle-income countries, depending on how trade policies are implemented and the complementarity between trade, investment and industrial policies. In these countries, trade expansion often relies on trade liberalization that may hurt previously protected sectors in the short term, leading to the displacement of low-skilled workers and not securing a job in more competitive industries. For instance, McMillan and Rodrik (2011a) study the impact of trade liberalization and structural change on economies in Asia, Latin America and Africa and find that the relative size of the economy's productive segment has shrunk in Latin America and Africa rather than expanded following trade liberalization. In Africa and Latin America, the structural change has led to labour moving from more productive and tradable activities (agriculture and manufacturing) to less productive ones, mainly wholesale and retail trade, where productivity growth has been negative. Other studies in Latin America (Casacuberta et al. 2004; Menezes Filho and Muendler, 2007) also indicate that trade opening in Uruguay and Brazil resulted in more job destruction than job creation, with some evidence of displacement of workers outside of tradable sectors. Rodrik (2006) studies the root causes of the significantly high unemploy-

ment rate in South Africa (one of the highest in the world) and finds that the main cause is the shrinkage of the non-mineral tradable sector, namely manufacturing, following a trade liberalization episode. This is due to two main dynamics: an increase in demand for skilled workers in different sectoral activities and production techniques becoming progressively more capital-intensive.

Trade liberalization could lead to positive impacts in low- and middle-income countries by increasing quality job creation in export-led sectors and increase the demand for high-skilled workers, as suggested by some studies. For instance, Robertson et al. (2009) study the impact of trade and investment policies on jobs in Cambodia, El Salvador, Honduras, Indonesia and Madagascar. They find that in all these countries, the exposure to international trade and investment in the textile and garment sectors is correlated with an increase in the number of jobs in the industrial sector and a decrease of employment in the agricultural sector, improving the overall quality of jobs. Moreover, Brambilla et al. (2015) study the relationship between exports, employment and wages in developing countries and show that, on average, exporters pay 31 per cent higher salaries than non-exporters.

However, this positive impact can be unevenly distributed and might not hold for women, youth and vulnerable populations in low- and middle-income countries. For instance, Kucera and Roncolato (2011) use social accounting matrices in a Leontief multiplier model to estimate the effects of trade on employment, incomes and poverty following a period of rapid trade liberalization in India and South Africa in the early 1990s. The authors find mixed effects of liberalization on jobs and incomes and consistent negative effects on women and vulnerable populations. In India, the authors find that trade liberalization between 1993 and 2004 led to 2.3 million fewer jobs, with this loss mainly driven by trade with developing countries. In South Africa, the authors find that trade reforms between 1993 to 2006 led to a net gain of 135,000 jobs; however, they estimate that women's share of employment would have been higher without trade liberalization reforms. In both countries, women tend to be concentrated in labour-intensive industries; therefore, trade liberalization reforms did not yield positive employment outcomes for them.

The impact of trade policies on wages, including in export-oriented sectors, might be disappointing in low- and middle-income countries. For instance, McMillan et al. (2003) study the impact of

the export liberalization of Mozambique's cashew trade in the early 1990s on incomes. In 1991–92, the authorities replaced an export ban on cashews with export taxes, which were gradually lowered, and privatized state-owned enterprises that were engaged in the sector. The authors find that following the reform, farmers earned more and output grew. However, wages increased by a much lower magnitude than expected. Overall, the average annual wage increase per household for farmers amounted to less than four days of the average wage in Mozambique, despite a significant surplus generated by the reform.

Another effect that trade and investment policies can have is the displacement of workers from the tradable sectors to non-tradable sectors, including informal ones. This would increase inequality due to high adjustment costs on the most vulnerable groups, including women and youth. Vulnerable groups tend to have low skills and resources, which might increase the adjustment costs for them and, therefore, constrain them in taking advantage of economic opportunities provided by trade liberalization. For instance, Al-Wadi (2017) studies the impact of trade liberalization on women's employment (self-employment and wage-employment) in the Middle East. The author finds that trade liberalization has increased the share of females in self-employment but decreased the share of females in wage employment. As generally, self-employment tends to be correlated with informality in low and middle-income countries, this might suggest that women have been displaced from the tradable sector to informal sectors in the Middle East.

The impact of trade policies on the labour market, including on the non-tradable sectors, depends heavily on the institutional settings in different countries and on the capacity of these settings to support firms and workers in dealing with the potentially high adjustment costs. This should be closely monitored and addressed by policymakers in the Southern Mediterranean Countries. Also, trade and investment policies should be aligned with effective industrial policies to ensure that countries are building on their comparative advantages and maximizing the impact of trade and investment policies. Focusing on policies that could improve the export potential of tradable sectors would increase the productivity and job creation potential of these sectors, contributing even further to the absorption of the relative increase of highly qualified workers entering the region's labour market. The focus on high-strategic sectors that could yield export expan-

sion through effective industrial policies is therefore of high importance. Other policies that focus, for instance, on developing public infrastructure and trade logistics would facilitate the compositional shifts of production factors in these economies, decrease the adjustment costs for firms and workers and facilitate the emergence of high-added value and productive firms. This could help enhance the impact of trade and investment policies on the labour market and the economy as a whole.

The nexus between trade and industrial policies and the labour market is particularly important for the Southern Mediterranean Countries, considering the stagnant labour market, high levels of unemployment and substantial disconnect between the population's aspirations and the reality of economic

opportunities. If channelled correctly, through effective institutions and industrial policies that promote structural change, trade and investment policies could help the countries in the Southern Mediterranean Countries to expand their productive sectors while creating much-needed quality jobs, including for women and youth. The next chapter will focus on the evolution of industrial, trade and investment policies in the region and their overall impact on structural transformation and the parallel evolution of job creation and employment in the tradable and non-tradable sectors. The objective of the next chapter is to provide evidence on the evolution of employment in countries in the Southern Mediterranean Countries and to relate these trends to trends in trade and industrial policies.





# ▶ Chapter 2

**Inclusive economic transformation through employment-oriented trade, industrial and investment policies**

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## ► Chapter 2. Inclusive economic transformation through employment-oriented trade, industrial and investment policies

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### 2.1. Industrial and trade policies: theory and applications globally and in the Southern Mediterranean Countries

Industrial policies and trade and investment policies are interlinked, as export promotion or import substitution are critical strategies employed by countries to develop their economies. Some industrial policies are even called export strategies, as they tend to focus on developing export-oriented light manufacturing. Trade policies can be seen as an instrument for industrial policies. Industrial policies have the objective of improving the local production capacity and technological capacity within industries and sectors. Whether designed towards protection or liberalization, trade policies provide a set of rules and frameworks that enable the development of industries and sectors while regulating their interaction with the rest of the world. Trade policies in an inward-oriented and protectionist strategy tended to include tariff measures to protect a specific industry. Whether in an outward-oriented and export-promotion strategy, trade policies focused on reducing tariffs on inputs and intermediary goods and attract Foreign Direct Investment to promote exports and technological transfer. In theory, tariff reduction, the main tool of trade liberalization, can help firms have cheaper access to inputs and intermediary goods. For instance, some developing countries chose to apply lower tariffs on inputs, intermediary goods and capital goods than on finished and consumption goods to encourage the development of the local economy while integrating it in the global economy, with potentially increased know-how and technological capacities. Achieving coherence between trade, investment and industrial policies is critical to the development agenda, as effective industrial policies represent an important transmission channel for the impact of trade policies on the labour market and equality. Therefore, these policies should be designed and

implemented in a complementary way, building on countries' natural endowments and dynamic comparative advantages.

#### 2.1.1. Structural transformation and industrial and trade policies – schools of thought and evolution

##### Industrial policies until the 1990s

During the latter half of the twentieth century, the development and growth policies around the world witnessed several episodes, influenced by different economic models and schools of thought. The 1950s and 1960s witnessed the popularity of industrial policies associated with import substitution strategies to develop local economies after World War II and colonialism. Industrial policies were mainly implemented through infant-industry protection (with import-substitution and trade protectionism policies) and picking winners to provide support. This translated mostly in planning economies with heavy involvement of the state to administer different economic activities, including import authorizations for private actors. This led in many countries to the development of uncompetitive industries, the proliferation of rent-seeking domestic firms, misallocation of resources and the inefficient consumption of goods in different economies (Krueger, 1974; Lin, 2010). Following these results, the 1970s were generally marked by the beginning of liberal in most developing countries, mainly through export promotion and sets of incentives to attract FDI. In the 1980s and 1990s, the liberalization accelerated further with structural adjustment reforms. Private sector development strategies mainly followed the Washington consensus view promoted by international institutions that focused on the enabling environment and market-oriented policies. The view promoted a minor role for the state, typically focusing on improving market functioning and the business environment.

In a successful development experience, structural transformation is associated with improvement

of aggregate labour productivity and a structural change in employment from labour-intensive sectors towards more productive and skill-intensive sectors (Lin 2010; Lin and Monga, 2014; and Ocampo et al., 2009). The improvement in aggregate labour productivity is generally the outcome of two processes: a) the reallocation of labour from lower to higher productivity sectors (generally manufacturing) and b) increases in within-sector productivity, due to static and dynamic economies of scale, improvements in firms' capabilities through improvements of means of production, managerial capabilities, technological capabilities, and so on. (McMillan and Rodrik 2011b; Kucera and Roncolato 2016). The improvements of firms' capabilities might also be due to the process of creative destruction, in which low-productive firms are forced to exit the sector and are replaced by newly established and high-productive firms. McMillan et al. (2017) indicate that the accumulation, innovation and productivity improvements take place in the modern sector (typically industry and manufacturing), while the traditional sector (such as agriculture) remains stagnant.

Growth and development policies are aimed at finding pathways to realize a successful development experience and have been a constant search for a balance between the role of the state and the role of the market in developing the private sector and spurring growth. This is demonstrated in the emergence of two main schools of thought on growth and economic development: the Washington Consensus school and the structuralist development school, both aiming to identify and define policies and strategies that will support economic growth.

As indicated above, the Washington Consensus school, based on the neo-classical model, stipulates that the government's intrinsic failures are a constraint to "getting it right", understanding the market and picking-winners, which is one of the first applications of industrial policies in emerging economies. It indicates that government interventions in the economy lead to important distortions in the market, including misallocation of resources and distortions of prices (Lin, 2010). The Washington consensus indicates that the state's role should be only focusing on improving the business environment and adopting "horizontal" policies.

The structuralist development school recognizes that countries can experience episodes of growth, but not necessarily growth that is sustainable, which requires a structural transformation (Ocampo et al., 2009). Structural transformation can be defined by a shift of employment and output towards higher productivity sectors of the economy. These sectors are generally characterized by economies of scale and macro spillovers. For instance, McMillan and Rodrik (2011a) find that structural change has been growth-reducing in both Africa and Latin America, with labour reallocating towards low-productive sectors instead of high-productive ones. In sub-Saharan Africa, these low-productive sectors, generally services in urban areas, offer opportunities that are generally at near-subsistence levels in low-skilled employment. For instance, wholesale and retail is typically the main sector in services that benefit from the labour reallocation, without significant improvements in aggregate labour productivity. These urban jobs are generally associated with informality and with low technological capabilities and as such they constrain the sustainable and long-term perspective of physical and human capital accumulation. The structuralist school of thought indicates that development needs structural transformation and that structural transformation requires the state's intervention to address the market failures that might become a binding constraint to industrial development and capital accumulation (Lin 2010; Lin and Monga, 2014; and Ocampo et al., 2009). Lin (2010) indicates that as the industrial structure develops, new needs of the industry develop that require improvement and alignment of "soft" and "hard" infrastructure<sup>15</sup> in an economy, which can be done through collective action and therefore through the intervention of the state. Ultimately, structural transformation leads to improvements in workers' outputs, including that of low-skilled workers, higher GDP per capita and lower levels of unemployment and inequality in developing countries (Stiglitz and Greenwald, 2015). Within the structuralist development school, industrial policies play a major role in ensuring sustainable growth through state interventionism.

The experience of the import substitution policies in the 1960s and 1970s made these policies unpopular in the 1980s and 1990s. However, the successful structural transformation of East Asian

15 Hard infrastructure is defined by the author as highways, port facilities, airports, telecommunication systems, electricity grids and other public utilities and soft infrastructure as institutions, regulations, social capital, value systems and other social economic arrangements.

countries, including China, Vietnam, South Korea and Singapore, has shed new light on the role that the state can play in economic development through well-designed, orchestrated and implemented industrial policies (Lin, 2010). The successful transformation of East Asia is attributable to the state's active role in implementing economic policies that promoted capital accumulation, innovation and productivity growth. East Asian countries promoted investment in research and development (R&D), provided preferential access to finance and encouraged technological capability to targeted sectors in the economy (Rodrik, 2008). The success of East Asian countries is also attributed to the quality of institutions, including the quality of collaboration between the public and the private sector. Chang (1997) indicates that the industrial policies in East Asian countries were more successful than in other countries due to better networks and a well-implemented collaboration with the private sector that facilitated information flows.

#### **A new wave of industrial policies – features**

A rebirth of industrial policies followed the Asian experience, and these were accelerated by the 2008 global financial crisis. This new wave, generally called “modern industrial policies” in the literature, includes critical learnings from the policies of the 1960s. Rodrik (2004) indicates that government failures exist, but market failures as well. He mentions that both the private sector and the government lack information. Therefore, industrial policies should not focus on the outcome but rather on the process, and particularly the process of what he refers to as “self-discovery,” in which public and private actors learn from each other and find solutions together. He writes that “the right way of thinking of industrial policy is as a discovery process – one where firms and the government learn about underlying costs and opportunities and engage in strategic coordination” (page 3). Rodrik (2008) defines the features of new industrial policies in three main points: a) embeddedness, b) carrots and sticks, and c) accountability. All three aspects aim to address the challenges faced by the first version of industrial policies and the critics faced by these policies. First, embeddedness seeks to address the asymmetry of information and to support the self-discovery process. To design effective industrial policies, the government needs information from the private sector about the market constraints, which requires extensive public-private collaboration. Rodrik indicates that

this collaboration should be systemic and institutionalized. Second, the carrots and sticks feature aims to address the failures in picking winners by providing conditional incentives to market success and performance, avoiding the rent-seeking approach and avoiding supporting firms that fail. This feature has been included, for instance, in industrial policies in Taiwan and Korea. The third feature, accountability, includes defining clear governance mechanisms, including mandating a competent agency to implement the industrial policies and periodically publishing its results and achievements. Moreover, modern industrial policies are designed in a way that reconciles the horizontal or transversal approach, which focuses only on fixing the business environment and the vertical or targeted approach in the first wave of industrial policies which mainly focus on a set of strategic and priority sectors. Modern industrial policies include both transversal and targeted objectives, with a set of policies and measures to improve the market functioning and the business environment and targeted support to sectors that could yield productivity growth and development.

In redefining industrial policies, the sector focus brings to light a critical question: should countries, especially low- and middle-income countries, continue focusing on manufacturing or expanding to technology and knowledge-intensive activities in services? Industrial policies aim to support the structural transformation of an economy and the development of high-productive sectors. Historically, structural change took place through manufacturing growth and therefore, industrial policies tended to focus on developing the manufacturing sector. The expansion of manufacturing creates demand for agricultural inputs, thus supporting an increase of agriculture productivity and creating a need for certain supportive activities in the services sector, such as financial services, logistics, business development and real estate. Recently, Stiglitz and Rodrik, among other economists, have favoured industrial policies that focus on a broader range of sectors, including agriculture, manufacturing and services. Stiglitz and Greenwald (2015) define modern industrial policies as “any policy redirecting an economy's sectoral allocation (or other production decisions, such as the choice of technique or the nature of innovation) where market incentives, as shaped by rules and regulations, are misaligned with public objectives.” (p. 207). Also, Aiginger and Rodrik (2020) indicate that the global economy is increasingly turning towards services; therefore, indus-

trial policies would need to focus on developing modern economic activities more broadly and not focus only on manufacturing. The authors even suggest changing the naming of industrial policies to “structural transformation policies.” It remains critical for countries to select a few high-potential sectors in industrial policies, whether in manufacturing, agriculture or services, for at least three reasons: a) higher efficiency gains by focusing on high-potential sectors and activities in which countries do have a competitive advantage and are ready to enter, b) better ability to address sector-specific binding constraints when focusing on targeted sectors and c) higher capacity to address the limited bandwidth within the government, which might impact the capacity to channel scarce public resources effectively.

Moreover, targeting sectors in low- or middle-income countries would need to keep a balance between three main development objectives: a) absorbing low-skilled or mid-skilled workers who still represent the most significant share of workers in low-income and middle-income countries, which could help in decreasing levels of inequality, b) accelerating the convergence process with developed countries by increasing labour productivity and facilitating technological catch-up and c) helping to integrate countries in the global economy and therefore promoting tradable sectors. Manufacturing fulfilled these conditions historically and did help to reduce inequality; however, this is less clear for services or agriculture. For instance, Baymul and Sen (2020) study the correlation between structural transformation, driven either by manufacturing or services and income inequality. The authors find that economic growth results in higher income inequality when the structural transformation is services-driven rather than manufacturing-driven. Moreover, tradable services tend to be skill-intensive and would mainly create jobs for the high-skilled, which might be a constraint for low-income and middle-income countries. Services that are labour intensive, such as wholesale and retail, are generally not tradable and will not support the convergence process or integration into the global economy.

A subsequent question is how to select the targeted sectors. As discussed earlier, Rodrik (2008) indicates that industrial policies should be a self-discovery process, including in the selection of sectors. In a more recent paper, Aiginger and Rodrik (2020) indicate that modern industrial policies are unlikely to be top-down, including in the

pre-selection of sectors. Rather, they are much more about a systemic and sustained collaboration with the private sector, including in the selection of sectors. However, the self-discovery process needs to build on the countries’ comparative advantages. For instance, Lin (2010) indicates that industrial policies should be consistent with the change in the country’s comparative advantage that reflects the accumulation of human and physical capital. Similarly, Stiglitz (2016) specifies that countries will need to identify and focus on their dynamic comparative advantage, not a static one. Therefore, in modern industrial policies, identifying targeted sectors should be made in a collaborative approach, through a self-discovery process, based on a rigorous analysis and understanding of the economy, its complexity and readiness and its new factors endowments. ILO (2020a) identifies three main analytical methodologies that could be used to select the prioritized sectors: a) The Growth Identification and Facilitation Framework (GIFF) (Lin and Xu, 2016); b) the economic complexity and product space method (Hidalgo and Hausmann 2009; Hausmann et al. 2013); and c) the International Trade Center (ITC) export potential and product diversification indicators method (Decreux and Spies, 2016). The three methodologies propose different technical tools and analytical steps for countries to identify their comparative advantages, including latent ones. The **GIFF** proposes a six-step practical framework for countries to identify their comparative advantage and their sector focus by studying the experience of other countries that have achieved structural transformation and significant improvements in their GDP per capita and that had similar factor endowments before achieving their transformation and ultimately identifying the sub-sectors that helped these countries to achieve this transformation. The **economic complexity and product space** methodology uses international trade data to measure the complexity of products and countries, capturing their set of capabilities and mapping their production in a global network of products to identify new products that these countries might enter and develop and that could help in accumulating productive knowledge. Finally, the **ITC export potential** methodology proposes a framework to inform countries’ export and development strategies. The methodology proposes two approaches: the Export Potential Indicator (EPI) approach to identify the future potential of existing products within a framework and the Product Diversification Indicator (PDI) approach, based on the product

space methodology, to identify new products that a country can enter. Countries can combine these different methodologies and their results to inform their focus sectors, but what is ultimately important is that low and middle-income countries use rigorous analysis to inform their development and industrial strategies.

### 2.1.2. Evolution of industrial, trade and investment policies in the region

The Southern Mediterranean Countries followed the international trends in terms of industrial and trade policies. After the independence, all countries in the region adopted protectionist policies to protect and develop their local industries and reduce dependency on ex-colonizers. This phase resulted in the emergence of a local manufacturing sector across the region. For instance, **Tunisia** implemented an import substitution policy in the 1960s within a broad planned economy strategy, including a collectivization strategy implemented in 1961 to increase agriculture productivity and reduce dependency on exports. Between 1965 and 1969, the authorities implemented a very tight and comprehensive exchange control, and a highly administered and bureaucratic import licensing system was put in place (Nabli, 1980). Similarly, **Morocco** adopted an import substitution strategy from the 1960s throughout the 1970s, which relatively benefitted the manufacturing sector, especially the textile industry (Achy, 2013; Hahn and Vidican-Auktor, 2018). The Moroccan authorities administered licenses on imports, overvalued the local currency (dirham) until the early 1980s, imposed tariffs from 50 per cent to 200 per cent on certain consumer goods and implemented in 1973 a “Moroccanization” of company ownership in industry and services (Ferrali, 2012). In **Egypt**, the State’s industrial policy in the 1960s was central planning and state-enterprise-led industrialization (Said et al., 1995). Equally, **Jordan** implemented, after its independence in 1946, import-substitution policies, with a high level of industrial protection and a significant role of the state in the economy. During this period, Jordan achieved significant growth levels, with an average annual rate of 10 per cent between 1960 to 1985 and witnessed the emergence of a vital manufacturing sector (Abugattas-Majluf, 2012). The central planning and protectionism episode ultimately resulted in significant macro-imbalances, market inefficiencies and a lack of state-owned compa-

nies’ competitiveness, despite some positive results, including the emergence of certain local manufacturing activities such as the textile industry in Morocco, Tunisia and Jordan.

In the 1970s and 1980s, many countries in the region started focusing on export promotion and trade liberalization. These policies, however, were implemented at a different pace and intensity across the region. **Tunisia** was the first country in the region to adopt an intensive investment and export promotion policy in 1972 through the adoption of an investment code famously called “loi 1972”, which was a turning point for industrial policies in Tunisia. The law created an offshore sector and gave extensive fiscal and financial incentives to companies established in this sector to attract FDI and increase exports. Incentives for offshore companies included duty-free raw materials and capital goods, 10-year corporate tax holiday, free repatriation of profits and trade facilitation services, among other benefits. The “loi 1972” also established a dedicated agency in charge of implementing the investment and export policies. Tunisia also started slowly decreasing trade tariffs in 1973, with the introduction of tariffs code that eased some of the trade barriers (Nabli, 1980). Other countries in the region started focusing on export promotion later on. **Egypt** took the same approach in 1974, with the adoption of the “the open-door policy” and establishing its first free zones, which aimed to attract foreign investment and promote exports (WTO, 2018). **Jordan and Morocco** started trade liberalization in the 1980s. For Jordan, the trade liberalization process started following a series of crises, including a major oil crisis in the region in 1983, which heavily affected the country and contributed to a debt crisis in 1988–89 (Abugattas-Majluf, 2012), as the country depended heavily on oil imports from countries in the MENA region, specifically Iraq. Moreover, many Jordanians worked in Gulf countries, contributing to remittances that represented 20 to 25 per cent of the country’s GDP before the 1983 crisis. The country started adopting an export promotion scheme in 1989 to increase manufacturing exports, diversify economic activity and attracting more foreign investment.

During the 1990s, most countries in the region adopted structural adjustment reforms prescribed by the World Bank and the IMF. With the structural adjustment programmes (SAPs), countries in the region went through a significant wave of privatization. They mainly adopted the Washington consensus view on private sector development, focusing on

improving the business environment. This phase coincided globally with an increasing internalization of production and value chains, mainly driven by a cost-reduction rationale. During the 1990s, European manufactures increasingly relocated part of their value chains to countries with low costs, including relatively cheap labour. This dynamic favoured some manufacturing sectors, including the textile industry in Morocco, Tunisia and Jordan, mainly through sub-contracting mechanisms. However, this industry remained a low value-added sector throughout the 1990s and the 2000s.

As a result of the SAPs, trade barriers, specifically trade tariffs, progressively and significantly decreased in the region. For instance, in Egypt, the maximum trade tariff rate decreased from 110 per cent in 1989 to 40 per cent by the end of 1990s (Selwaness and Zaki, 2013). In Morocco, the maximum trade tariff reduced from 45 per cent in the late 1980s to 40 per cent in 1992 and 35 per cent in 1993.<sup>16</sup> However, the country increased some agriculture products tariffs over the same period, to protect the local farmers. Similarly, in Tunisia, the trade liberalization plan, accompanying the SAPs and implemented in the mid-1980s, aimed to remove all import restrictions by end of 1991 and achieve a uniform trade tariff at around 25 per cent (WTO, 1996). Between 1986 and 1988, the trade tariff range narrowed from a range of 5–236 per cent in the early 1980s to a range of 17–43 per cent by 1988 (WTO, 1996). This process resulted in four countries in the region becoming WTO members: Morocco (1995), Tunisia (1995), Egypt (1995) and Jordan (2000).<sup>17</sup> Algeria, Lebanon and Libya are currently only WTO observers.

### 2.1.2.1 Evolution of trade and investment policies in the 2000s

Between 2000 and 2010, countries in the region accelerated their efforts to integrate their economies into the global economy further. Notably, the accession to WTO membership for Egypt, Jordan, Morocco and Tunisia put the countries on an accelerated trade liberalization process by adopting important bilateral and multilateral free trade agreements (FTAs). Most of the countries in the

region continued the trade liberalization process that started in the late 1980s. However, Egypt and Morocco have been more effective in adopting bilateral and multilateral trade agreements than in Tunisia and Jordan. Also, countries in the region have gone through a significant decrease in their trade tariffs (figure 35). This was particularly the case in Lebanon, Tunisia, Morocco and Egypt and led to relatively low trade tariffs in the region, compared to other regions (figure 35). Algeria and Egypt are the only countries slightly above the world's average for import tariffs in the region.

In early 2000 and upon ascension to the WTO, **Morocco** benefitted from implementing several important Free Trade Agreements (FTAs) that significantly increased Moroccan exports. The EU-Morocco Association Agreement between Morocco and the European Union (EU) took effect in 2000, and since 2013, negotiations are ongoing for a Deep and Comprehensive FTA (DCFTA).<sup>18</sup> Furthermore, Morocco joined the Greater Arab Free Trade Area (GAFTA) and the European Free Trade Association (EFTA) agreement. In 2001, Morocco signed an FTA with the UAE, which took effect in 2003. In 2006, the Morocco-USA free trade agreement was implemented, making Morocco the only African country to have an FTA with the USA. Consequently, Morocco's exports to the USA significantly increased from US\$565 million in 2004 to almost US\$1.4 billion in 2019.<sup>19</sup> Moreover, an FTA with Turkey signed in 2004 took effect in 2006, mainly covering non-agricultural products. Finally, the Agadir Agreement, which includes four countries in the Southern Mediterranean Countries (Egypt, Jordan, Morocco and Tunisia), took effect in 2007. All these new trade agreements have had a significant impact on the trade tariffs for Morocco. For instance, the MFN-trade-weighted average duty decreased from 25 per cent in 2002 to 20 per cent in 2005, 11 per cent in 2009 and to 10 per cent in 2015 (figure 34).<sup>20</sup>

**Egypt** has also signed several bilateral and multilateral FTAs and further reduced its trade tariffs and barriers. One of the most important FTAs is with the European Union (EU), a major trading partner. The FTA entered in force in 2004 creating a free-

16 WTO, "Morocco continues liberalizing its trade regime but the WTO raises concerns in some sectors", 1 January 1996.

17 Countries are listed by order of accession date.

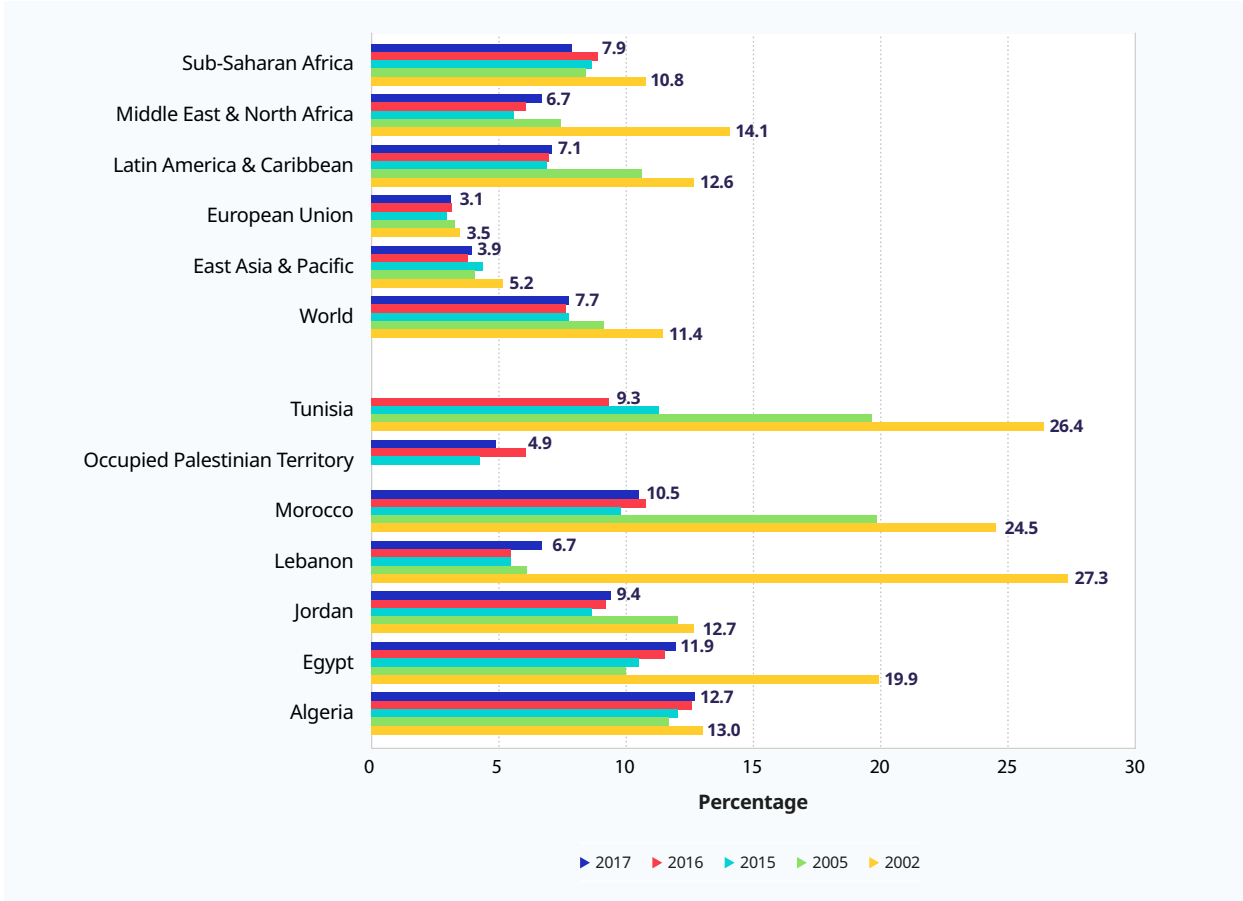
18 Deep and Comprehensive Free Trade Agreements (DCFTA) is used by the European Union (EU) as a template for substantial reforms leading to closer regulatory integration between the EU and its partners. In theory, DCFTAs are supposed to be more comprehensive than Association Agreements.

19 Source: OEC. Available from: [https://oec.world/en/visualize/tree\\_map/hs92/export/mar/usa/show/2004.2008.2010.2015.2019/](https://oec.world/en/visualize/tree_map/hs92/export/mar/usa/show/2004.2008.2010.2015.2019/).

20 WITS and WTO (2009) for the 2009 figure.



► **Figure 34: Evolution of trade tariffs measured by Most Favoured Nation-trade-weighted average duty in comparison with other world regions and with countries in the region (percentage)**



**Note:** Most Favoured Nation (MFN): Normal non-discriminatory tariff charged on imports (excludes preferential tariffs under free trade agreements and other schemes or tariffs charged inside quotas). The Middle East and North Africa region includes the following countries: Algeria, Bahrain, Djibouti, Egypt, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Omar, Occupied Palestinian Territory, Qatar, Saudi Arabia, Syria, Tunisia and United Arab Emirates.

**Source:** WITS, data missing for Libya.

trade area between the EU and Egypt by removing tariffs on non-agricultural products and making agricultural products easier to trade. Moreover, the EU and Egypt are in negotiation on a Deep and Comprehensive Free Trade Agreement since 2013. Egypt also has an FTA with Turkey and an agreement with EFTA in place since 2007. Similarly, Egypt adhered to COMESA’s Common External Tariff (CET), the Pan-Arab free trade area and the Agadir agreement between 2004 and 2007.<sup>21</sup> In parallel, the Egyptian authorities launched in 2004 the second wave of trade liberalization aiming at reducing further both the tariff and non-tariff trade barriers (Selwaness and Zaki, 2013). As a result, the average

applied MFN tariff fell from 27 per cent in 1998 to 20 per cent in 2005 (WTO, 2005). Tariffs have since continued to decline, falling to 11 per cent in 2015.

In **Tunisia**, the trade liberalization process started in the 1990s, with two main phases: a first period until 1995, in which trade liberalization remained relatively limited, and a more active period starting in 1996 when the free trade agreement with the EU entered into force (Marouani and Mouelhi, 2015). The FTA with the EU had the objective of establishing the Euro-Mediterranean free trade area by 2010. Trade in non-agricultural goods has been duty free since 2008 through this agreement (WTO, 2016). Negotiations were launched in 2015 to conclude a

21 Considering here the date of entry to effect.

Deep and Comprehensive Free Trade Agreement (DCFTA) between Tunisia and the EU and are still ongoing. Tunisia has also an association agreement with the EFTA effective since 2008 and covering only non-agricultural goods. An FTA between Tunisia and Turkey was signed in 2004 and in force since 2005. Tunisia is also part of the Greater Arab Free Trade Area (GAFTA), covering 18 Arab countries and which entered into force in 1998, and the Agadir Agreement. In terms of tariffs, Tunisia has significantly decreased its tariffs since early 2000, with the weighted average applied MFN tariff decreasing from 26 per cent in 2002 to 9 per cent in 2016.

In the 2000s, **Jordan** adopted eight FTAs with different partners, including with the EU, a major trading partner for the country. These FTAs include four multilateral agreements: the EU-Jordan agreement in place since 2002, the agreement between the EFTA States and Jordan, the Pan-Arab Free Trade Agreement (PAFTA) and the Agadir Agreement. Jordan has bilateral FTAs with the USA since 2001, Singapore since 2005, Turkey since 2011 and, since 2019, Canada. However, Jordan suspended the FTA with Turkey in 2018 until further assessment of its impact on Jordan's economy (WTO, 2018). Jordan significantly reduced its tariffs in the 2000s, from a weighted average applied MFN tariff in the region in 2002 dropping from 12.65 per cent to 9 per cent in 2016, the second-lowest tariff in the region, after Lebanon (figure 34).

**Lebanon** has also embarked on a trade liberalization process, intensified in early 2000 in parallel with negotiations for the accession agreement with the WTO in 1999. According to the WTO database, Lebanon has three main multilateral FTAs. Similar to other countries in the region, Lebanon has signed an FTA with the EU and the EFTA, implemented respectively in 2006 and 2007. Most recently, Lebanon and the United Kingdom signed an FTA that entered into force on 1 January 2021 and is expected to improve the country's exports to the United Kingdom. According to the Lebanese Ministry of Economy and Trade, Lebanon is also a signatory to FTAs with Egypt and Syria in force respectively since 1999 and 1993. Lebanon also has more than 30 economic agreements and trade cooperation frameworks.<sup>22</sup>

The **Occupied Palestinian Territory** has a different dynamic than other countries in the region, as its economic and trade policies are heavily impacted by the Israeli occupation, which inflicts heavy distortions and binding constraints for trade, investment and employment. The first trade agreements adopted in the country were associated with peace agreements, including the Oslo Accords signed in 1993 and the associated Paris Protocol. In 1997, the Occupied Palestinian Territory signed a trade agreement with the EU as part of the EuroMed initiative. As in other countries in the region, this agreement focuses on gradually establishing a free trade area with the EU for non-agricultural goods and provides preferential arrangements for some agricultural products (UNCTAD, 2012). The Occupied Palestinian Territory signed its first bilateral free trade agreement with Jordan, followed by an FTA with Egypt in 1997 and Turkey in 2004. The Occupied Palestinian Territory is also part of the GAFTA, effectively in place since 2006. The Occupied Palestinian Territory and the USA have an indirect trade agreement through the Israel-USA FTA, which provides for duty-free Palestinian exports to the USA, conditional on products being wholly grown and produced in Occupied Palestinian Territory (UNCTAD, 2012). Tariff data is not available for the Occupied Palestinian Territory; however, import and export measures are heavily impacted by the Israeli occupation. Most of the imports to the Occupied Palestinian Territory are channelled through Israel, most often recorded as Israeli exports (UNCTAD, 2012).

**Algeria and Libya**, the oil-exporting countries in the region, have had less incentive to sign and implement FTAs, given their significant oil resources and the high demand for them, including from the region. For instance, **Libya** is the only country in the region with no FTA with the European Union, despite the fact that 63 per cent of its exports are destined for Europe (2019).<sup>23</sup> However, Libya has a few FTAs with countries in the region and other developing countries, which dates to the south-to-south policy adopted by the Libyan authorities and the Khadafi regime prior to its overturn in 2011. For instance, the country is part of the Greater Arab Free Trade Area and the Arab Maghreb Union (AMU) and has bilateral trade agreements with Morocco and Jordan. **Algeria** has an FTA with the EU in place since 2005 and an FTA with its neighbouring Tunisia and is part of the GAFTA.

<sup>22</sup> Republic of Lebanon, [website of the Ministry of Economic Trade](#).

<sup>23</sup> Source: Observatory of Economic Complexity.

In parallel to these substantial trade liberalization reforms, countries in the region embarked in the 1990s and 2000s in considerable investment reforms, either through the revision of the regulatory frameworks or the establishment of special economic zones (SEZs), also called free zones (FZs), free trade zones (FTZs) or export processing zones (EPZs). The rationale for the establishment of SEZs is mainly rooted in cluster theory and policies. Clusters were first described by Marshall in 1890 as a “concentration of specialized industries in particular localities,” and several theoretical models were developed later, such as the cluster growth theory of Michael Porter (1998). Clusters are generally defined as a geographic agglomeration of interconnected firms and supporting institutions (Porter 1998) and theory indicates that clusters can create positive externalities, including a) knowledge spillover, b) better access to the markets and suppliers and c) creation of pools of specialized workers with cluster-specific skills. SEZs are specialized clusters that aim to realize the clusters’ benefits while attracting FDIs and promoting exports. SEZs are generally designed under a “plug-and-play” model to attract foreign investments. They became a central piece of investment and export promotion policies over the past few decades. They could even be considered a comparative advantage of an economy aiming to integrate further into the global economy. The plug-and-play model includes an extensive set of services, including upgraded and adequate infrastructure, streamlined administrative and regulatory frameworks, fiscal and financial

incentives and facilitated access to support services (logistics, finance, etc.).

As indicated previously, Egypt and Tunisia were the first two countries in the region to adopt investment and export promotion policies in the region in the early 1970s. These policies were accompanied in Egypt by the establishment of SEZs, including the area of Port Said in 1974. The first two economic FTZs in Tunisia were established in 1993 (Bizerte Free Zone in the North and Zarzis Free Zone in the South, close to Libya’s borders). Both countries have witnessed an increasing number of public and private SEZs since then, including the important Suez Canal Economic Zone established by the public authorities in Egypt. Both in Tunisia and Egypt, there are currently several types of SEZs, which include EPZs, Technological Park and Free Economic Zones in Tunisia and public or private free zones (FZs), investment zones, technological zones, special economic zones (SEZs), industrial zones and qualified industrial zones (QIZs) in Egypt (OECD, 2020a). QIZs were also established in Jordan and in both countries, these zones followed the peace treaties with Israel (in 1980 for Egypt and in 1994 for Jordan) and were mainly a US initiative to enhance regional economic cooperation between Israel and the Arab world. The QIZs include conditions on using inputs from Israel and other countries in the region, including Egypt and have been further strengthened after the adoption of the US-Jordan FTA. As of 2020, Jordan has 13 QIZs and Egypt has ten QIZs that have been established over the

► **Table 8: Overview of incentives provided in the Southern Mediterranean Countries in SEZs**

Country	Incentives Zones for Regional Development	Incentives in Special Economic Zones and Free Zones
Algeria	Tax holiday, customs/sales tax exemption, land/property tax exemption, grants	
Egypt	Tax deduction, customs/sales tax exemption, grants	Tax deduction, customs/sales tax reduction/exemption, grants
Jordan	Corporate income Tax (CIT) reduction, tax holiday, customs/sales tax exemption	CIT reduction, customs/sales tax exemption, land/property tax exemption
Lebanon	CIT reduction, tax holiday, customs/sales tax exemption	Tax holiday, customs/sales tax exemption, land/property tax exemption
Libya	Tax holiday, customs/sales tax exemption, land/property tax exemption	Tax holiday, customs/sales tax exemption
Morocco	Grants	Tax holiday, CIT reduction, customs/sales tax exemption
Occupied Palestinian Territory	CIT reduction, customs/sales tax exemption	CIT reduction, customs/sales tax exemption, grants
Tunisia	Tax holiday, CIT reduction, tax deduction, grants	CIT reduction, tax deduction, customs/sales tax exemption

Source: OECD (2020a), with minor modifications.

past two decades. Lebanon joined the trend later and established its main SEZ, the Tripoli Special Economic Zones, in 2008.

Countries in the region offer a wide range of incentives and services to attract investment, either in export-oriented SEZs or FZs or in development zones aiming to foster economic growth in under-developed regions. For instance, in Tunisia, companies established in SEZs are generally under the offshore regime established by the “loi 1972”. For instance, the law provided an income tax holiday for all companies exporting at least 80 per cent of their production initially in 1972 for 20 years and currently for eight years. The law also provides companies a full exoneration from customs duties for imported capital goods. Generally, the type of incentives differs between export-oriented zones (for example, SEZs and FZs) and regional development-oriented zones, as indicated in table 8.

### 2.1.2.2 Evolution of industrial and sectoral policies

As discussed in previous sections, industrial policies and investment and trade policies are inter-linked. We discussed in the previous section the trade liberalization process from a generic perspective. This section will discuss the targeting of activities and sectors and the state interventions that were implemented to develop specific activities, including export-oriented ones. Following the Washington consensus episodes in the late 1980s and 1990s, many countries in the region adopted a mix of transversal industrial policies, focusing on improving the business environment and targeted sectoral reforms based on their competitive advantages. These policies aimed to create jobs, improve value-addition, improve technological capabilities and ultimately realize a structural transformation and sustainable growth.

The structural adjustment era was associated with a relatively high level of growth. The level of FDI inflows to the region increased substantially as well, and the level of exports started rising in a sustained manner. However, trade and investment policies did not result in pro-poor and sustainable growth. Inequality rose substantially and corruption was widespread in the region, with the proliferation of a rent-seeking economy, in which only some industrialists with strong ties with the state benefited from the economic reforms and growth. This ultimately

did not favour innovation and the accumulation of technological capacities, nor provided decent economic opportunities for the region’s populations. At the beginning of the 2000s, a new wave of economic policies, including industrial policies, was adopted in most countries in the region.

In the next section, we review the latest industrial policies adopted by the countries in the region since the 2000s, focusing on Egypt, Jordan, Morocco and Tunisia and try to provide an overall evaluation for these policies from a design and creation perspective.<sup>24</sup> The following section and chapter will focus on the results from a trade and employment perspective. For the design evaluation, we use a framework that combines the frameworks identified by Rodrik (2008) and by ILO (2020a):

1. **Selection of sectors:** Is there a selection of sectors, according to a specific and detailed methodology that has been formalized, written and approved? Does the design of the industrial policy follow a “self-discovery” process?
2. **Actionability:** Is the industrial policy accompanied by a clear implementation plan that identified each stakeholder’s responsibility and defined clear objectives?
3. **Carrots and sticks:** Are the incentives and support provided in the industrial policy bound in time and conditional to performance?
4. **Embeddedness/social dialogue:** Was the policy developed in collaboration with different stakeholders, including private sector actors and workers’ and employers’ associations? Is there a systemic use of formalized platforms to engage with the private sector?
5. **Political support:** Does the industrial policy adopted have the approval and the support of the political leadership?
6. **Financial commitment:** Is there a financial commitment from public authorities to implement the policies and the support designed for the private sector?
7. **Institutional settings and transparency:** Do institutions involved in the implementation process have adequate governance, capacity and management to implement these policies? And are there monitoring and evaluation mechanisms that enable data collection, policy evaluation and learning mechanisms? Are the results periodically published?

24 The evaluation provided below is based on a desk research and literature review, and therefore might be limited by the level of information available.

## Egypt

In Egypt, the trade liberalization reforms that intensified in the 2000s were accompanied by the Industrial Development Strategy (IDS), a central piece of economic policy that was adopted in 2005. The IDS was adopted in parallel to the 2004 tariff-reduction reforms by the Government led by Prime Minister Ahmed Nazif, which featured many prominent private sector actors (Loewe, 2013). The IDS is an ambitious and comprehensive industrial policy with the following mission:

▀▀ By the year 2025, Egypt will be a leading industrialising nation in the MENA region in terms of industrial performance as well as the main export hub for medium-technology manufactured products.

The IDS took a hybrid approach, with both transversal and targeted industrial policies. Transversal policies focused on innovation and technology transfer, human capital and entrepreneurship, access to finance, infrastructure (digital and physical), competitiveness and FDI and export promotion, following the East-Asian model. Each pillar was implemented through a dedicated institution. For instance, the innovation and technology transfer pillar was implemented through the “Egypt Technology Transfer and Innovation Centres” and the human capital and entrepreneurship was implemented by the new Industrial Training Council (ITC), established under the Social Fund for Development (SFD), which mainly provided on-the-job-training for workers, with a focus on technology (Ministry for Trade and Industry, 2006). The targeted industrial policies focused on a number of light-manufacturing and export-oriented sectors: engineering, food processing, chemicals and pharmaceuticals, textiles and clothing, building materials, furniture, paper and paperboard and leather. The strategy excluded non-manufacturing companies and micro and small enterprises (defined as less than ten employees and less than 50 employees). The sectors were selected to maximize value addition in manufacturing and increase the share of medium-technology activities in total, considering their importance in mature economies and their growth potential in Egypt. However, the document does not indicate the analytical methodology used to select the industries and it is not clear if any data-driven or transparent methodology was used.

Loewe (2013) provides an assessment of industrial policies in Egypt from 2004 to 2011, considering the country’s political economy and the evolution of the different regimes and political forces since its independence. He indicates that the IDS, despite being adopted by a private-sector-oriented government, was not defined nor implemented in collaboration with the private sector. The evaluation indicates that the policy’s results and achievements were not monitored nor communicated. There was a significant problem of coordination with unclear mandates and responsibilities between different agencies within the government. Moreover, the strategy’s services and support were not necessarily demand-driven. The focus was on medium and large enterprises, excluding micro and small firms despite their importance in the Egyptian economy and their significant economic potential. Loewe (2013) also indicates that the selection of supported enterprises was not necessarily done on a rational basis but rather on networks and favouritism. Finally, the implementation of IDS did not apply the “carrots and stick” feature suggested by Rodrik (2008), with generous financial packages provided unconditionally on performance.

The IDS remained the main industrial policy in Egypt between 2004 and 2016. In 2016, the Egyptian authorities launched the Egypt Vision 2030, a broad national plan that includes economic, social and environmental axes. Among the economic axis, the national plan includes a) developing a knowledge-based economy and encouraging innovation, and b) a better industrial upgrading and integration in global value chains. The objective of developing a knowledge-based economy in the national plan has translated into adopting a National Strategy for Science, Technology and Innovation. The strategy aims to promote scientific research and encourage links between industry and research and private participation in R&D. It includes a focus on a broad number of manufacturing activities requiring R&D and technological capacity upgrade and on the Internet of Things (IoT) and other promising technologies.

Moreover, significant transversal industrial policies have been undertaken since adopting Egypt Vision 2030. These policies aim to realize the national plan’s second economic objective: a better industrial upgrading and integration in global value chains. In 2017, an export development agency was established to improve local firms’ access to international markets. The new agency mainly works on providing technical assistance

to potential exporters. Moreover, the establishment of the agency has been accompanied by efforts to facilitate trade for local firms. In 2017, the number of documents required to export decreased from 9 to 5 and to import from 11 to 6 (OECD, 2018). Also, the authorities established a Micro, Small and Medium Enterprises Development Agency (MSMEDA) to coordinate and implement the support to MSMEs across all sectors in the economy. MSMEDA replaces the Social Fund for Development and includes the International Trade Centre (ITC) as well as the Industrial Modernisation Centre (IMC) and the Technology Innovation and Entrepreneurship Centre (TIEC) (OECD, 2018). Finally, in 2020, the authorities adopted an SME law that legally defines SMEs according to the size of their capital and includes a set of financial and non-financial incentives for investors and entrepreneurs in specific activities:

- ▶ Digital transformation and industrial intelligence;
- ▶ Industrial upgrading projects;
- ▶ Agricultural or animal production;
- ▶ Information technology or related services;
- ▶ Innovations into industry and technology systems;
- ▶ Renewable energy.

The law, implemented by MSMEDA, includes identifying new activities and fields and including them in the targeted support. The law also includes incentives that aim to encourage the formalization of informal enterprises.

In 2018, the authorities published an update of the Egypt Vision 2030 plan, with the publication of a mid-term economic plan (2018/19–2021/22), which includes a focus on the following sectors:

- ▶ Engineering, electrical and food industries;
- ▶ Chemical and pharmaceutical;
- ▶ Electronic industries and medical devices;
- ▶ Genetic engineering and biotechnology;
- ▶ Automobile industries, in particular petrochemical, equipment manufacturing, software and information technology industries.

This series of reforms can be considered the continuity of the IDS, identifying new sectors and activities on which the authorities will focus. These reforms, including a combination of transversal and targeted policies, aim to align with the economy's new needs. According to the Egyptian Ministry of International Cooperation, significant finan-

cial resources have been committed to the Egypt Vision 2030 plan: in 2020, development partners committed more than US\$3 billion to implement the plan. According to the same source, the plan was developed in collaboration with different stakeholders, including private sector actors and donors. However, it is not clear if there is a systemic and periodic consultation during the plan's implementation. Also, the carrot and stick feature is not clearly identified in the plan and the midterm economic plan and the selection of plans are not explained in publicly available documents.

### Jordan

Like many countries in the region, the Jordanian industrial sector largely developed during the import-substitution phase in the 1960s and 1970s. The main industries that emerged are extractive industries (for the exploitation of phosphates), textiles and agro-processing. Interestingly, the pharmaceutical sector also developed during this period, with a couple of local companies emerging in the 1960s and the 1970s (Alomari and Saqfalhait, 2015). Today the pharmaceutical sector in Jordan is considered to be one of the most advanced in the region and represents 7.2 per cent of Jordanian exports.

Following the 1990s and the liberalization process, Jordan, unlike Egypt, did not renew its economy with targeted industrial policies. Instead, the country continued to adopt transversal policies that aimed to attract FDI, promote exports, improve the business environment and increase firms' competitiveness, including SMEs. In 2009, the authorities adopted a transversal industrial policy intended to cover three years (2009–2011), which focused on increasing Jordanian industries' competitiveness in the local and export market. The strategy included mainly the provision of technical and financial support to SMEs, focusing on SMEs in export industries such as pharmaceuticals, textiles and garments, food industries and high value-added industries such as the information technology industry (OECD, 2008).

Since adopting this policy, Jordan has created a variety of programmes to support SMEs and industrial firms alongside investment policies, but without an overarching industrial policy. However, the implementation of these programmes and allocation of incentives to the private sector was fragmented between different institutions with sometimes overlapping mandates such as the Jordan Investment Board and the Free Zones Commission (World Bank,

2015). Also, the selection of firms was not transparent, with intervention from the Council of Ministers to select beneficiaries (World Bank, 2015).

It should be highlighted that the series of wars in the region has severely impacted the country's trajectory, including the Syrian civil war started in 2011 and the Islamic State formation in 2014. Authorities focused most of their efforts since 2011 on mitigating the social and economic impact of the overwhelming refugee crisis.

In 2014, the authorities passed a new investment law to facilitate investment and unify the legislation and responsibilities. The law also improved the set of incentives provided to foreign investors, including new incentives to foster domestic linkages (Oxford Business Group, 2014). The law also created an Investment Commission, mandated to regulate and implement investment policies in Jordan. Also, major simplification reforms were implemented, including the introduction of a one-stop-shop for investors and a number of procedures were facilitated and digitalized.

Other more recent policies, including the National Innovation Strategy (2014), Jordan National Vision and Strategy (2015–2025) and the Economic Growth Plan (2018–2022), have highlighted the importance of innovation, building a knowledge economy and of exports as a vehicle for job creation. The Jordan National Vision and Strategy includes a focus on economic sectors (or clusters): a construction and engineering cluster, a transport and logistics, tourism and events, a healthcare cluster, life sciences cluster (including pharmaceuticals), a digital and business services cluster, an educational services cluster and a financial services cluster. The vision was followed by the Economic Growth Plan, which provided a focus on the same broad sectors, with a highlight on innovation and entrepreneurship in the economy. The strategies documents do not explain the methodology used for the selection of these sectors and do not include clear targets and implementation mechanisms, limiting the possibility of monitoring and evaluating progress in implementing the strategy.

Interestingly, the Center for International Development (CID) at Harvard University developed a growth diagnostic for Jordan and following the economic complexity methodology, identifying the country's comparative advantages. The CID identified eight export-oriented sectors that have the highest potential to drive growth in Jordan while supporting increasing wage levels and delivering

positive spillover to the non-tradable economy: 1) business, IT and professional services, 2) education services, 3) healthcare services, 4) creative industries, 5) tourism, 6) transportation and logistics, 7) construction materials and services, and 8) agriculture and food processing (Hausmann et al., 2019). Six sectors identified in this exercise have been included in the National Vision and Strategy and the Economic Growth Plan, which suggests that a strong analytical methodology was used to define the target sectors in Jordan.

### Morocco

From the early 1980s and until 2005, Morocco focused on promoting exports and on “fixing” the business environment, including through the structural adjustment reforms programme. In the 1990s, the Moroccan authorities continued the liberalization and export-promotion policies through the trade tariffs and quota coverage reduction, as well as the introduction of export taxes (Achy, 2013). The liberalization period was associated with a complicated relationship between the state and the private sector, characterized by a lack of trust in the state, which pushed domestic investors outside of manufacturing, according to Achy (2013). As a result, in the early 2000s, there was little diversification and expansion of the manufacturing sector outside of the historic and low-productive industries, namely textiles and agro-processing, mainly developed following the 1960s and 1970s industrial policies era. Between 2000 and 2005, the authorities focused on transversal policies, particularly on improving SMEs' competitiveness. This was through the establishment of the Hassan II Fund for Economic and Social Development in 2002. The fund intervened to support the financing of capital goods and physical infrastructure in specific sectors, including automotive and aeronautics industries (Hahn and Vidican-Auktor, 2018). Moreover, in 2002, the authorities established the back-then National Agency for the Promotion of Small and Medium Enterprises (Agence Nationale pour la Promotion des Petites et Moyennes Entreprises) and now Maroc PME. The agency focused on improving SMEs' productivity and competitiveness through “upgrading” programmes.

2005 marked a turning point for industrial policies in Morocco, with the adoption of three industrial plans between 2005 and 2015, all including a mix of transversal and targeted industrial policies, with an update of the list of targeted sectors in each new plan. Between 2005 and 2015, Morocco applied a

self-discovery process, with updated interventions and list of targeted sectors and an increased focus on manufacturing development. The design and implementation of the plans also improved in time, with more collaboration with the private sector in the second and third industrial policies and better monitoring and evaluation frameworks, including through the introduction of “performance contracts” for each institution involved in the implementation (Hahn and Vidican-Auktor, 2018).

The first plan adopted in 2005 was the “Plan d’Emergence Maroc”. The Plan d’Emergence included a mix of transversal and targeted industrial policies, with a focus on six identified high-potential sectors. The plan was more a framework for a new industrial policy until 2015 (Hahn and Vidican-Auktor, 2018) and set as a specific objective to increase the contribution of manufacturing and industry to GDP and to expand the tradable sector. Piveteau and Rougier (2011) propose an evaluation of this policy’s design and indicates that the targeted approach included in the Plan d’Emergence was driven by the highest authorities in the Kingdom. The design process included detailed analyses of the traditional industries’ competitiveness and binding constraints and a benchmarking and scoring exercise provided by the McKinsey management consulting firm that informed the selection of high-potential and targeted sectors. The selection of sectors took into consideration the following identified competitive advantages of Morocco: proximity to Europe, the important progress made in signing and implementing FTAs, the life quality in Morocco, the quality of infrastructure and the mid-skilled labour in the Moroccan economy (Piveteau and Rougier, 2011). This selection exercise resulted in the plan focusing on the following six economic sectors – known as Morocco’s Global Jobs (*Métiers Mondiaux du Maroc* – MMM): aeronautics, offshoring (subcontracted activities including in services), food industry, textile, electronics and automobiles. The plan also included the creation of “Med Zones”, industrial zones focusing on aeronautics, electronics and automobiles, sectors mainly driven by European FDI and sub-contracting agreements. Ambitious targets were set in the Plan d’Emergence including targeted sectors would contribute up to 70 per cent of industrial growth by 2015 and create 440,000 jobs, including 240,000 direct ones.

The framework of Plan d’Emergence was refined and updated in 2009 with the adoption of the National Pact for Industrial Emergence (PNEI). PNEI provided a stronger focus on the competi-

tiveness and transversal policies, with an identification of new targeted sectors. Transversal policies included improvement of the business climate, the provision of demand-driven training and competitiveness support to SMEs. The SME agency was in charge of implementing two support programmes: “Imtiaz”, aiming at providing direct subsidies to support high-growth SMEs and “Moussanada” which provided technical support on different areas such as marketing, finance, supply management, R&D and quality enhancement (Hahn and Vidican-Auktor, 2018). The updated plan also included new targeted sectors that were added to the list identified in 2005, namely: pharmaceutical and chemical and para-chemical sectors and detailed the incentives provided to investors and entrepreneurs engaging in the targeted sectors, mainly financed through the Hassan II Fund for Economic and Social Development and for large projects through an agreement regime (Vidican-Auktor and Hahn, 2017; Hahn and Vidican-Auktor, 2018). According to Hahn and Vidican-Auktor (2018), the PNEI was developed and implemented based on increased collaboration with different actors, including private sector actors, compared to the first Plan d’Emergence.

The Plan for Industrial Acceleration (Plan d’Accélération Industrielle, PAI) was the third industrial policy adopted in 2014 for the period 2014–2020 and the success of the PNEI and took the same approach as Plan d’Emergence and PNEI: a mix of transversal and targeted industrial policies. PAI had the objectives of increasing the contribution of industry to GDP by 9 percentage points (from 14 per cent in 2014 to 23 per cent in 2020), and creating 500,000 jobs while reducing the share of informal sector and developing MSMEs. The implementation of the third industrial policy adopted in the 2000s was financed through the newly established Fund for Industrial Development (Fonds de Développement Industriel). The list of targeted sectors was refined further, adding to the list included in the PNEI building materials, renewable energy, electrical industry and metallurgy and metalworking, and withdrawing food-processing from the list of targeted sectors. In terms of transversal support, PAI focuses on the creation of clusters and eco-systems, with high participation of the private sector in their establishment (Hahn and Vidican-Auktor, 2018), including through the creation of public-private training institutions and an improved and increased collaboration with business associations. The plan also focuses on a better integration in global value chains (GVCs) by improving linkages between multinational firms and domestic firms, especially SMEs,



highlighting further the importance of inclusiveness and the domestic impact of FDIs.

Morocco can be considered the leader in the region in terms of design and adoption of industrial policies since they took a systematic approach for identifying policy priorities, and monitor and update this approach on a regular basis. However, despite this and the significant improvements in the design and embeddedness of the industrial policies between 2005 and 2015, there are still critical challenges in implementing industrial policies in Morocco. For instance, the “carrot and sticks” feature is not included in the latest plans, despite a refinement and a revision of the incentives, which might aggravate the rent-seeking approach and the political capture by large firms already existing in Morocco as described in the literature (Piveteau and Rougier, 2011; Achy, 2013, Hahn and Vidican-Auktor, 2018). Moreover, collaboration with the private sector remains unsystematic and not institutionalized. Finally, the transparency feature remains weak in the current implementation of the PAI, despite the introduction of the performance contracts (Hahn and Vidican-Auktor, 2018).

### Tunisia

After the industrial policies implemented mainly through import-substitution in the 1960s, Tunisia implemented investment and export-promotion policies with the adoption of the 1972 law (“loi 1972”) and the first investment code in 1973. Both instruments were, at least in theory, sector-agnostic. However, their implementation focused on selected manufacturing sectors, mainly textiles and, to a lesser extent, agro-processing and mechanical, electrical and electronic industries. These strategies continued even during the Washington consensus and the trade liberalization era, and the offshore regime has contributed, to a certain extent, to the relative success of some sectors such as textiles and garments, agro-processing and electronic machinery. Moreover, the country invested significant resources to develop the tourism sector by providing land, finance and heavy support to the private sector. As a result of these policies, textiles and tourism accounted for about half of total foreign revenues in the early 1990s, with textiles at around 30 per cent and tourism at approximately 20 per cent (Erdle, 2011). Therefore, we could consider that Tunisia has adopted a mix of targeted and transversal industrial policies since the 1970s, which followed a broad-bandwidth approach, focusing on sectors both in manufacturing and services.

However, despite this relative success, the 1972 law created a dual-track system between export-oriented and domestic-oriented firms that did not benefit from the generous set of incentives. Several evaluations indicate that this system created severe distortions in the market and did not result in specific productivity improvements. For instance, Baghdadi et al. (2017) study the impact of the offshore regime on firm productivity and find that the performance of offshore exporting and importing firms is weaker than their onshore counterparts in almost all areas except job creation and profitability. Moreover, the authors find that offshore firms tend to leave the market once the incentives, including tax exemptions, cease. This finding suggests that the offshore regime has mainly benefitted rent-seeking firms. Cognizant of the distortions created by the offshore regime, which remained unchanged for more than four decades, the Tunisian authorities amended the law respectively in 2014 and 2019, reducing the incentives’ level. In 2014, full holidays on corporate income taxes were replaced by a preferential rate. In 2019, regular and common taxation on corporate income taxes between offshore and onshore companies was introduced, except for high value-added activities, which would benefit from a preferential rate (Ghali and Nabli, 2020).

In 2010, the Tunisian government adopted a new industrial strategy, “Horizon 2016”. The elaboration of the strategy followed a long consultation process with many stakeholders from the public and the private sectors, led by the Ministry of Industry, Energy and SMEs (Erdle, 2011). The industrial policy’s objective is to transition the economy to an innovation-oriented and knowledge-based economy while capitalizing on the success of the historic sectors (such as textiles, agro-processing, electrical and electronic industries). The strategy identifies two layers of new sectors and activities: a) services that leading complement to manufacturing, including ICT, Business Support Services and logistics and b) sophisticated high value-added activities, including electronic industries, automotive and aeronautics industries, technical plastics, pharmaceutical and paramedical industries and ICT. The strategy had the objective of doubling exports and tripling investment between 2006 and 2016. The identification of targeted sectors is not explained in the document but built on the increasing number of engineers and the high-educated labour force in the Tunisian economy. However, the strategy was never really implemented due to the 2011 revolution.

Following the revolution, Tunisia took a more horizontal and generic approach to industrial policies. In 2016, Tunisia adopted the National Plan for Development (2016–2020), which served as the country's national development framework post-2011. The Plan was adopted following an intensive public-private dialogue, with series of consultations organized in almost all districts and with a clear on regional development, one of the main root causes of the 2011 revolution. The proposed reforms cover a wide range, from e-governance and anti-corruption policies to economic diversification and the reduction of regional inequalities. The National Plan for Development (2016–2020) indicates that there is a need to “focus on promising activities that have significant renewal potential and significant investment opportunities.” These activities include communication devices, electronic payment systems, cars and airplane components, biotechnology, nanotechnology, smart textiles, agricultural and food products, biological products and renewable energies. The National Plan for Development is divided into a regional and sectoral plan, which included implementation plans with the identification of institutional responsibilities. However, the sectoral plan does not include a specific focus on manufacturing sectors but rather focuses on cross-cutting activities and on ICT and Tourism. Out of the seven questions included in the industrial policy evaluation framework, the National Plan for Development scores relatively well on the social dialogue and political support questions; however, it falls short on the other critical aspects, including a clear selection of targeted sectors and transparency and conditionality of incentives.

The authorities did not formally adopt new vertical industrial policies that identified strategic focus sectors but rather implemented a couple of programmes with financial and technical supports from donors. For instance, Tunisia implemented an upgrading programme, the *Programme de mise à niveau*, in 1995, aiming at improving competitiveness in the manufacturing sector and funded by the Fonds de Développement de la Compétitivité (FODEC) with the contribution of multiple donors. The programme relies mainly on subsidies to industrial firms. The programme focuses on providing support to businesses on two specific points: a) dealing with the business environment constraints and b) improve the firms' competitiveness by reducing costs, adopting innovative methods and upgrading technical capabilities. The programme mainly provides subsidies and financial support to firms to access technical assistance or upgrade the

means of production. Marouani and Marshallian (2020) study the impact of this programme on firms and find that the programme benefitted only small firms in terms of wage increases and job creation. In small firms, wages increased from 10 to 17 per cent, with growth in employment and net job creation. However, in larger firms, wages decreased and there was no significant impact on employment. Despite the importance of this programme, and as Ghali and Nabli (2020) indicated, it cannot be considered a vertical industrial policy despite focusing on manufacturing. It does not focus on specific high-potential sectors in manufacturing but rather takes a broad approach. In terms of horizontal support to manufacturing, Tunisian authorities also implemented an export-promotion programme, *Fonds d'accès aux marchés d'exportation* (FAMEX) in 2005. The programme consists of providing matching grants for Tunisian firms to access export-development assistance. Another interesting programme implemented in 2013 in Tunisia is the Competitive Industries and Innovation Programme (CIIP). The CIIP aims to strengthen existing sectoral clusters, including through enhancing public-private dialogue mechanisms. In its pilot phase, the program focused on four sectors: pharmaceuticals, textiles and garments, IT services and medical tourism. The programme does focus on tackling sector-specific binding constraints and can be considered as a vertical instrument. However, this programme is a multi-country donor initiative and cannot be considered as a national industrial policy. In general, and as indicated by Mouelhi and Ghazali (2020), the implementation of these programmes and industrial support suffered from low capacity and led to coordination failures due to the fragmentation of multiple programmes without a clear overarching strategy and vision.

However, in 2018, Tunisia adopted a policy that focuses on services and that could be considered a modern industrial policy: The Start-up Act. The Start-up Act is a legal framework that aims to identify a set of fiscal and financial incentives for innovative and high-growth newly established enterprises (established for less than eight years). The Start-up Act was adopted by the Tunisian Assembly of People's Representatives in 2018 and is being implemented since 2019. The Act is in theory sector-agnostic; however, the Act's ownership (Ministry of Communication Technologies in charge of the ICT sector) and the eligibility criteria (innovation) indicate that the Act is meant mainly to focus on the ICT sector and other high-technology-based activities. The Start-up Act is the result of almost three years

of extensive consultations with different stakeholders. Unusually, the Start-up Act in Tunisia started as a private sector initiative and was later adopted by the Ministry of Communication Technologies. During its design, the Ministry of Communication Technologies was led by two different ministers. Both have put a strong leadership behind the Act and have considered it their main priority. The implementation of the Act has dedicated financing from the Government as well as from donors, including the World Bank. More specifically, the Start-up Act fulfills almost all the features defined by Rodrik (2008):

- **Embeddedness:** the design of the Act included public and private actors. There is a systemic and periodic consultation with the private sector in the implementation, with the establishment of an advisory council composed of public and private actors that participate in selecting the enterprises benefiting from the support.
- **“Carrot and stick”:** the support provided is time-bound (start-ups need to have a maximum of eight years of establishment) and is conditional on performance. The advisory council annually monitors the performance of beneficiary enterprises.
- **Transparency:** The Start-up Act is well-documented and well-publicized,<sup>25</sup> including on a dedicated website that explains its journey, the incentives provided, the eligibility criteria and the results achieved. The implementation of the Start-up Act started in April 2019, with a clear implementation mechanism and governance. Also, the implementation of the Act is accompanied by clear evaluation and monitoring mechanisms and data collection, which enables the evaluation of the policy and its impact.

### Lebanon

Lebanon’s industrial and economic policies follow a path that is similar to other countries in the region in the 1990s; however, they were severely impacted by the civil war of 1975–1990. Lebanon is today largely a service-based economy with a very low role for the manufacturing sector, as demonstrated by the participation of services to GDP value-added. Particularly, construction, real estate and tourism play a significant role in the economy.

Targeted industrial policies have never been a priority in the Lebanese economy (Atallah and Srour, 2014) and authorities have focused mainly on transversal investment policies to develop the private sector, complemented by trade liberalization measures discussed in the previous section. For instance, in 1995, the Investment Development Authority of Lebanon (IDAL) adopted an industrial zone strategy to develop manufacturing and industry across different regions and to attract investment through a set of incentives and services provision. Lebanon has today about 131 industrial zones, mainly in Beirut and in the north of the country (World Bank, 2016a). Lebanon also established the Logistics Free Zone in Beirut in 2007, operated by the Port of Beirut, to attract FDIs. The Government also established in 2008 the Tripoli Special Economic Zone (TSEZ), which aims to attract both local and foreign investment in manufacturing. Investors in these zones are provided one of the most generous incentives globally, with unlimited-in-time tax exemptions, including on corporate income, social security contribution and customs (World Bank, 2016a).

### Occupied Palestinian Territory

The Palestinian economy and industry are highly restricted by the Israeli occupation. This translates in terms of control over imports of materials and inputs, as well the prevention of construction of industrial zones (Morrar and Gallouj, 2016). This severely constrains the development of a vibrant manufacturing sector in Occupied Palestinian Territory and the implementation of effective industrial policies. However, despite these structural challenges, the Palestinian authorities have designed and implemented a set of policies since the 1990s to support the convergence process and develop their local economy.

In the 1990s, and following the liberalization wave in the region and across the globe, the Palestinian National Authority has worked to design and implement mostly transversal industrial policies that focus on the improvement of the business environment. For instance, the authorities adopted in 1998 the Industrial Free Zones Law and the Investment Promotion Act in an effort to attract FDIs and promote export-oriented industries (Morrar and Gallouj, 2016).

25 More information on Tunisia’s Start-up Act can be found at: <https://www.startupact.tn/rapport/Startup-Act-Annual-Report-2019-2020-en.pdf>.

More recently, the Palestinian authorities have taken a more targeted approach to industrial policies. For instance, the National Export Strategy (NES) adopted in 2014, with the support of the European Union and technical assistance from the ITC, includes a focus on eight targeted sub-sectors: stone and marble; olive oil and agro-processed meat; fresh fruits, vegetables and herbs; footwear and leather; textiles and garments; furniture; tourism; and information and communication technology (ICT). These sectors have been selected according to their trade performance (export dynamics and world demand dynamics for a given product), their potential socioeconomic impact on employment and other qualitative considerations. The NES also includes a set of transversal and cross-cutting interventions, including the improvement of the public-private dialogue to bridge the gap between economic policies and the reality of the market and improving the delivery efficiency. The NES has been developed following extensive consultation with private sector actors, as indicated by the strategy document, and is being implemented with a clear institutional framework and action plan. For instance, the NES recommends the creation of a Palestinian Export Council (PES) to not only monitor the implementation of the strategy but also to serve as a formal public-private dialogue platform. The NES indicates that the PES would be co-chaired by representatives from the public and private sectors to ensure a continuous and formal inclusion of the private sector's views. Finally, the document identifies a clear action plan with a budget estimated for each intervention. From a design perspective, the NES does fulfil some criteria identified in the evaluation framework, including the use of a clear methodology to select the sectors. However, it is unclear if the selection of beneficiary companies does include the carrot and stick aspect and if there are implemented monitoring and evaluation mechanisms that enable data collection and the evaluation of the NES with periodically published results.

### Algeria

Industrialization and industrial policies in Algeria were historically heavily linked to the exploitation of its natural resources. Since its independence in 1962, the oil-exporting country focused on building heavy and state-led industries, using import substitution policies with high tariffs and quota barriers. This policy focused on developing large state-owned enterprises and did not allow for strong par-

ticipation of the state. Begga and Merghit (2014) indicate that in 1970s, Algeria invested about half of its gross domestic product to develop a national state-owned industry. Like other countries in the region and driven by significant economic challenges, including a huge oil crisis in 1986, the country went through liberalization and structural adjustment reforms in the 1990s. This included the current account convertibility reform in 1997 and a privatization wave of state-owned enterprises (SOEs). Industry was dominated by low-productive and inefficient SOEs and became a significant burden on a struggling state (Joffe, 2002). Therefore, in the early 90s, Algeria also witnessed a wave of privatization of state-owned enterprises. However, this process did not yield the intended results, according to Begga and Merghit (2014).

Authorities have introduced more recent policies following the 2014 oil-prices crisis. Algeria adopted a five-year investment plan (2015–19), focusing on diversifying the economy, reducing the dependency on oil and hydrocarbons and increasing job creation in non-oil manufacturing sectors (Oxford Business Group, 2018). This plan takes a hybrid approach with transversal and targeted industrial policies. Transversal industrial policies focus on improving the competitiveness and business environment and developing SMEs, including by incentivizing horizontal and vertical linkages. Targeted industrial policies focused on developing the industrial landscape, identifying seven priority sectors: iron and steel; mechanical and metals; electrical and electronics; agri-business; chemicals; plastics and pharmaceuticals; and construction materials. Moreover, the authorities adopted an SME law (Law No. 17-02) in 2017, with the provision of tax incentives for firms using sub-contracting mechanisms (Oxford Business Group, 2018). Information about the details, design and implementation of this plan are scarce; therefore, its evaluation is highly constrained. However, this plan and the inclusion of hybrid interventions is a first step towards adopting industrial policies that could support the economic diversification in Algeria.

### Libya

Like in Algeria, Libya's economic development was heavily linked to the development of the oil industry. In the 1960s, the authorities implemented industrial policies that were mainly financed from the oil revenues, such as the first five-year development plan (1963–68), which included significant measures to improve agriculture's productivity and

develop manufacturing. The manufacturing and export sectors in Libya are virtually non-existent outside of the oil industry and industrial policies have never been a priority in the economic policy-making in Libya. Moreover, the economic infrastructure was degraded significantly during the civil war and economic uncertainty remains very high. An initiative launched by the Libya Institute for Advanced Study called “Libya Vision 2020” aimed to provide a clear economic vision for the country, including for industrial development; however, this initiative remained on paper due to the country’s ongoing civil war and uncertainty.

### Summary

Overall, Morocco and Egypt stand out in the region as the countries that have put the most effort into designing and implementing industrial policies that combine transversal and targeted interventions. Morocco is the only country to design and implement a repeated self-discovery process, with an updated list of targeted sectors and interventions based on identified economic changes. Tunisia has recently adopted a well-designed and implemented industrial policy focusing on the ICT sector in services. However, the period of 2000–18 was marked by unstructured industrial policies that were shaped more by donor-funded programmes rather than an overarching and well-articulated policy. The 2011 revolution did not create momentum for effective industrial policies in the country outside of the Start-up Act and jeopardized the implementation

of what looked like a promising industrial strategy (Horizon 2016) that aimed to focus on developing the manufacturing capabilities. Jordan and Lebanon have focused mainly on transversal policies, despite recent changes in Jordan, and their economic and industrial plans and programmes have been heavily affected by the series of wars in the region, including the Syrian civil war, which started in 2011, and the Islamic State formation in 2014. There are promising signs in the Occupied Palestinian Territory, despite the severe impact of the Israeli occupation and the series of conflicts in the region on any economic policy. The Occupied Palestinian Territory has taken important steps towards adopting and implementing effective industrial policies with the adoption of the National Export Strategy in 2014. Finally, for the oil-exporting countries in the region, there are interesting measures towards diversification strategies, for example, in Algeria, with the adoption of the investment plan (2015–19) aiming to develop the industrial fabric in seven priority sectors in manufacturing. However, in Libya, the ongoing civil conflict is severely constraining any long-term economic planning and visions, despite some interesting initiatives such as the “Libya Vision 2020” economic plan, mainly driven by the UN, civil society and private sector actors.

However, the design of industrial policies can be significantly improved for all countries in the region, including Egypt and Morocco (table 9). The main gaps remain on the conditionality of support provided to firms (the carrot and stick feature), the embeddedness and the social dialogue with the

► **Table 9: Evaluation of the design and creation process of industrial policies in the region**

Assessment criteria	Countries							
	METI partner countries				Other countries in the region			
	Egypt	Jordan	Morocco	Tunisia	Algeria	Libya	Lebanon	Occupied Palestinian Territory
Selection of sectors/self-discovery process	+	o	+	o	-	-	-	o
Actionability	o	-	o	o	-	-	-	+
Carrots and sticks	-	-	-	o	-	-	-	-
Embeddedness	-	-	-	o	-	-	-	-
Political support	+	-	+	o	-	-	-	o
Financial commitment	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Transparency/institutional settings	-	-	-	o	-	-	-	-

**Legend:** + = good; o = acceptable; - = needs improvement.

private sector and the transparency in the implementation. Most of the countries in the region have some level of public-private dialogue. However, an effective dialogue requires formalized platforms, frequency and transparency in the decision-making and deliberations, which remains a weak spot for most countries in the region. Another major gap is on the implementation and its transparency. There is limited information available on the implementation mechanisms, which suggests that transparency and monitoring and evaluation mechanisms remain to be improved in the region. The example of the start-up act in Tunisia provides an interesting example for effective and transparent implementation in the region. Information on the exact financial commitment for the implementation of industrial policies is unavailable for most countries. However, it is important to highlight the fact that effective industrial policies take time and require commitment, political stability and important financial resources to be effective.

## 2.2. Review of employment policies and underlying institutional mechanisms

### 2.2.1. Review of employment policies

Not all countries have separate and explicit national employment policies (NEPs); some countries incorporate employment measures in national development plans or other national policies.

There are various incentives for adopting NEPs. First, the jobs crisis put employment policies on the agenda from the early 2000s. In **Morocco**, for example, the relatively sustained growth in recent years was not sufficient to create enough jobs, in quantity or quality. This situation requires proactive and explicit public action on employment in the form of an employment strategy. The NES acknowledges the cross-cutting nature of employment and that a wide array of measures cutting across both macro- and micro-economic dimensions and addressing both labour supply and demand are necessary to ensure a fair redistribution of growth benefits to all citizens. Second, the labour market disruptions, in 2020, arising from the COVID-19 pandemic are confirming the crucial role of employment policies, not only to mitigate the short-term impacts of the crisis, but also to promote recovery

and strengthen the resilience of economies and labour markets to adverse shocks in the long-run.<sup>26</sup> NEPs currently under formulation with the support of the ILO are already being adapted to focus on COVID responses. This is the case for **Tunisia** and **Lebanon**. Third, employment policy processes have also been stimulated by socio-political crises specific to certain countries. A notable example was the Arab Spring, in which people's claims and protests also centred around access to employment. From 2010 onwards, this led to the emergence of NEPs in Arab countries such as and **Morocco** and **Tunisia**.

A large number of countries have formulated stand-alone employment policies over the past two decades. Certain countries have officially adopted an NEP (**Algeria, Jordan, Morocco** and **Occupied Palestinian Territory**) while others are in the process of doing so (**Lebanon** and **Tunisia**). Other countries have adopted other types of NEP, such as the integration of employment objectives in their national development plans or other targeted strategies such as youth, rural or informal employment strategies. This is the case of **Egypt**, which has action plans for youth employment. Other countries, such as **Libya**, have neither initiated a process nor adopted a policy.

The following sections provide a review of employment policies in Tunisia, Egypt, Morocco and Jordan.

#### Tunisia

The National Plan for Development 2016–2020 aimed to make employment one of the most prominent objectives of sectoral policies, in parallel with the development of a number of measures and programmes that stimulate the pattern of creating jobs and help job seekers to integrate into the labour market.

The formulation of the National Employment Strategy (NES) 2020–2030 is part of the continuity of the participatory and inclusive approach taken during the phase of diagnosing employment in Tunisia. The first step in the NES process consisted in the development of a diagnosis aimed at building a solid knowledge so that issues could be identified and addressed, concrete objectives could be defined alongside necessary political interventions.

The Tunisian Employment Declaration of 29 March 2016 calls for the development of an “integrated national strategy that makes employment the

26 ILO. 2020. *National employment policies for an inclusive, job-rich recovery from the COVID-19 crisis*, Geneva.

central element of all sectoral policies and is based on a comprehensive approach to the issue, (...) by having (the) launch of a set of short-term measures that would complement the strategic approach to employment in the medium and long term."

This Declaration takes up the main guidelines set out in the social contract signed in January 2013 by the Government and the social partners. This contract marks the will of the Government and the social partners to move from a series of active labour market policies to a multidimensional and transversal employment strategy that incorporates the measures that are likely to create jobs in sufficient quantity and quality, and a strategy that brings together a wide range of actors to engage in formulating employment policies and measures.

The Ministry of Vocational Training and Employment, the Tunisian General Union of Labour (UGTT) and the Tunisian Union of Industry, Trade and Handicrafts (UTICA) have defined the institutional mechanism to be put in place to ensure a formulation process based on a broad, participatory and inclusive dialogue. It is structured around a political committee, a steering committee and a technical committee. These tripartite and inter-ministerial committees bring together all the players concerned, and aim to promote the coherence of their actions, while guiding the formulation of the future employment strategy. The first political committee, held on 22 August 2017, officially launched the formulation process under the aegis of the Head of Government, in the presence of the Secretary General of the UGTT and the President of the UTICA, various ministers and representatives of ministerial departments, parliamentarians and technical and financial partners.

The formulation of a NEP responds to the social project of offering decent jobs for all, that is to say, jobs where respect for fundamental principles and rights at work, the conditions for social dialogue, the benefit of basic social security services and a minimum level of income deemed socially admissible are guaranteed.

### **Egypt**

The January 2011 revolution placed the issue of unemployment in a position of major concern to Egyptian society, together with corruption and a lack of democracy. Prior to the revolution, Egypt did not have an approved policy or strategy for employment.

However, certain measures at developing employment policies, action plans and labour market information systems are worth mentioning. During the 2006–2010 period, with support from the European Training Foundation (ETF), the Egyptian Observatory for Education, Training and Employment was created under the umbrella of the Information and Decision Support Centre (IDSC) within the cabinet of the Prime Minister. A steering committee was formed to include representatives from the relevant ministries, the private sector and civil society in the Observatory. A concept of labour market observatory was developed and a number of labour market analyses and capacity-building activities were carried out. This included seminars and workshops on labour market information systems and two study visits for staff to France and to the Netherlands.

In May 2009, the Ministry of Manpower and Migration launched a comprehensive consultative process to develop a youth action plan, with the support of the ILO, GIZ and the United Nations. The Youth Employment National Action Plan 2010–2015 aimed to reduce youth unemployment and provide decent and productive jobs. Its main objectives were to raise youth employability, to provide more job opportunities in key economic sectors and to resolve the mismatch between labour demand and supply by improving labour market policies and programmes.

More recently, the National Strategy for the Empowerment of Egyptian Women 2030, endorsed in March 2017, adopted a rights-based approach and is grounded in the SDGs and Egypt's Sustainable Development Strategy 2030. The strategy promotes the leadership roles of women in both the public and private sector and sets a 30 per cent target for women in senior management posts by 2030.

### **Morocco**

Morocco's National Employment Strategy (NES) 2015–2025 is a strategic vision of employment prepared by the Ministry of Employment and approved by the Government. It proposes a new approach to employment policy aiming at going beyond traditional active labour market policies and the issue of unemployment. It aims to put employment at the core of public action and adopts a comprehensive approach that integrates economic, financial, budgetary and institutional dimensions and takes into account all the job deficits and categories of the population affected by these deficits.

The NES proposes a set of strategic objectives to promote productive and decent employment in Morocco. It aims to:

- ▶ ensure a volume of employment compatible with potential demand;
- ▶ reduce gender and environmental inequalities (education and training);
- ▶ reduce disparities in productivity and income;
- ▶ extend social protection to all workers;
- ▶ ensure efficient representation of all categories of workers.

The NES aims to achieve two main objectives related to youth and women. The first is to ensure that all the conditions for the creation of sufficient jobs, in terms of number and quality, are met in order to respond to the expectations of youth. The second objective is to reduce gender inequalities and regional disparities in employment.

Moroccan policymakers and stakeholders have set a ten-year deadline to meet the aspirations of the country's youth in terms of employment. This national employment strategy was intended to be innovative in that it broke with the old policies which were based solely on the first-time integration of young graduates through active employment policies. As such, the NES articulates three main levers: a) the promotion of productive employment, a) the development of human capital and a) good governance of the labour market.

The NES is an ambitious project involving all of Moroccan counterparts and supported by the entire Government. Based on an innovative vision and approach and on strong values, including new methods and structures, it is a social project that promotes a new social model.

The NES is complemented by the National Integrated Youth Policy, 2015–2030, which was developed after more than a decade of measures to facilitate young people's integration into the labour market did not yield significant improvements. The overall strategic objective of this strategy is to create equal opportunities for all Moroccan youth, including in the labour market. One of the five pillars of this strategy is to increase economic opportunities for young people and to promote their employability.

### Jordan

In recent years, the Government of Jordan developed multiple strategy documents with implica-

tions for the labour market. Jordan's Vision 2025 and Economic Growth Plan 2018–22 provide an overarching direction and prioritize the promotion of entrepreneurship, a reform of the educational system and reduced reliance on foreign workers. The Vision 2025 and the Economic Growth Plan are further elaborated in several national strategies.

Launched in 2012, the National Employment Strategy 2011–20 defines its main goal as "improving standards of living for Jordanians, through increased employment, wages, and benefits, and productivity improvements". In order to achieve this goal, the NES suggests an integrated approach that combines fiscal, monetary and investment policies, as well as education and social welfare policies. Its action points are divided into three phases. The short-term goal (until 2014) was to absorb the unemployed through targeted active labour market programmes and SME development programmes. In the mid-term (until 2017), the educational sector was supposed to be reformed in order to improve the school-to-work transition and reduce the skills mismatch in the labour market. The long-term goal (until 2020) focused on increasing productivity through human capital development and economic restructuring. The Jordanian Government is currently preparing a new NES which is supposed to be launched in 2022.

To bridge the gap, the Ministry of Labour is implementing a National Empowerment and Employment Programme 2017–21 (NEEP) which seeks to foster the participation of Jordanians in the labour market and to create jobs for skilled Jordanians. Moreover, it strengthens labour inspection and compliance with occupational safety and health standards, fosters labour relationships with social partners and improves the quality of public employment services.

The NES as well as the NEEP place particular importance on supporting women and the youth, two areas which are further elaborated in the National Youth Strategy (2019–25) and the National Strategy for Women (2020–25) respectively.

In line with the NES's and NEEP's focus on a highly skilled and qualified workforce, the National Strategy for Human Resource Development (NSHRD) (2016–25) aims to achieve Jordan's social and economic ambitions through an ambitious reform agenda for all sectors related to education.

Drafted in 2014, the National Entrepreneurship and SME Growth Strategy (2015–19) seeks to foster job creation and income generation by promoting business start-ups and improving the performance



and growth of existing SMEs. However, the strategy and the accompanying action plan were never officially approved by the Government. In 2021, under the patronage of the Prime Minister, the Jordan Cooperative Corporation (JCC) launched a National Strategy for the Cooperative Movement in Jordan with the support of the ILO. This strategy seeks to strengthen the role of cooperatives in enhancing decent work and productivity in different economic sectors in the country.

### 2.2.2. Institutional mechanisms to shape employment-related policies in the Southern Mediterranean Countries

Over the last 20 years, NEP processes supported by the ILO have opened to a wider group of stakeholders, facilitating new frameworks and enhancing social dialogue to generate a consensus around employment solutions. The common stakeholders are ministries in charge of labour and employment, as well as employers' organizations and trade unions. Dialogue between the tripartite social partners has helped shape NEP processes, though the extent and outcomes have varied from one country to another. Over the last two decades, social dialogue around employment policymaking has also embraced new actors, such as the ministries in charge of economy and finance and civil society. However, important actors such as representatives of informal and rural workers are not always represented.

The following section reviews the main institutional mechanisms in place to derive employment policies

and elaborates on certain advantages and disadvantages of the processes.

The **Occupied Palestinian Territory** and **Tunisia** have held employment policy discussions through existing tripartite social dialogue mechanisms, as per table 11. However, if the participatory process is held to short deadlines, or the Government does not recognize the value of social dialogue, the social partners will have little motivation to fully engage in the process. In **Tunisia**, for example, in 2012, the UGTT, the main trade union federation, as well as line ministries, complained about a lack of involvement. The resulting draft National Employment Strategy was not recognized, which blocked its adoption. It was not until 2016–17 that a new employment strategy formulation process was launched by the Tunisian Government.

In some countries, negotiations on conflictive issues such as pension reform, the revision of the labour code, or wage negotiations, have been tense or blocked. In these circumstances, discussions on employment policy, which are less controversial, can be a point of entry for restoring social dialogue and strengthening tripartism. In **Morocco**, for example, when work began on the national employment strategy, the workers' organizations had just withdrawn from negotiations on the revision of the labour code.

Over the past two decades, there has also been greater involvement of other strategic actors beyond the traditional tripartite partners. This includes other economic and sectoral ministries that act as job creators, including agriculture, industry, trade and infrastructure. Most countries have ensured the participation of the economy

► **Table 10: Characteristics of national employment strategy (NEP) formulation**

Country	Year of adoption	Duration of formulation	Participants other than social partners and ministries responsible for employment			Dialogue	
			Economy/Finance Ministry	Civil society	Other*	Regional	Local
Algeria	2008	n/a	No	No	Yes	No	No
Jordan	2011	n/a	Yes	Yes	Yes	No	No
Morocco	2015	2–3 years	Yes	No	Yes	No	No
Occupied Palestinian Territory	2020	4–5 years	Yes	No	Yes	No	No

**Note:** \*This can include representatives of sectoral ministries, academia, think tanks, development partners, private sector, etc.

**Source:** D'Achon, Eléonore, Two decades of national employment policies: 2000–2020, Part I: Employment policy design: Lessons from the past, policies for the future. (ILO, 2021).

► **Table 11: Modalities of stakeholder engagement in national employment strategy (NEP) formulation processes**

Country	Political committee	Steering committee	Technical committee	Thematic groups	Tripartite social dialogue committees
<b>Occupied Palestinian Territory 2020</b>		A tripartite interministerial committee, under the leadership of the Ministry of Labour and hosted by the Cabinet Office was established to develop the NES. The members included representatives of the ministries of Labour; General Secretariat of the Council of Ministers; Higher Education and Scientific Research; Education; Industry; Social Development; Women's Affairs; Entrepreneurship and Empowerment; Economy; Public Works and Housing; Tourism and Antiquities; and Agriculture – as well as the Palestinian General Federation of Trade Unions, the Federation of Palestinian Chambers of Commerce and the Palestinian Central Bureau of Statistics.		Various sectoral workshops were conducted to identify policy priorities by sector.	
<b>Tunisia (to be adopted)</b>	Political committee: chaired by the Head of the Government and composed of the directors of the UGTT (trade union) and the UTICA (employers) and all Ministers.	Steering committee chaired by the Minister of Vocational Training and Employment and composed of the social partners and seven Ministers (Social Affairs, Economy, Finance, Industry, Agriculture, Higher Education, and Tourism).	Technical committee: chaired by the Employment Department of Vocational Training and Employment Ministry and composed of the social partners as well as the Ministries of Employment, Finance, Social Affairs; Economy; Industry; Agriculture; Higher Education, and Tourism.	Four ad-hoc working groups were set up: Macroeconomic and sectoral policies; Human capital development; Labour market governance; and NEP implementation.	

**Source:** D'Achon, Eléonore, *Two decades of national employment policies: 2000–2020*, Part I: Employment policy design: Lessons from the past, policies for the future. (ILO, 2021).

and finance ministries as per table 10. Other actors that are key to employment and are increasingly included are central banks (Jordan and Morocco), national statistics offices (Morocco), regional actors (Morocco), as well as other technical and financial partners.

ILO support and effort has also helped extend policy discussions to other actors key to employment but that were previously absent from the NEP discussions. These have included central banks (Jordan and Morocco), national statistics offices (Morocco), regional actors (Morocco), as well as other technical and financial partners.

More recent processes have seen greater involvement from civil society organizations (CSOs) and

representatives from specific segments of the population, for example young people in **Tunisia** and people with disabilities in **Jordan**. Nevertheless, there is still a generally low participation from associations for young people, women, unemployed and others.

A critical component of participation is access to information. One problem is that employment diagnostic and policy documents tend to be long and daunting. With ILO support, some ministries have therefore tried also to provide simple and clear versions for other line ministries, social partners, civil society and the general public. In **Morocco** and **Tunisia** for example, the ILO supported the production of more accessible versions of the national employment strategies. Similarly, **Morocco** and

**Tunisia** produced thematic policy briefs to make the main ideas in technical diagnostic analyses available to a wider audience. Such initiatives on simplifying policies and studies should be further supported to enable line ministries, social partners, CSOs and the public to engage more confidently in policy debates.

Some countries have also made effective use of information and communication technologies to extend information on employment policy to a wider range of stakeholders and the public. In other countries, the ILO supported the creation of portals and dedicated websites with all the documents on the consultation process along with webcasts (for example, in **Morocco** and **Tunisia**). Unfortunately, these websites are rarely updated. That is why some countries, such as **Tunisia**, have looked beyond a traditional communication approach, using the usual mass media and websites, to fuller communication strategies to promote visibility of the NEP and encourage everyone to take ownership of it.

The scope of employment policy diagnostic analyses has expanded over time. They are no longer the exclusive domain of the ministries responsible for employment. The latest diagnostic analysis aims at identifying the constraints on and opportunities for enhancing inclusive job-rich growth as well as the issues that need to be addressed in order to enhance productive and decent employment.<sup>27</sup> As such, they cover all the different areas of intervention, which have an impact on supply and/or demand for labour, as well as on the functioning of the labour market. Such comprehensive diagnostics have been undertaken in **Morocco** and **Tunisia**.

In many cases, specific studies are also undertaken to examine certain topics in greater depth. The number of studies and their scope vary significantly from country to country, depending on the needs, the priorities and the gaps to be addressed. This includes studies combining employment with macroeconomic policies, gender or sectoral policies as in **Tunisia**.

Data collection, assessment methods and modelling approaches also evolved over the years. In the context of the COVID-19 crisis, for example, new data collection methods as well as analytical approaches

have been developed to respond to the increased uncertainty and the need for more and more rapid information. For example, high-frequency data and phone-based rapid labour force surveys have been carried out (for instance, in Egypt, Morocco, Jordan and Tunisia). The ILO has also developed guidelines to undertake rapid assessments of the labour market.<sup>28</sup> On this basis, a range of assessments have been carried out in a number of countries, including in Lebanon and Morocco).<sup>29</sup>

In more recent NEP processes, ILO support has been aimed at stimulating a debate over the entire lifecycle, from initial diagnosis to final validation. This has typically been done in a series of workshops lasting over several days, as in **Tunisia**.<sup>30</sup> Similarly, **Morocco** set up five thematic workshops on macroeconomic and sectoral policies, human capital development, labour market governance, NEP implementation, and regionalization of the NEP. These workshops established the strategic orientations and proposed operational responses to the main employment problems. Similar dialogues were organized in other countries, including in **Tunisia**.

The methods and forums of participation will depend on the objectives and stages of the processes, the available time and resources, the stakeholders participating, and according to what level, for instance, political or technical, as in the **Occupied Palestinian Territory** and **Tunisia** (table 11). In addition to formal forums, there have also been iterative consultations carried out through a range of formal and informal methods – such as working groups, circulation for comments, bilateral discussions, interviews, questionnaires and workshops – in order to gather a wide range of opinions. **Morocco**, for example, had NEP steering and technical committees (both tripartite and inter-ministerial), and also a series of thematic groups for stakeholders. In addition, each stakeholder received a questionnaire through which they could identify existing measures and policies within their responsibility that would support the strategic objectives of the NEP. They could also identify benefits, harms and costs of current policies and their impact on employment. Consultations and political advocacy also included all forms of discretionary,

27 See for example, the ILO diagnostics carried out under the [ILO-Sida partnership country reports](#) on Delivering on SDG8 and the [ILO Rapid Assessments of the COVID-19 impacts on employment](#).

28 ILO, [Technical brief: Rapid Diagnostics for Assessing the Country Level Impact of COVID-19 on the Economy and Labour Market - Guidelines](#), 2020. For more on rapid assessments undertaken in various countries, see <https://www.ilo.org/emppolicy/areas/covid/lang-en/index.htm>.

29 ILO, [Country Assessments](#), 2020.

30 ILO, [Employment Diagnostic Analysis](#), 2012.

ad hoc, and informal contacts – from phone calls to letters, informal meetings and circulation for comments to the collection of information and views from interested parties.

The COVID-19 context is making it more important than ever to develop new ways of engaging remotely with stakeholders and the public and developing new tools to facilitate online consultations and e-participation. In this context, further efforts are needed to develop innovative public policy design, including through smart and efficient use of information and communication technologies.

In some countries, forging alliances, including with those who have a successful track record influencing national policies, not only helped ensure that research efforts across governmental and academic structures are complementary, but also proved useful in securing the engagement of key actors for employment. In **Morocco**, the Ministry of Employment worked with the High Commission for Planning and the Ministry of Finance to draw up forecasts and costed objectives.

To ensure buy-in from government officials, the NEP requires political advocacy in the form of briefing notes, facts, media and messaging, as well as creating relationships. In other cases, the support of the head of the government was enlisted to start the formulation process or launch the NEP, for instance in **Tunisia**. Other ways of mobilizing political engagement included integrating employment as a priority in national development plans or in key reference frameworks of the constitution, as in **Tunisia**. In **Tunisia**, the Social Contract (2013) and the Declaration on Employment (2016) were signed by the highest representatives of the tripartite partners. This Declaration outlines eleven principles to guide further action on employment, including the need to adopt a comprehensive employment strategy covering all aspects of job creation. It was signed by the Tunisian Prime Minister, the heads of workers' and employers' organizations (UGTT and UTICA) and in the presence of the UN Secretary General and the ILO Director General. This established a solid political basis for the NEP formulation process and a common point of reference for diverging views.

In a few cases, the NEP processes have also included citizens' voices and feedback to ensure that the NEP addresses the real needs of populations. In **Tunisia** for example, "quick" youth and enterprise surveys have been carried out to bet-

ter understand the problems and aspirations of young people and enterprises. In addition, youth representatives were invited to join some NEP discussions, including those identifying the vision and strategic objectives of the NEP.

Lower levels of government can respond to local employment needs in rapid, targeted, effective and appropriate ways. In **Morocco**, for example, this has been achieved by having regional representatives participate in national workshops. In addition, sub-national or provincial action plans were developed after adoption of the NEP. In 2017 in **Morocco**, the ILO supported the development of territorial policies in three pilot regions: Rabat-Salé- Kénitra, Tangier-Tétouan, Al Hoceima and Souss-Massa. In workshops held over several months, the participants identified the problems and the policy measures together, thus offering a platform for regional negotiations and tripartite consultations between public authorities and social partners. These regional plans bring new solutions for specific regional employment issues, while also being in line with the wider national employment strategy. They also help address the issue of regional disparities which are particularly pressing in Morocco. This approach is now being replicated in the other regions of Morocco.

Assembling all NEP partners for continuous coordination throughout the planning process is crucial but does not happen naturally. In practice, these coordination mechanisms vary. In the absence of appropriate or effective tripartite and inter-ministerial structures, many countries have set up ad hoc committees for NEP design, as seen in **Tunisia**. The NEP processes in this and other countries have demonstrated two important requirements: they should be tripartite and inter-ministerial and operate at high levels of government.

## 2.3. Impact of industrial, investment and trade policies and structural transformation and the labour market

### 2.3.1. Structural change in the region

Countries in the region witnessed relatively high levels of growth from 2000 to 2009 before the 2011 social movements. However, this high-growth decade experienced relatively lower levels of labour productivity and employment growth (table 12).

► **Table 12: Average annual growth of aggregate labour productivity, gross value-added (GVA) and employment, 2000–09 and 2009–19 (percentage)**

Country	Aggregate labour productivity growth		GVA growth		Employment growth	
	2000–09	2009–19	2000–09	2009–19	2000–09	2009–19
Algeria	-1.5	1.1	3.5	2.6	5.1	1.5
Egypt	-	2.3	5.0	3.4	-	1.2
Jordan	-	-	6.3	2.6	-	-
Lebanon	-	-	5.8	1.2	-	-
Libya	-	-	-	-	3.2	1.5
Morocco	2.5	2.6	5.0	3.2	2.4	0.7
Occupied Palestinian Territory	2.3	1.3	4.8	4.4	2.9	3.6
Tunisia	2.5	1.0	4.4	1.8	1.9	0.8

**Note:** Available data for employment is from 2000 to 2019. In order to be able to compare two similar time series, we divide this period into 2000–09 and 2009–19. Labour productivity is defined here as GVA (constant 2010 US\$)/Total employment, considering the unavailability of the number of hours worked data.

**Source:** WDI for GVA, ILO for employment data. Employment data available for Egypt only from 2009 to 2019, for Jordan only from 2017 to 2019, for Lebanon only for 2019 and GVA data unavailable for Libya.

Outcomes between 2009 and 2019 were at lower levels than from 2000 to 2009, reflecting the significant political and institutional challenges that the region witnessed during the last decade. From 2009 to 2019, employment growth was slow, particularly in Morocco and Tunisia.

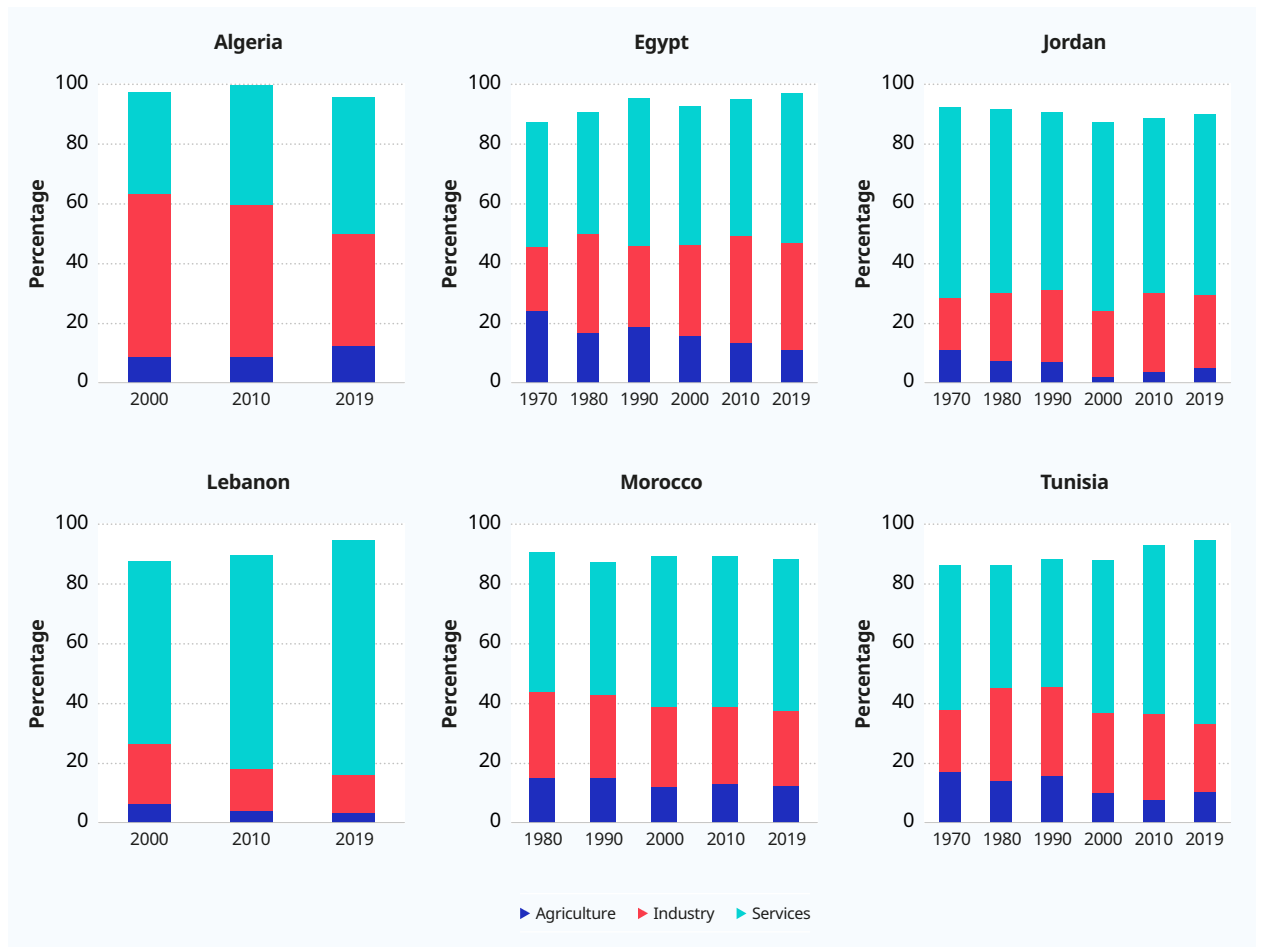
Since 2000, the region has gone through a shift of labour from agriculture; however, this shift has been mainly towards services, with at best a relatively stable share of manufacturing and industry in different countries. In terms of outputs, the contribution of the broad sectors to GDP in value-added did not significantly change in the countries in the region (figure 35). In terms of both employment and outputs, most of the economies in the region are service driven, particularly in Lebanon, in which the share of services in outputs increased to around 80 per cent in 2019.

Manufacturing, which has been historically the driver of structural transformation for more advanced economies, has a different weight across the region but has been at best stagnant and at worst decreasing in countries in the region. The manufacturing share in Algeria's outputs is the highest in the region; however, its structure is mainly driven by heavy industries linked to natural resources processing and refining, which is reflected in the structure of Algerian exports. The

share of manufacturing in Algeria decreased substantially, from 45.4 per cent in 2000 to 23.8 per cent in 2019, which might be due to the poor results of the reform of state-owned enterprises since the 1990s. The share of manufacturing in output increased from 1990 to 2010 in Egypt, Jordan and Tunisia, with a peak around 2008 in Jordan and Tunisia. Since 2010, manufacturing's share in output in Jordan and Tunisia has been slightly but steadily decreasing, while in Egypt and Morocco, manufacturing's contribution to outputs has been relatively stable (figure 36). Overall, the share of manufacturing in value-added reached lower levels in 2019 than in 2000 in almost all the countries, except in Jordan and Occupied Palestinian Territory (figure 37).

Generally, countries in the Southern Mediterranean Countries have made an early shift towards services, bypassing the manufacturing-driven structural change, as levels of GDP per capita remain relatively low in these middle-income countries. Looking at developed countries' historical development path, the shift to services happened with a deindustrialization process at high levels of GDP per capita, which is not the case for countries in the region. This is confirmed by Mouelhi and Ghazali (2020) for Egypt, Morocco and Tunisia. The authors study the structural transformation in these three countries between 1960 and 2010, using the decomposition

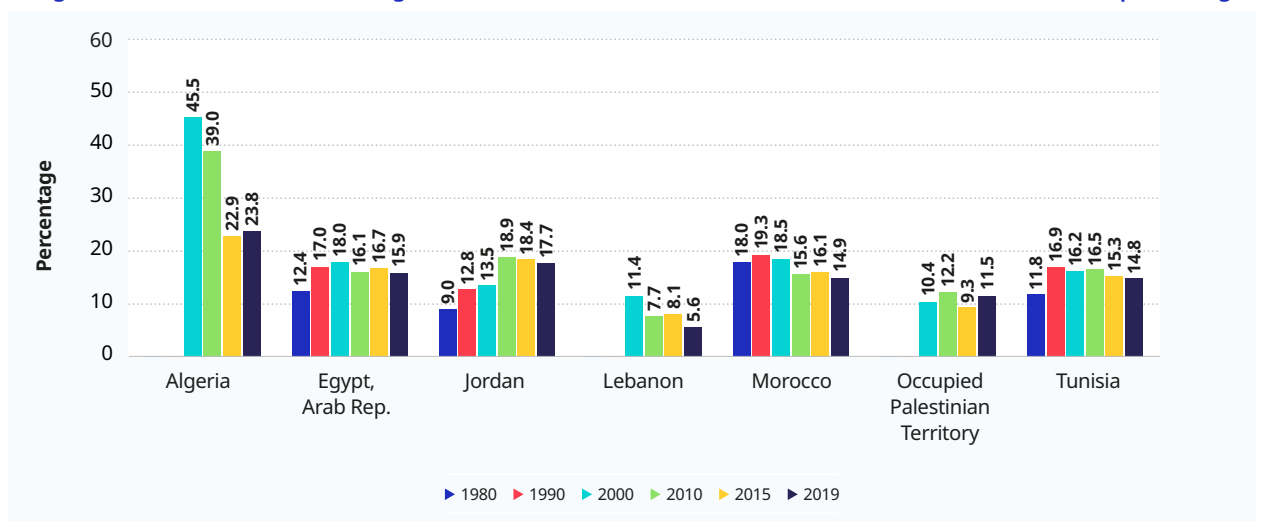
▶ Figure 35: Evolution of sectors' participation to GDP in value-added



**Note:** The value-added shares presented in the World Development Indicators for agriculture, industry and services may not always add up to a hundred per cent due to FISIM and net indirect taxes. Note that GDP in the database is measured at purchaser prices.

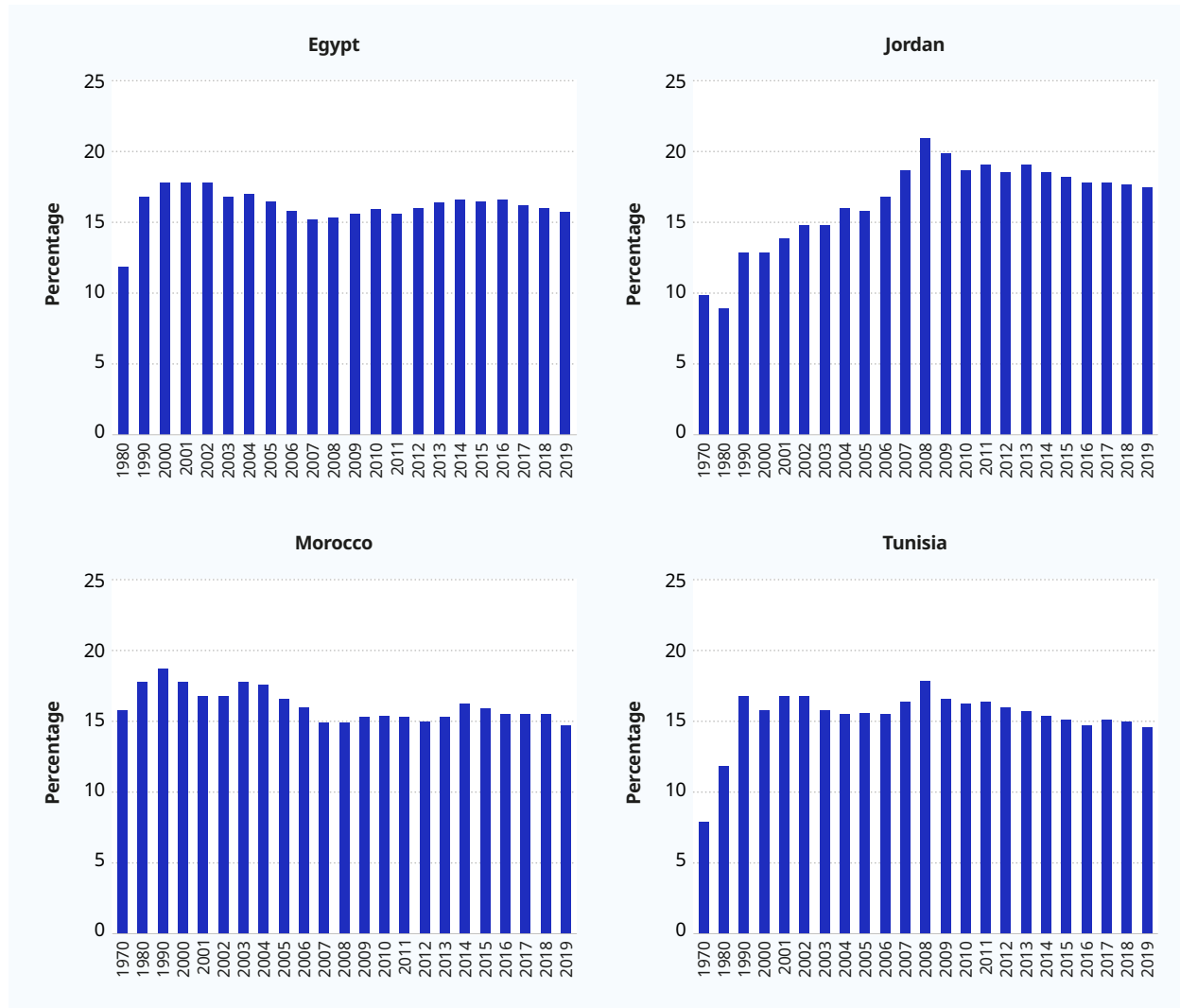
**Source:** WDI.

▶ Figure 36: Share of manufacturing in GDP in value-added in the Southern Mediterranean Countries (percentage)



**Source:** WDI, data missing for Libya, data for 1980 and 1990 missing for Algeria, Lebanon and Occupied Palestinian Territory.

► Figure 37: Evolution of manufacturing value-added as per cent of GDP in METI partner countries, 1970–2019



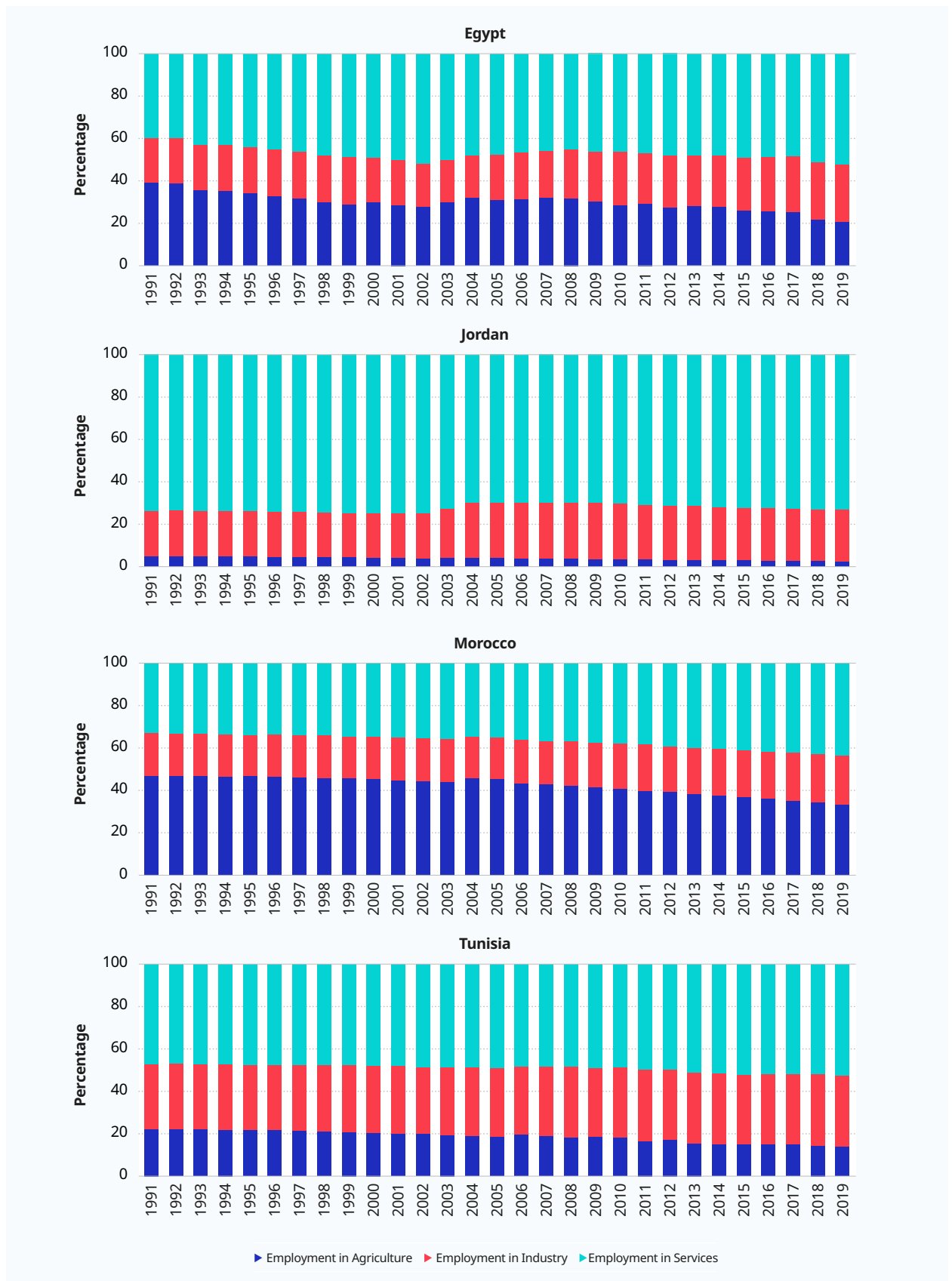
Source: WDI

of labour productivity growth used by McMillan and Rodrik (2011b), which aims to identify the source of labour productivity growth, differentiating between within-sector effects and labour reallocation effects. Within-sector effects are linked to intrinsic improvements within a sector and demonstrate an improvement in technological capabilities beyond labour. Labour reallocation effects translate the productivity gains linked to structural change contribution and to the movement of labour between sectors. The authors find that the pace of structural transformation in Morocco, Tunisia and Egypt has been higher before 1990 than from 1990 to 2010, during which structural transformation slowed down while countries were still at a low level of development before catching up with the emerging countries.

In other words, the three countries witnessed an early deindustrialization contrary to the experience of developed countries.

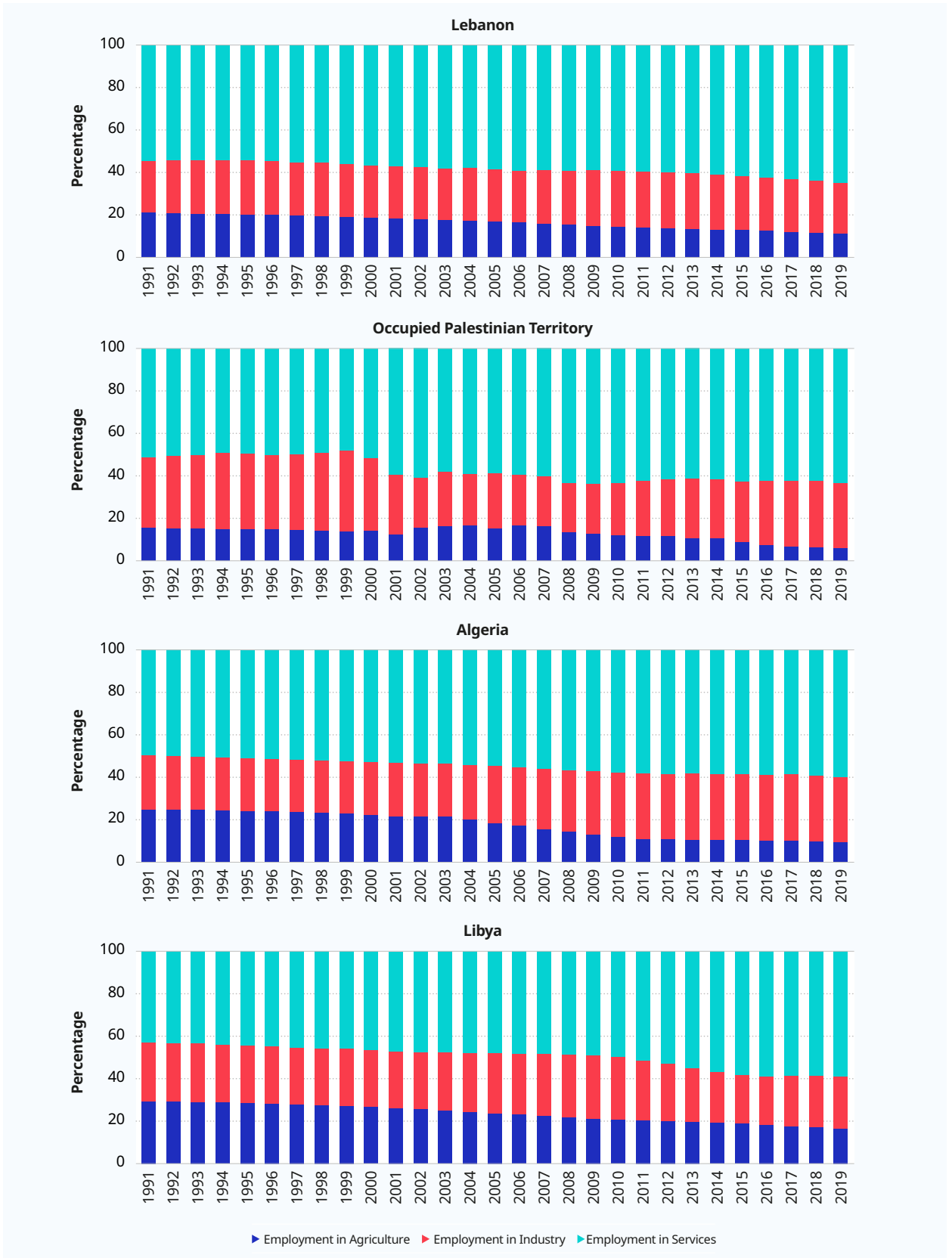
Deindustrialization is defined in different ways in the literature, mainly either by focusing on the evolution of manufacturing share in employment or outputs. However, Rodrik (2016) indicates that deindustrialization is clearer in manufacturing employment share than in terms of value-added share. In almost all countries in the region, employment growth in services has been higher than in industry since 1991 (figure 38), except for Jordan. The shift of labour is in most countries from agriculture to services in the region. Meanwhile, the share of industry and manufacturing employment has remained

► Figure 38: Evolution of the structure of employment in the eight countries in the region, 1991–2019





► Figure 38 (continued)



Source: WDI

relatively stable, with a relatively slow increase for Egypt, Jordan, Morocco and Tunisia between 1990 and 2019, driven mainly by construction. For Jordan, the share of employment in services remained stable at a very high level since the 1990s (at about 73 per cent of the employed population). There are signs of an increase in agricultural productivity in most countries in the region between 1990 and 2019, with the growth in the sector's contribution to GDP being higher than the growth in employment. However, for industry (including construction and utilities), the growth in the sector's contribution to GDP has been slower than the growth in employment for almost all countries in the region.

The region is witnessing an early deindustrialization. First, historically, manufacturing is the main channel through which rapid growth and labour productivity convergence have taken place. Therefore, early deindustrialization might take away a rapid growth perspective, leaving the countries in the region stuck in the “middle-income” trap. Second, as indicated earlier in this chapter, manufacturing growth is generally associated with a decrease in inequality, as it creates a demand for low-skilled workers, who are relatively abundant in countries in the region. For instance, in a recent study, Ravindran and Babu (2021) find that income inequality rises with premature deindustrialization if the displaced workers are absorbed into services, especially with employment increases in low-productivity services such as wholesale and retail, transport, hotels and accommodation. The shift towards high-productive services might yield the same manufacturing results in terms of rapid growth, labour productivity convergence and inequality reduction. However, they would require a substantial up-skilling of a significant part of the labour force.

## 2.3.2. Impact of industrial, investment and trade policies on exports and FDIs

### 2.3.2.1. Evolution of exports

Despite the relatively slow structural change in the region, trade and investment policies have generally yielded some positive results, with higher levels of exports in 2019 before the COVID-19 pandemic than in 2000. However, the results have been uneven across countries in the region. Egypt and Morocco have been driving the export growth in the region, reflecting both countries' efforts in trade, investment and industrial policies in the

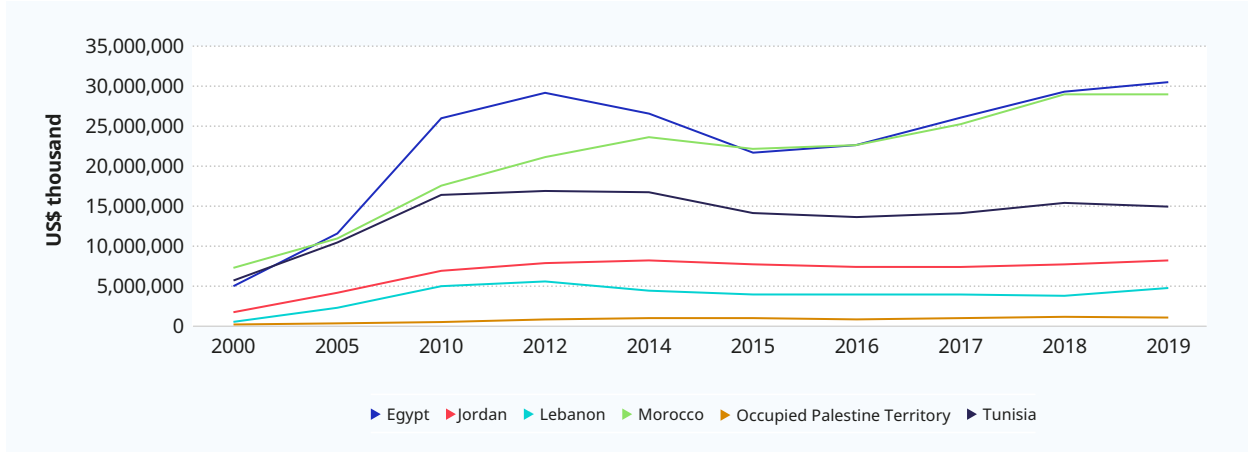
past decades. Since the early 2000s, exports of both countries increased significantly (figure 39). However, the instability following the 2011 social movements had negative effects on the export growth trajectory; for both countries, the upward trajectory resumed in 2015. Both countries now had 2019 very similar levels of merchandise exports, which is quite remarkable for Morocco, considering the differences in the size of both economies (Egypt's GDP is 2.5 times higher than Morocco's GDP). In Egypt, the 2004 tariff reform resulted in significant trade increases for the country, with exports increasing on average annually by 5 per cent before 2004 and 24 per cent after this date, while imports increased by 2 per cent and 24 per cent, respectively (Selwaness and Zaki, 2013).

However, trade and investment policies seem not to have yielded the same results for Jordan, Lebanon and Tunisia (figure 39). These three countries can be considered stagnant in terms of merchandise exports. After the 2011 social movements, these countries experienced a relative decrease in merchandise exports but since 2012 have remained at an almost constant level. In Jordan and Lebanon, this can be explained by the heavy impact of the Syrian civil war and the region's conflicts in general. It is worth noting that merchandise exports in the Occupied Palestinian Territory witnessed the regions' steepest growth between 2012 and 2019, with an increase of 60 per cent. However, the baseline level of exports was by far the lowest in the region, at US\$775 million in 2012.

For the oil exporting countries in the region, exports have been fluctuating following a similar pattern for Algeria and Libya between 2000 and 2019 (figure 40). This reflects the high dependency on oil in both countries, which exposes them to price volatility, which has been particularly significant since 2020 with the COVID-19 crisis. This emphasizes the importance of investing in economic diversification in both countries and an urgent need to adopt industrial policies to diversify their export baskets and build the competitiveness of their economies, while creating quality jobs for their young population.

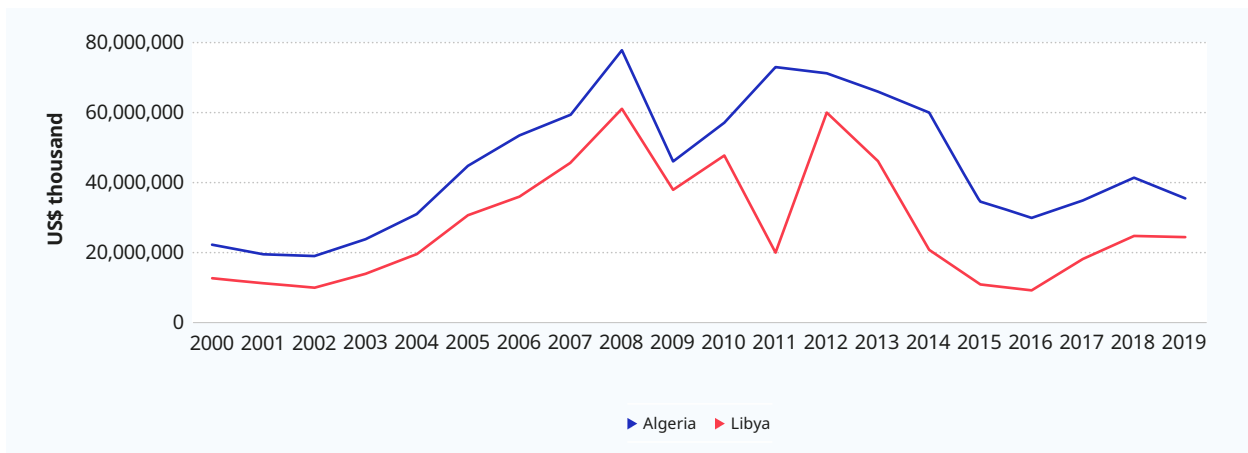
There is some evidence that the Euro-Mediterranean Association Agreements have resulted in positive outcomes for Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia. For instance, Euro-Med FTAS have been positive on trade, GDP and welfare, and they have benefitted these countries proportionally more than they did the EU. Exports from these six countries to the EU are estimated to have increased

► **Figure 39: Evolution of exports in non-oil-exporting countries of the Southern Mediterranean Countries (US\$ thousands)**



Source: UNCTAD.

► **Figure 40: Evolution of exports in oil-exporting countries of the Southern Mediterranean Countries (US\$ thousands)**



Source: UNCTAD.

by 15 per cent and their imports rose by 32 per cent on average (European Commission, 2021). Moreover, these countries are estimated to have experienced positive income and welfare effects, ranging from 0.4 per cent of GDP (0.4 per cent of welfare) in Egypt to, respectively, 0.4 per cent, 0.6 per cent and 1.5 per cent of GDP (0.1 per cent, 0.4 per cent and 1.5 per cent of welfare) in Jordan, Morocco and Tunisia.

Historically, Tunisia and Morocco are competitors in the region. Both countries have relatively same comparative advantages, including the same natural resources (such as phosphate) and they both export to the same markets (mainly European countries). Both countries have historically focused on

the same sectors, starting from textiles in the 1970s and 1980s and more recently on more complex and skill-intensive sectors such as pharmaceutical, automobile and aeronautics. Over the past decade, however, Tunisia and Morocco have been on a diverging trajectory, despite recording very similar export levels before 2010. Since 2009, this dynamic has shifted, with Moroccan exports increasing at a much higher pace than Tunisian ones. Three main reasons can explain this:

- First, Morocco has signed an FTA with the United States, effective since 2006, which significantly increased Morocco's exports to the USA (table 13) and provided Moroccan exports a huge additional market compared to Tunisia.

► **Table 13: Comparison of the evolution of exports between Tunisia and Morocco, 2009–19 (US\$ million)**

Exports to continent	Country	2009	2019
Europe	Tunisia	12,117.48	13,023.45
	Morocco	10,730.94	22,146.31
North America	Tunisia	399.19	584.91
	Morocco	742.93	2,077.27
Asia	Tunisia	1,185.76	1,174.79
	Morocco	2,906.90	4,953.36
Africa	Tunisia	2,052.87	1,714.76
	Morocco	1,575.61	2,412.74

Source: Observatory of Economic Complexity.

► **Table 14: Evolution of exports of phosphate products in Morocco and Tunisia, 2009–19 (US\$ million)**

Country	2009	2010	2011	2012	2013	2016	2018	2019
Morocco	16,103.26	20,380.84	24,488.97	24,965.84	26,152.15	26,579.72	34,219.01	32,935.94
Tunisia	15,907.37	17,965.64	19,196.74	18,563.13	19,248.61	15,094.54	17,646.78	16,630.81

Source: Observatory of Economic Complexity.

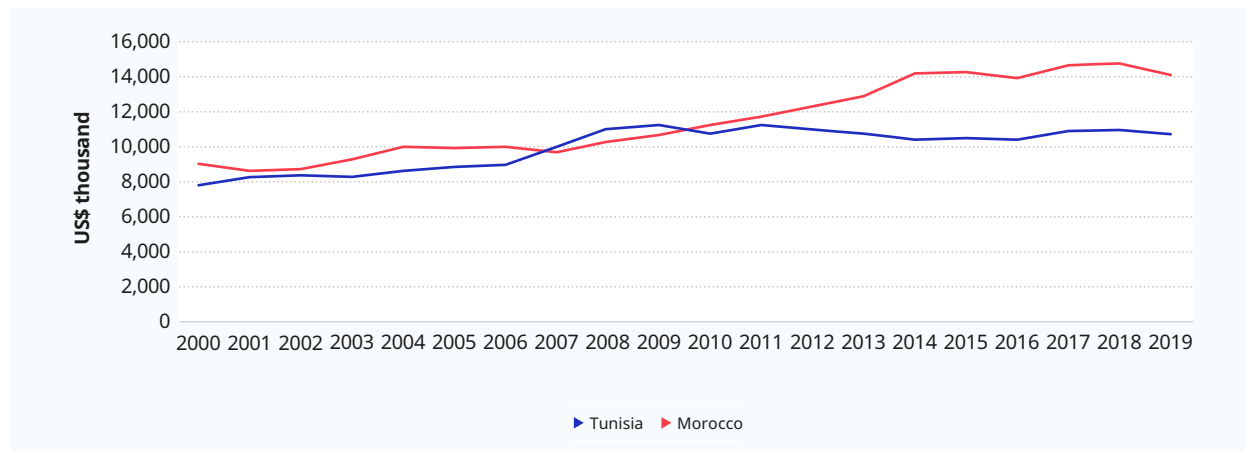
- Second, the export of phosphate products<sup>31</sup> in Tunisia decreased significantly after 2011 due to the continuous social crisis in the Gafsa mining area. On the other hand, Morocco, the other major phosphate producer and exporter in the region, undertook significant reforms starting in 2008 to improve the governance and functioning of the OCP (Office Chérifien des Phosphates), the state-owned enterprise in charge of exploiting the country's phosphate resources. As a result, exports of Moroccan phosphate products were double in value to the Tunisian ones in 2019, after having been at the same level in 2009 (table 14). This widening gap in phosphate exports might explain why Morocco's exports to Europe increased significantly more than Tunisia's between 2009 and 2019 (table 13).
- Third, Morocco has relatively diversified its export destinations compared to Tunisia, including increasing exports to Asia and Africa between 2009 and 2019. For instance, Morocco's exports to Asia doubled while Tunisia's exports to the

continent remained at the same level between 2009 and 2019. Also, Morocco has been intensively investing in sub-Saharan African countries over the past decade, with an increasing level of FDI outflows to the region, which significantly increased its exports to the African continent. Contrary to this dynamic, Tunisian exports to Africa decreased between 2009 and 2019.

Interestingly, the evolution of manufacturing labour productivity also reflects the divergent paths that Tunisia and Morocco have taken since 2010–11 (figure 41). Between 2000 and 2011, manufacturing labour productivity (expressed in constant 2010 US\$) was at similar levels between Tunisia and Morocco. However, there is a clear turning point in 2011, with manufacturing labour productivity in Morocco increasing faster than the stagnant and even decreasing productivity in Tunisia. This suggests that the industrial and trade policies implemented in Morocco have yielded significant results, at least from an export and labour productivity perspective.

31 Defined as phosphoric acid, phosphinates and phosphonates, phosphides, phosphoric esters and salts, phosphatic fertilizers and calcium phosphates.

► Figure 41: Evolution of labour productivity in manufacturing in Tunisia and Morocco (in constant 2010 US\$)



**Note:** Labour productivity is defined here as MVA (constant 2010 US\$)/Total employment, considering the unavailability of the number of hours worked data.

**Source:** Author's calculation, based on WDI data for value-added and ILOSTAT for employment data.

The evolution of skill and technology intensity of exports in the region shows an increase in the share of medium-skill and technology-intensive and high-skill and technology-intensive manufactures in exports in Morocco, Egypt and Tunisia (figure 42). This indicates a certain level of sophistication improvement and upgrade of technological capabilities in these economies. However, overall, countries in the region have not significantly diversified their basket of exported products, except for some encouraging signs in Egypt, Morocco and Tunisia.

In **Egypt**, the share of high-skill and technology-intensive manufactures increased significantly from 7 per cent in 2000 to 21 per cent in 2019, indicating a technological production upgrade. However, and despite a relative increase since 2000 from 38 per cent to 45 per cent in 2019, the share of manufactured goods in exports remains much lower than in Tunisia (82 per cent), Jordan (76 per cent) and Morocco (71 per cent). There are, in general, some signs of exports diversification in Egypt, with a decrease in the share of petroleum products, from 42 per cent in 2000 to 21 per cent in 2019. There is a significant increase of exports of manufactured goods such as fertilizers, plastics products, non-metallic mineral manufactures and electrical machinery. In 2019, these products were among the top ten exported products in Egypt. Comparatively, the top products exported in 2000 aside from petroleum products were metals, vegetables and fruits, cereals, and textile and apparel. Exports of pharmaceuticals products have also increased between

2000 and 2019; however, their share represented merely 1 per cent of total exports in 2019, despite the sector being prioritized by industrial policies in Egypt. The increase in exports of electrical machinery reflects some positive impact from industrial policies adopted in Egypt, as electrical and chemical industries were among the prioritized sectors by industrial policies.

**Jordan** has by far the highest share of high-skill and technology intensive manufactures in the region, with this segment representing around 39 per cent of its total merchandise exports. For instance, Jordan has a well-developed pharmaceutical sector representing about 7 per cent of its merchandise exports in 2019, with a growth of 367 per cent in the sector's export value between 2000 and 2019. However, the share of high-skill and tech-intensive manufactures has remained relatively stable in Jordan over the past 19 years (37 per cent in 2000 and 39 per cent in 2019), while the share of labour and resource-intensive manufactures has increased significantly, from 16 per cent in 2000 to 27 per cent in 2019. Also, the structure of products exported by Jordan did not change substantially. In 2000, the top 10 products exported by Jordan were chemical products (crude fertilizers and minerals, fertilizers, inorganic chemicals), pharmaceutical products, vegetables and fruits, clothing and apparel, road vehicles, non-metallic mineral products, miscellaneous manufactured articles and paper products. The top ten products represented 67.6 per cent of total exports in 2000. In 2019, almost the same products

were on the top 10 exported products, with only three new products making it to the top ten, out of which only one is from another industry than in 2000 (gold from the mining industry). In 2019, the top ten products represented 69 per cent of total exports, at similar levels than in 2000.

Over the past 20 years, **Morocco** and **Tunisia** have witnessed the biggest change in terms of the skill and technology intensity of their manufactured goods exports. Both countries have recorded a significant increase in the share of medium-skill technology-intensive goods (for Morocco, around 5 per cent in 2000 versus 30 per cent in 2019, and for Tunisia, 14 per cent in 2000 versus around 32 per cent in 2019). Also, both countries witnessed a significant increase in the share of high-skill and technology-intensive manufactures. For instance, Morocco witnessed with an increase from 20 per cent in 2000 to 22 per cent in 2019. In Tunisia, the share of high-skill and technology-intensive manufactures increased by about 7 per cent over the same period. In parallel, the share of labour and resource-intensive manufactures dropped by more than 19 per cent for Morocco and almost 24 per cent for Tunisia.

The industrial policies implemented in **Morocco** and the sector focus on textiles, electronics and automotive goods have yielded significant positive results in terms of exports. The automotive industry has witnessed the highest level of export growth, driven by investment from anchor enterprises such as Renault, Peugeot-Citroen and the Chinese BYD. This has resulted in a spectacular rise in exports of automotive products (road vehicles – SITC 78) from US\$22.3 million in 2000 to almost US\$3.6 billion in 2019. The focus on electronics has also resulted in a significant increase of exports in electrical machinery from US\$817.5 million in 2000 to more than US\$5 billion in 2019, with the production and export of insulated wires used as input for automotive and aeronautics industries. Electrical machinery was the first product exported in 2019 by Morocco and represented 17 per cent of total exports, up from 11 per cent in 2000. The share of textiles and apparel products significantly decreased in Moroccan's exports from 31 per cent in 2000 to 13 per cent in 2019; its value, however, increased by 39 per cent over the same period. In general, Morocco has diversified its export merchandise (with a different set of top ten

products in 2019 as opposed to 2000) and has succeeded in translating its industrial and trade policies into export outcomes.

**Tunisia** also witnessed a relative diversification of its exported products between 2000 and 2019, however, at a much lower pace than Morocco. Although the 2016 industrial strategy was not properly implemented, some sectors identified in the strategy, such as electronics, automotive and aeronautics expanded, mainly driven by an increase of FDIs in these sectors. For instance, the electronics sector has significantly developed, with its share in Tunisian exports doubling between 2000 and 2019 and increasing five-fold in value. Similarly, exports of road vehicles have significantly increased from US\$54 million in 2000 to US\$521.6 million in 2019 and its share increased from 0.9 per cent to 3.5 per cent between 2000 and 2019. The aeronautics industry also significantly increased its exports with aeronautics parts (in other transport equipment) representing more than US\$330 million in 2019, up from US\$28.8 million in 2000.<sup>32</sup> The top ten products exported by Tunisia saw the emergence of new products such as telecommunication and sound recording apparatus, with export of these products increasing from almost US\$30 million in 2000 to US\$458.5 million in 2019. However, historic sectors in Tunisia, such as textile and apparel and phosphates products, either stagnated or decreased significantly in terms of exports. For instance, levels of exports for apparel and clothing remained almost constant between 2000 and 2019, and the export of phosphates product have significantly dropped since 2011.

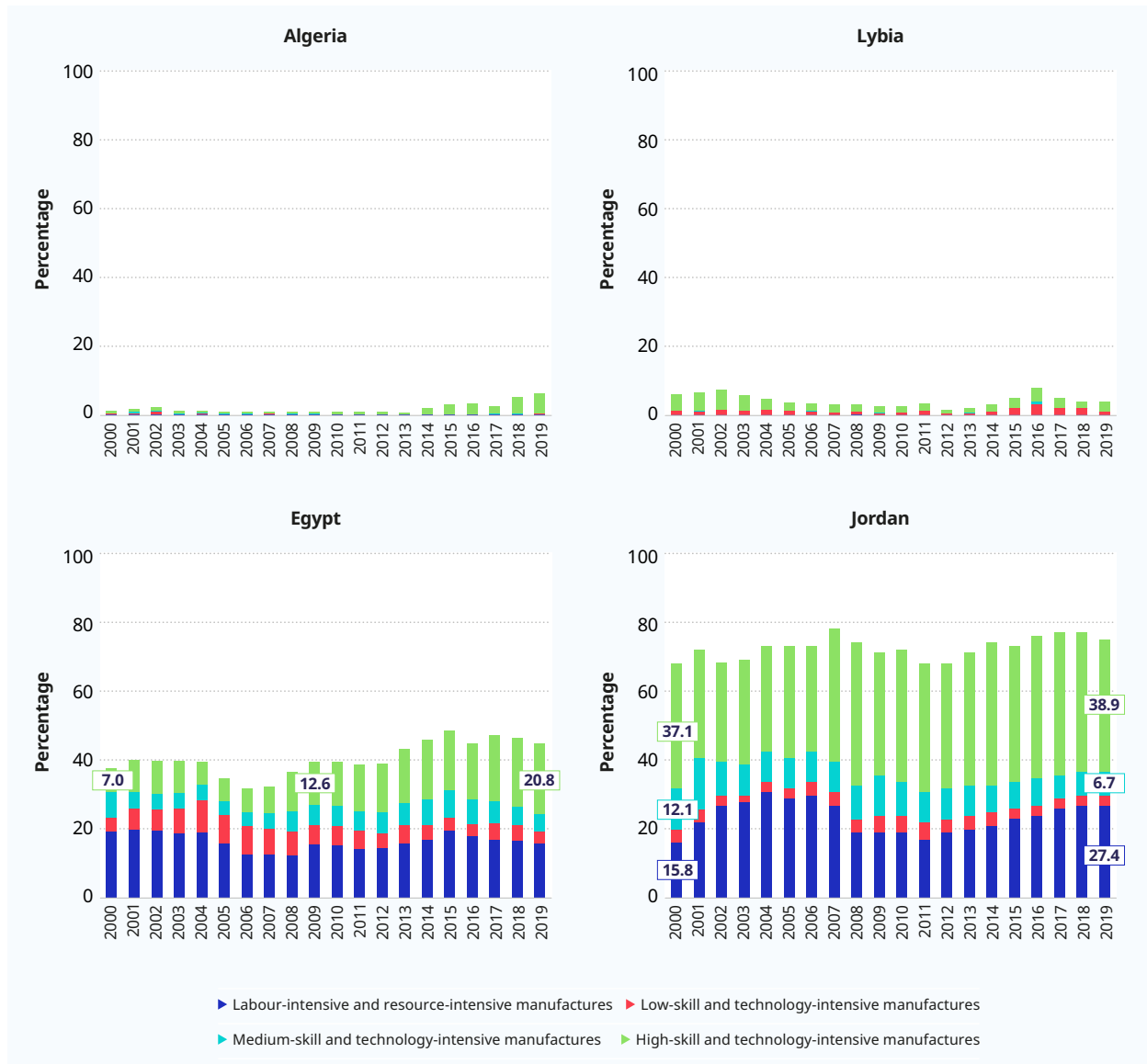
The structure of manufactured good exports in **Lebanon** has witnessed minor changes, with an overall decrease in their share in merchandise exports and a decrease in the share of labour and resource intensive products. The structure of exported products in Lebanon did not significantly change between 2000 and 2019. The country relies more on gold and miscellaneous manufactured articles (mainly jewellery and diamonds and arms and ammunition, according to the Observatory of Economic Complexity), which represented 34 per cent of its merchandise exports in 2019. There are some exports in manufacturing sectors that have been slowly growing, such as paper manufacture, electrical machinery and apparel and clothing.

32 Source for aircraft parts: OEC. Aircraft parts are part of "other transport equipment".

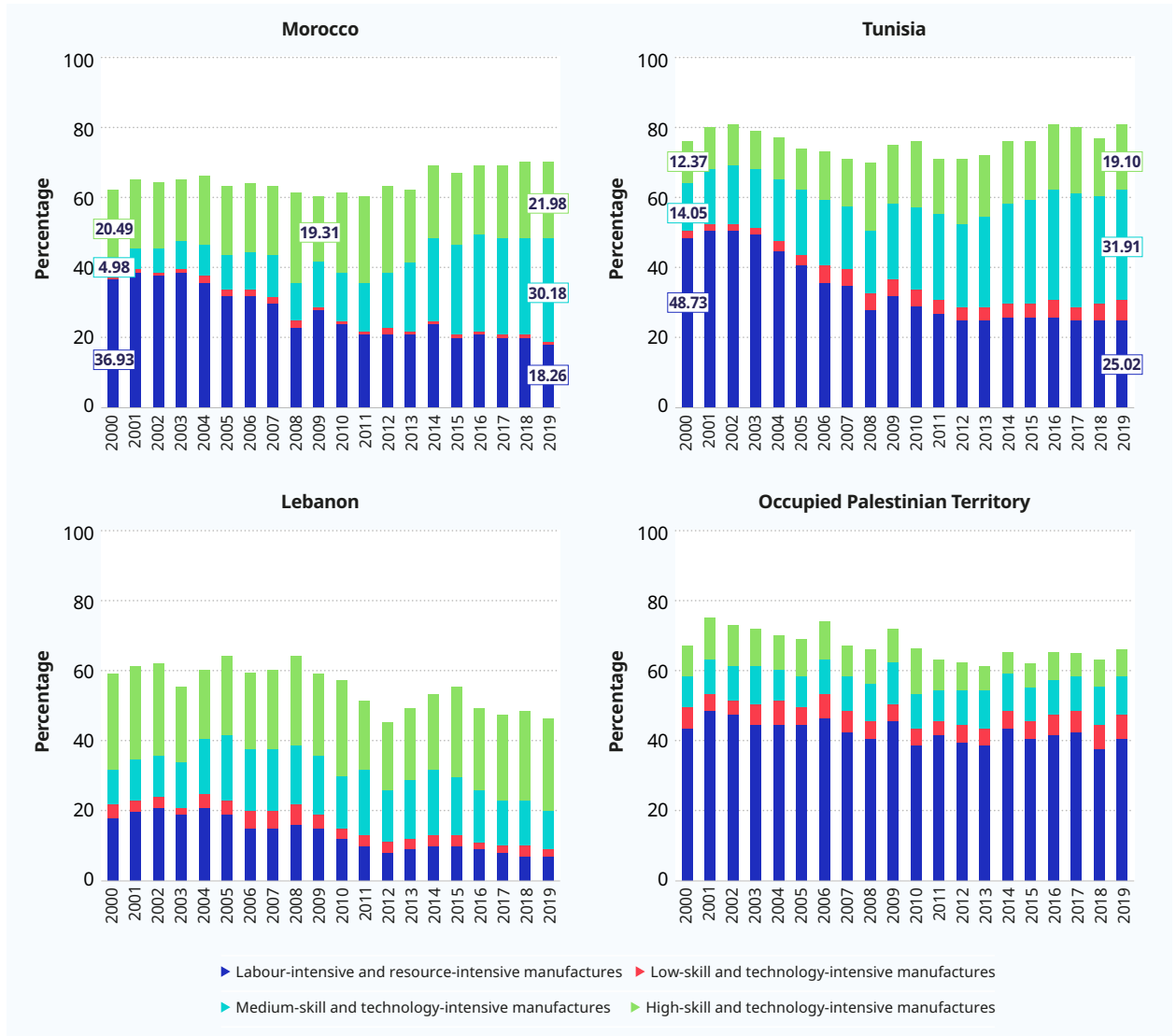
In the **Occupied Palestinian Territory**, manufactured goods' exports are concentrated in labour- and resource-intensive goods, with minor changes in their structure since 2000. The main products exported in Occupied Palestinian Territory are non-metallic mineral manufactures, mainly consisting in construction materials. Goods exports are generally concentrated on raw materials and low-transformed products. There are some sophisticated products being exported, such as pharmaceutical products; however, they represent merely 3 per cent of exports in 2019 and their share has not increased since 2000.

For oil-exporting countries, unsurprisingly, manufactured goods represent a very low share of exports, representing less than 10 per cent of exports for both countries. Petroleum, petroleum products and related materials represented 84 per cent of Libyan exports and gas, natural and manufactured represented 8 per cent of total exports in 2019. For **Algeria**, oil represented 53 per cent of total exports and gas about 40 per cent in 2019. For both countries, most of the manufactured goods are categorized as high-skill and technology-intensive manufactures. For Algeria, manufactured goods represented around 6 per cent of

► **Figure 42: Evolution of the share of manufactured goods in merchandise exports and their skill and technology intensity in the region, 2000–19**



▶ Figure 42 (continued)



Source: Author’s calculation based on UNCTAD.

total merchandise exports, with chemical (organic and inorganic) products and fertilizers as the main manufactured exported goods. Exports of inorganic chemicals increased significantly between 2000 and 2019, which translated into an increase in the share of high-skill and technology-intensive manufactures from about 1 per cent in 2000 to 6 per cent in 2019. In **Libya**, manufactured goods represented less than 5 per cent of merchandise exports in 2019, with organic chemicals and fertilizers being the only manufactured products in the top ten products exported by Libya. The share of exported manufacturing goods decreased from 6 per cent in 2000 to 4 per cent in 2019, with the main decrease being in high-skill and technology-intensive manufactures.

The International Trade Centre (ITC) provides interesting insights into the potential of exports of different countries. The ITC estimates the untapped export potential countries would have in different already exported products and analyses the diversification potential of each country by identifying a list of potentially exported products. The ITC analysis for the countries in the region indicates that the level of merchandise exports is lower than its potential. For Egypt, plastics and rubber, fruits, apparel, chemicals, fertilizers and food products remain largely untapped within significant export growth potential in these products. According to ITC, the untapped export potential for these products is estimated at US\$8.9 billion, representing



### ► Box 2: ITC interventions on the new NEAR regional trade and investment programme

The International Trade Centre (ITC) is currently implementing a programme funded by the EU and focusing on the region, in close collaboration with ILO and the OECD. The project is part of the [Trade and Investment Facilitation Mechanism](#) (TIFM). A major outcome of a preceding project was the [EuroMed Trade Helpdesk](#), which, in collaboration with the EU Export Helpdesk, aims to facilitate trade and investment in the Euro-Mediterranean Region. Currently, it contains market information on Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Occupied Palestinian Territory and Turkey.

The overall objective of the programme is to contribute to inclusive and sustainable economic growth focused on decent job creation and greater regional integration through enhanced and better-informed trade and investment policymaking processes in the Southern Mediterranean Countries. In particular, the programmes focus on a) facilitating closer economic ties between the EU and South Mediterranean countries and enhancing regional economic integration and b) improving trade and investment transparency by providing free access to information for economic operators and policymakers.

#### Expected Outputs:

- enhanced Euromed Trade Helpdesk (investment, rules of origin, WTO notifications, export potential assessment tool, trade procedures guides and trade in services);
- enhanced understanding of regulatory and procedural trade obstacles faced by SMEs in the region and identification of options to reduce costs of trade in goods and services;
- strengthened market analysis and research skills and raised awareness on the use of the Euromed Trade Helpdesk.

about 30 per cent of Egyptian exports in 2019. In Jordan, for instance, fertilizers and chemical products are the most untapped products, with a potential of additional US\$708.9 million for fertilizers and US\$666.5 million for chemicals, representing respectively 89 per cent and 76 per cent of the levels of exports of these products in 2019. For Tunisia, the untapped export potential on the top ten products represents about 6 per cent of total exports in 2019. For Morocco, apparel, machineries, motor vehicles and part, fertilizers and fish are the products that have the highest untapped export potential, and their potential represents about 26.8 per cent of total exports in 2019.

In terms of destination markets, there are some signs of diversification, with notably an increase in trade with Asian countries.<sup>33</sup> However, a high concentration of European markets remains, mainly for North African countries. For instance, the top destination markets in Algeria have remained relatively the same with a focus on European countries such as Italy, Spain and France, despite a slight increase of exports to Asia countries such as India and South Korea. In the Southern Mediterranean Countries, Algeria exports mainly to Tunisia (4 per cent). Libya also has Italy as the top destination market with 18 per cent in 2019, but recently

increased its exports to China, which is now the second destination of Libyan exports (16 per cent in 2019). In terms of imports, China is the primary origin of goods for both countries. Tunisia and Morocco also export mainly to Europe. However, as mentioned before, Morocco has more actively diversified its exports to Asia and the United States over the past decade.

The dependency on European markets is less obvious in other countries in the region. For instance, Jordan does not mainly export to European countries, with its top export destinations in 2019 being the United States (21 per cent), Saudi Arabia (13 per cent), India (8 per cent), Iraq (7 per cent), United Arab Emirates (5 per cent) and China (5 per cent). Egypt also has relatively diverse export markets, with less dependency on the European market and less concentration on a couple of countries. For instance, in 2019, Egypt exported mainly to the United States (9 per cent), United Arab Emirates (6 per cent), Italy (6 per cent), Turkey (6 per cent), Saudi Arabia (6 per cent) and India (5 per cent). Lebanon exported mainly to Switzerland (27 per cent), the UAE (15 per cent), South Korea (11 per cent), Saudi Arabia (7 per cent) and Kuwait (6 per cent) in 2019, whereas the Occupied Palestinian Territory focuses on neighbouring countries, with Jordan being the

33 Data on destination markets is from the Observatory of Economic Complexity.

top export destination at 32 per cent, followed by the UAE (15 per cent) and Saudi Arabia (9 per cent).

### 2.3.2.2 Evolution of foreign direct investment (FDI)

Most countries in the region have not significantly improved their levels of FDI, despite the significant investment and trade reforms. FDI inflows in most countries in the region increased significantly between 2000 and 2008, but have been on a declining trajectory since then, except for Egypt and Morocco. Both countries have improved their FDI inflows between 2008 and 2019, with Egypt being the top recipient of FDI in Africa. However, for other countries, pre-pandemic FDI levels have been stagnating at best.

**Egypt** has witnessed the highest level of inward FDI growth since 2000 in the region, despite a huge drop following the social movements in 2011 and has reinforced its position as the largest FDI recipient in the region since 2012. FDI inflows in Egypt accounted for 56 per cent of total FDI inflows in the region, compared to 35 per cent in 2008. In 2019, Egypt was the largest FDI recipient in Africa. Economic reforms, including the reforms of the exchange regime in 2016, seem to have improved foreign investors' confidence in the country, as FDI inflows significantly increased between 2016 and 2019. In 2019, FDI in Egypt was mainly driven by the oil and gas industry; however, an important share was invested in the non-oil economy, including telecommunication, consumer goods and real estate (UNCTAD, 2020).

In **Jordan**, the levels of FDI have decreased significantly since 2007, with the FDI levels in 2019 nearly three times lower than their value in 2007. In 2019, FDI was mostly directed to manufacturing, followed by real estate and services (UNCTAD, 2020). In 2019, the Government introduced a new initiative to encourage investment, including offering investors a single-window application facility through the Jordanian Investment Commission, which might help increase the confidence of foreign investors.

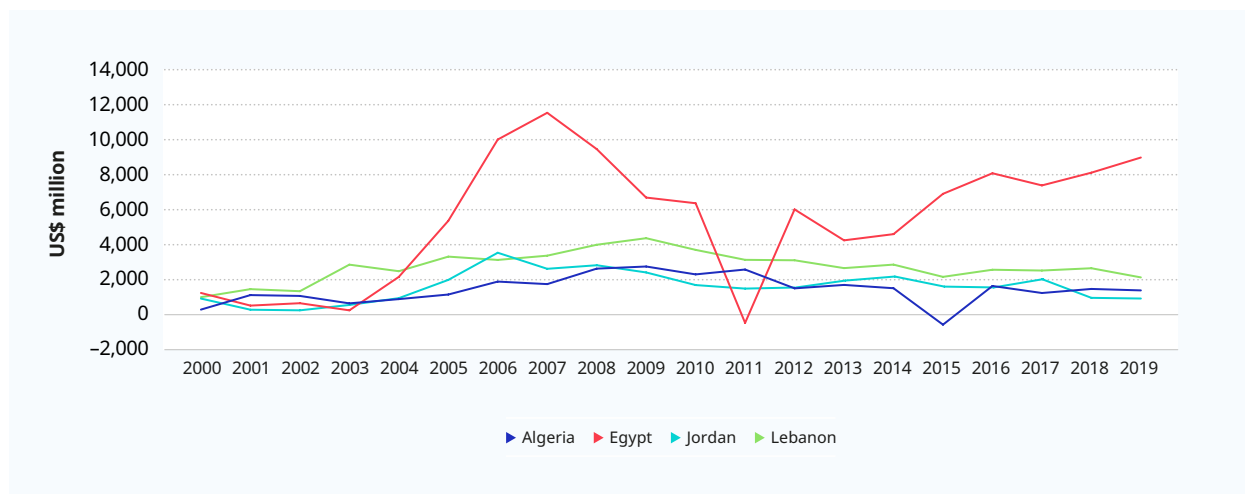
**Morocco** and **Tunisia** received the same levels of FDI from 2006 to 2009. This dynamic changed drastically after the 2011 social movements started in Tunisia. Morocco has benefitted from a relatively stable economic and political environment, which played to the country's advantage in terms of FDI. The gap between Tunisia and Morocco continued to widen until 2019, when FDI flows to Morocco decreased by 55 per cent to US\$1.6 billion. FDI

inflows to Tunisia have decreased constantly since 2011, likely affected by the political instability that led to the formation of eight governments in only ten years. In 2019, most FDI inflows in Tunisia went to industry, followed by energy and services (US\$95 million), with a sharp decline in investment in the services sector (UNCTAD, 2020).

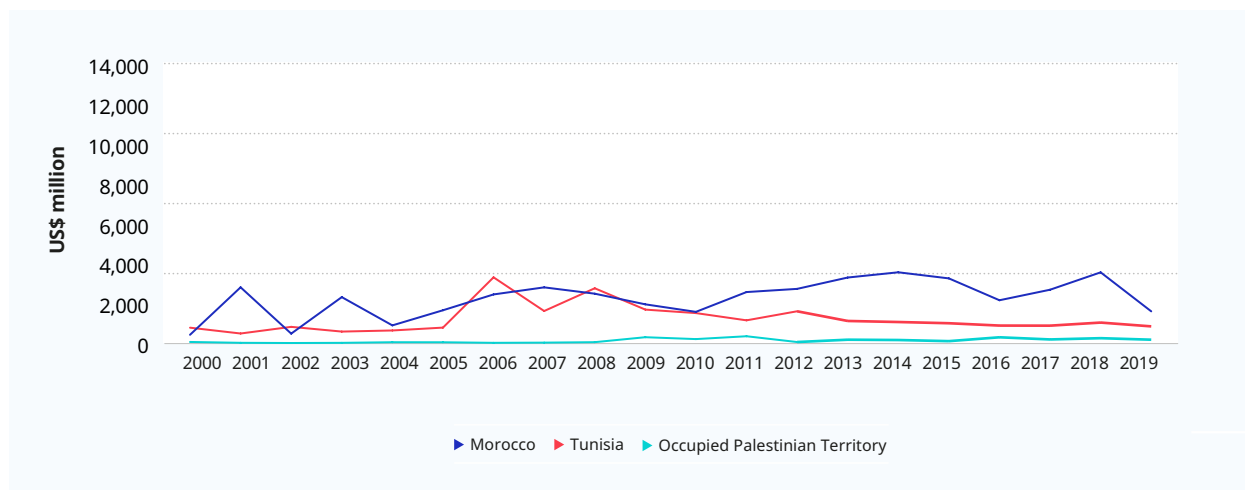
**Lebanon** witnessed a drop in FDI by 20 per cent in 2019, mainly due to the huge political crisis ongoing in the country since October 2019. At the end of 2019, Lebanon witnessed a stop in capital inflows, which led to a severe foreign currency crisis and a local currency plunge. Foreign investments are mainly directed to the services sector (UNCTAD, 2020). **Algeria** has witnessed a significant drop in FDI inflows since 2009: FDI inflows were at US\$2.7 billion in 2009 and reached US\$1.4 billion in 2019.

FDI in the region is not yielding the expected results, with most investments concentrated in capital-intensive sectors. According to the OECD, between 2003 and 2019, most of the greenfield FDI in the eight countries in the region went to real estate and construction (35 per cent) and mining and extractive industries (26 per cent) (OECD, 2020a). According to the same source, manufacturing accounted for only about 25 per cent of FDI over the same period and created more than 55 per cent of employment generated by FDI. Hence, the impact of FDI on job creation, labour productivity and structural change might not be to the level expected by policymakers in the region. A focus on the domestic linkages with local SMEs should be enhanced to maximize the impact of these FDI and their contribution to domestic economic outcomes.

The level of FDI restriction in the region varies across countries and across sectors (figure 45). Morocco and Egypt are the least restrictive countries to FDI in the region, scoring at similar level in the OECD-FDI restriction index as the United States. On the other hand, Libya is the most restrictive country in the region, scoring 0.7 in the index (1 being closed to FDI). Jordan, Tunisia and Lebanon are also relatively restrictive to FDI, however, at a much lower level than Libya. The FDI restrictions vary across sectors as indicated by figure 45. There are almost no restrictions to FDI in the region in the manufacturing sector, except in Libya and a very low restriction in Jordan. FDI in transport is particularly restricted in the region, as well as in high-income countries such as France and the United States. However, FDI in telecom, another strategic

► **Figure 43: Evolution of FDI inflows in selected countries in the region – 1 (US\$ million)**

Source: UNCTAD.

► **Figure 44: Evolution of FDI inflows in selected countries in the region – 2 (US\$ million)**

Source: UNCTAD.

► **Box 3: EU–OECD programme on investment in the Southern Mediterranean Countries**

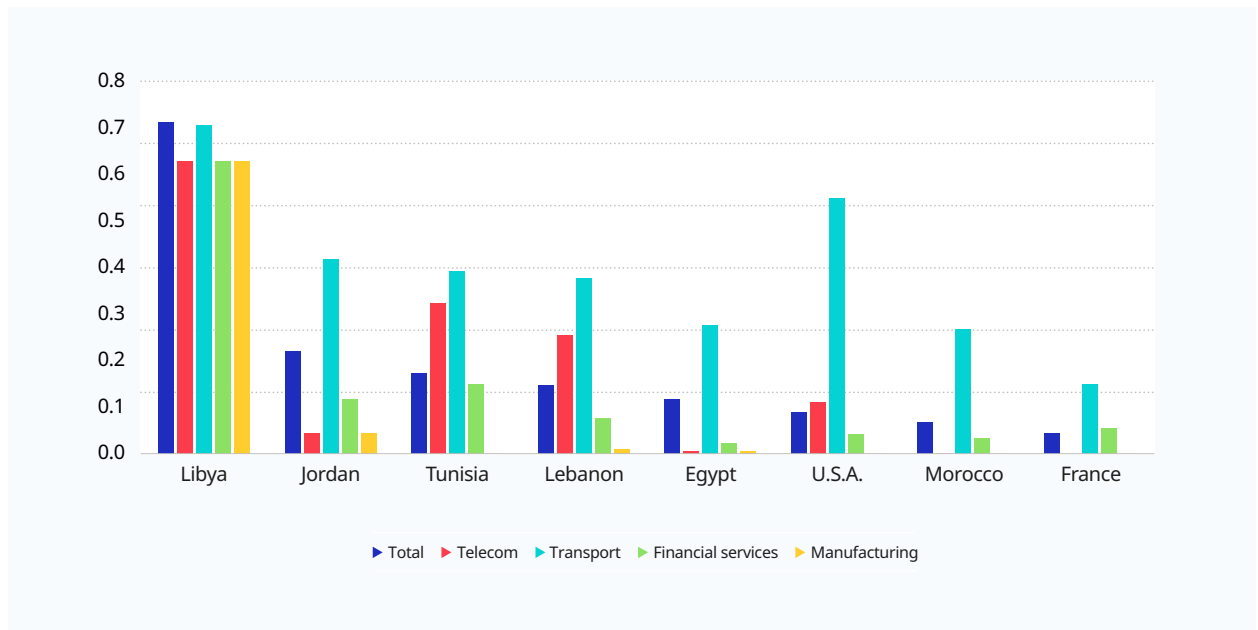
The OECD is implementing a programme funded by the European Union that focuses on supporting the investment climate for countries in the Southern Mediterranean Countries. The programme aims at supporting countries in the region improving the business and investment climate by attracting higher quality and more inclusive investment, reinforcing countries' capacity to self-assess, implement and improve investment climate reforms and supporting sustainable growth and decent job creation.

The programme has three main outputs:

- policy advice to support investment climate reforms implementation, including policy research and insights on measure the quality of FDI and their impact on the labour market and on local SMEs;
- regional and national public-private dialogue on investment climate reforms;
- support to the monitoring of selected reforms' implementation.

Source: OECD. For further information, see: <https://www.oecd.org/mena/eu-oecd-mediterranean-investment/>.

► **Figure 45: Level of FDI restriction per country and sector, 2020 (0=open, 1=closed)**



**Note:** Data missing for the Occupied Palestinian Territory.

**Source:** [Foreign direct investment \(FDI\) – FDI restrictiveness – OECD Data](#).

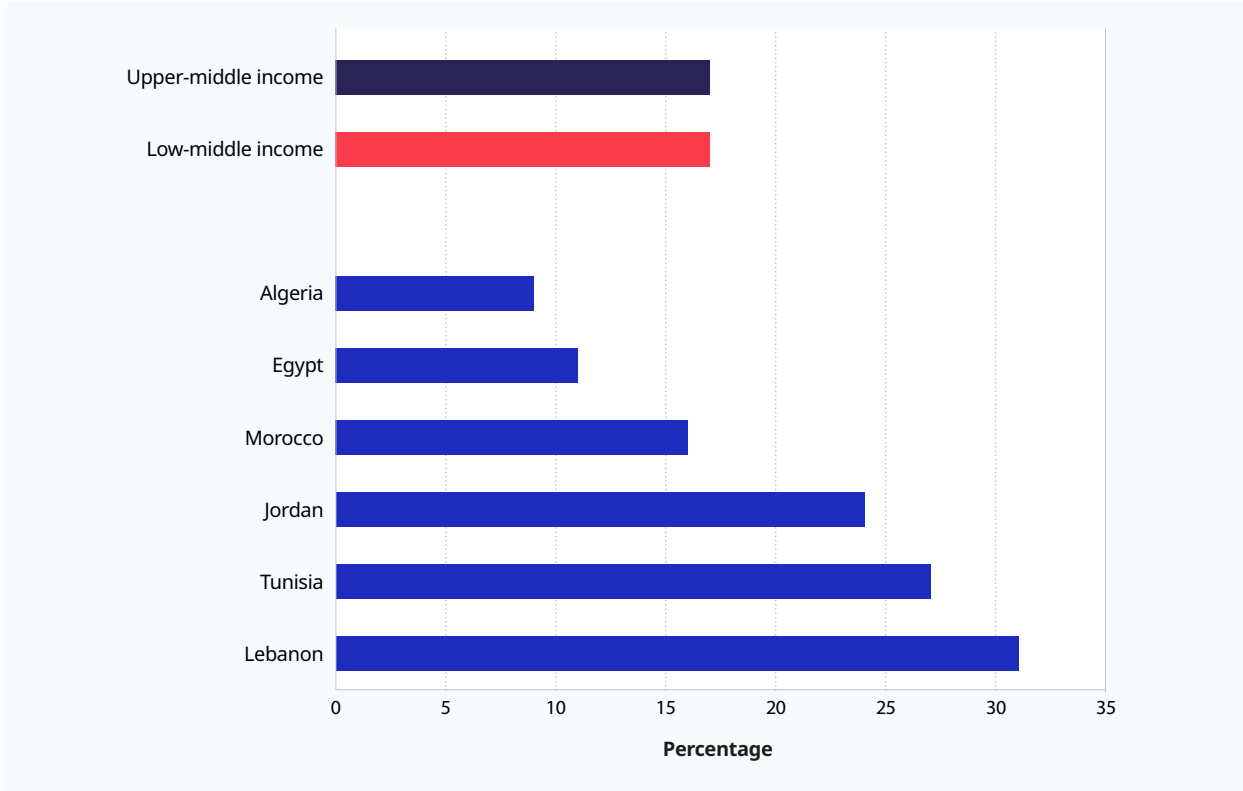
sector, is relatively open in Jordan and completely open in Egypt and Morocco.

The level of integration of the region into global value chains (GVCs) is an important measure of the export opportunities provided to local firms, including SMEs and the potential for sophistication upgrade of production and exports. Integration into GVCs is generally driven by multinational enterprises (MNE), driven by the cost reduction rationale, or optimization of supply chains. The Southern Mediterranean Countries can be considered relatively well-integrated into the GVC compared with countries with the same level of income (figure 46). Particularly, Lebanon, Tunisia and Jordan had higher levels of foreign value-added in exports than upper-middle-income and lower-middle-income countries in 2018. However, and despite a significant increase in foreign and domestic value-added in exports (figure 47), the share of foreign value-added remained almost constant between 2000 and 2018 (figure 48), indicating that the region is not significantly increasing its integration into GVCs.

Better integration into GVCs provides significant export opportunities to local SMEs and enterprises, ultimately leading to technological upgrade. Evidence shows that exporting SMEs and local firms can increase their profit and realize productivity and

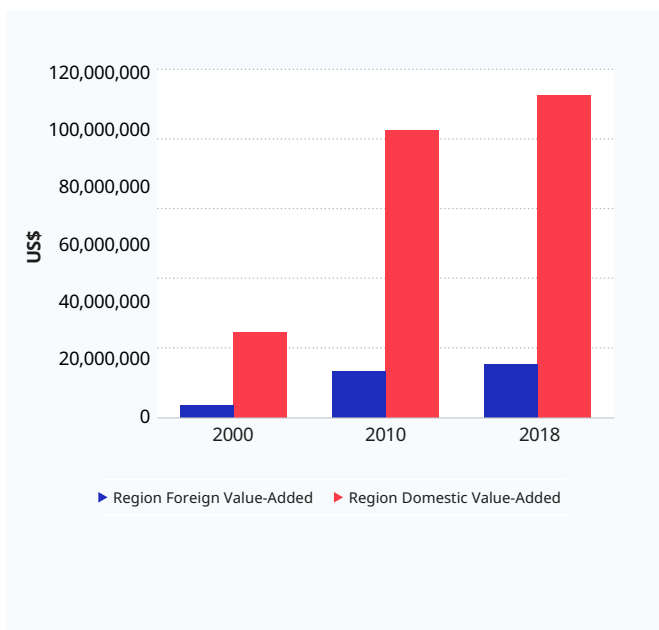
profit gains, mainly through “learning-by-exporting”. For instance, Atkin et al. (2017) study rug producers in Egypt and find that export opportunities have significantly increased profit (between 16 per cent and 26 per cent of increase), with improvements in the quality of products. The researchers provided evidence that the increase in productivity was due to the so-called “learning-by-exporting”, rather than due to a change in the product mix that the entrepreneurs could produce even before the intervention. The authors find that the productivity gains included a rise in quality and productivity after adjusting for product specification (which wouldn’t be the case if entrepreneurs continued using the same techniques). Second, they found that in the controlled environment when control entrepreneurs were asked to make a rug, the treatment group provided a higher-quality product without taking longer to produce it. Finally, by looking at the evolution of quality and productivity, researchers find evidence of a gradual improvement consistent with a learning curve rather than with a switch to a different product mix. The authors note there is evidence of knowledge flow in correspondence between foreign buyers and producers and that there was no extra investment made in the firms. Currently in the region, the share of firms that export directly at least 10 per cent of their total

► **Figure 46: The Southern Mediterranean Countries' share of foreign value-added in exports and comparison with middle-income countries**

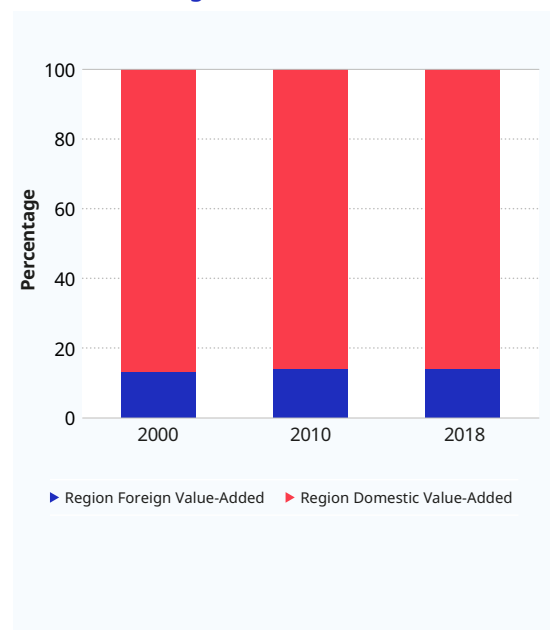


Source: UNCTAD-Eora Global Value Chain (GVC) and author's calculation. Data missing for Libya and Occupied Palestinian Territory.

► **Figure 47: The Southern Mediterranean Countries share of value-added in exports (US\$)**



► **Figure 48: The Southern Mediterranean Countries share of value-added in exports, share of foreign and domestic value-added**



Source: UNCTAD-Eora Global Value Chain (GVC) and author's calculation. Data missing for Libya and Occupied Palestinian Territory.

annual sales is above the average in the MENA region, which is 16 per cent. Morocco is at 20 per cent, Jordan at 23 per cent and Tunisia is at 24 per cent. In Egypt, the share remains relatively low, at 6 per cent.<sup>34</sup>

### 2.3.3. The evolution of job creation and destruction across sectors

As discussed in the previous chapter, trade and investment policies can support productivity enhancement across the economy and job creation in export-oriented sectors. However, their impact on other non-tradable sectors should be monitored and addressed, as they might lead to more job destruction and inequality than expected and might increase informality and inequality in low- and middle-income countries. There is growing literature focusing on the impacts of trade and investment policies on the labour market in countries in the region.

The existing evidence in the region generally concludes that trade liberalization reforms did not substantially improve employment growth. For instance, Dasgupta et al. (2002) study the impact of trade liberalization on employment in 59 countries from the 1960s to the late 1990s and compare the MENA countries to other developing countries. The authors find that trade openness has contributed less to overall employment creation in manufacturing in MENA compared to trends seen elsewhere in developing countries. The authors explain this by concentration on low-value-added and slowly growing products, as well as by labour market rigidities, largely associated with the important role public sector employment plays. Mouelhi (2007) studies the impact of trade liberalization on the labour market in Tunisia by comparing the pre-liberalization phase (1987–1995) to the first phase of liberalization (1995–2003). The author finds that the first phase of trade liberalization has not significantly affected manufacturing growth and employment growth. However, the period included in the study covered only a couple of years after the liberalization reform and therefore might not capture the long-term impact of trade policies.

However, evidence suggests that trade liberalization has increased the demand for high-skilled workers in the region. This is particularly relevant for Morocco, Tunisia and Jordan, which have been

increasingly focusing on high-value-added and technology-intensive industries such as pharmaceuticals, aeronautics and automobile industries. For instance, Charfeddine and Mrabet (2015) study the impact of trade liberalization on employment and skills demand in Tunisia by analysing a database covering 12 Tunisian sectors between 1983 and 2010. The authors find that trade openness positively affects the relative demand for skilled labor. Moreover, in a study particularly relevant to the region, ILO (2017) analyses the trends in exports from 2000 to 2015, including in Jordan, Morocco and Tunisia, and finds that the increase in exports generated substantial demand for medium- and high-skilled labour in these countries.

The evidence on the impact of trade on informality in the region suggests an increase of formality. For instance, Selwaness and Zaki (2013) study the impact of trade liberalization reforms on the structure of firms in Egypt and find that it decreased firm informality. The authors explain this finding by reducing trade costs that increased the attractiveness and profitability of the formal sector for some informal firms, as well as by higher labour market flexibility associated with a labour reform introduced in 2003. In a more recent study, Ben Salem and Zaki (2019) examine the impact of trade openness on job quality through the evolution of the shares of informal and irregular employment in total employment in Egypt. The paper finds that tariff reduction led to a decrease of both informal and irregular employment in Egypt, with a significant effect on informality. This can be explained by the higher demand for skilled workers that are generally more suitable for formal jobs.

In the next section, we explore the evolution of job creation and job destruction in the labour market, highlighting the evolution of employment in tradable sectors and indicating trends in trade and the labour market and the demand for skills when data is available. A more precise analysis of the impact on firms, workers and level of wages requires more an in-depth assessment using econometric tools and social accounting matrixes and is beyond the scope of this report.

To examine the evolution of employment in tradable and non-tradable sectors, the first step is to categorize all the sectors in tradable and non-tradable ones. Tradable sectors are generally defined as sectors that produce goods or services that can be

34 Source: EIB and WB enterprise survey.

traded across borders. However, this simple definition does not allow for a straightforward categorization as tradability of a sector is country-specific and might evolve over time. For instance, country A might not trade financial services in year X and therefore the sector would be categorized as non-tradable in country A in year X. In the same year, the sector might be tradable in another country. Also, country A might start trading services in the financial sectors a couple of years later.

To categorize tradable and non-tradable sectors and in the absence of data of export by each sub-sector for all countries, we use the results of Mano and Castillo (2015) as a basis. Mano and Castillo study the evolution of productivity within tradable and non-tradable sectors in 56 countries from 1989 to 2012 and develop methodologies to categorize the sectors in tradable and non-tradable. The authors use three methods to categorize sectors. The first method uses export data at the industry

level from the World Input Output Database's Input-Output tables for 1995–2011; derives the export to the gross value-added ratio for each industry in all countries across all years; and calculates the ratio per industry across all time periods. Then, the authors categorize an industry as tradable or non-tradable if the average export to value-added ratio is great than 10 per cent. Using this approach, the authors arrive at the classification presented in table 15 (based on ISIC Rev.3). The second considers only goods-producing industries as tradable, which includes agriculture, hunting, forestry and fishing, manufacturing and mining and quarrying. Other services are assigned to non-tradable by default. The third approach considers only manufacturing as a tradable sector.

The classification based on the first approach seems to be the most reasonable to use, considering the growing importance of trade in services globally and the region. As the results of this classification

► **Table 15: Classification of tradable and non-tradable sectors based on Mano and Castillo (2015)**

ISIC Rev.3			Classification based on Mano and Castillo (2015)
Section	Divisions	Description	
A; B	1; 2; 5	Agriculture and fishing	Tradable
C	10-14	Mining and quarrying	Tradable
D	15-37	Manufacturing	Tradable
E	40;41	Electricity, gas and water supply	Non-tradable
F	45	Construction	Non-tradable
G	50-52	Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	Non-tradable for division 50 and 52; Tradable for division 51.
H	55	Hotels and restaurants	Non-tradable
I	60-64	Transport, storage and communications	Tradable for divisions 60 to 63; Non-tradable for division 64.
J	65-67	Financial intermediation	Tradable
K	70-74	Real estate, renting and business activities	Non-tradable for division 70; Tradable for divisions 71 to 74 (renting and business activities).
L	75	Public administration and defence; compulsory social security	Non-tradable
M	80	Education	Non-tradable
N	85	Health and social work	Non-tradable
O	90-93	Other community, social and personal service activities	Non-tradable
P	95-97	Activities of private households	Non-tradable
Q	99	Extraterritorial organizations and bodies	Non-tradable

Source: Mano and Castillo (2015).

► **Table 16: Classification of tradable and non-tradable sectors in the region based on Mano and Castillo (2015)**

ISIC Rev. 4			Classification	Comment
Section	Division	Description		
A	01-03	Agriculture, forestry and fishing	Tradable	n/a
B	05-09	Mining and quarrying	Tradable	n/a
C	10-33	Manufacturing	Tradable	n/a
D	35	Electricity, gas, steam and air conditioning supply	Non-tradable	n/a
E	36-39	Water supply; sewerage; waste management and remediation activities	Non-tradable	n/a
F	41-43	Construction	Non-tradable	n/a
G	45-47	Wholesale and retail	Non-tradable	Mano and Castillo (2015) identify 2 divisions out of three are non-tradable, as we don't have the disaggregation for all countries, we categorize wholesale and retail as non-tradable.
H	49-53	Transportation and storage	Tradable	Mano and Castillo (2015) identify divisions 60 to 63 in ISIC REV. 3 as tradable and division 64 as non-tradable. In ISIC REV. 4, division 64 is under information and communication. Therefore, we classify transportation and storage as tradable.
I	55-56	Accommodation and food service activities	Tradable	Identified by Mano and Castillo (2015) as non-tradable; however, these activities are linked to tourism, an important foreign reserve generating sector in many countries in the region. There, we classify it as tradable.
J	58-63	Information and communication	Tradable	Information and communication (Section J) is not included in ISIC REV. 3 and therefore not classified by Mano and Castillo (2015). In ISIC REV. 4, Section J includes: 58- Publishing activities; 59- Motion picture, video and television programme production, sound recording and music publishing activities; 60- Programming and broadcasting activities; 61- Telecommunications; 62- Computer programming, consultancy and related activities; 63- Information service activities. Outside of 62-telecommunications (corresponding to 64 under ISIC REV. 3), all other activities can be tradable and correspond to a growing traded activity in the region, linked to ICT and programming. Therefore, we classify this section as tradable.
K	64-66	Financial and insurance activities	Tradable	Corresponds to Section J in ISIC REV. 3, classified as tradable by Mano and Castillo (2015).
L	68	Real estate activities	Non-tradable	Corresponds to real estate activities Division 70 in ISIC REV. 3 and therefore classified as non-tradable.
M	69-75	Professional, scientific and technical activities	Tradable	Professional, scientific and technical activities correspond to division 71-74 that have been classified by Mano and Castillo (2015) as tradable.
N	77-82	Administrative and support service activities	Non-tradable	Not in ISIC REV. 3; Classification by the author.
O	84	Public administration and defence; compulsory social security	Non-tradable	n/a
P	85	Education	Non-tradable	n/a
Q	86-88	Human health and social work activities	Non-tradable	n/a
R	90-93	Arts, entertainment and recreation	Tradable	Not in ISIC REV. 3. However, arts, entertainment and recreation are linked to tourism activities and therefore, we classify it as tradable.
S	94-96	Other service activities	Non-tradable	n/a
T	97-98	Activities of households as employers	Non-tradable	n/a
U	99	Activities of extraterritorial organizations and bodies	Non-tradable	n/a



are across 58 countries, it seems robust enough for us to use it for this report. However, three points are to highlight for this classification as indicated by Mano and Castillo (2015). First, the classification is not country-specific, as the industry is classified as tradable based on the average export to value-added ratio being greater than 10 per cent for all countries included in the study. Second, it is based on the levels of exports and not imports and exports. This is an important point as many industries that are classified as non-tradable do import goods for their activities. Third, the classification takes a time-fixed approach to compare the evolution of industries across time.

In order to be able to use this classification, we introduce a couple of adjustments to the classification using correspondence between ISIC Rev. 3 and ISIC Rev. 4. First, the classification is based on ISIC Rev. 3 disaggregated at level 2. For most of the countries in the region, the available sectoral data use ISIC Rev. 4. and is at Broad Categories. Second, some sectors identified as non-tradable by Mano and Castillo (2015), such as accommodation and foods, are linked to tourism, considered a tradable industry in most countries in the region. Table 16 details the adjustment provided when necessary and the final classification used for tradable and non-tradable sectors based on ISIC Rev.4.

### 2.3.3.1 The impact of industrial, trade and investment policies on job creation in the region

The region has had generally negative job outlooks, as indicated by table 17. The working-age population and labour force have grown faster than employment in most countries in the region. For countries like Egypt and Morocco, the working-age population grew faster than the labour force.

Overall, and despite the industrial, trade and investment policies that have been implemented, there hasn't been a significant increase employment growth in the region in tradable sectors, such as manufacturing and tradable services. Workers in almost all countries are moving out of agriculture, mainly towards the non-tradable and low-productive sectors. However, exports and trade have increased demand for higher skills in the region, particularly in Egypt, Morocco and Tunisia, in line with an increased share of skill and tech-intensive exports. Tradable sectors, particularly manufacturing, were not able to create enough demand for the region's labour force. The share of manufacturing in employment in almost all countries has decreased, except in Egypt. At the same time, the share of wholesale and retail has almost systematically increased. Other non-tradable sectors such as

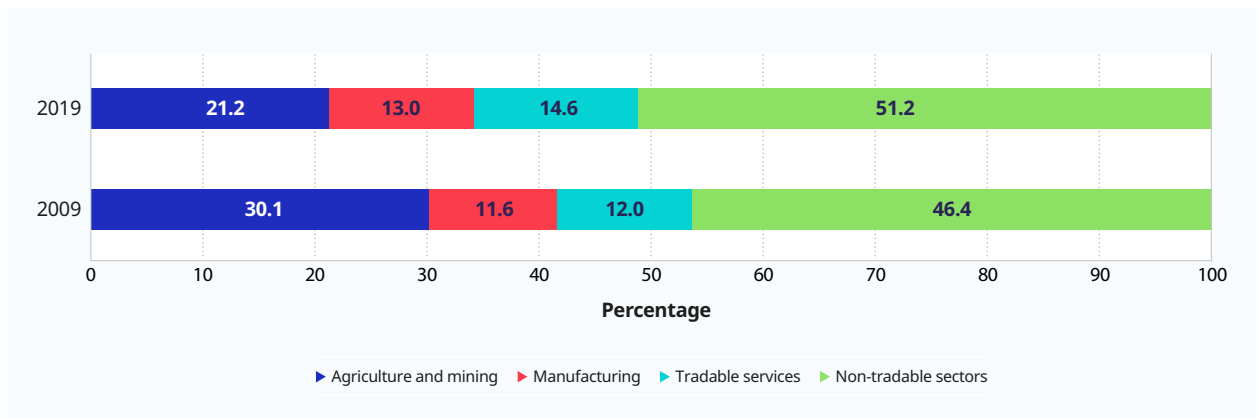
► Table 17: Evolution of key indicators in the labour market

Country	A Employment growth		B Working-age population (15-64) growth		Difference (A-B) In percentage points (pp)		C Labour force growth		Difference (A-C) In percentage points (pp)	
	2000-2009	2009-2019	2000-2009	2009-2019	2000-2009	2009-2019	2000-2009	2009-2019	2000-2009	2009-2019
Algeria	56%	16%	25%	14%	31 pp	2 pp	22%	18%	34%	-2 pp
Egypt	-	14%	-	27%	-	-14 pp	-	12%	-	2 pp
Jordan	-	8%	-	9%	-	-1 pp	-	7%	-	2 pp
Lebanon	-	-	-	-	-	-	-	-	-	-
Libya	33%	16%	23%	11%	10 pp	5 pp	33%	15%	0%	1 pp
Morocco	24%	7%	18%	15%	6 pp	-9 pp	17%	7%	6%	-0.1 pp
Occupied Palestinian Territory	24%	42%	42%	35%	-18 pp	7 pp	39%	51%	-15%	-9 pp
Tunisia	9%	6%	7%	10%	1.8 pp	-3.3 pp	10%	11%	-	-4 pp

**Note:** For Jordan, growth for 2009-2019 is calculated only between 2017-2019 due to data availability. For Tunisia: growth for 2000-2009 is calculated only between 2005-2009 due to data availability.

**Source:** Author's computation based on data provided by ILOSTAT for Egypt, Jordan, Lebanon, Occupied Palestinian Territory and Tunisia, ILO modelled estimates for Algeria, Morocco and Libya. Data for Lebanon available only for 2019.

▶ **Figure 49: Evolution of employment share of tradable and non-tradable sectors in Egypt, 2009–19**



**Source:** Author’s computation, based on data provided by ILO Statistics Department.

public administration and education have significantly contributed to job creation. There are some encouraging signs, however, in generally high-skilled tradable services, particularly in Morocco, which is in line with the increasing role that trade in services is playing in the region. Tradable services have significant potential of growth in the region; however, they will mostly increase the demand for high-skilled workers. Focusing on high-skilled sectors and other sectors in manufacturing that would absorb the important share of low- and mid-skilled workers seems to be the right approach for countries in the Southern Mediterranean Countries.

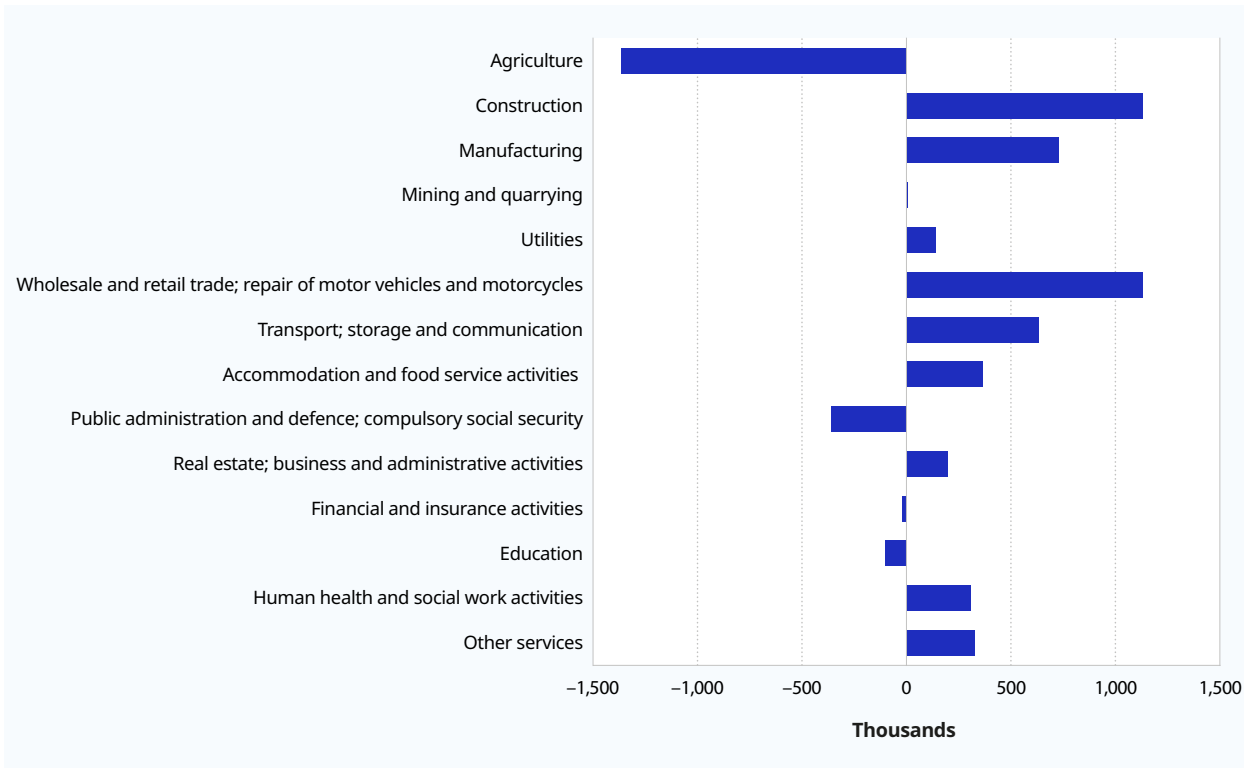
In Egypt, employment grew by 14 per cent between 2009 and 2019, faster than the labour force (12 per cent). This led to a decrease of the aggregate unemployment rate from 9 per cent to 8 per cent over the same period. However, employment in non-tradable sectors grew faster than in tradable sectors between 2009 and 2019, driven by a decrease in agricultural employment from 30 per cent to 21 per cent (figure 50). The share of manufacturing in total employment slightly increased from 12 per cent in 2009 to 13 per cent in 2019, down from close to 20 per cent in the 1990s (figure 49). Similarly, the share of tradable services has increased from 12 per cent to 15 per cent over the same period. However, employment growth in these sectors did not compensate for the decrease in agricultural employment. Overall, labour shifted to non-tradable industries, mainly to low-productive sectors such as construction and wholesale and retail. These two sectors created the bulk of jobs, mainly for low-skilled and mid-skilled workers.

However, manufacturing has witnessed employment growth in Egypt, reflecting the significant

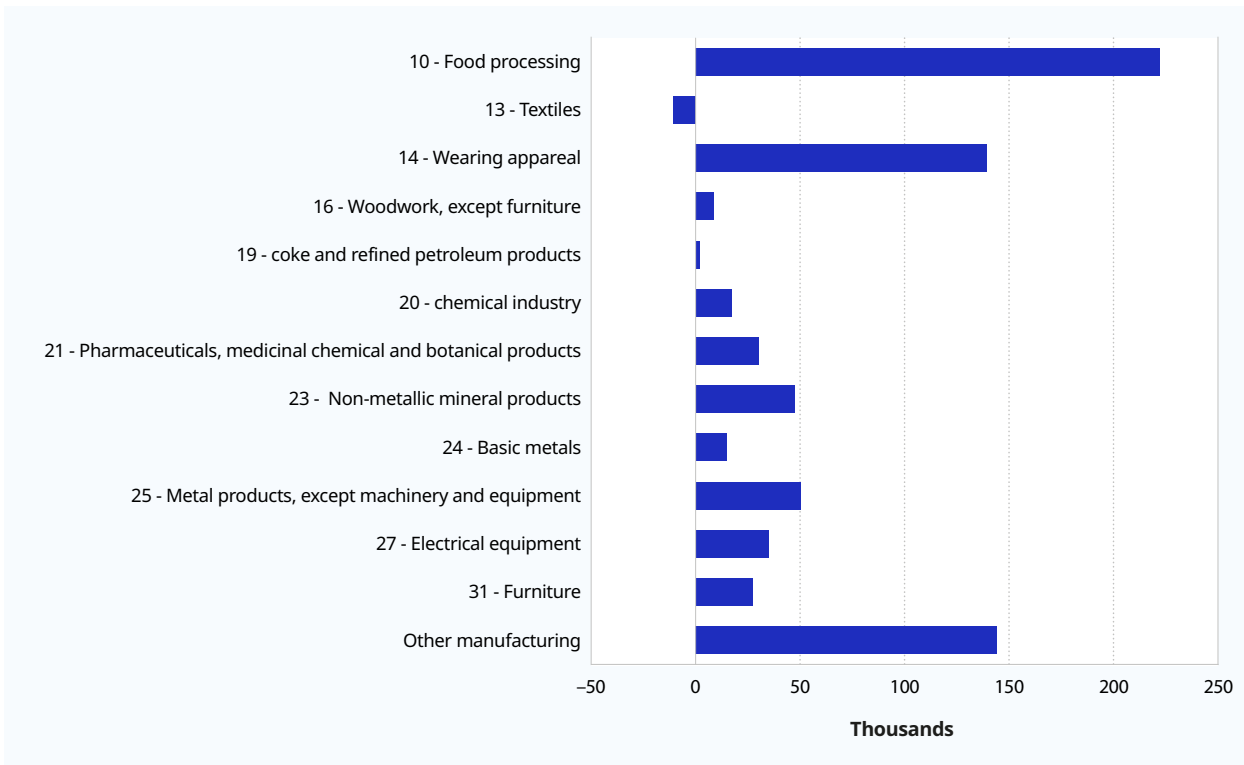
growth in merchandise exports and some positive impacts from the industrial and trade policies implemented in the country. The sector created about 726,500 jobs between 2009 and 2019 and recorded the highest employment growth in manufacturing in the region over the same period (an increase of 23 per cent). Food processing, wearing apparel, metal products and non-metallic mineral products are the sectors that created most of the jobs within manufacturing (figure 51). The share of most of these sectors in manufacturing employment has also significantly increased, with food processing representing 19 per cent of manufacturing employment in 2019, compared to 16 per cent in 2009. The share of wearing apparel has also risen from 11 per cent to 13 per cent between 2009 and 2019. Most of these sectors were prioritized by the Industrial Development Strategy implemented in the country between 2004 and 2016. The exports levels for these sectors generally increased between 2009 and 2019, except for metal products, for which exports decreased by 45 per cent between 2009 and 2019 (figure 52). Exports for non-metallic mineral products, pharmaceuticals and wearing apparel increased by a minimum of 20 per cent between 2009 and 2019. Food processing, the leading sector in job creation between 2009 and 2019, witnessed a slight increase in exports of 9 per cent over the same period (figure 52).

In general, the levels of wage employment improved in Egypt, from 60.6 per cent in 2009 to 71 per cent in 2019, driven by agriculture (table 18). Wage employment in agriculture more than doubled between 2009 and 2019 (from 19 per cent to 44 per cent). The share of wage employment also increased in manufacturing, construction and wholesale and retail,

► **Figure 50: Sectoral distribution of job creation in Egypt, 2009–2019 (in thousands)**

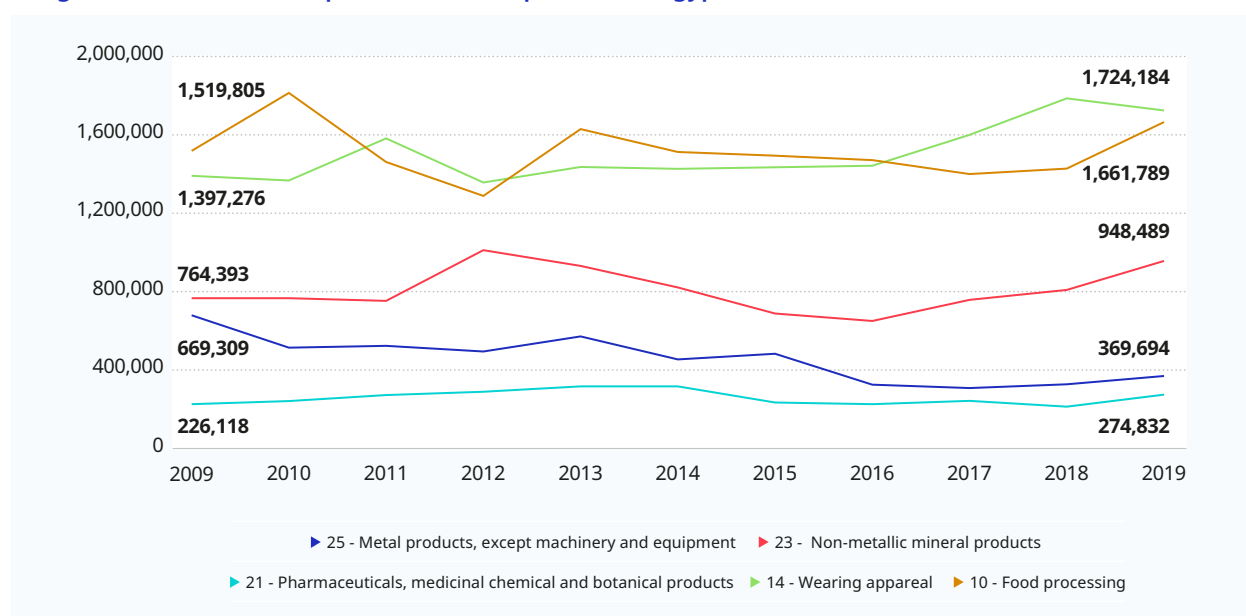


► **Figure 51: Job creation in the manufacturing sector in Egypt, 2009–2019 (in thousands)**



Source: Author's computation, based on data provided by ILO Statistics Department.

▶ **Figure 52: Evolution of exports of selected products in Egypt**



**Note:** Wearing apparel includes articles of apparel and clothing (SITC 84). Pharmaceutical products include medicinal and pharmaceutical products (SITC 54). Metal products, except machinery and equipment includes manufactures of metal, n.e.s. (SITC 69). Food-processing includes SITC 01 to 09, excluding 05-fruits and vegetables.

**Source:** Author’s calculation based on data from UNCTAD.

▶ **Table 18: Evolution of the share of wage-employment per sector between 2009 and 2019 in Egypt (percentage)**

Share of wage-employment	2009	2010	2011	2012	2013	2015	2016	2017	2018	2019
<b>Agriculture</b>	19.0	21.3	21.7	22.3	20.9	23.7	43.9	39.3	39.1	43.5
<b>Manufacturing</b>	79.9	82.4	78.3	80.9	80.0	81.1	83.6	85.1	85.3	86.2
<b>Tradable services</b>	74.3	73.2	71.1	70.5	69.3	68.8	72.9	71.5	72.4	74.2
<b>Non-tradable sectors</b>	78.8	77.7	78.3	77.9	77.1	75.2	77.4	75.3	74.3	76.4
<b>Construction</b>	76.8	77.6	77.2	76.7	77.1	79.3	81.2	81.2	79.1	78.8
<b>Wholesale and Retail</b>	42.4	42.3	41.6	40.9	39.8	39.8	45.1	46.1	46.0	51.6
<b>Total share of wage-employment in total employment</b>	<b>60.6</b>	<b>62.2</b>	<b>61.2</b>	<b>62.5</b>	<b>61.1</b>	<b>62.5</b>	<b>69.7</b>	<b>67.9</b>	<b>68.6</b>	<b>71.1</b>

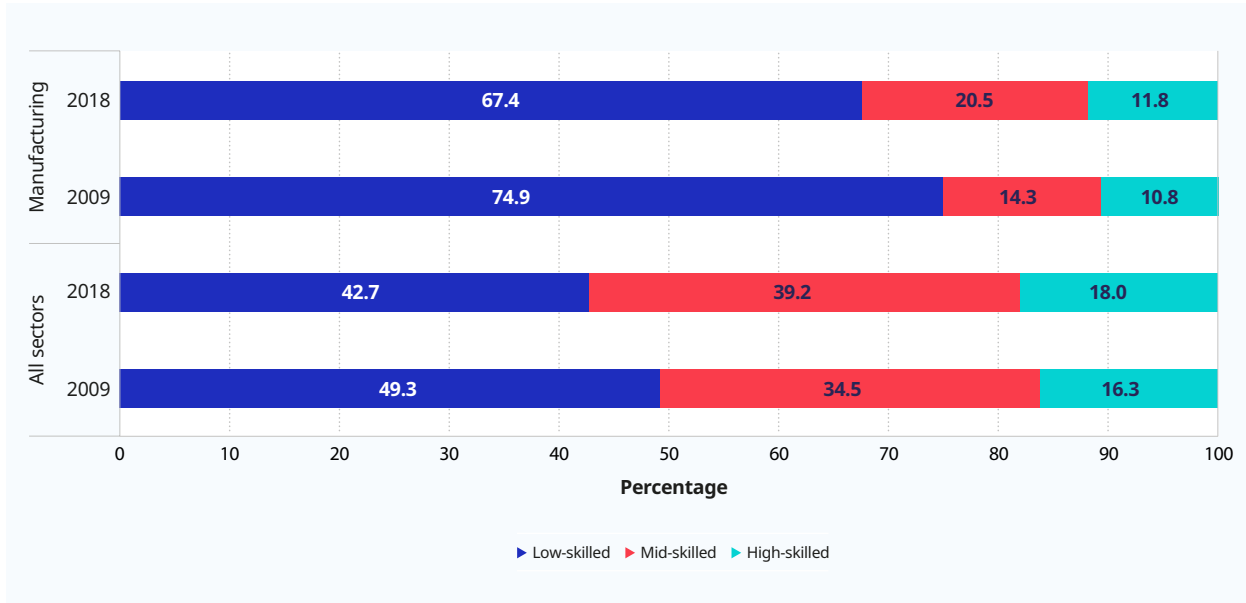
**Note:** Data is missing for 2014.

**Source:** Author’s computation, based on data provided by ILO Statistics Department.

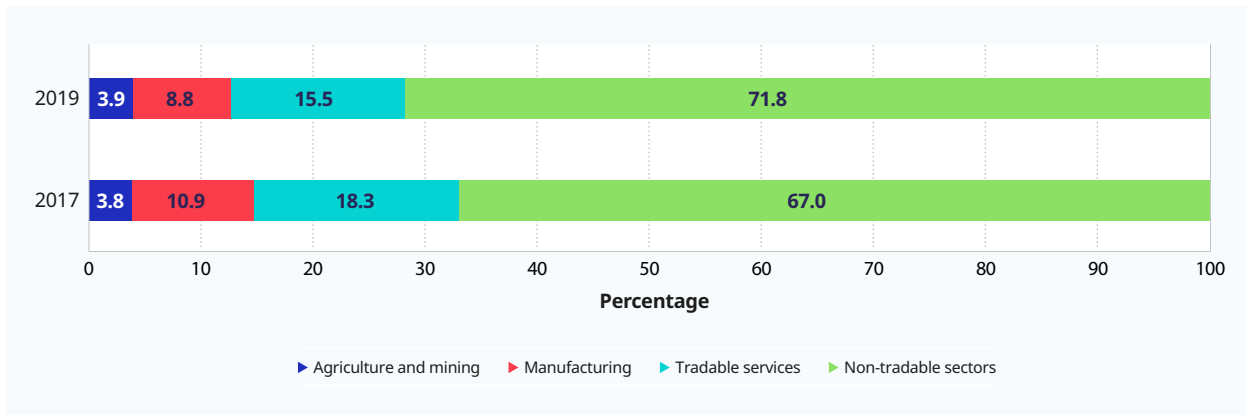
the primary sectors that created jobs between 2009 and 2019. However, the share of wage employment remained stable in tradable services and decreased in non-tradable sectors, from 79 per cent in 2009 to 76 per cent in 2019.

Looking at the distribution of jobs created by the level of skills, there is a clear trend towards creating more skilled jobs between 2009 and 2018 in the Egyptian economy, including in manufacturing.<sup>35</sup> The share of high-skilled and mid-skilled workers

<sup>35</sup> Data is unavailable for employment by level of skills in 2019.

► **Figure 53: Distribution of level of skills in Egyptian economy and manufacturing in 2009 and 2018**

Source: Author's computation, based on data provided by ILO Statistics Department.

► **Figure 54: Evolution of employment share of tradable and non-tradable sectors in Jordan, 2017-19**

Source: Author's computation, based on data provided by ILO Statistics Department.

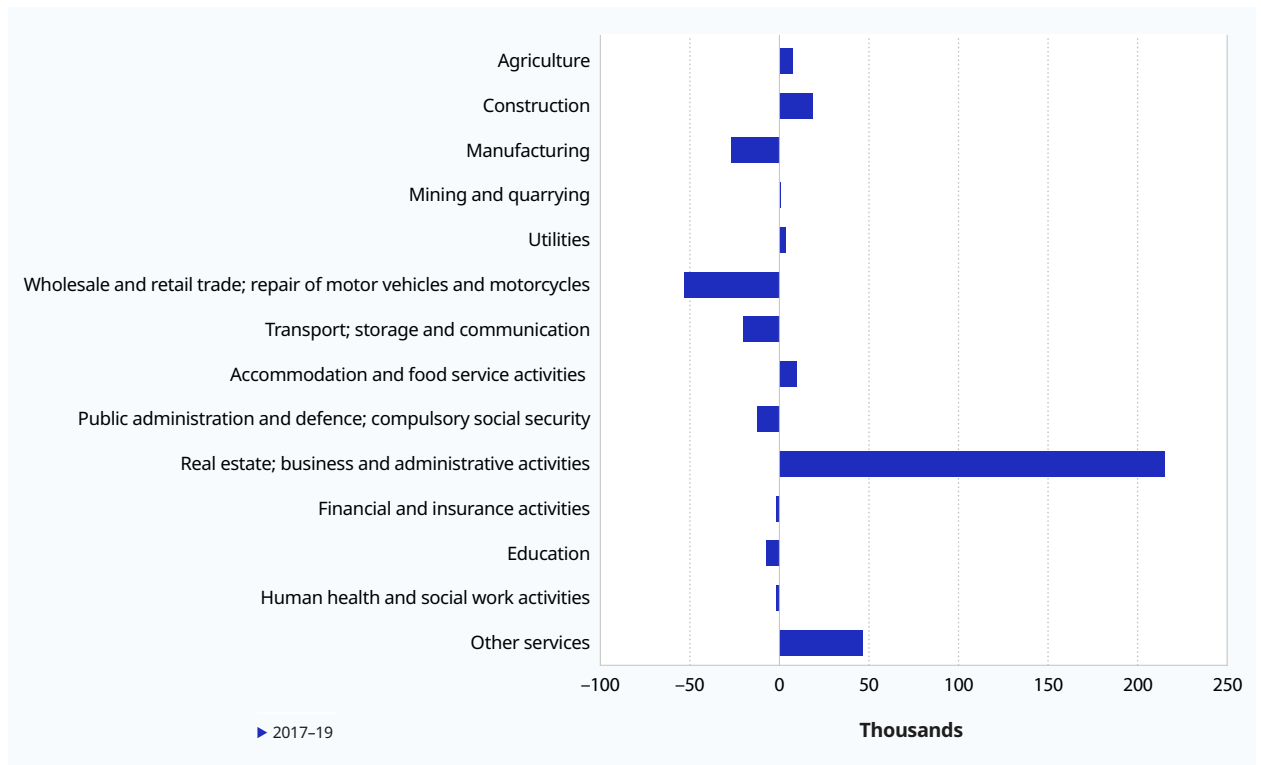
increased across all sectors between 2009 and 2018 (figure 53). The employment growth in manufacturing increased the demand for mid-skilled workers, with their share increasing from 14 per cent in 2009 to 21 per cent in 2018. Most of the jobs created during this period are either for workers with intermediate and advanced education or for those in mid-skill and high-skill jobs. In manufacturing, between 2010 and 2018, more than 144,000 low-skilled jobs were lost (workers with less than basic education), mainly in food processing, textiles and

apparel, woodwork, furniture and chemical products. In parallel, these sectors' exports increased significantly over the same period as indicated in figure 52. This suggests that as trade and exports increase in Egypt, the demand for mid and high-skilled workers increases in manufacturing and demand for low-skilled workers decreases.

In **Jordan**, employment grew by 8 per cent between 2017 and 2019, slightly higher than labour force growth (around 7 per cent)<sup>36</sup>, mainly in non-tradable sectors (figure 54). The share of tradable sec-

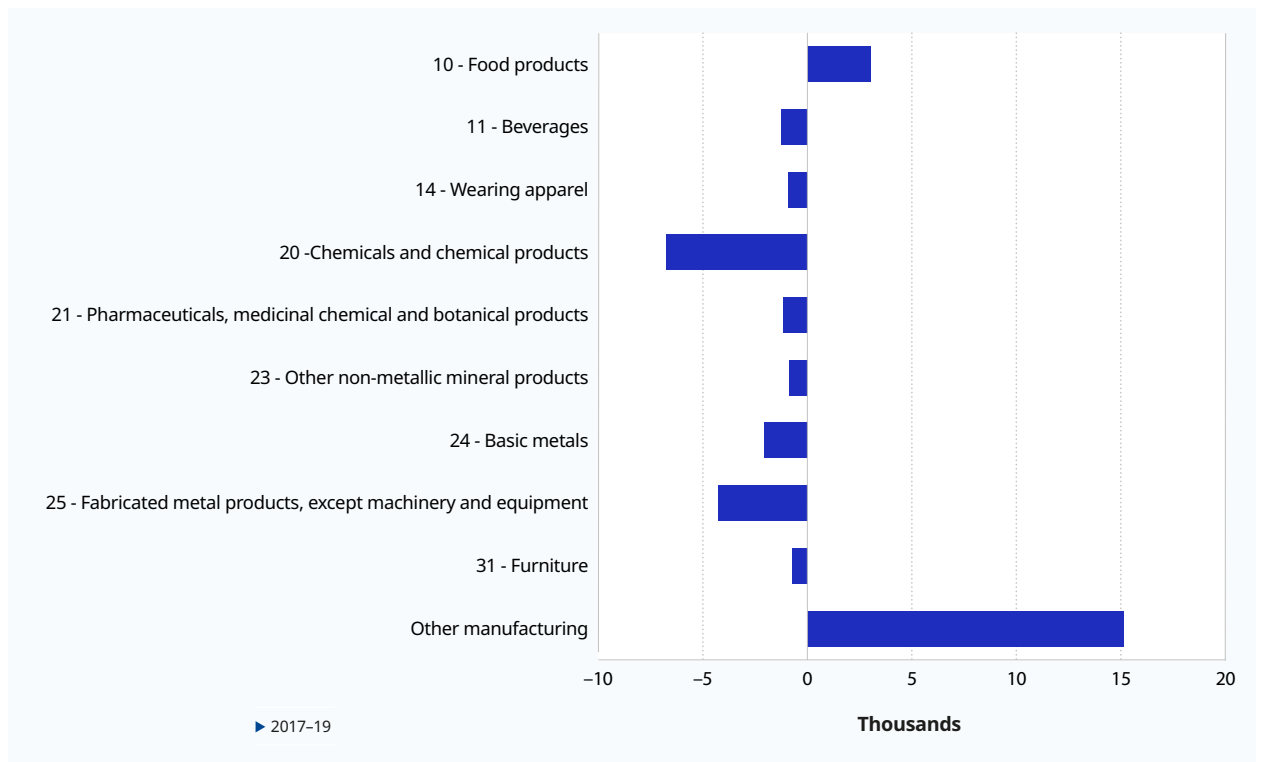
36 Data is available only between 2017 and 2019.

► **Figure 55: Sectoral distribution of job creation in Jordan, 2017-19 (in thousands)**

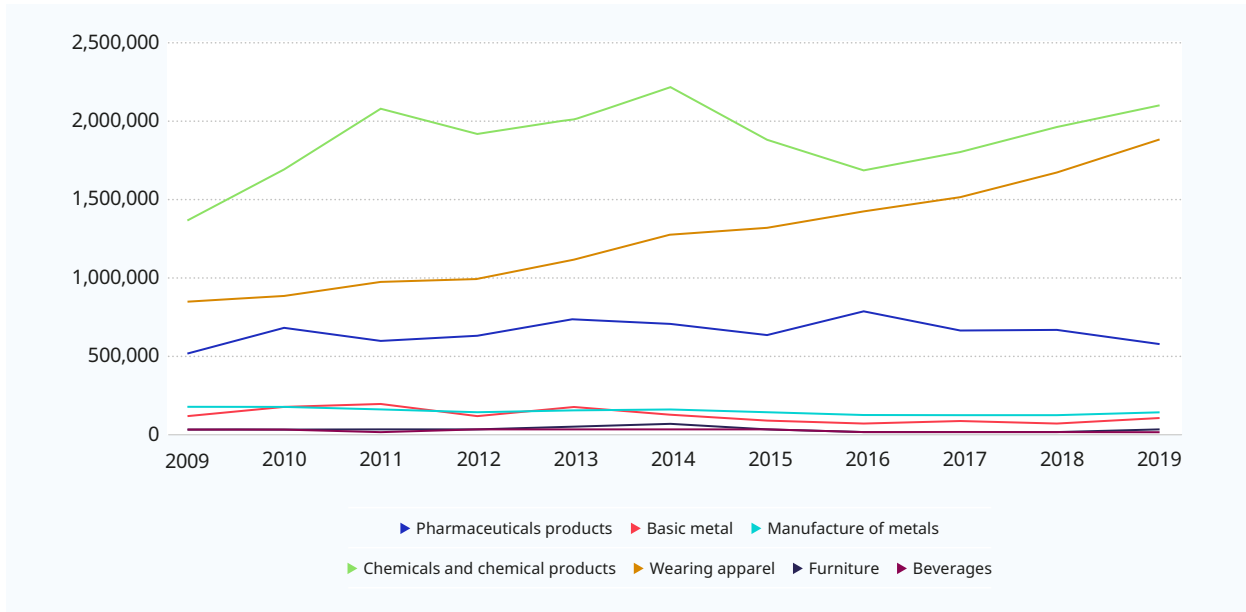


Source: Author's computation, based on data provided by ILO Statistics Department.

► **Figure 56: Job creation in the manufacturing sector in Jordan, 2017-19 (in thousands)**



Source: Author's computation, based on data provided by ILO Statistics Department.

► **Figure 57: Evolution of selected merchandise exports in Jordan, 2009–19**

**Note:** Chemicals and chemical products include: organic chemicals (SITC 51), inorganic chemicals (SITC 52), dyeing, tanning and colouring materials (SITC 53), essential oils for perfume materials and cleaning preparations (SITC 55), fertilizers other than group 272 (SITC 56), plastics in primary forms (SITC 57), plastics in non-primary forms (SITC 58) and chemical materials and products (SITC 59); wearing apparel includes: articles of apparel and clothing (SITC 84) and footwear (SITC 85); pharmaceutical products include: medicinal and pharmaceutical products (SITC 54); manufacture of metals includes: manufactures of metal, n.e.s. (SITC 69); Basic metal includes: iron and steel (SITC 67) and non-ferrous metals (SITC 68); beverages include: beverages (SITC 11); furniture includes: furniture (SITC 82).

**Source:** Author's calculation based on data from UNCTAD.

tors decreased over the same period from 33 per cent to 28.2 per cent. Unlike Egypt, this decrease is not driven by agriculture, for which the employment share remained relatively stable, but rather by a significant decline in manufacturing and tradable services. Between 2017 and 2019, employment in manufacturing significantly decreased by 11.7 per cent, destroying about 27,000 jobs. Most of the jobs lost were in chemical industries, fabricated metal products, textile, leather, printing and recorded media reproduction. Between 2017 and 2019, tradable sectors did not create jobs and their share in employment shrank by almost 5 percentage points, reflecting the stagnation of exports over the same period in Jordan.

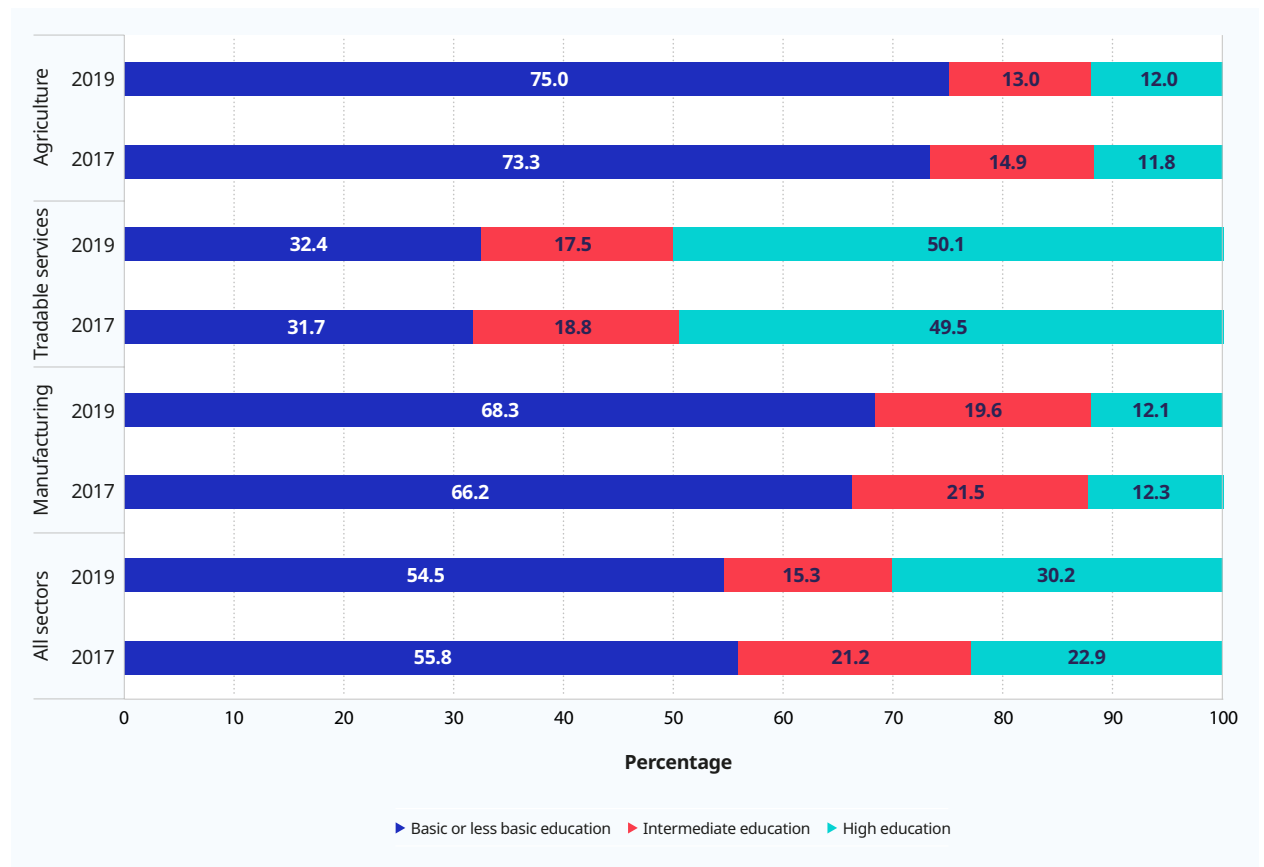
Within manufacturing, the sectors that witnessed the highest level of job destruction observed an increase in their level of exports. Indeed, the chemicals and chemical products sector lost more than 6,750 jobs (27 per cent of the employment decrease) from 2017 to 2019 (figure 56). In parallel, exports of chemical products increased over the last ten years, including from 2017 to 2019, despite a slowdown for 2014–16 (figure 57). For instance,

employment decreased in the wearing apparel sector by 3 per cent from 2017 to 2019, despite a significant increase in exports levels over the same period. Other manufacturing sectors that witnessed a decrease in their employment levels observed either reduced or stagnant exports (figures 56 and 57).

Most employment growth within the services sector took place within the real estate, business and administrative activities sectors, specifically within security and investigation activities (figure 55). The sector created mostly jobs for mid-skilled workers. In contrast, almost all the other sectors in services lost jobs between 2017 and 2019.

In general, the level of skills increased among the employed population, with the share of high-skilled workers increasing from 23 per cent to 30 per cent from 2017 to 2019. However, in manufacturing, the percentage of low-skilled workers grew slightly over the same period, while the share of high-skilled workers remained stable. This indicates a slight decrease in the level of skills demanded by the manufacturing industries in Jordan. In other tradable sectors, including agriculture, the demand for

► **Figure 58: Distribution of level of skills in all sectors and manufacturing in Jordan, 2017–19**



**Source:** Author’s computation, based on data provided by ILO Statistics Department.

both low-skilled and high-skilled workers increased slightly (figure 58).

Jordan has oriented its strategic focus towards high value-added and technology-intensive industries to absorb the increasing number of highly educated workers. The growth of these industries and the higher sophistication of Jordanian exports might inevitably decrease the demand for low and mid-skilled workers. The adjustments costs and capacity of workers to reallocate into other tradable or formal sectors are two major points that policymakers in Jordan need to be aware of to ensure inclusive trade and investment policies in the region.

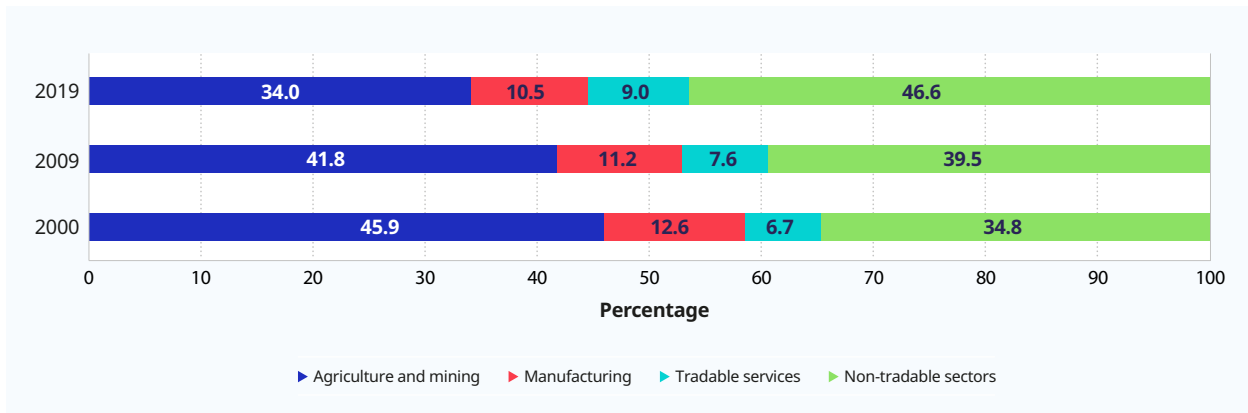
**Morocco**, the champion of industrial policies in the region since 2005, has also witnessed a decrease in the share of tradable sectors in employment (figure 59). The highest drop is unsurprisingly in agriculture, with the share of agriculture in employment decreasing from 46 per cent in 2000 to 34 per cent in 2019. Over the same period, the share of manufacturing also decreased from 13 per cent to 11 per

cent, while tradable services increased from 6.7 per cent to 9.0 per cent. Between 2000 and 2009, only 5 per cent of jobs created were in manufacturing, in contrast to 49 per cent in services. As in Egypt, the shift of labour out of agriculture was not compensated by enough job creation in tradable sectors. Instead, labour moved to non-tradable sectors such as construction and wholesale and retail (figure 60). For instance, employment growth in construction grew by 84 per cent for 2000–09 and by 33 per cent for 2009–19.

However, in Morocco, job creation in services has been significant across all sectors, not only low-productive ones but also in high-productive and some tradable sectors. For instance, from 2009 to 2019, employment in education and health services grew respectively by 20 per cent and 24 per cent. Over the same period, financial and insurance activities witnessed an employment growth of 28 per cent, in parallel with a significant increase of 55 per cent employment growth in trade in other services (outside of travel and transport). Data of the level of



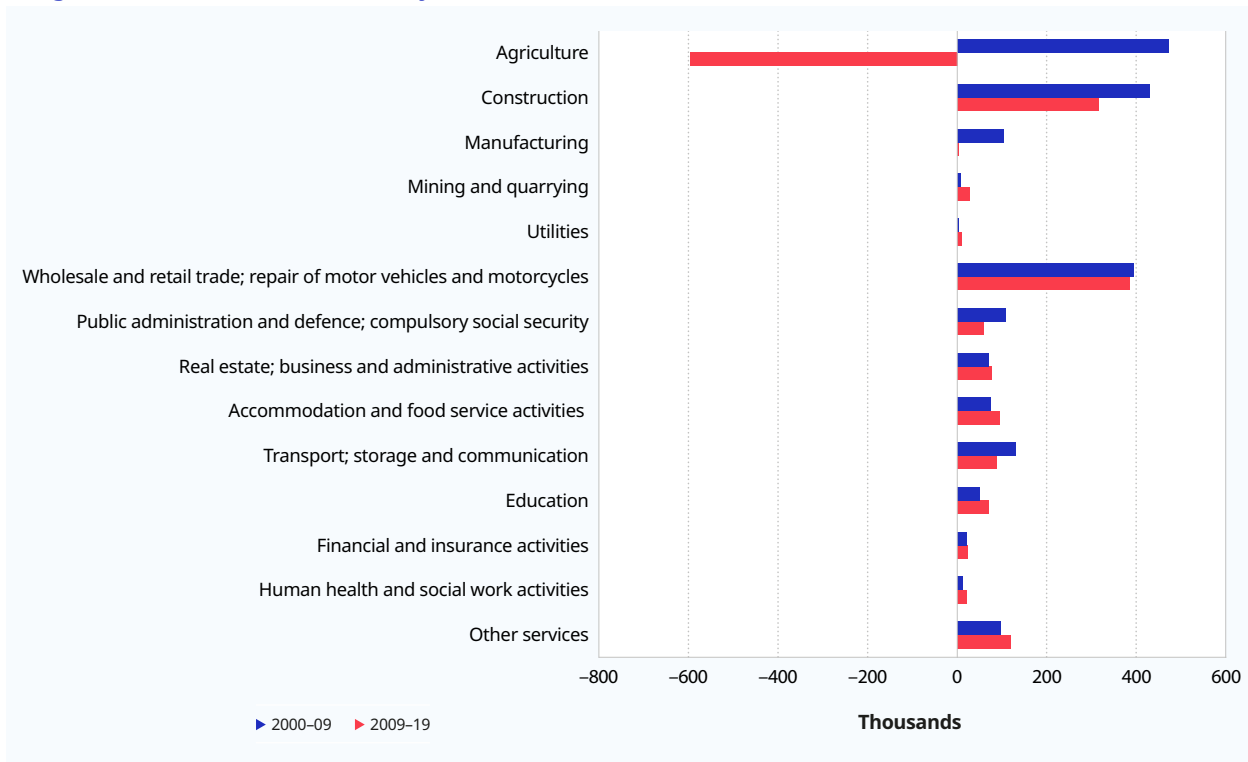
► **Figure 59: Evolution of employment share of tradable and non-tradable sectors in Morocco, 2000–19**



**Note:** The ILO modelled estimates provide the employment for categories ISIC rev.4 L; M; N aggregated under real estate; business and administrative activities; and categories ISIC rev.4 R; S; T; U aggregated under other services. Therefore, categories M and R, categorized as tradable, are included in the non-tradable sectors. It is, however, very unlikely that this would change the results of employment distribution, as the share of these categories in employment are generally very low.

**Source:** Author’s computation based on ILOSTAT data (modelled estimates).

► **Figure 60: Sectoral distribution of job creation in Morocco, 2000–19 (thousands)**

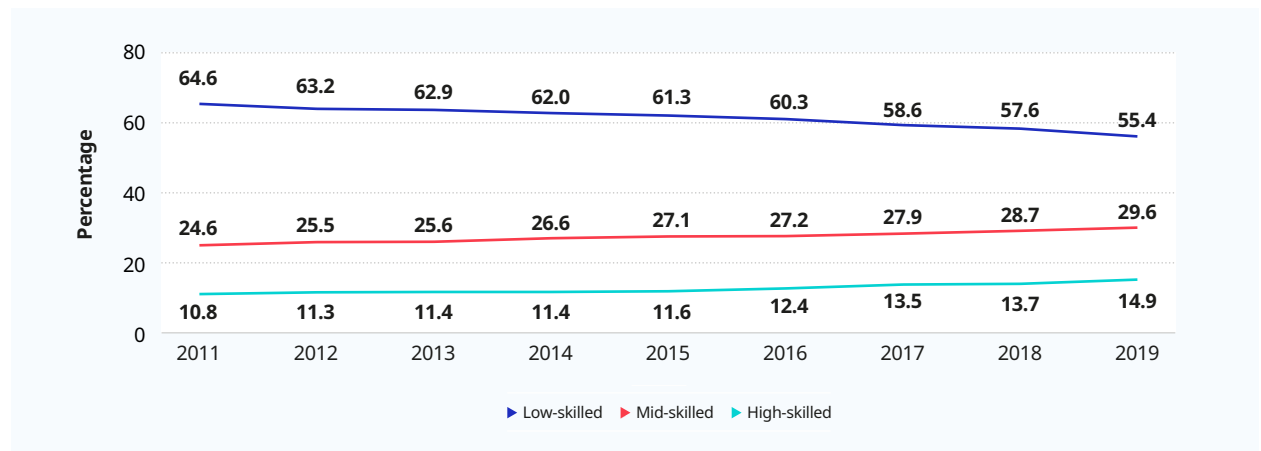


**Source:** Author’s computation based on ILOSTAT data (modelled estimates).

skills by sector are unavailable for Morocco; however, financial services tend to create high-level skilled jobs in general. Similarly, other tradable sectors like transport have also witnessed considerable employment growth since 2000, including from 2009 to 2019, during which exports in transport

increased by 74 per cent. However, it is worth noting that, like most of the other countries in the region, public administration has played an important role in job creation since 2000 in Morocco. Employment in public administration grew by 28 per cent from 2000 to 2009 and by 12 per cent from 2009 to 2019.

► **Figure 61: Distribution of levels of skills for employed population in Morocco, 2011–19 (percentage)**



Source: HCP Morocco.

In general, there is a significant increase in the level of skills within the employed population in Morocco (figure 61). The share of mid-skilled and high-skilled workers increased from 2011 to 2019, while the share of low-skilled workers dropped significantly over the same period. Skill-level data is not available by sector; however, there are some indications that the increase in exports drove demand for high-skilled workers, especially considering the employment growth in high-skilled tradable services. As mentioned in the previous section, exports in sectors identified by industrial policies in Morocco have significantly increased. In addition, the share of medium-skill and technology-intensive and high-skill and technology-intensive manufactures has expanded since 2000. However, employment in manufacturing did not grow at the same level. This suggests that export and trade growth in manufacturing was not labour-intensive but rather skill-intensive and resulted in higher demand for higher skills in the Moroccan economy.

In **Tunisia**, employment in tradable sectors fell from 2000 to 2019, mostly driven by a shift of labour out of agriculture. The share of employment in manufacturing also decreased, from 20 per cent in 2000 to 18 per cent in 2009 and has remained relatively stable in the past decade. Employment in tradable services increased slightly from 11 per cent in 2000 to 12 per cent in 2019, driven mostly by significant job creation in transportation and storage. In parallel, the level of skills of the employed population

increased significantly from 2005 to 2016,<sup>37</sup> with the share of high-skilled workers increasing from 13 per cent to 18 per cent across all sectors (figure 62). Overall, the number of jobs created from 2000 to 2019 outside of agriculture was higher than the number of jobs destroyed in agriculture; however, most jobs were created in non-tradable sectors.

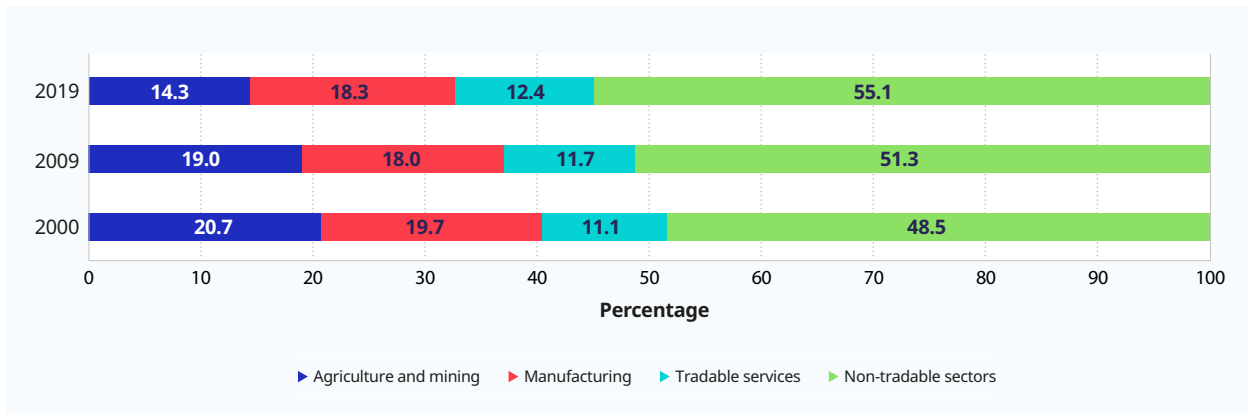
Despite the overall decrease in its share, employment in manufacturing grew steadily after 2000 (from 8 per cent of growth for 2000–09 to 10 per cent for 2009–19), and Tunisia has the highest level of manufacturing employment in the region. In manufacturing, the mechanical and electrical industries created most of the jobs from 2000 to 2019.<sup>38</sup> The share of mechanical and electrical industries in manufacturing employment grew from 11 per cent in 2000 to 16 per cent in 2019, while the share of the textiles and garments industry declined from 50 per cent to 36 per cent. At the same time, the share of high-skilled workers in manufacturing increased (figure 65), translating the labour shift in manufacturing from skill-intensive manufacturing to mid-skilled and high-skilled manufacturing in, for example, the mechanical and electrical industries. The fact that the electrical industries’ share in total exports doubled from 2000 to 2019 indicates that the expansion of exports in manufacturing resulted in employment creation and in increased demand for higher skills in the Tunisian economy.

Overall, the Tunisian economy has created more jobs in low-productive sectors such as construction,

<sup>37</sup> Data are available only for this period.

<sup>38</sup> Source is INS, National Statistics Institute, Tunisia.

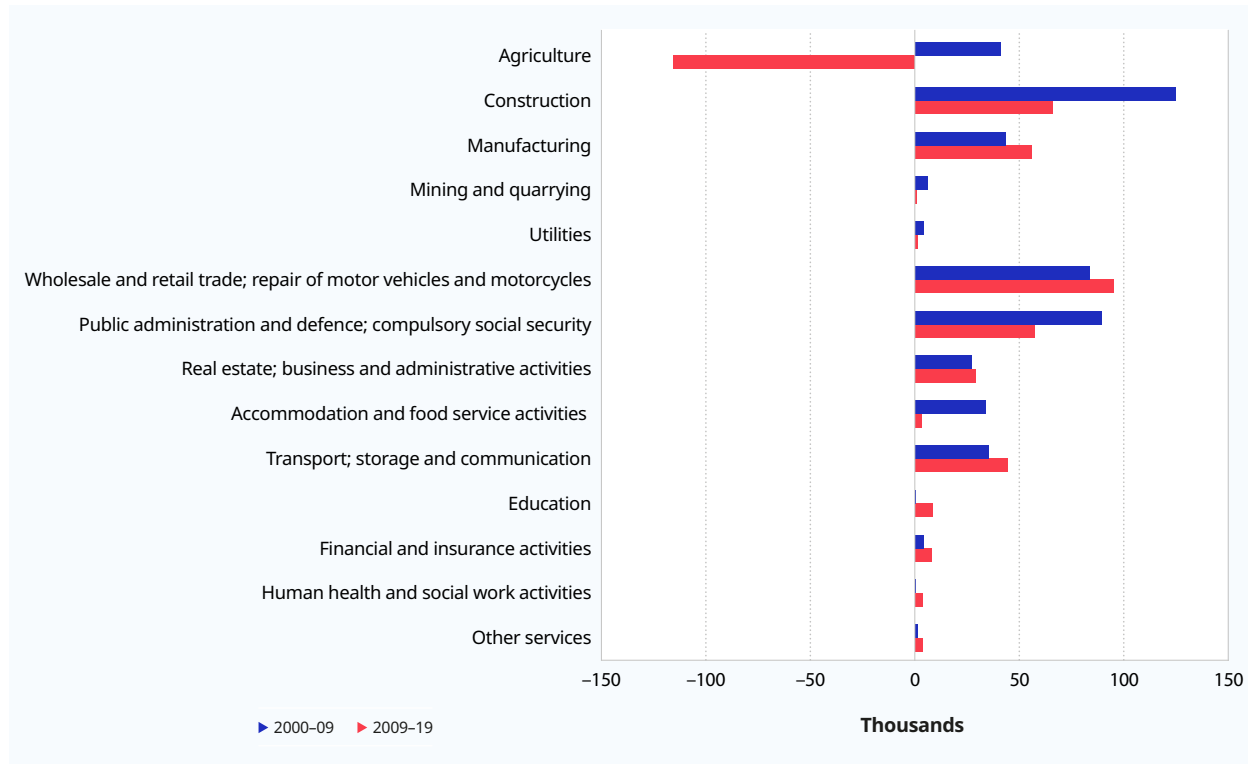
► **Figure 62: Evolution of employment share of tradable and non-tradable sectors in Tunisia, 2000–19**



**Note:** The ILO modelled estimates provide the employment for categories ISIC rev.4 L; M; N are aggregated under real estate; business and administrative activities; and categories ISIC rev.4 R; S; T; U are aggregated under other services. Therefore, categories M and R, categorized as tradable, are included in the non-tradable sectors. It is, however, very unlikely that this would change the results of employment distribution, as the share of these categories in employment is generally very low.

**Source:** Author’s computation based on ILOSTAT data (modelled estimates).

► **Figure 63: Sectoral distribution of job creation in Tunisia, 2000–19**

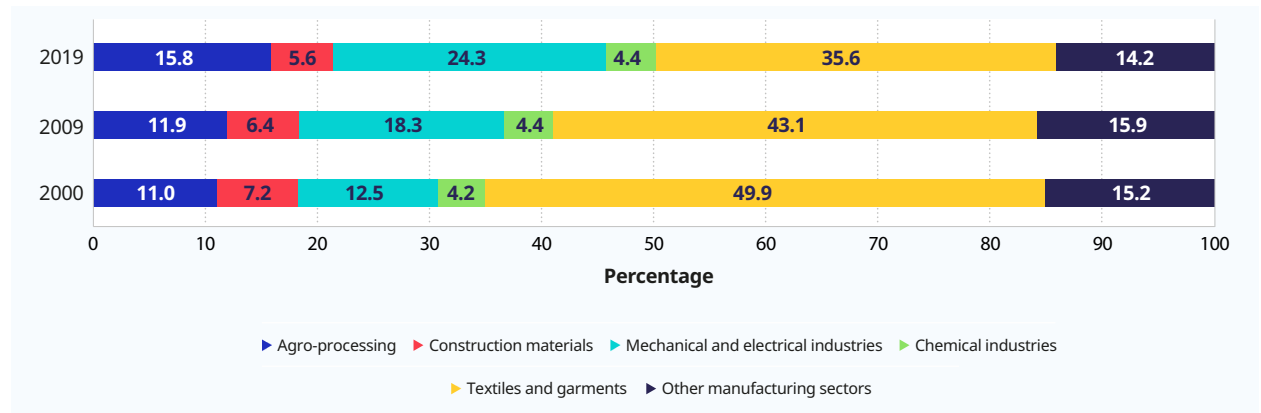


**Source:** Author’s computation based on ILOSTAT data (modelled estimates).

wholesale and retail than in tradable sectors, despite the employment growth in manufacturing and tradable services (figures 63 and 64). Non-tradable services have created most of the jobs since 2000 and its share in employment has increased from 49 per cent in 2000 to 55 per cent

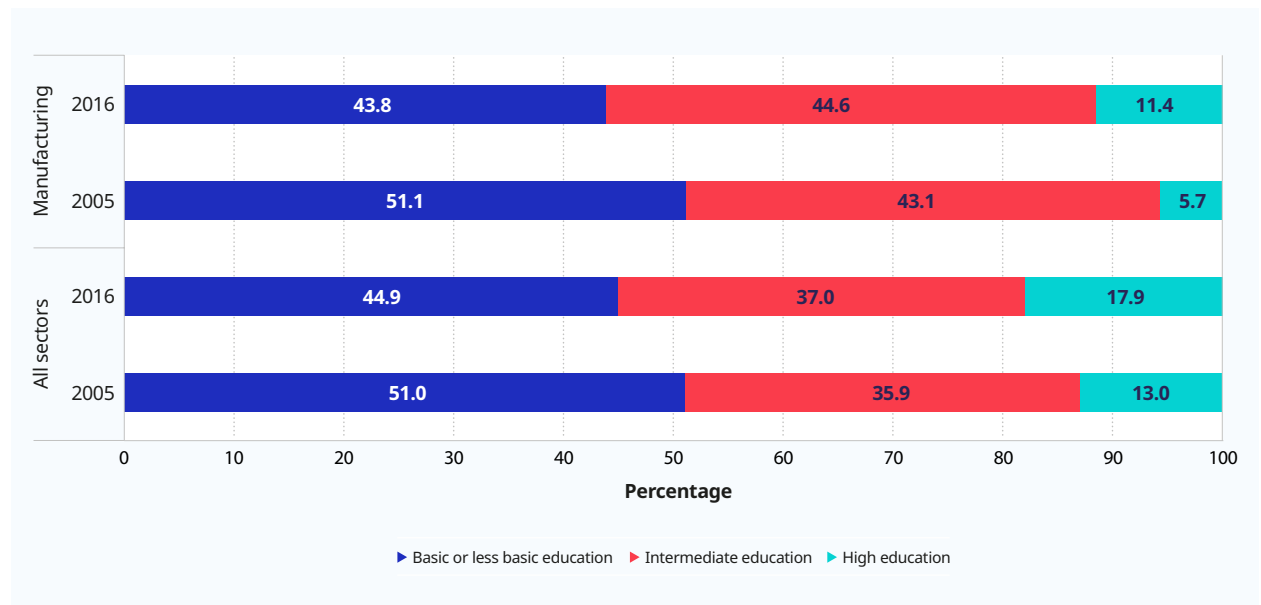
in 2019. Construction also played a significant role in job creation, with employment growth of 41 per cent from 2000 to 2009 and 15 per cent from 2009 to 2019. Accommodation and food services linked to the tourism sector, a historically targeted sector by the Tunisian authorities, had a very slight

▶ **Figure 64: Share of different industries in manufacturing employment in Tunisia, 2000–19**



Source: Institut National de la Statistique (INS), Tunisia.

▶ **Figure 65: Distribution of level of skills in all sectors and manufacturing in Tunisia, 2005–16**



Note: the total is slightly less than 100% due to the existence of a category in which the level of education is not stated.

Source: Author’s computation, based on data provided by ILO Statistics Department.

job creation record from 2009 to 2019, impacted by the revolution in Tunisia and its instability. The public sector is one of the leading sectors in job creation, with employment growth at 28 per cent for 2000–09 and at 11 per cent for 2009–19. Since 2011, the Tunisian authorities have used the public sector as a last resort for long-term unemployment and as a social-justice tool, providing some of those who suffered during Ben Ali’s dictatorship with economic opportunities. In 2020, the authorities adopted the 38-2020 law, which includes preferential recruitment for long-term unemployed tertiary graduates. This law is in itself a strong indication of the low

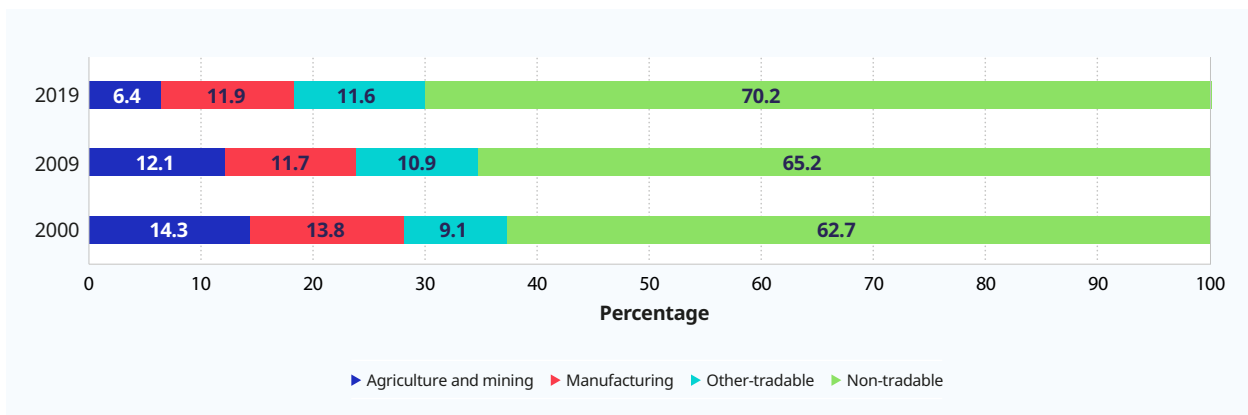
dynamism of the labour market in Tunisia and the lack of economic opportunities, as long-term unemployment has been defined for more than ten years.

In the **Occupied Palestinian Territory**, the shift of labour out of agriculture was not compensated by enough job creation in tradable sectors such as manufacturing. The share of agriculture in employment decreased significantly and in parallel, the share of employment in non-tradable sectors has increased (figure 66). The expansion of non-tradable sectors was mainly driven by wholesale and retail (figure 67), as the share of the sector in employment

increased from 15 per cent in 2000 to 19 per cent in 2019. Construction also played a major role in job creation, mostly from 2009 to 2019; however, its share in employment decreased from 20 per cent to 17 per cent from 2000 to 2019. The share of manufacturing in employment decreased by almost 2 per cent from 2000 to 2019, despite a relative increase of Palestinian exports over the same

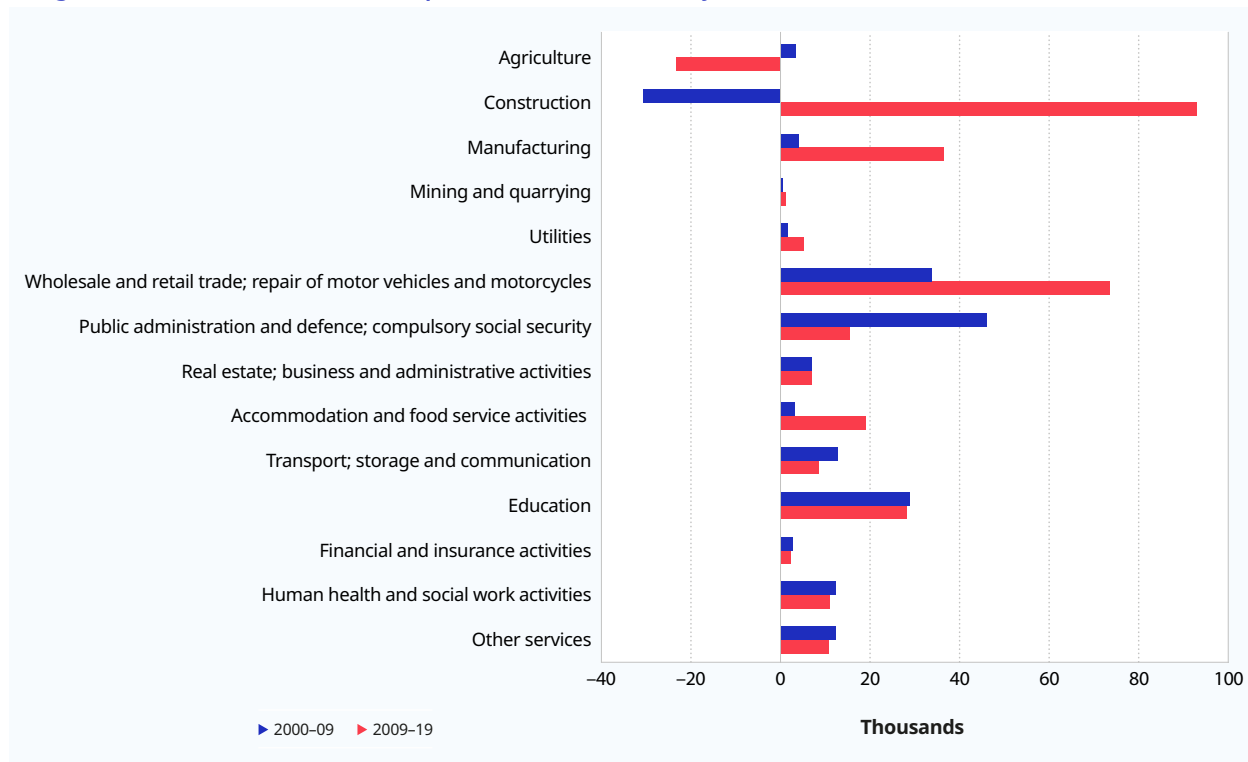
period. However, the share of tradable services increased slightly, mainly driven by an expansion of transportation, storage and information and communication (figures 66 and 67). Public administration has also played a significant role in job creation in the Occupied Palestinian Territory between 2000 and 2019, with its share in employment increasing from 12 per cent in 2000 to 13 per cent in 2019.

► **Figure 66: Evolution of employment share of tradable and non-tradable sectors in the Occupied Palestinian Territory, 2000–19**



Source: Author’s computation, based on data provided by ILO Statistics Department.

► **Figure 67: Job creation in the Occupied Palestinian Territory, 2000–19**

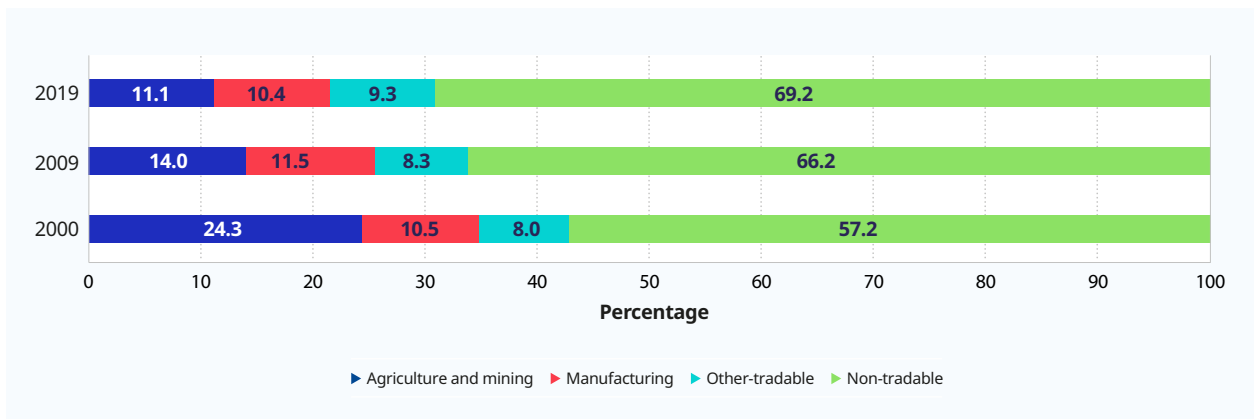


Source: Author’s computation, based on data provided by ILO Statistics Department.

In **Algeria**, like other countries in the region, the share of tradable sectors in employment decreased from 2000 to 2019. From 2000 to 2009, the services sector accounted for 66 per cent of jobs created; that figure grew to 77 per cent from 2009 to 2019. Agriculture lost a considerable number of jobs in Algeria from 2000 to 2019, with employment decreasing by 23 per cent in the sector, while most

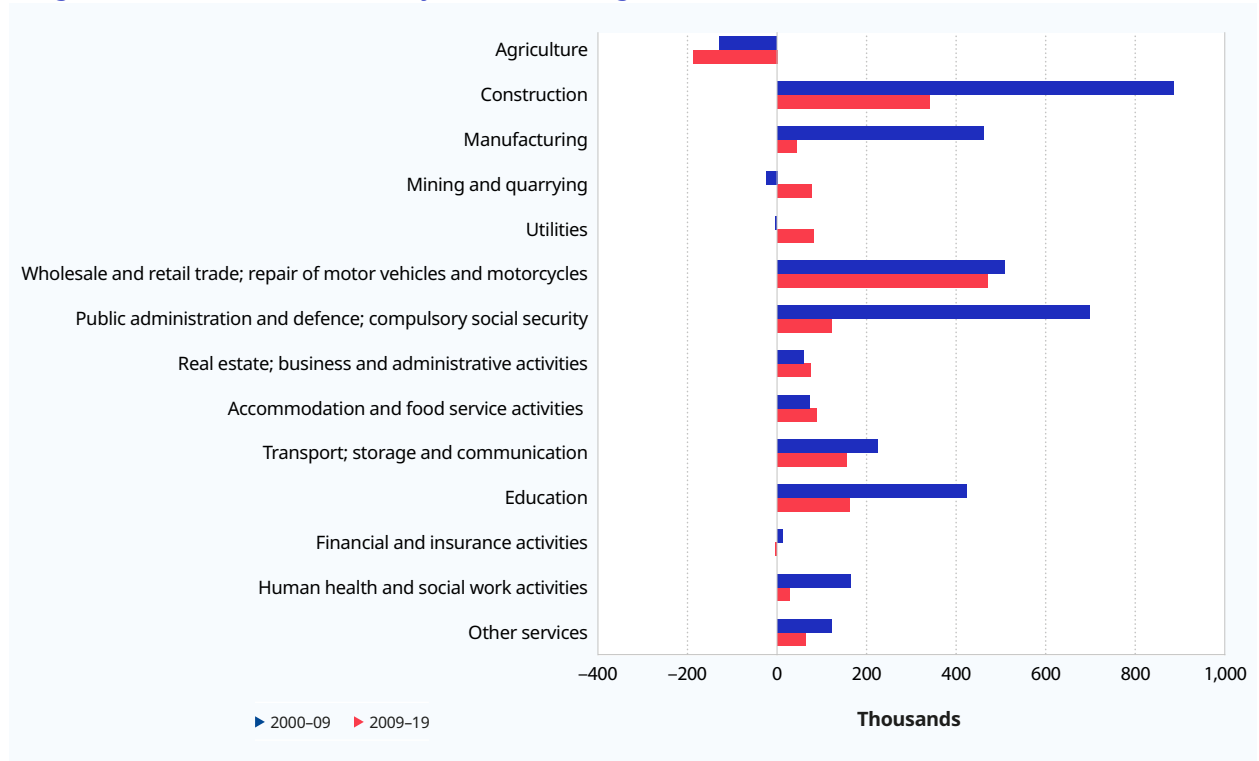
jobs created over the last 19 years were in low-productive, labour-intensive and non-tradable sectors such as construction and wholesale and retail (figures 68 and 69). Public administration has played a significant role in job creation over past decades, with the number of jobs in the public sector almost doubling between 2000 and 2019 (employment grew from 972,800 to 1,791,500 workers).

► **Figure 68: Evolution of employment share of tradable and non-tradable sectors in Algeria, 2000–19**



Source: Author’s computation based on ILOSTAT data (modelled estimates).

► **Figure 69: Sectoral distribution of job creation in Algeria, 2000–09 and 2009–19 (thousands)**



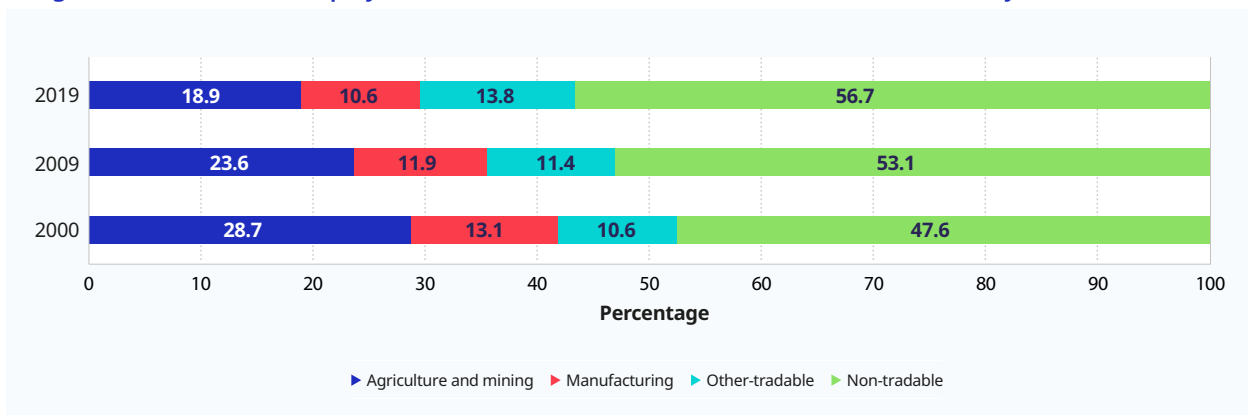
Source: Author’s computation based on ILOSTAT data (modelled estimates).

Manufacturing contributed considerably to job creation, witnessing an employment growth of 70 per cent from 2000 to 2009. However, this trend decreased significantly after 2009, with employment growing by only 4 per cent from 2009 to 2019. Overall, the share of manufacturing remained stable in total employment. Tradable sectors in Algeria are mostly extractive sectors, which do not contrib-

ute to job creation. Economic diversification and manufacturing development should be the focus of future industrial policies in Algeria.

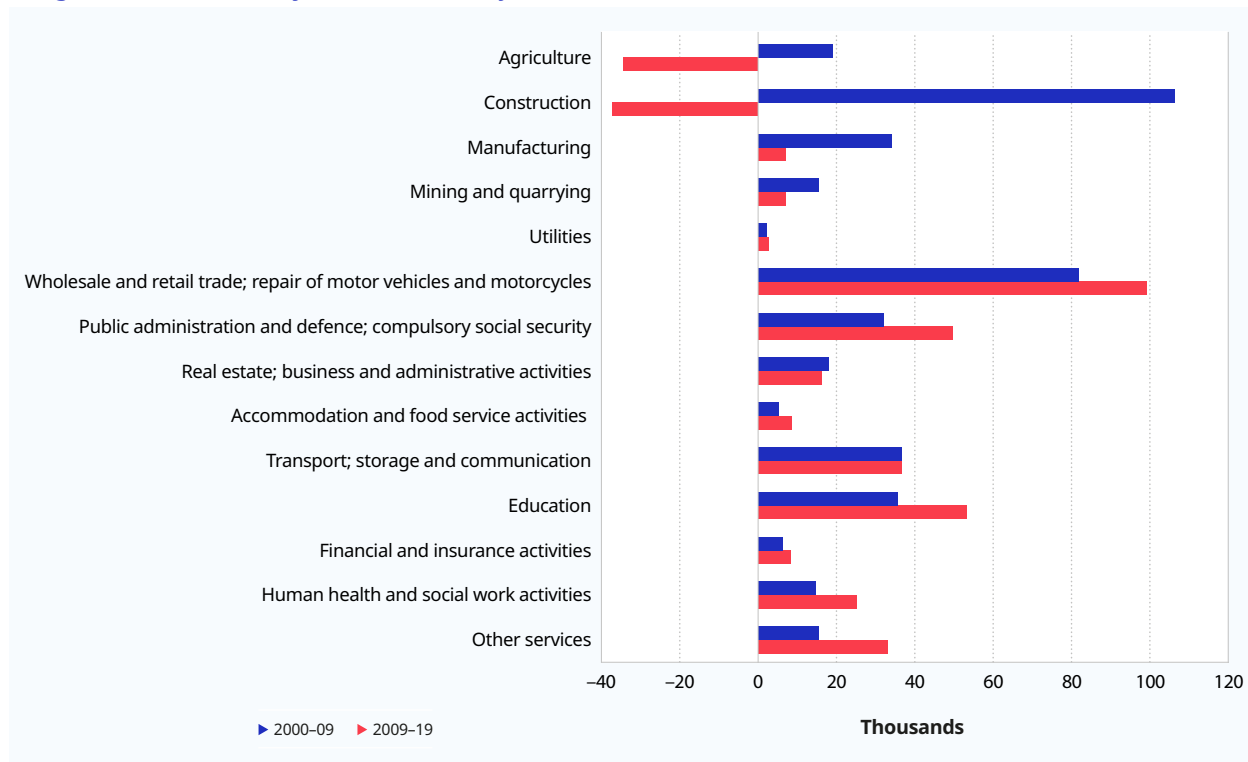
In **Libya**, the share of employment in agriculture decreased significantly between 2000 and 2019, leading to a decrease in the employment share of tradable sectors (figure 70). The share of tradable

► Figure 70: Evolution of employment share of tradable and non-tradable sectors in Libya, 2000-19



Source: Author's computation based on ILOSTAT data (modelled estimates).

► Figure 71: Evolution of job creation in Libya, 2000-19



Source: Author's computation based on ILOSTAT data (modelled estimates).

sectors decreased from 52 per cent in 2000 to 43 per cent in 2019, despite an increase in the share of tradable services in employment. On the other hand, the share of non-tradable sectors increased from 48 per cent in 2000 to 57 per cent in 2019, with wholesale and retail being the leading sector in terms of job creation since 2000. Manufacturing created only 8 per cent of the jobs from 2000 to 2009 and 3 per cent from 2009 to 2019. Employment data for Libya is only available in broad categories; however, it is worth noting that exports in manufacturing are concentrated in chemical products, specifically organic chemicals and non-metallic mineral products, generally linked to the oil industry. From 2009 to 2019, agriculture and construction were the only two sectors that lost a significant share of jobs, and job creation in services has been in all sectors, including financial and insurance activities, real estate and business activities (figure 71). Like other countries in the region, public administration plays a significant role in job creation in Libya, accounting for 8 per cent of jobs created from 2000 to 2009 and 12 per cent of jobs created from 2009 to 2019 – overall, at higher levels than manufacturing.

### 2.3.4. Why so idle? The role of physical and soft infrastructure

The impact of trade policies on the labour market is not only determined by the level of trade liberalization and trade policies but also depends heavily on the adoption of other sets of policies that are coherent with trade policies and that build the necessary environment for their success. As discussed earlier in this chapter, of the design of industrial policies in the region could be improved, despite some encouraging signs in Egypt and Morocco. Trade policies need effective industrial policies to yield the expected positive outcomes and provide quality jobs for workers in the region. The impact of both industrial and trade policies in the region also depends heavily on the quality of infrastructure. Infrastructure can be defined by physical and soft infrastructure and is an important input to economic development and trade expansion. Physical infrastructure includes roads, connectivity, telecommunications and ports and soft infrastructure by finance, human capital and the quality of institutions.

#### 2.3.4.1 Physical infrastructure

High-quality physical infrastructure is foundational for economic growth in general and for yielding the impact of trade policies on the labour market. Investment in physical infrastructure can foster employment creation and trade expansion by creating significant temporary job opportunities during the infrastructure projects and by facilitating labour mobility and reducing the adjustment costs of workers and firms to trade liberalization. Investment in infrastructure can also foster trade expansion by reducing the trade-related transaction costs, which include communication costs, domestic transport costs, time and money spent in ports on border procedures and international transport costs. Therefore, investing in public infrastructure and trade logistics would facilitate the reshuffling of production factors in these economies and facilitate the emergence of high-added value and productive firms, enhancing the impact of trade and investment policies on the labour market and the economy as a whole. Physical infrastructure can be assessed by the quality of transport, including roads, railways, airports, ports, public transportation, the development of the energy sector, access to electricity and connectivity and digital infrastructure and ICT development.

##### Quality of transport

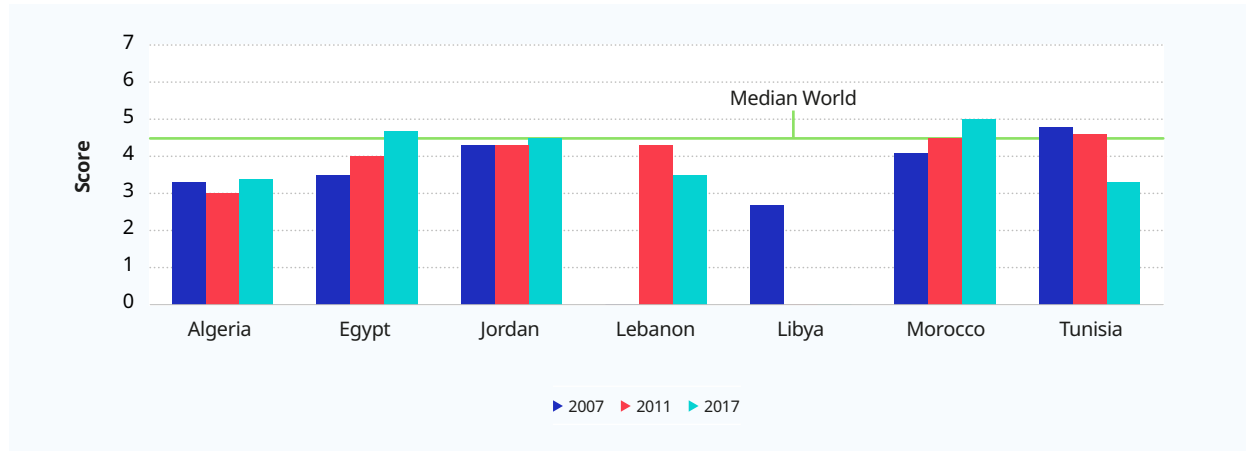
Improving the transport quality, including the road networks, and the logistics environment are key to improving the level of trade in the region and to better integration of local SMEs into global value chains. Particularly, the maritime transport and the logistics framework play a strategic role in trade and in the expansion of export-oriented industries. According to the World Bank Enterprise survey, countries in the Southern Mediterranean Countries require significantly more time to clear customs for export. While upper-middle income countries require on average four days to clear customs for export, Egypt, Morocco and Tunisia needed about 6.7 days, while Jordan fares with 4.7 days.

Maritime transport and quality of ports represent an essential part of trade in the region, as countries rely mainly on maritime transport for cargo transport. For instance, in Tunisia, 98 per cent of cargo enters the country through the maritime port network.<sup>39</sup> Similarly, in Morocco, 95 per cent of cargos transit by sea route (Moroccan Ministry

39 Oxford Business Group, “[Investment in Tunisia's port infrastructure boosting competitiveness](#)”, *The Report: Tunisia 2018*.



► Figure 72: Quality of port infrastructure in countries in the region (from 1 to 7, with 7 being the highest score)



Source: World Economic Forum, (1=extremely underdeveloped to 7=well developed and efficient by international standards).

► Table 19: Logistics Performance Index scoring in the Southern Mediterranean Countries (1 to 5, 5=best)

Country	overall LPI rank – over 160 countries	overall LPI score	Customs	Infrastructure	International	Logistics quality and competence	Tracking	Timeliness
Algeria	117	2.45	2.13	2.42	2.39	2.39	2.60	2.76
Egypt	67	2.82	2.60	2.82	2.79	2.82	2.72	3.19
Jordan	84	2.69	2.49	2.72	2.44	2.55	2.77	3.18
Lebanon	79	2.72	2.38	2.64	2.80	2.47	2.80	3.18
Libya	154	2.11	1.95	2.25	1.99	2.05	1.64	2.77
Morocco	109	2.54	2.33	2.43	2.58	2.49	2.51	2.88
Tunisia	105	2.57	2.38	2.10	2.50	2.30	2.86	3.24

Source: LPI 2018.

of Finance, 2016). However, and despite the strategic importance of maritime transport for trade, the quality of port infrastructure remains low in most countries in the region, except for Jordan, Morocco and Egypt. The three countries have the best quality of port infrastructure, higher than the global median score. Morocco, particularly, has made substantial investments to improve the quality of Tangier port, which in 2019 became the largest port in the Mediterranean in terms of capacity after the opening of new terminals.<sup>40</sup> The quality of the port infrastructure in Tunisia and Lebanon has been decreasing over the last years. In Tunisia, Radès port, the main deep seaport, suffers from signifi-

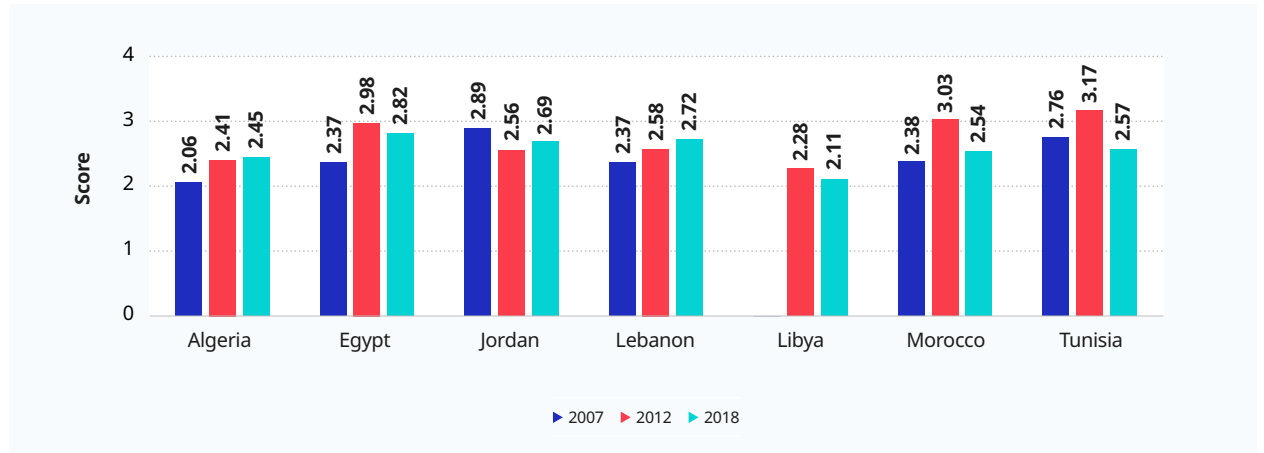
cant challenges, including significant delays and low workers productivity. For instance, dwell time at Radès averages over 15 days, which raises inventory costs.<sup>41</sup> The container operations in the port are currently managed by STAM, a public company.

The quality of the logistics network is crucial to the development of trade and transport of goods. The region scores particularly low on the quality of logistics, according to the Logistics Performance Indicators. The indicators reported in table 19 show the weakness of the logistics environment in the region on all the indicators: customs, infrastructure, international shipments, logistics quality and

40 Ahmed Eljehtimi and Ulf Laessing, “Morocco’s Tangier port to become Mediterranean’s largest”, Reuters, 26 June 2019.

41 Oxford Business Group, “Tunisia exploring new development for maritime infrastructure”, The Report: Tunisia 2018.

► **Figure 73: Evolution of Logistics Performance Index scores of countries in the region, 2007-18**



Source: LPI 2018.

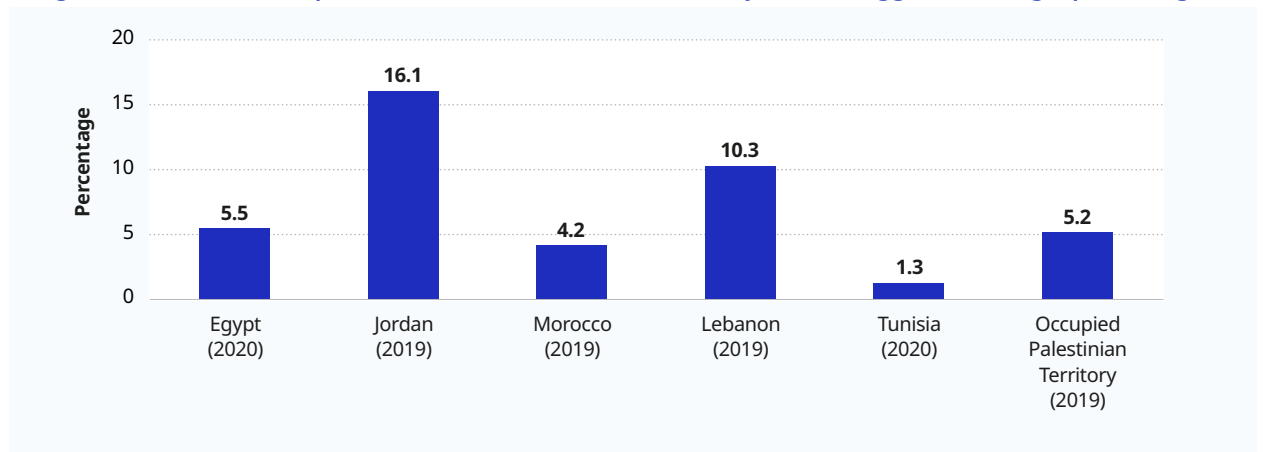
competence, tracking and tracing and timeliness. The North African countries (except for Egypt) rank lower than other in the region on this index, with the lowest performance on customs, infrastructure and international shipments. The performance of Tunisia, Morocco and Libya has worsened from 2007 to 2018, particularly for Tunisia from 2012 to 2018. Morocco has made substantial efforts to improve maritime transport through substantial investment in the Tangier port; however, the quality of the logistics remains relatively low. Between 2012 and 2018, there was a particular decrease in the quality of logistics, tracking and tracing timeliness. Countries in the region have invested heavily in physical infrastructure over the last decades (from 3 per cent to 5 per cent of their GDP annually); however, several gaps remain especially in cross-border road transport and energy (OECD, 2021).

**Quality of Energy and electricity**

Unreliable electricity supply remains a challenge in some countries in the region, despite universal electricity access. Most countries in the region have achieved universal access to energy, except for Libya, where only 67 per cent of the population has access to electricity, according to 2019 WDI data. However, a significant share of firms in Egypt, Jordan, Lebanon and the Occupied Palestinian Territory reports unreliable electricity supply as a significant challenge to doing business (figure 74).

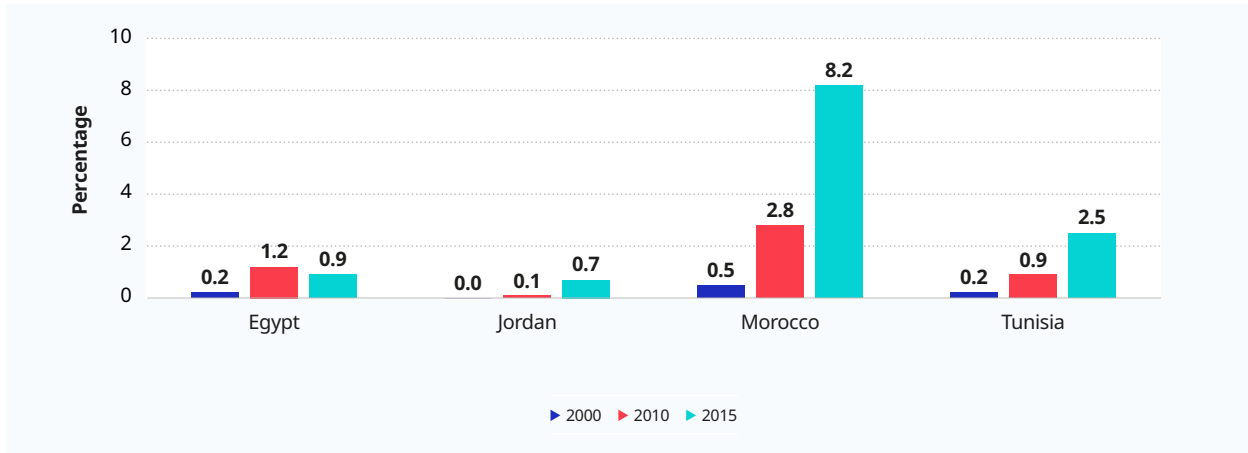
Some countries in the region have started diversifying into renewable energy in an effort to exploit their comparative advantage. Morocco increased its focus on renewable energy, particularly solar energy, to decrease its dependence on energy imports, which represented 93 per cent of its

► **Figure 74: Share of enterprises that declare access to electricity as their biggest challenge (percentage)**



Source: World Bank Enterprise survey.

► **Figure 75: Electricity production from renewable sources, excluding hydroelectric (percentage of total)**



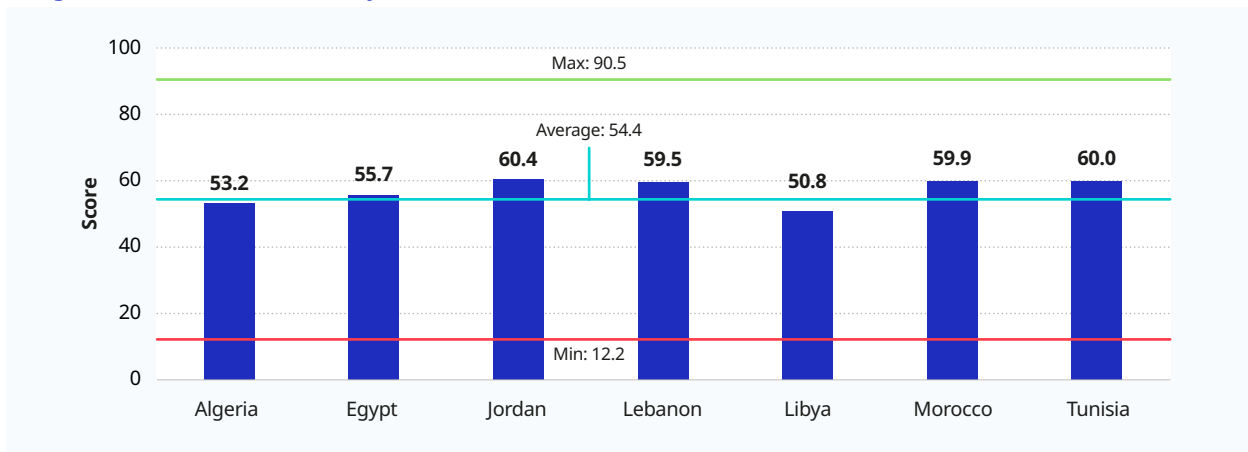
Source: World Bank Enterprise survey.

energy consumption in 2019. In 2009, the Moroccan authorities adopted a National Energy Strategy “Horizon 2030” focused on developing renewable energy production. This led to an increase in the share of renewable energy in energy production from less than 1 per cent in 2000 to 8 per cent in 2015. To a lesser extent, Tunisia has also slowly been increasing its production of renewable energy, at a much slower pace than Morocco (figure 75). Renewable energy presents a significant opportunity in the region. Countries in the region could take advantage of their natural endowments and focus on developing renewable energy to decrease their energy dependence, reduce the costs of energy for consumers, including for firms and improve the reliability of electricity, particularly in Egypt, Jordan, Lebanon and the Occupied Palestinian Territory.

**Digital infrastructure**

The region benefits from a relatively well-developed digital infrastructure. For instance, most countries in the region score relatively high on the Mobile Connectivity Index, which measures the performance of 170 countries against the key enablers of mobile internet adoption. Non-oil exporting countries in the region score higher than the average of the 170 countries assessed in this index, while Algeria and Libya seem to have the weakest digital infrastructure in the region. Countries in the region score particularly high on the network coverage. For instance, Jordan, Lebanon, Morocco and Tunisia score among the leading countries in network coverage, with a score higher than 85 out of 100.

► **Figure 76: Mobile Connectivity Index, 2019 (score out of 100)**



Source: GSMA, Data unavailable for the Occupied Palestinian Territory.

► **Table 20: Rank of countries in the ICT Development Index (out of 175 countries)**

Country Name	2015
Algeria	112
Egypt	97
Jordan	89
Lebanon	61
Morocco	98
Tunisia	95

**Source:** ITU ICT Development Index.

However, accessibility to digital infrastructure for individuals and enterprises remains a significant challenge in the region. Despite an overall good digital infrastructure, countries in the region rank relatively low in the International Telecommunication Union’s ICT Development Index (table 20). The index covers accessibility indicators including fixed-telephone networks, mobile-cellular telephone subscriptions, mobile-broadband subscriptions, fixed-broadband subscriptions (total and by speed tiers), international bandwidth, ICT prices and statistics on ICT access and use by households and individuals. Outside of Lebanon, countries in the region rank in the bottom 50 per cent of countries on accessibility. Usage of the internet for business purposes remains also limited in the region: only 8 per cent of businesses in MENA (including the Southern Mediterranean Countries), have a digital presence and only 1.5 per cent of the region’s retail sales are done online (McKenna, 2017).

### 2.3.4.2 Soft infrastructure

#### Finance

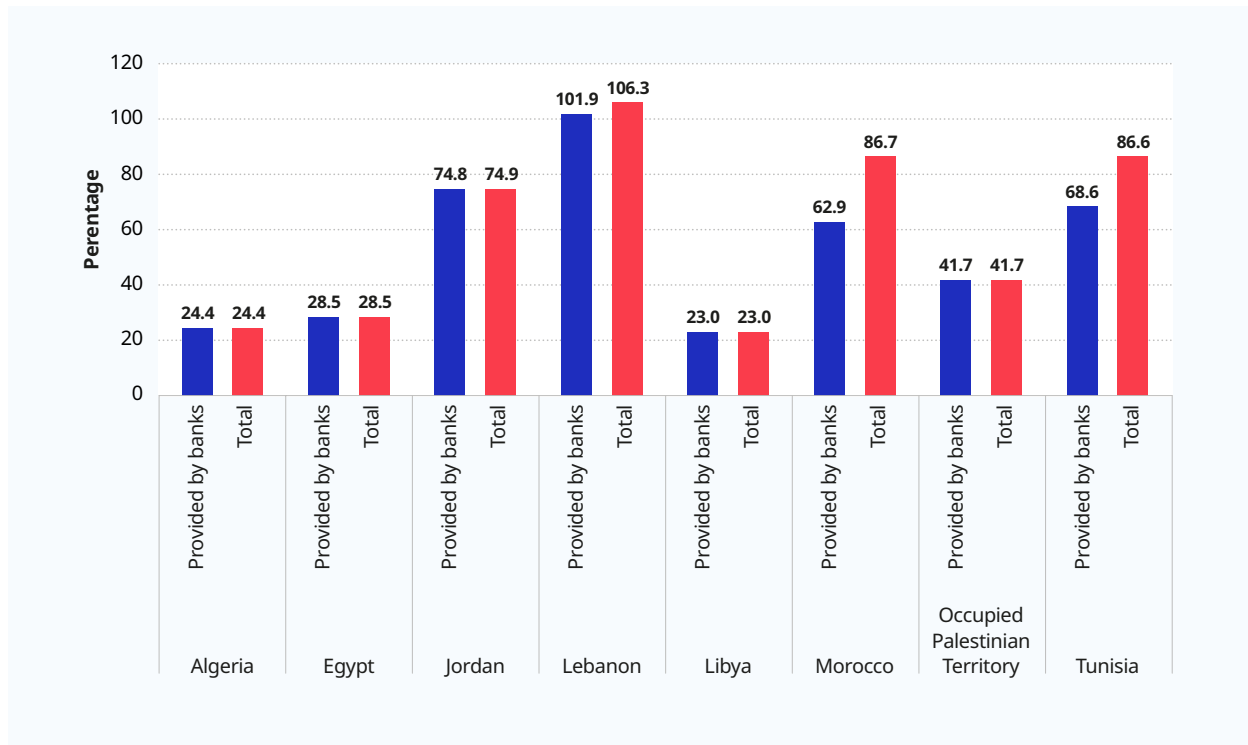
The level of development and functioning of the financial sector are essential determinants of the impact of trade policies on the labour market. A developed and functioning financial sector facilitates the reshuffling of production factors in the economy and facilitates the entry of new and highly productive firms. More generally, there is a significant positive correlation between financial and economic development levels. For instance, in his famous book, *The Theory of Economic Development*, published in 1911, Joseph Schumpeter argued that the services provided by financial intermediaries that mobilize savings, assess risks and facilitate financial transactions are

essential for technological innovation and economic development. In their paper, “Finance and Growth: Schumpeter might be right”, published in 1993, King and Levine study the correlation between levels of financial development and economic development across more than 80 countries from 1960 to 1989. They use the size of the formal financial intermediary sector relative to GDP, the percentage of credit allocated to private firms and the credit issued to private firms to GDP as indicators of the level of financial development across. The authors establish that a higher development of financial services is significantly and robustly correlated with faster economic growth rates, physical capital accumulation and economic efficiency improvements.

In the Southern Mediterranean Countries, Lebanon, Jordan, Tunisia and Morocco have financial and banking sectors that seem large and relatively well-developed. In this group of countries, the domestic credit to private sector ratio is higher than in peer countries in Asia and Latin America; however, it remains lower than the global average, estimated at 132 per cent in 2019. The second group of countries, composed of Algeria, Egypt, Libya and the Occupied Palestinian Territory, has a less developed financial and banking sector with a domestic credit to private sector ratio at a much lower level than other countries in the region (figure 77) and other peer countries. In both countries’ groups, the financial sector is mainly concentrated on the banking offer. The region has relatively low-developed equity finance, which plays a minor role, except for Jordan and Morocco, where equity finance is the second financing source for firms (figure 78).

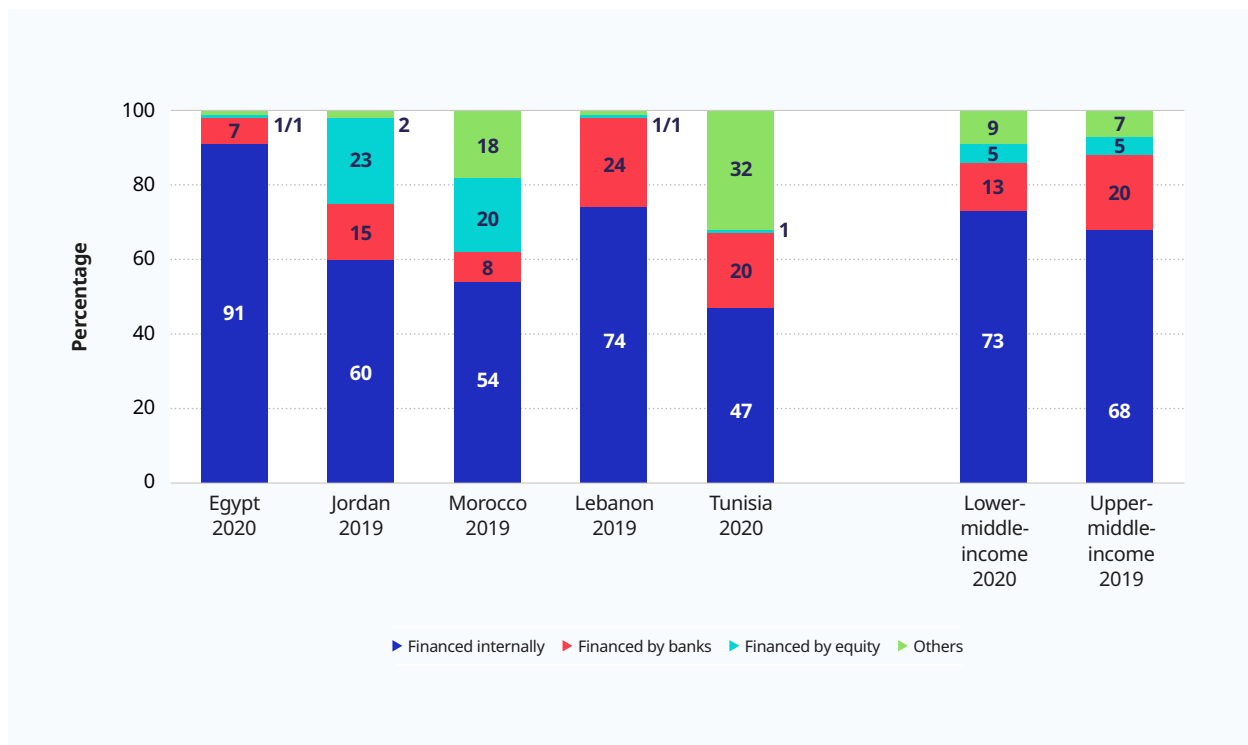
However, even in countries where the financial sector seems to be well-developed, challenges for access to finance remain important. Most of the countries in the region are at the bottom of the Doing Business

► Figure 77: Domestic credit to private sector, total and provided by banks, as per cent GDP, 2017



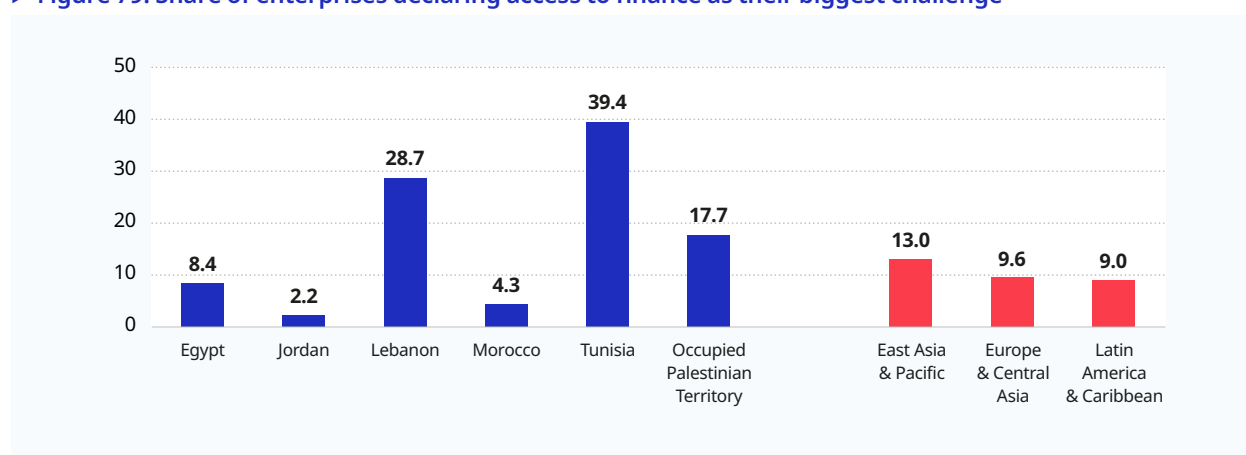
Source: WDI.

► Figure 78: Sources of financing for enterprises in the region, 2019



Source: World Bank Enterprise survey data, 2019.

► **Figure 79: Share of enterprises declaring access to finance as their biggest challenge**



Source: World Bank Doing Business and Enterprise survey data, 2019.

► **Table 21: Selected indicators on access to finance**

Location	Getting Credit rank	Getting Credit score	Credit registry coverage (percentage of adults)	Credit bureau coverage (percentage of adults)
Algeria	181	10.0	3.6	0.0
Egypt	67	65.0	9.5	31.3
Jordan	4	95.0	5.0	22.9
Lebanon	132	40.0	21.3	0.0
Libya	186	0.0	0.6	0.0
Morocco	119	45.0	0.0	31.6
Occupied Palestinian Territory	25	80.0	22.9	0.0
Tunisia	104	50.0	36.4	0.0

Source: World Bank Doing Business and Enterprise survey data, 2019.

ranking in access to finance, except for Jordan and the Occupied Palestinian Territory (table 21). Also, in Tunisia and Lebanon, access to finance is by far the main challenge faced by firms to operate and develop, as indicated by the results of the World Bank enterprise survey (figure 79). In Jordan, only 2 per cent of firms stated that access to finance is their biggest challenge. However, IFC data indicate that in countries like Lebanon, Jordan, Tunisia and Morocco, banking lending is concentrated on a limited number of large firms.

A root cause of the low level of financial sector development is the under-developed financial infrastructure, which translates to a scarcity of reliable data and information about businesses. Countries

in the region either do not have credit registries and credit bureaus or have relatively low coverage for both (table 21). Weak credit information and data collection about firms and individuals lead to a high asymmetry of information and high transaction costs. This also encourages relationship-based lending instead of transaction-based lending, which tends to favour lending to existing firms, generally large ones, and prohibits the provision of financing to newly established firms, hindering competition and innovation. Credit registries, generally public-owned, and bureaus both aim to collect credit data about firms and improve the functioning of financial services by reducing information asymmetry and the risk of adverse selection.

Evidence suggests that advanced credit information systems are associated with lower transaction costs and credit constraints, especially for SMEs. Stiglitz is considered the pioneer of the information asymmetry theory and its impact on markets. In his paper published in 1981 with Weiss, the authors indicate that information asymmetries in credit markets arise when borrowers have substantially more information than lenders regarding their risk profile and repayment probability (Stiglitz and Weiss, 1981). Asymmetry of information means that lenders cannot assess borrowers' repayment capacity. That means that the lender has to offer an interest rate that makes it profitable to lend on average – an interest rate that may be too high for low-risk borrowers. As a result, only high-risk borrowers borrow – in other words, adverse selection takes place. The higher this asymmetry of information, the more constrained the access to finance is for firms. Establishing a credit information system can thus help reduce the asymmetry of information and the risk of adverse selection. Chavez (2017) studies credit-constrained firms' characteristics using firm-level measures of credit constraints for 111 countries and analyses the role of a credit information system. The study finds that firm size and firm transparency are the most important factors affecting firms' access to finance and that a more developed credit information system is associated with lower levels of credit constraints, particularly for smaller firms. The study finds that this is particularly the case in the presence of advanced private credit bureaus.

Countries in the region should focus on diversifying the sources of financing for businesses outside of the traditional banking sector, notably by developing both public and private equity finance segments, including stock and corporate bond

markets. This type of financing generally responds more to the needs of innovative firms, rather than the traditional banking offer. Also, countries in the region should focus and improve the financial infrastructure, which would improve the credit scoring techniques and ultimately access to finance for firms. Countries in the region should build the emerging and rapidly growing innovative financing tools and develop the FinTech segment that could transform finance access in the region. Several examples in low- and middle-income countries illustrate FinTech and digital financial services' role in improving financial services for customers and firms. For instance, M-PESA, a mobile payment solution in Kenya, completely transformed the financial sector in Kenya and significantly improved financial inclusion. With the emergence of FinTech, innovations in credit scoring, risk assessment and financial inclusion could be used in the region to enhance the functioning of the financial sector and improve access to finance for firms and SMEs.

### Human capital

The region has, in general, a well-educated population, with relatively high educational attainment, especially among women. The school enrollment in tertiary education is relatively high among almost all countries in the region, with Algeria and the Occupied Palestinian Territory having higher rates than the global average (38 per cent) in 2018, and rates in Egypt, Jordan, Morocco and Tunisia being similar to the average in middle-income countries (35 per cent in 2017). However, Jordan and Tunisia, countries with the highest levels of education in the region historically, have witnessed a slight decrease in enrolment in tertiary education over the past decade (table 22).

► **Table 22: Gross school enrolment in tertiary education in the region (percentage)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Algeria	29.9	31.2	32.2	33.9	34.5	36.8	42.6	47.6	51.4
Egypt	31.4	26.8	27.7	30.1	31.1	35.0	33.9	35.2	-
Jordan	37.1	36.3	41.8	-	-	36.6	31.1	31.1	34.4
Morocco	14.6	16.4	19.5	22.6	25.3	28.4	32.0	33.8	35.9
OPT	47.8	49.7	48.5	45.9	44.8	45.3	43.9	43.7	44.3
Tunisia	35.4	35.2	35.9	35.0	35.3	35.2	32.8	32.1	31.7

**Note:** No recent data available for Libya and Lebanon. OPT is Occupied Palestinian Territory.

**Source:** WDI.

► **Table 23: Scoring of countries in the Human Capital Index, 2020**

	Index rank (range between 0 and 1)
Algeria	0.53
Egypt	0.49
Jordan	0.55
Lebanon	0.52
Morocco	0.50
Occupied Palestinian Territory	0.58
Tunisia	0.52
<i>Highest value</i>	<i>0.88</i>
<i>Lowest value</i>	<i>0.29</i>

**Note:** No data available for Libya.

**Source:** World Bank Human Capital Index, 2020.

The Human Capital Index (HCI) shows, however, important gaps in the region (table 23). The HCI measures the amount of human capital that a child born today can expect to attain by age 18 and can be used as a proxy for the productivity of the next generation of workers compared to a benchmark of complete education and full health.<sup>42</sup> Children born today in the region will be between 49 per cent and 58 per cent as productive when they grow up than they would be if they could enjoy complete education and full health. The index shows that HCI for males is lower than for females in most countries in the region, driven by higher educational outcomes of females. Overall, there are high levels of human capital that remain untapped in the region, and this is expected to remain the case for future generations if significant investment in education and health is not made.

On average, countries in the region invest less in R&D than other middle-income countries. Middle-income countries spent on average 1 per cent of their GDP on R&D in 2018. Countries in the region spend less than 0.7 per cent of their GDP on R&D. According to UNESCO data, Egypt and Jordan spent approximately 0.7 per cent of their GDP in R&D in 2016; Algeria spent 0.6 per cent of GDP in 2017; the Occupied Palestinian Territory spent 0.5 per cent of GDP in 2013; and Tunisia spent 0.6 per cent of GDP in 2016. Comparatively, Eastern and Southern Asian countries invest about 2 per cent of their

GDP in R&D. Data available on the breakdown of R&D investment is only available in Algeria, Egypt, Morocco and Tunisia and shows that most of the R&D investment goes to R&D performed by government and higher education, with a minor share of investment in businesses. For instance, only 7 per cent of investment in R&D in Algeria goes to businesses and private sector innovation. The figure reaches 5 per cent for Egypt, 15 per cent for Morocco and 18.5 per cent for Tunisia. Comparatively, countries like Singapore and Turkey spend at least 50 per cent of the R&D in businesses, providing direct support to foster innovation in the private sector.

Investment in R&D, technology and innovation, including for the private sector, can be major drivers of productivity and development and can help countries in the region foster the convergence process and the structural transformation. Evidence indicates that innovation and the adoption of new technologies provide firms with a competitive market advantage, improves the effectiveness of the use of production factors and resources and increases enterprise productivity and their potential for growth, including in middle-income countries. For instance, Crespi and Zuñiga (2010) evaluate the impact of technological innovation on firm labour productivity across six Latin American countries (Argentina, Chile, Colombia, Costa Rica, Panama and Uruguay). The paper indicates that in all these

42 World Bank, *The Human Capital Index, 2020 Update*, 2020.



countries, firms that invest in knowledge are more likely to introduce new technological advances and those who innovate have higher labour productivity than other firms. These results are consistent with abundant literature indicating a positive relationship between investment in R&D, which can be a proxy for access to technology, innovation and firm productivity (Griffith et al., 2004; Griffith et al., 2006; Hall et al., 2010).

Policymakers in the region can use a set of interventions to promote access to technology and innovation for the private sector, including for SMEs. Interventions, in general, aim to reduce the cost of R&D and innovation or to increase the demand for R&D and innovative products. Interventions to reduce the cost of R&D can include R&D grants, subsidies, or tax incentives. Other interventions aim to stimulate the demand for innovative and technology-based products made by firms, including SMEs, notably through public procurement of innovative products that can then be used to solve social issues and add value to society. Other interventions are transversal, notably through creating a pro-innovation environment, fostering collaboration between industries and firms, incentivizing knowledge-sharing, intellectual property laws and patents and commercialization of research.

### Quality of institutions

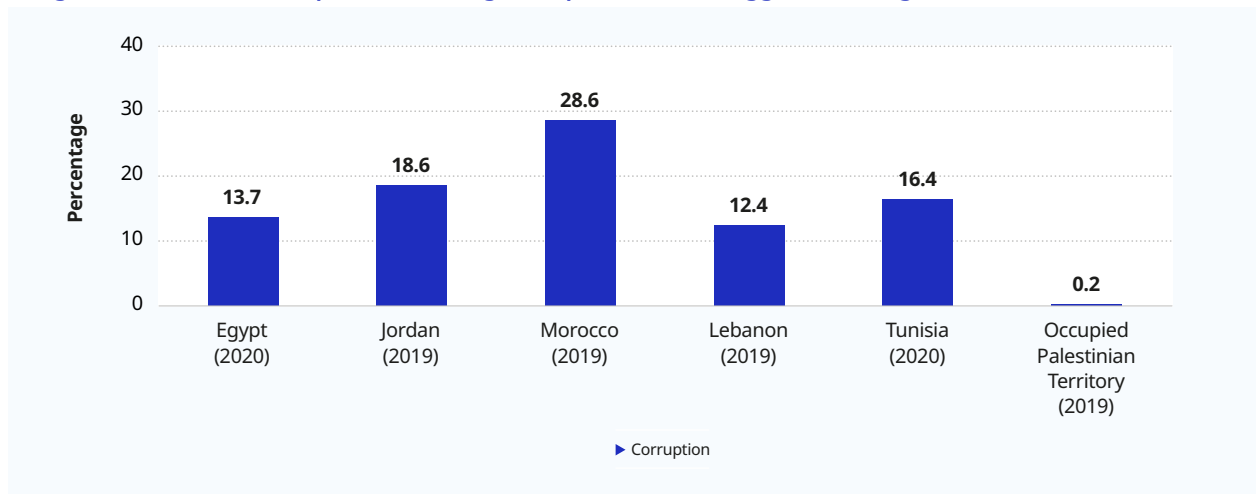
Institutions have been defined by Douglass C. North (1991) as “the humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behaviour, conventions and self-imposed codes of conduct) and their enforcement characteristics”. Using this definition, economic institutions can be characterized as formal constraints or rules that define and structure the economic interaction between different agents in an economy. Generally, economic institutions include property rights, competition laws, markets and state support for markets, labour market institutions, contract enforcement and access to education.

There is ample and growing evidence about the significant role that economic institutions play in the level of development in different countries. Particularly, Acemoglu and Robinson, in their book, *Why Nations Fail: The Origins of Power, Prosperity and Poverty* (2012), define two sets of economic institutions: inclusive and extractive ones. Inclusive economic institutions provide the right set of rules

and incentives for investment and innovation and create a level playing field for firms and entrepreneurs. They ultimately lead to economic growth and prosperity. On the other hand, extractive economic institutions are designed by powerful and well-connected economic and political elites with rent-seeking rationale. They ultimately extract resources from the rest of society, leading to under-development and inefficient distribution of resources and ineffective allocation of productive factors. Acemoglu and Robinson use this distinction between the two sets of institutions to explain the divergent development paths between different countries in the world.

In the case of the Southern Mediterranean Countries, the 2011 social movements marked an attempt to reform the extractive economic institutions that had led to endemic corruption, strong rent-seeking and business-state ties and the attendant low levels of quality job creation and growth. Several studies highlight the role that business-state relationships have played in focus countries and documented extractive economic institutions in the region. For instance, Rijkers et al. (2017) study the evolution of connected firms during Ben Ali's era in **Tunisia**. The authors establish a database on political connections, firm performance and entry regulation between 1993 and 2010 to assess the economic size of well-connected firms and study the mechanisms through which they developed and compare them with non-connected firms. In Tunisia, many of the well-connected firms belonged to Ben Ali's extended family, which benefitted from the privatization reforms to secure a way into many strategic economic sectors such as telecommunications and cars. The authors establish that well-connected firms represented 21 per cent of net private-sector profits and accounted for around 3 per cent of private-sector output. The authors also find that these firms were more likely to operate in sectors subject to prior authorization by the state, indicating regulatory abuse. The authors also find that these firms generally performed better than their competitors, with a market share on average 6.3 per cent higher than non-connected firms, mainly due to their presence in highly regulated sectors. In **Egypt**, Chekir and Diwan (2015) study the effects of the business-state relationship on well-connected firms during the Mubarak era (between 1996 and 2006) and their impact on the sectors they entered. Using the year of these firms' entrance, they establish a quasi-experimental setting and estimate a difference-in-difference effect, comparing employment growth in sectors that these firms entered with industries that they did not

► **Figure 80: Share of enterprises declaring corruption as their biggest challenge**



Source: World Bank Enterprise surveys, 2019 and 2020.

enter. The authors find two important results. First, politically well-connected firms benefited not only from higher access to credits but also were more likely to benefit from energy subsidies, trade protection and access to land, among other benefits. Second and more importantly, they establish that the entrance of these firms to previously unconnected sectors led to slow employment growth and inefficient allocations of resources in these sectors, with a higher concentration of employment in less productive firms with lower innovation outputs. The second finding is particularly significant, as it demonstrates the adverse effects that rent-seeking and well-connected firms can have on economic growth and innovation, through extractive institutions, in this case, illustrated by strong rent-seeking business–state connections.

Evidence suggests that extractive institutions have at best remained in place since 2011, and at worst, solidified further, with changes in the individuals but not in the structure of the business–state ties. For instance, in Tunisia, Kchouk (2017) studies the evolution of economic actors that were well-connected to Ben Ali and closely linked to and benefitted from his regime. The authors find that these economic actors, mostly part of UTICA, the main employer association in Tunisia, were the only domestic actors capable of buying the confiscated companies from Ben Ali and his family and resuming their activities. The author indicates that these powerful industrialists were also able to take over the “monopolization channels” and advantages associated with these companies, including the strong ties with parts of the state. Also, in Tunisia, Arouri et

al. (2019) builds on Rijkers et al. (2017) and establish that well-connected firms accounted for 10 per cent of all jobs, 39 per cent of outputs and 53 per cent of net profits, despite representing only 0.1 per cent of all firms in the country. However, their significant share in the economy was not obtained legally but through regulatory capture and tax evasion, notably through under-reporting import prices. The authors find that tax evasion has increased after the revolution; but while it decreased in product lines where Ben Ali’s firms were operating, it increased in other product lines, suggesting that the revolution has democratized tax evasion. The paper also indicates that the complex regulation and institutional framework that enables state capture has remained the same after the revolution. This suggests that there was only a change in names and actors but that the structure of extractive institutions continues to operate in Tunisia. This is perpetuated by multiple unpublished and untransparent authorizations and requirements designed to serve the interest of existing big firms with monopolistic and rent-seeking tendencies. The strong business–state ties enable these big firms to navigate and take advantage of the designed-to-be-complex bureaucracy and regulations, constraining the economy’s capacity to innovate and create the much-needed jobs for its population. These findings are further confirmed by the country’s World Bank enterprise survey, which indicates that little has changed from the corruption and the rule of law perspective, as a significant share of enterprises reports that corruption is their biggest challenge for doing business and developing their activities (figure 80).

The transition from extractive to inclusive institutions is crucial for trade and industrial policies to effectively generate the expected economic outputs for job creation, technological upgrade and SME development. As indicated in the previous sections, the success of industrial policies depends on the capacity of the state to establish a transparent and collaborative relationship with the private

sector, with a clear set of rules and incentives and a “carrot-and-stick” attribute that would decrease the rent-seeking approach. Countries in the region must focus on reforming the economic institutions, including competition laws and agencies and promoting the rule of law if they are to develop their economies and benefit from the positive impact of trade and investment on their economies.

# ▶ Chapter 3

Trade, investment  
and youth and women  
in the labour market

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## ► Chapter 3. Trade, investment and youth and women in the labour market

### 3.1. Youth and the labour market in the Southern Mediterranean Countries

The Southern Mediterranean Countries are relatively young, with a youth population (15–29)<sup>43</sup> estimated at 59.3 million in 2019 and representing about 27 per cent of the population. Comparatively, in 2019, the share of youth (15–29) in the population was at 27 per cent in South Asia, at 28 per cent in sub-Saharan Africa and 23 per cent globally. The Occupied Palestinian Territory has the highest share of the youth population in the region, with 31 per cent in 2019, and Algeria has the lowest share with 22 per cent (table 24).

In general, youth in the Southern Mediterranean Countries struggle to secure quality jobs and develop their economic potential. The labour force participation rate in the region is lower than 40 per cent for youth, with the lowest levels being in Jordan and Libya (around 33 per cent) (table 25). The region also suffers from relatively high shares of youth not

in employment, education or training (NEET). The youth NEET share is very high in all countries in the region and has decreased in Algeria, Egypt, Lebanon and Morocco, while increasing in Jordan and the Occupied Palestinian Territory and remaining stable in Tunisia (figure 81). Despite high educational attainments, the highest level of NEET is in Jordan and has been increasing since 2005: 38 per cent of youth in 2019 up from 33 per cent in 2005. The share of youth NEET is particularly problematic as it has significant economic and social consequences. Youth NEETs are not investing in developing their human or economic capital, leading to long-term and structural inactivity (Elder, 2015). The high youth NEET share might also lead to an increase in the dependency rate and a significant additional charge on household income, especially in low and middle-income countries. Without supporting these youth, they will suffer from a long-lasting exclusion from the labour market, the economy and society.

Youth unemployment rates in the region are one of the highest globally, ranging from a maximum of 49 per cent in Libya and a minimum of 17 per cent

► Table 24: Youth population in the region, 2019

Youth population 2019	Youth (15–29) population (in thousands)	Population (percentage)
Algeria	9,606.1	22.3
Egypt	30,907.9	30.8
Jordan	2,756.0	27.3
Lebanon	1,222.5	17.8
Libya	1,657.0	24.4
Morocco	8,877.0	24.3
Occupied Palestinian Territory	1,440.8	30.8
Tunisia (2017)	2,814.0	24.6
<b>Total in the region</b>	<b>59,281.3</b>	<b>26.9</b>

**Source:** Data provided by ILO Statistics Department for Egypt, Jordan, Occupied Palestinian Territory and Tunisia. ILO modelled estimates for Algeria, Morocco and Libya.

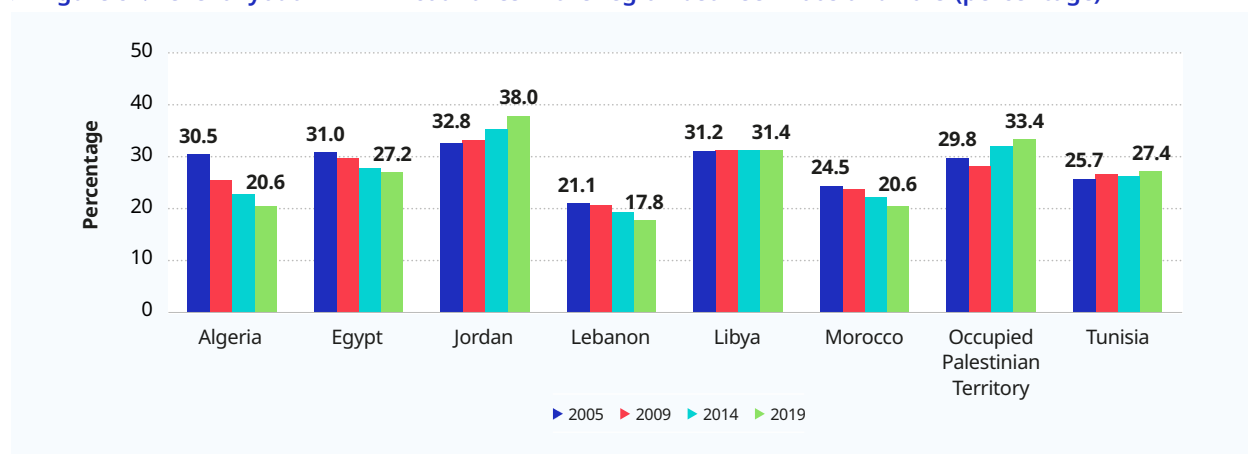
43 Most of countries in the region define youth as 15–29 or even beyond, therefore, we used the definition 15–29 in this report.

▶ **Table 25: Youth labour force participation rate in the region**

Country	Youth (15–29) population (in thousands)	Youth labour force (in thousands)	Youth Labour Force participation rate (percentage)
Algeria	9,606.1	3,800.6	39.6
Egypt	30,907.9	9,952.0	32.2
Jordan	2,756.0	999.1	36.3
Lebanon	1,222.5	599.1	49.0
Libya	1,657.0	544.4	32.9
Morocco	8,877.0	3,356.1	37.8
Occupied Palestinian Territory	1,440.8	571.6	39.7
Tunisia (2017)	2,814.0	1,187.8	42.2
<b>Total</b>	<b>59,281.4</b>	<b>21,010.7</b>	<b>35.4</b>

**Source:** National data sources provided by ILO Statistics Department for Egypt, Jordan, Occupied Palestinian Territory and Tunisia. ILO modelled estimates for Algeria, Morocco and Libya.

▶ **Figure 81: Level of youth NEET in countries in the region between 2005 and 2019 (percentage)**

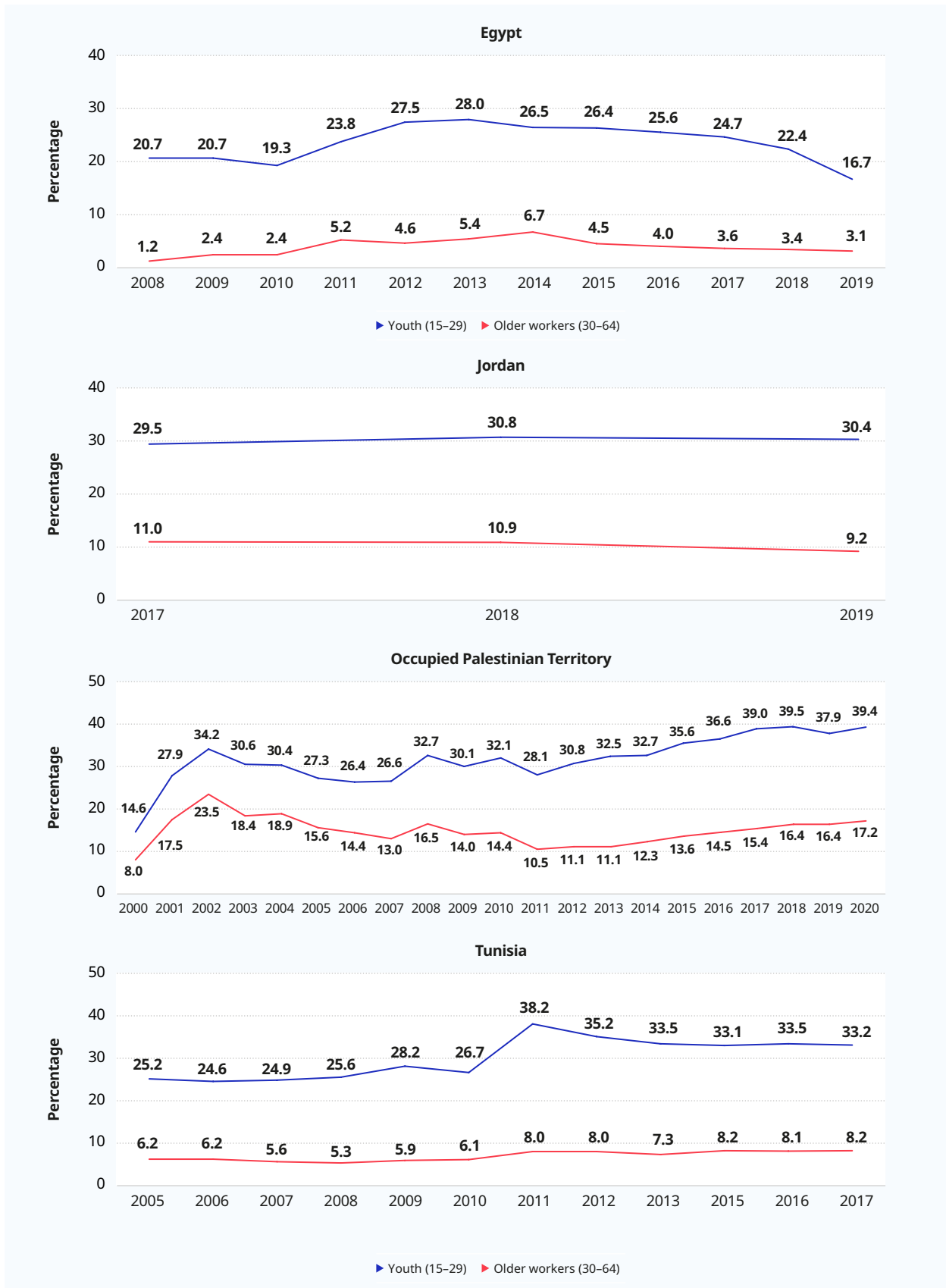


**Source:** ILOSTAT.

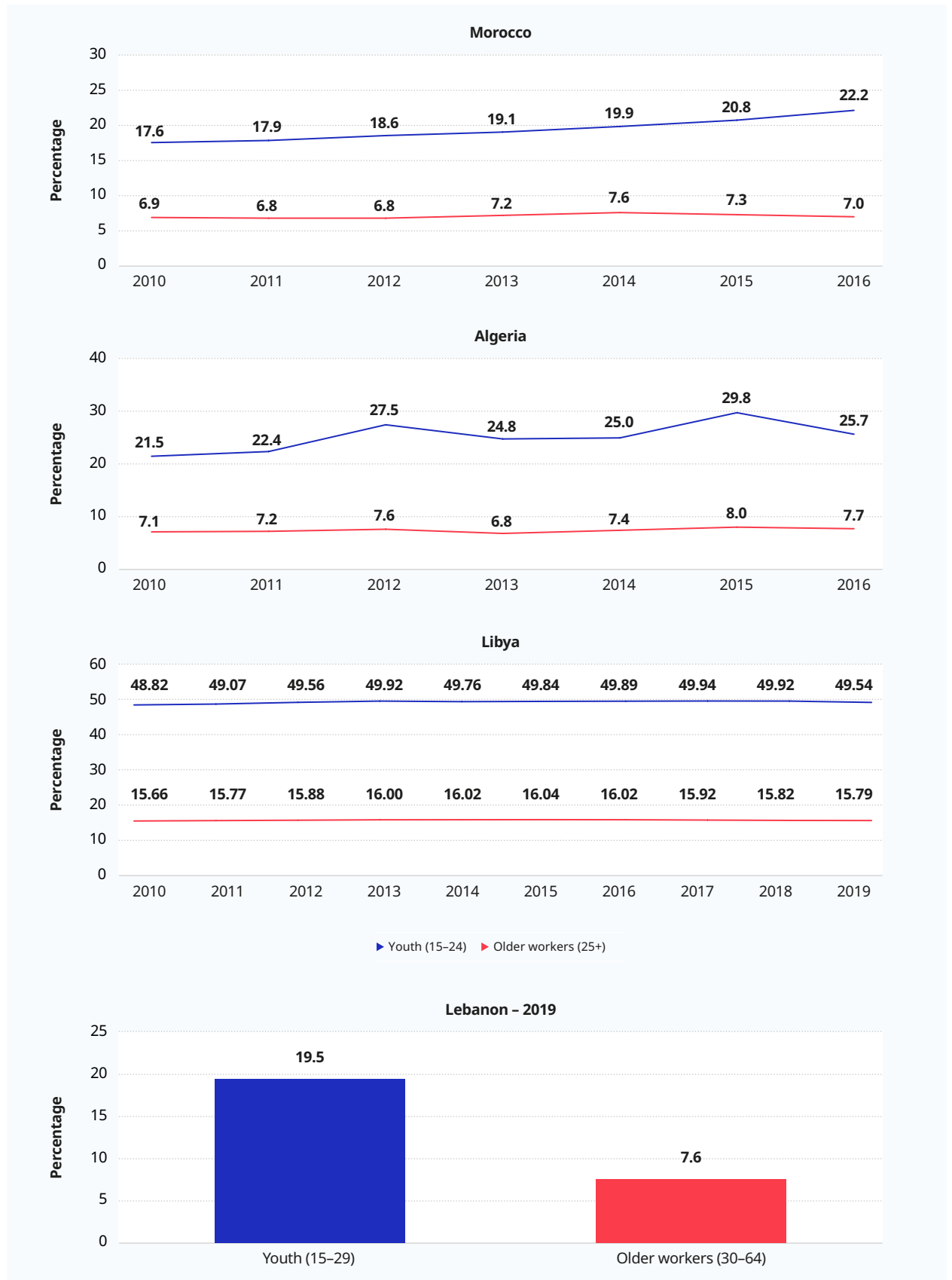
in Egypt in 2019 (figure 82). Youth are much more unlikely to secure a job and a financial income than their older peers, with an average gap of 18 percentage points between youth and older workers' unemployment rates. For instance, in Algeria, the unemployment rate among youth is almost double the rate among older workers. In Lebanon, youth unemployment was around 20 in 2019 versus 8 per cent for older workers. In nearly all countries in the region, youth unemployment has increased since 2010, except for Egypt, which recorded a significant decrease in youth unemployment in 2019, reaching for the first time in a decade lower levels of youth unemployment than before the 2011 social movements.

The unemployment rate has increased with the increase in levels of educational attainment, suggesting significant skill mismatches in the countries in the region. Unemployment has particularly increased for graduates and educated youth in the region. For instance, Tunisia and Jordan, two countries with high youth unemployment rates, have had relative success in increasing participation in tertiary education. Tunisia experienced a sharp increase in the gross enrolment rate in higher education, from 13 per cent in 1996 to 35 per cent in 2015. At the same time, the youth unemployment rate and in particular for higher education graduates, has steadily increased in Tunisia. In 2019, it is estimated that the number of unemployed

► Figure 82: Evolution of youth unemployment rate (percentage)



► Figure 82 (continued)



**Note:** The definition of youth in the region is generally 15 to 29 years old. However, the data for Morocco, Algeria and Libya is available only for 15-24.

**Source:** Data provided by ILO Statistics Department for Egypt, Jordan, Occupied Palestinian Territory, Algeria, Morocco and Tunisia. ILOSTAT modelled estimates for Libya. Data for Lebanon available only for 2019.



graduates is 250,000, representing almost 29 per cent of graduates in Tunisia.<sup>44</sup> Jordan is also experiencing the same phenomenon. The gross enrolment ratio in tertiary education rose from 18 per cent in 1995 to 34 per cent in 2018, while tertiary graduates represented at least 40 per cent of the unemployed between 2017 and 2019 (figure 83). Morocco has also witnessed substantial improvements in educational attainments, with the gross enrolment ratio in higher education increased from merely 10 per cent in 2000 to 38.5 per cent in 2019. However, the level of unemployment is substantially higher for educated workers than workers without diplomas (figure 84). In 2014 in Morocco, tertiary graduates witnessed the highest unemployment levels, followed by secondary educated workers, with the lowest levels of unemployment being among workers without diplomas since 2000. This indicates significant skills-mismatch challenges in different countries in the region. However, this is also a result of the slow structural transformation and lack of dynamism in the region, leading economies in the region to create primarily low-productive jobs suitable for low-skilled workers. The ILO school-to-work transition surveys available in countries in the region indicate that the low levels of job creation are the main obstacle for youth, including tertiary-educated youth, to find a job. Dimova et al. (2016) indicate that on average, 53 per cent of unemployed youth in Egypt, Jordan, Lebanon, Occupied Palestinian Territory and Tunisia indicated that the lack of available jobs was the main reason for their unemployment.

The tertiary graduates' unemployment is particularly problematic for the region. It indicates low returns of investment in education and might influence future generations' choices and lead to an overall decrease in human capital accumulation in these economies. Moreover, graduate unemployment is an economic and human capital loss for the middle-income countries in the region, considering the high opportunity cost of completing education up to higher levels. This trend also indicates a tendency towards an educational inflation driven by quantity rather than by quality. Graduates' unemployment has contributed to social and political unrest in the region with the 2011 social movements and may continue to be a structural issue if not tackled.

Unemployed youth in the region tend to rely on their informal network for their job search in the region, despite the existence of relatively well-developed public employment services, such as in Jordan and Tunisia. Dimova et al. (2016) indicate that 76 per cent of youth in Egypt and even 88 per cent in the Occupied Palestinian Territory rely on their social and informal networks to find a job. This share is also relatively high in Lebanon (68 per cent), Jordan (33 per cent) and Tunisia (26.8 per cent).

The high levels of youth unemployment and the lack of economic dynamism led to significant migration, including an undocumented one, and brain-drain levels in most countries in the region, including Egypt, Tunisia, Morocco, Jordan and Lebanon. The share of highly skilled individuals among the migrant population has increased in these countries, reaching 20 per cent among migrant youth in 2017, suggesting a brain drain (Akgüç et al., 2020). Musette (2016) analyses the brain drain phenomenon in Algeria, Morocco and Tunisia and indicates that the share of highly skilled migrants from Algeria, Morocco and Tunisia to OECD countries doubled between 1990 and 2010 to reach 800,000 in 2010. The author looks at the job outcomes at the destinations of these migrants and finds a "brain waste" at the destination, as they are often unpaid or in skill-related underemployment. In Tunisia, the number of highly skilled Tunisians who moved abroad has increased by 64 per cent between 2000 and 2010 (Samet, 2014). Moreover, according to a study done by Forum Tunisien pour les Droits Economiques et Sociaux (FTDES) 40 per cent of Tunisians are willing to leave the country for better economic opportunities, even through undocumented immigration. This trend in Tunisia is significantly increasing, especially among doctors, medical students and engineers. For instance, in 2020, 80 per cent of freshly graduated doctors have left the country, mainly for Europe (France or Germany).<sup>45</sup> Illegal immigration also significantly increased in the region, particularly in Tunisia, following the 2011 social movements. Illegal immigration concerns mainly low-skilled individuals; however, it is generally driven by the same economic reasons for highly educated migration (FTDES, 2020).

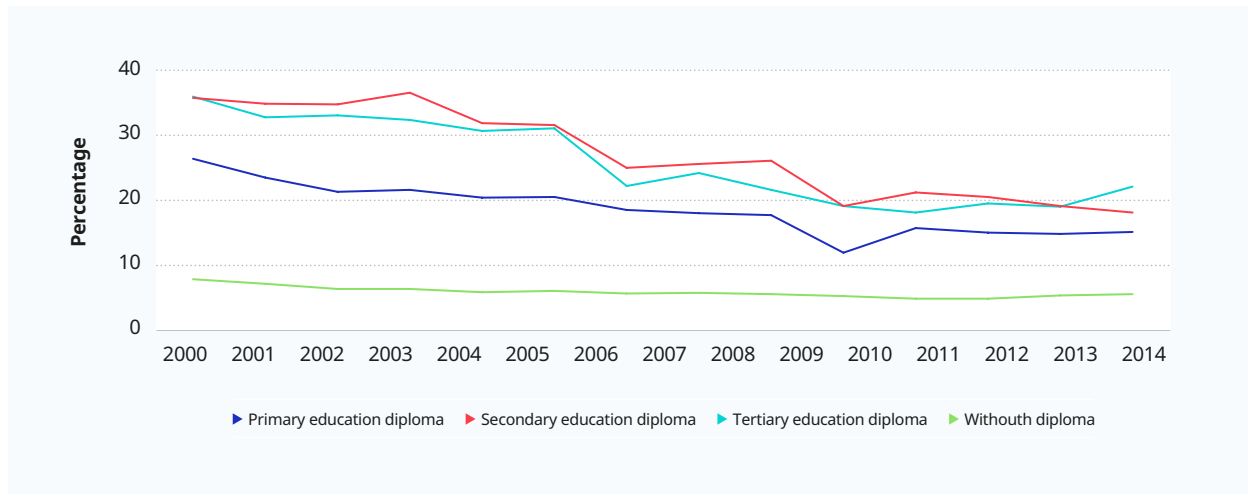
<sup>44</sup> Source: INS.

<sup>45</sup> Webdo.tn, "80% of freshly graduated doctors leave Tunisia!", 2 February 2021 (in French).

► Figure 83: Unemployment by level of education in Egypt, Jordan, Tunisia and the Occupied Palestinian Territory



Source: WDI.

► **Figure 84: Unemployment rate by level of education in Morocco between 2000 and 2014**

Source: HCP Morocco.

There is a debate about the effects of brain drain on developing countries and often the question of brain drain or brain gain is discussed. On the one hand, brain drain leads to human capital and productivity loss in origin countries, potentially lowering growth rates. On the other hand, in the case of the Southern Mediterranean Countries, this might lead to a decrease of pressure on the failing local labour market and might lead to an increase in human capital accumulation for those who migrated and might come back to their origin countries and contribute to overall economic growth. The latter phenomenon is what can be described as a brain gain in the long run. Moreover, migration might lead to positive spillover effects, such as an increase in the level of remittances, as demonstrated by Bollard et al. (2009). The exact effects of this phenomenon on the region remain undetermined and would benefit from being explored.

### 3.2. Women and the labour market in the Southern Mediterranean Countries

The female labour force participation rate in the region is among the lowest in the world, with only 22 per cent in 2019, compared to 53 per cent globally, 62.8 per cent in sub-Saharan Africa and 25 per cent in South Asia.<sup>46</sup> In the region, countries with

the highest levels of educational attainments, such as Jordan and Tunisia, do not have the highest rates of female labour force participation. The female labour force participation rate is the highest in Libya (32 per cent), where females are less likely to be educated than any other country in the region. The lowest rate of female labour force participation is in Jordan, despite the high levels of educational attainment and even though women tend to do better at school than men. For instance, school enrolment in tertiary education in Jordan is higher for females than for men (37 per cent for females as opposed to 32 per cent for men in 2018).<sup>47</sup> The low labour force participation rates for women and the overall high levels of education in the region constitute a paradox. In general, women's propensity to participate in the labour force increases with higher levels of education. However, there is no clear correlation between levels of education and levels of labour force participation for women in the region, which indicates that there are structural challenges for women's labour force participation outside of skills challenges.

The low levels of female labour force participation rates in the region are due to a lack of economic dynamism in the region as well as to social norms and stereotypes. Women in the region have generally preferred public sector employment for its formal nature and its security. However, public sector opportunities have declined since the structural

<sup>46</sup> Source: WDI.

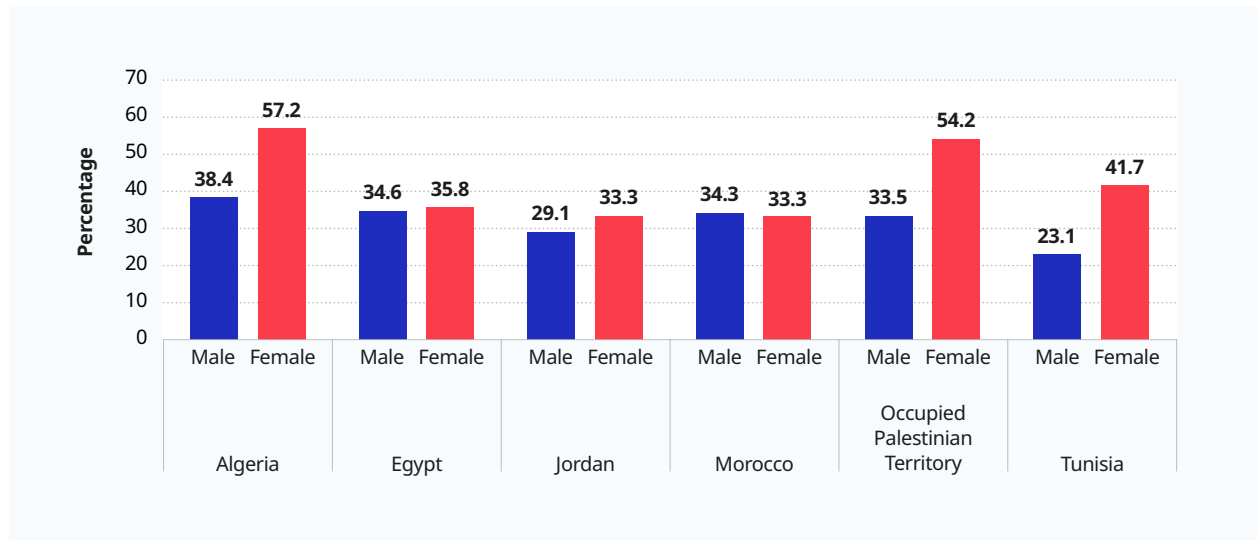
<sup>47</sup> Source: WDI.

► Table 26: Labour force participation rates by gender in the region, 2019

Country	Female labour force participation rate (LFPR)	Male LFPR	Gender gap in LFPR (percentage points)	Total labour force participation rate
Algeria	17%	68%	49 pp	43%
Egypt	16%	67%	49 pp	42%
Jordan	13%	61%	48 pp	39%
Lebanon	29%	70%	41 pp	49%
Libya	34%	65%	39 pp	50%
Morocco	22%	70%	48 pp	50%
Occupied Palestinian Territory	18%	70%	52 pp	44%
Tunisia (2017)	26%	68%	42 pp	47%

Source: ILOSTAT.

► Figure 85: School enrolment in tertiary education by gender, 2017 (percentage of gross)



Source: WDI.

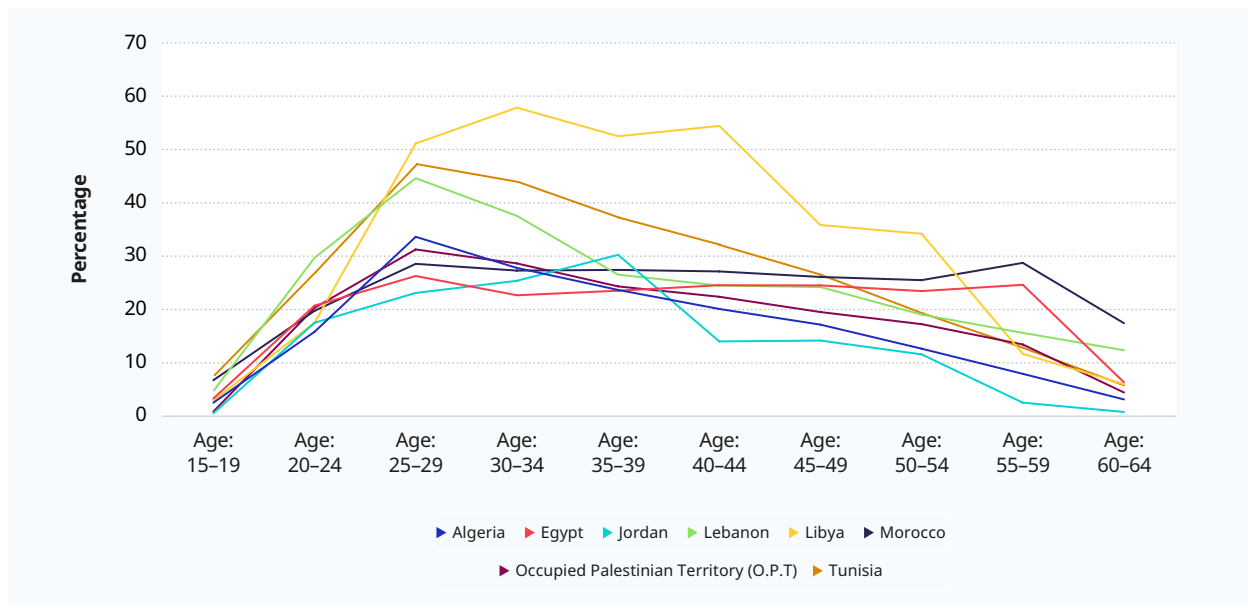
adjustment reforms in the 1990s, despite the important role they continue to play. In parallel, the private sector has been unable to provide the same quality of jobs offered by the public sector, including for highly educated and married women (Assaad et al., 2019). The conservative culture and the traditional view of gender roles in society have usually been used to explain the low labour force participation and high levels of unemployment for women in the region in countries in the region. However, this explanation alone is too simplistic

and does not reflect the complexity of women’s economic outcomes. Social norms might contribute to these poor outcomes as women in the region are expected to be the primary caregivers. However, other root causes reinforce and perpetuate these social norms and stereotypes. The root causes include inadequate childcare provision, low access to affordable and public transportation, discriminatory family and labour laws and low wages and economic compensation (Moghadam, 2008; Ross, 2008).

The female labour force participation rate in the region increases for women aged 15–25, before significantly dropping for those aged 25–29 in most countries (figure 86). In **Algeria, Tunisia, Occupied Palestinian Territory** and **Lebanon**, there is a clear decrease in labour force participation rates for women aged 25 to 29, which generally corresponds to the age of having the first child. The same trend exists in a less pronounced manner in **Morocco, Libya** and **Egypt**. In Egypt and Morocco, the rates display a slight M-shaped pattern, which suggests that women leave the labour market driven by their family duties, as Lassassi and Tansel (2020) demonstrated for Egypt. One explanation for this phenomenon is the inadequacy of early childcare, which represents a significant constraint for women to balance their family and work life. For instance, in Tunisia, the early childcare facilities host only 32 per cent of children<sup>48</sup> and are often perceived as expensive and unsafe, with several child abuse scandals occurring in the last few years.<sup>49</sup>

Another primary constraint is access to public, affordable and safe transportation, especially for women from disadvantaged social classes. Public transportation in the region is underdeveloped and inefficient. Urban planning and transport strategies have prioritized the development of road infrastructures focusing on private cars and informal means of transportation than the development of public transportation systems (Attari et al., 2018). Moreover, women tend to feel insecure in public transportation due to harassment, which might influence their job and labour market choices. For instance, a study done by the Laboratory of Land Use Mobility and Environment at the University of Naples "Federico II" reports that in Egypt, Morocco, Tunisia, Lebanon, and Jordan, at least 65 per cent of women mentioned fear of violence or harassment as a reason not to use public transportation systems.<sup>50</sup> Moreover, according to the World Bank, in Jordan, 40 per cent of women have refused job opportunities due to the lack of access to viable transport.<sup>51</sup> The informal means

► **Figure 86: Female labour force participation rate by age, 2019 (percentage)**



**Note:** The ILO modelled estimates are used here across all countries for the availability of data by age and comparability between countries.

**Source:** ILOSTAT - modelled estimates.

48 Source: Ministry of Women and Family in Tunisia, available at: [http://www.femmes.gov.tn/wp-content/uploads/2017/11/Fiches-finales\\_Sandouk\\_toufoulati-version-AR-1.pdf](http://www.femmes.gov.tn/wp-content/uploads/2017/11/Fiches-finales_Sandouk_toufoulati-version-AR-1.pdf).

49 For example, the following news stories, in French: Tunisie Numerique, "Arrest of the owner of a child's nursery following the death of a baby", 12 January 2021, and Realites Online, "Suspicious death of a baby in an illegal nursery in Menzeh 9: arrest of the owner", 17 June 2021.

50 TEMA, "Urban Travel in the Middle East and North Africa", *Journal of Land Use, Mobility and Environment*, January 2018.

51 Paul Nounba and Dickson Effah, "If urban transport in MENA was safe for women, economies would prosper", World Bank Blog, 29 October 2020.

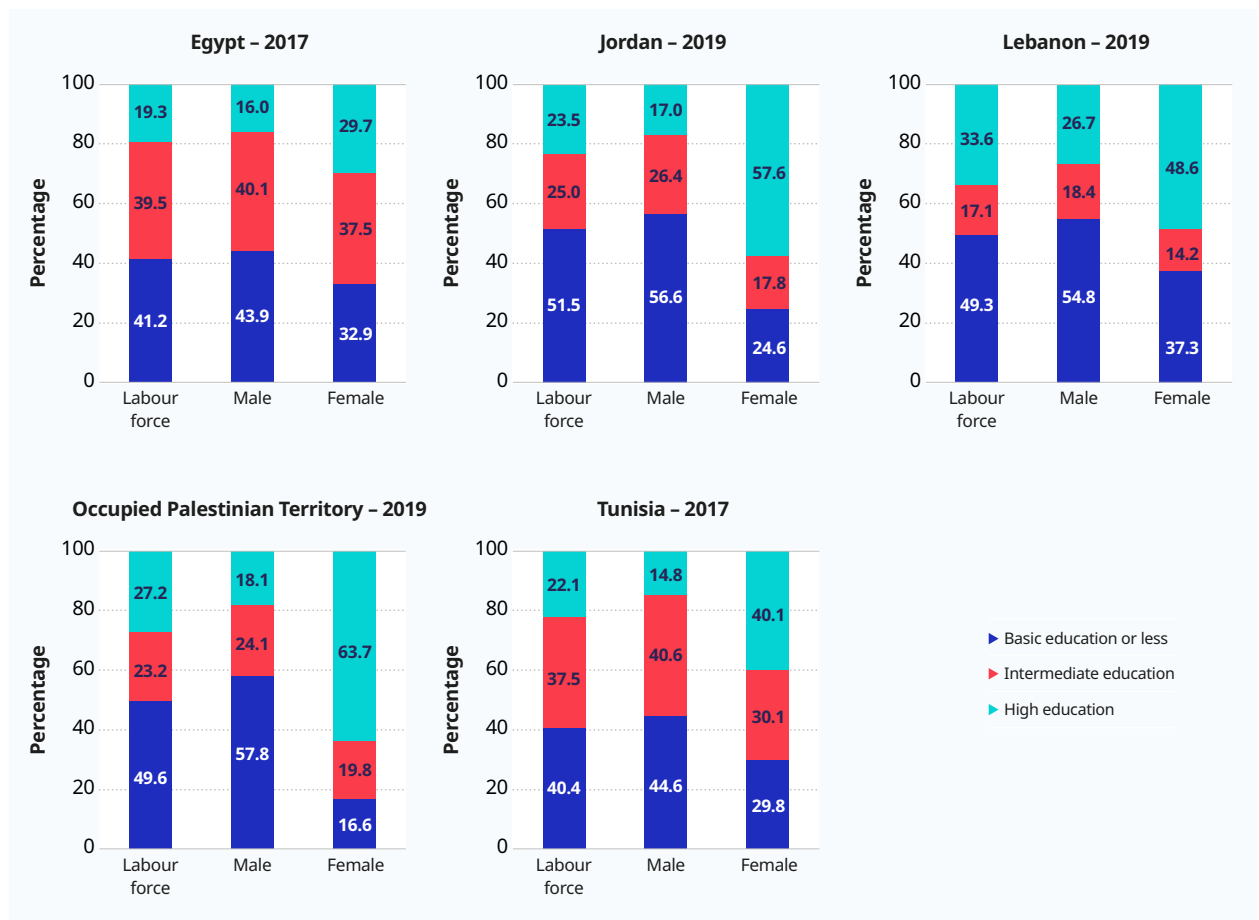
of transportation in countries like Egypt, Lebanon and Tunisia, are unsafe for women and limit their mobility. The rapid urbanization and lack of public resources have imposed these choices and indirectly led to the spatial exclusion of disadvantaged women from access to the labour market.

From personal status to labour laws, the legal framework in the region disadvantages women and affects their ability to participate in the labour market, despite recent improvements. Particularly, personal status laws in the region are disadvantageous towards women. Women tend to have fewer rights than men in family decision-making, marriage, divorce and inheritance. The inheritance law is particularly disadvantageous for women in the region and little progress is expected there in the region, considering its link with religious beliefs. These laws and their applications influence the collective perception of the role of women in societies and therefore economies. However, there is some

progress in labour laws in countries like Egypt, Jordan, Tunisia and Morocco to promote equal pay, promote women entrepreneurship and equality in employment, as indicated by OECD (2020b).

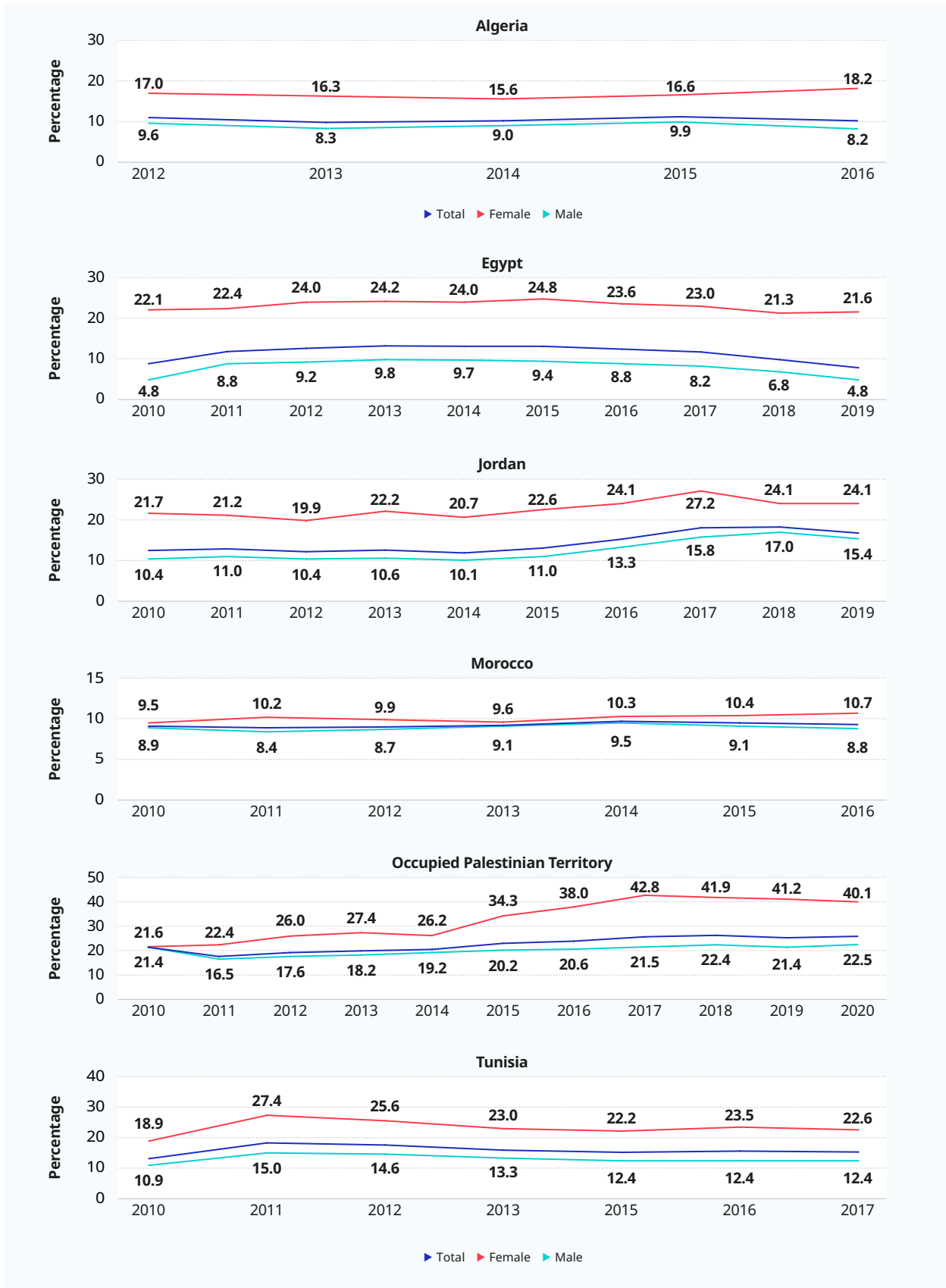
Within the labour force, women in the region experience higher levels of unemployment, despite being more educated than men. Women in the labour force are more educated than men, with higher shares of women with higher education than men in almost all countries in the region (figure 87). Particularly, Palestinian and Jordanian women in the labour force are the most educated in the region, with 63 per cent and 58 per cent respectively with higher education in 2019. However, despite this, unemployment is much higher for women than for men in the region, except for Morocco, where the unemployment rate is at similar levels for females and males (figure 88). The highest level of female unemployment is recorded for the Occupied Palestinian Territory, where rate is 40 per cent,

► Figure 87: Labour force by levels of education and sex



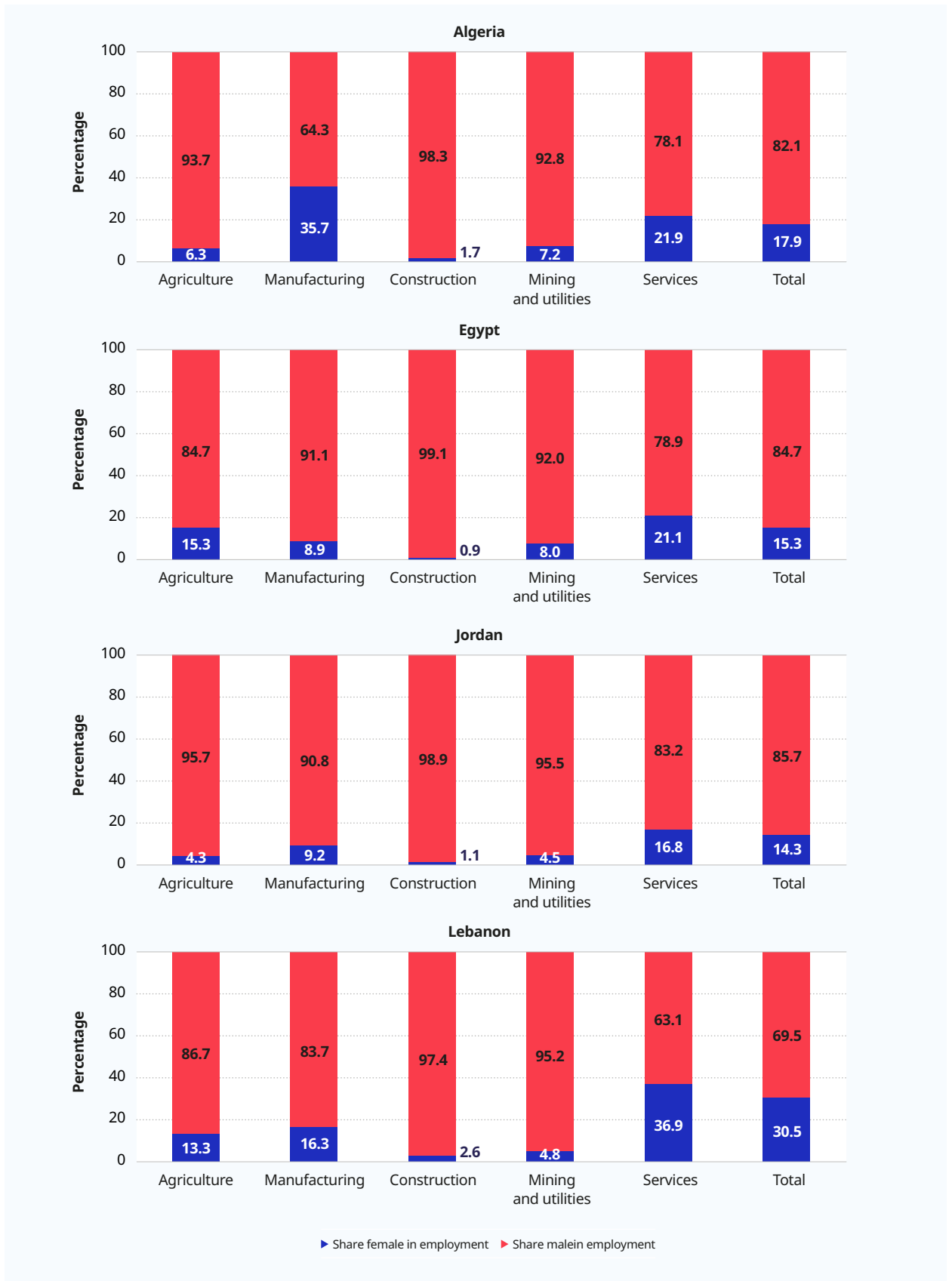
Source: Author's computation based on ILOSTAT.

► Figure 88: Unemployment rate per sex in the region



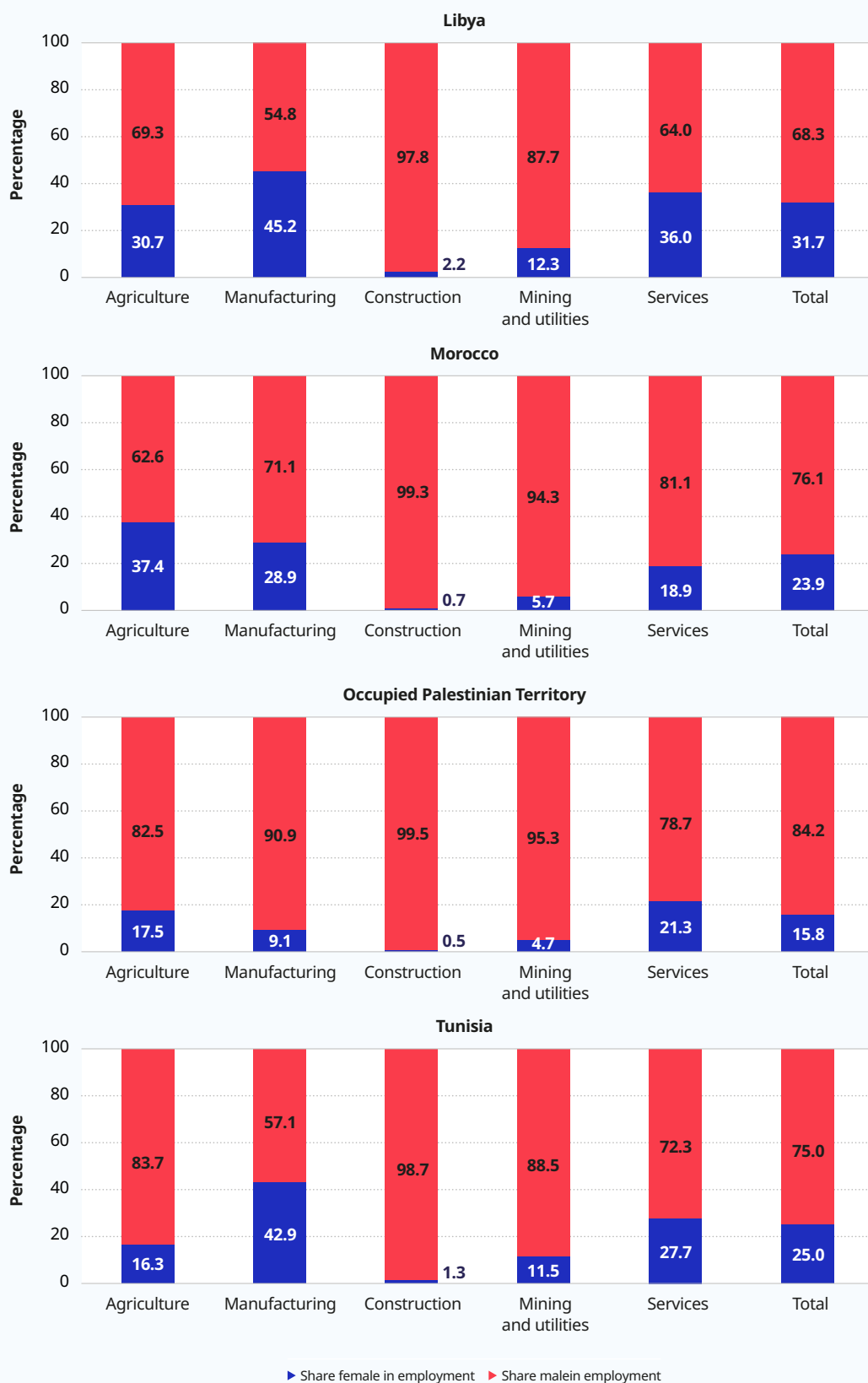
Source: ILOSTAT.

► Figure 89: Distribution of sectoral employment by sex in countries in the region, 2019





► Figure 89 (continued)



Source: Author's computation based on ILOSTAT.

almost double the rate for males (23 per cent) in 2020. The female unemployment rate in Occupied Palestinian Territory has been significantly increasing over the past decade, reaching in 2019 a level almost double that recorded in 2010. In Jordan and Tunisia, where women generally have better educational attainments than men, the unemployment rate gap between females and males is 9 and 10 percentage points. The high levels of women's unemployment rates can be explained by the same constraints leading to their exclusion from the labour force. Also, it can be explained by the significant number of women in the region, especially in Jordan and Tunisia, queuing for the perceived “female-friendly” jobs, including in the public sector, which is reflected by the long-term unemployment for females. For instance, in Jordan, long-term unemployment (more than one year) affects 72 per cent of unemployed females, compared to 58 per cent of men (Hausmann et al., 2019).

As a result of the meagre labour force participation rates and the high levels of unemployment, the share of women in employment is very low across all countries in the region, ranging from 14 per cent in Jordan to 32 per cent in Libya. In general, women tend to work in a limited number of sectors, mostly in services. For instance, in Egypt, Jordan, Lebanon and Occupied Palestinian Territory, the highest levels of female employment are in services, where women represent respectively 21 per cent, 17 per cent, 37 per cent and 21 per cent of sectoral employment. North African economies tend to be more inclusive for women, as women in Algeria, Morocco, Tunisia and Libya tend to work in more diverse sectors, including agriculture and manufacturing. For instance, in Libya, women represent 45 per cent of employment in manufacturing and 31 per cent of employment in agriculture. In Morocco, women represent a significant share of employment in agriculture (37 per cent) and manufacturing (29 per cent). Tunisian and Algerian women are more represented in manufacturing (43 per cent and 36 per cent) than in services (28 per cent and 22 per cent). In Egypt and despite manufacturing being one of the main job-creating sectors, women represented less than 9 per cent of its total employment in 2019. In employment, women in Egypt and Tunisia suffer from an important wage gap in comparison with their male counterparts; rooted in employers' discrimination, the mean gender wage gap using monthly earnings is respectively at 14 and 9 per

cent.<sup>52</sup> However, in Jordan, the gender wage gap is estimated on average to be only 2 per cent using monthly earnings.

### 3.3. Employment in tradable and non-tradable sectors for women and youth in the region

Overall, women are shifting out of tradable sectors towards non-tradable ones in the region. As indicated in the previous chapter, this is mainly driven by a shift of labour from agriculture that has not been replaced at similar levels in other more productive tradable sectors. This trend is however more pronounced for women than for men. The share of manufacturing female employment has decreased in almost all countries, except for Egypt, while it remained relatively stable for men. Male employment in tradable services has generally increased, while it remained either stable or decreased for women. Tradable services represent in general a very small share of female employment in the region, at lower levels than men and their share in employment has been mainly increasing for men. Women in the region tend to be concentrated in a handful of sectors, mainly high-skilled services such as education, healthcare and public administration. The share of these sectors in female employment has significantly increased in almost all countries, translating to the increase of high-skilled female workers in the region's labour force. Also, the share of wholesale and retail has significantly increased for female workers in most countries in the region.

Employed youth in in Egypt, Jordan, Occupied Palestinian Territory and Tunisia seem to be doing better when compared to their peers in terms of participation in tradable sectors. Data for youth employment over time is only available for Egypt, Jordan, the Occupied Palestinian Territory and Tunisia. In these countries, the share of youth working in manufacturing and in tradable sectors is, overall, higher than for older workers. Manufacturing has, in general, increased demand for high-skilled youth workers and in most countries, the demand for high-skilled youth has increased faster than high-skilled older workers. However, youth tend to be more concentrated in low-skilled non-tradable sectors than their older peers, mainly in construction and wholesale and retail. Finally, there is no clear trend for the level of skills: Employed youth

52 Source: ILO Global Wage Report 19/20; data unavailable for Algeria, Libya, Morocco, Occupied Palestinian Territory and Tunisia.

► **Table 27: Evolution of labour force and employment by sex in Egypt, 2009–19 (in thousands)**

Labour force and employment in thousands	2009	2019	2009–2019	Growth 2009–2019 (%)
Labour force, female	5,898	5,101	-797.7	-13.5 %
Labour force, male	19,373	23,258	3884.2	20.0 %
Labour force, total	25,272	28,358	3086.5	12.2 %
Employment, female	4578.3	3998.2	-580.1	-12.7 %
Employment, male	18,397	22,135	3738.3	20.3 %
Employment, total	22,975	26,134	3158.2	13.7 %

**Source:** Author's computation, based on data provided by ILO Statistics Department.

tend to be slightly better educated and with higher skills than their adult peers in Egypt and Tunisia and with lower levels of education in Jordan and the Occupied Palestinian Territory.

Even though the female working-age population increased by 26 per cent in **Egypt**, the labour force for women decreased by 14 per cent between 2009 and 2019, while female employment decreased by 13 per cent over the same period. This indicates that the jobs created between 2009 and 2019 have absorbed some unemployed females, which is reflected in a slight decrease in the female unemployment rate (from 22.4 per cent in 2009 to 21.6 per cent in 2019). For men, the labour force and employment grew at similar levels, with employment growth being slightly higher to labour force growth (table 27). Employment growth did not only absorb the new male entrant to the labour force but also created jobs beyond, leading to a slight decrease in the unemployment rate over the same period (from 5.0 per cent to 4.8 per cent).

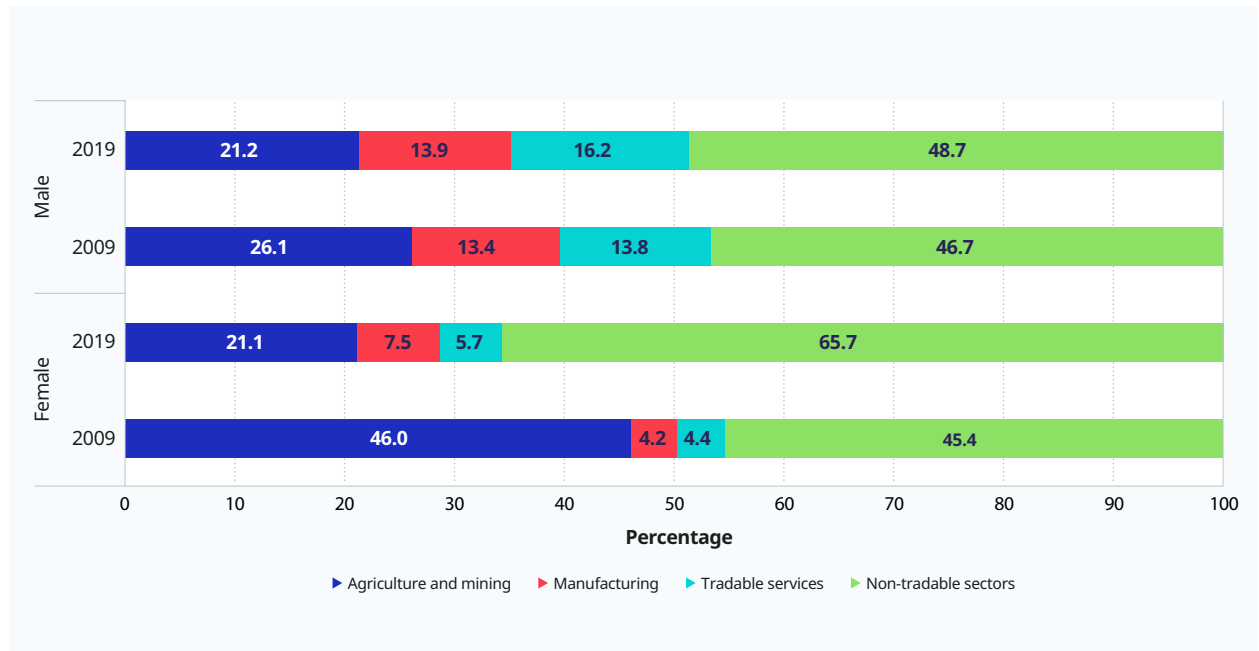
Between 2009 and 2019, female labour shifted from agriculture, a tradable sector, to mostly non-tradable sectors such as human health and social services, wholesale and retail, and education. As a result, the share of women in tradable sectors decreased from 54.6 per cent in 2009 to 34.8 per cent in 2019, while the share of men in tradable sectors remained stable (figure 90). However, manufacturing played a significant role in job creation for women between 2009 and 2019, with its share in female employment increasing from 4.2 per cent to 7.5 per cent. Growth in employment in manu-

facturing has been higher for females than males between 2009 and 2019, as male workers' share has remained stable. Tradable services have created more jobs for men than women in Egypt. Between 2009 and 2019, the share of men in employment increased from 13.8 per cent to 16.2 per cent, while for women it only increased from 4.4 per cent to 5.7 per cent.

There are some noticeable improvements in female employment in manufacturing, reflecting a certain success of industrial and trade policies implemented in Egypt. As mentioned in the previous chapter, manufacturing has witnessed considerable employment growth in Egypt, the highest in the region. In reality, 85 per cent of jobs created between 2009 and 2019 in manufacturing were for male workers. However, manufacturing created a relatively sizable number of jobs for women, considering the decrease in the female labour force between 2009 and 2019. Manufacturing was the third source of job creation for women after wholesale and retail and human health and social activities, with 108,000 jobs created for females between 2009 and 2019, increasing the share of women employed in manufacturing (out of total female employment) from 4 per cent to 8 per cent in 2019. Most of the jobs created were in the sectors prioritized by industrial policies, such as apparel (+69,000 jobs), textiles (+11,000 jobs), electrical equipment (7,400 jobs) and pharmaceuticals (4,200 jobs). However, in terms of skills, manufacturing mostly created low-skilled jobs for women between 2009 and 2018,<sup>53</sup> as the share of low-skilled women employed in manufacturing increased by 6 percentage points (figure 92).

53 Data was unavailable for skills in 2019.

▶ **Figure 90: Employment in tradable and non-tradable sectors by sex in Egypt, 2009–19**



**Source:** Author’s computation, based on data provided by ILO Statistics Department.

These results, coupled with the evolution of exports in manufacturing, indicate that low-skilled women have not been displaced due to trade policies and that trade expansion seems to have relatively increased the demand for low-skilled female workers. On the other hand, manufacturing seems to have increased the demand for mid and high-skilled male workers.

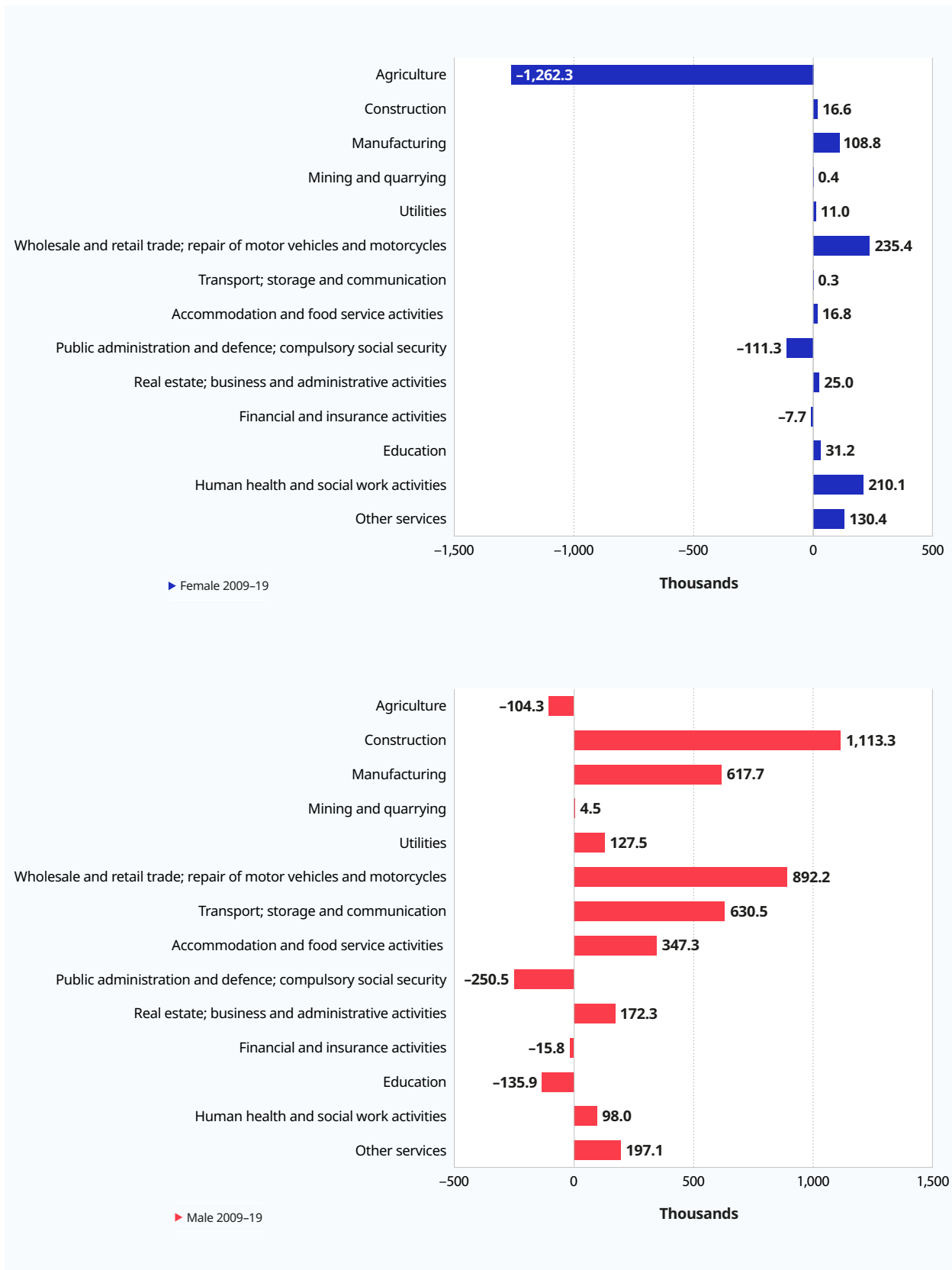
Employment and job creation for Egyptian women are constrained in a handful of sectors, mostly in non-tradable sectors. In 2019, nearly 50 per cent of women were employed in education, health and human services, social services and wholesale and retail. The other main sector employing women in Egypt is agriculture (21 per cent); however, its share has significantly decreased from 46 per cent in 2009. On the other hand, all sectors across the economy have created jobs for men. Between 2009 and 2019, the Egyptian economy created nearly 3.7 million jobs for male workers, across all economic sectors, except for public administration. Meanwhile, female employment decreased, with 595,000 jobs destroyed for female workers driven by the decrease in labour supply.

Unsurprisingly, most of the jobs created for women were in services, both in low-productive sectors such as wholesale and retail and high-skilled ones such as healthcare (figure 91). The share of whole-

sale and retail in female employment has more than doubled between 2009 and 2019, increasing from 6 per cent to 13 per cent. Human health and social activities, a high-skilled sector, also created a relatively significant number of jobs for women between 2009 and 2019 (210,000), doubling its share in female employment (7 per cent in 2009 versus 13 per cent in 2019). The share of both these sectors in male employment has remained relatively stable, with a slight increase from 12 per cent to 14 per cent for wholesale and retail. Employment in the public sector shrank between 2009 and 2019, both for female and male workers, with more than 361,000 jobs destroyed in this sector, primarily for men (259,000). Contrary to other countries in the region, such as Jordan and Tunisia, employment in public administration is mainly composed of men, with women representing only 21 per cent of total employment in this sector in 2019.

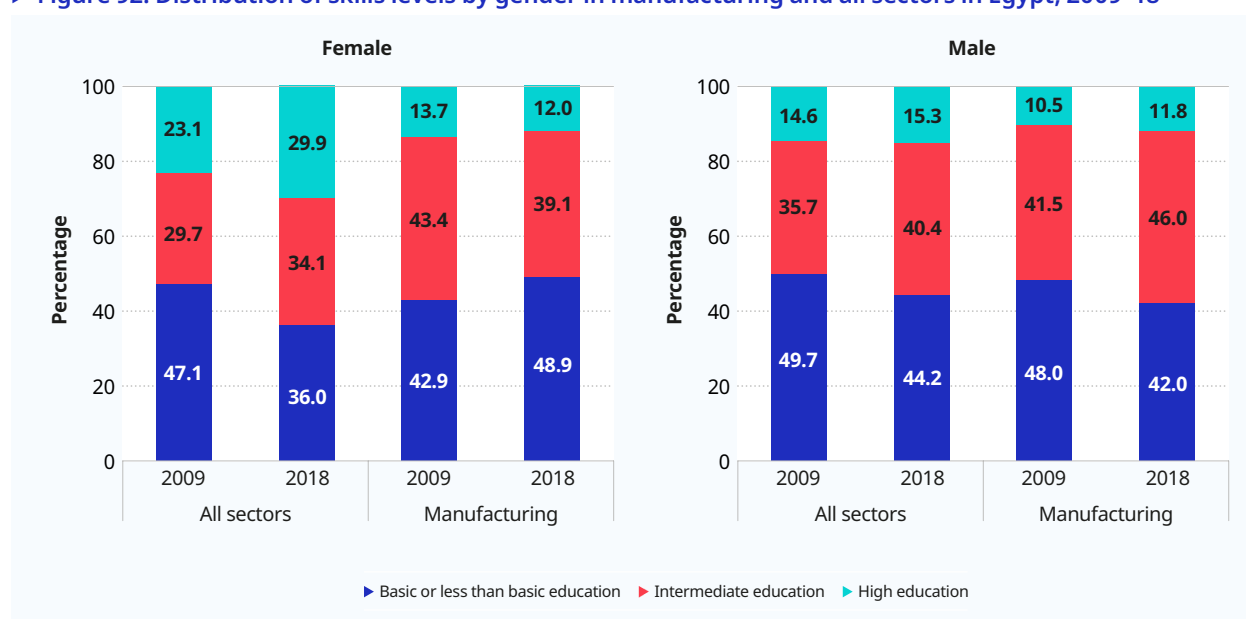
In general, there was a slight improvement in the level of skills for employed women between 2009 and 2018 (figure 92). The share of high-skilled and mid-skilled employment increased over the same period and the share of low-skilled employment decreased by more than 11 percentage points. This is mainly driven by the significant decrease in agriculture employment and the increase in high-skilled sectors such as education and human health and social work.

► Figure 91: Job creation in Egypt by sector and gender, 2009–19 (in thousands)



Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 92: Distribution of skills levels by gender in manufacturing and all sectors in Egypt, 2009–18



Note: the total is slightly less than 100% due to the existence of a category in which the level of education is not stated.

Source: Author’s computation, based on data provided by ILO Statistics Department.

► Table 28: Evolution of labour force and employment by age in Egypt, 2009–19 (in thousands)

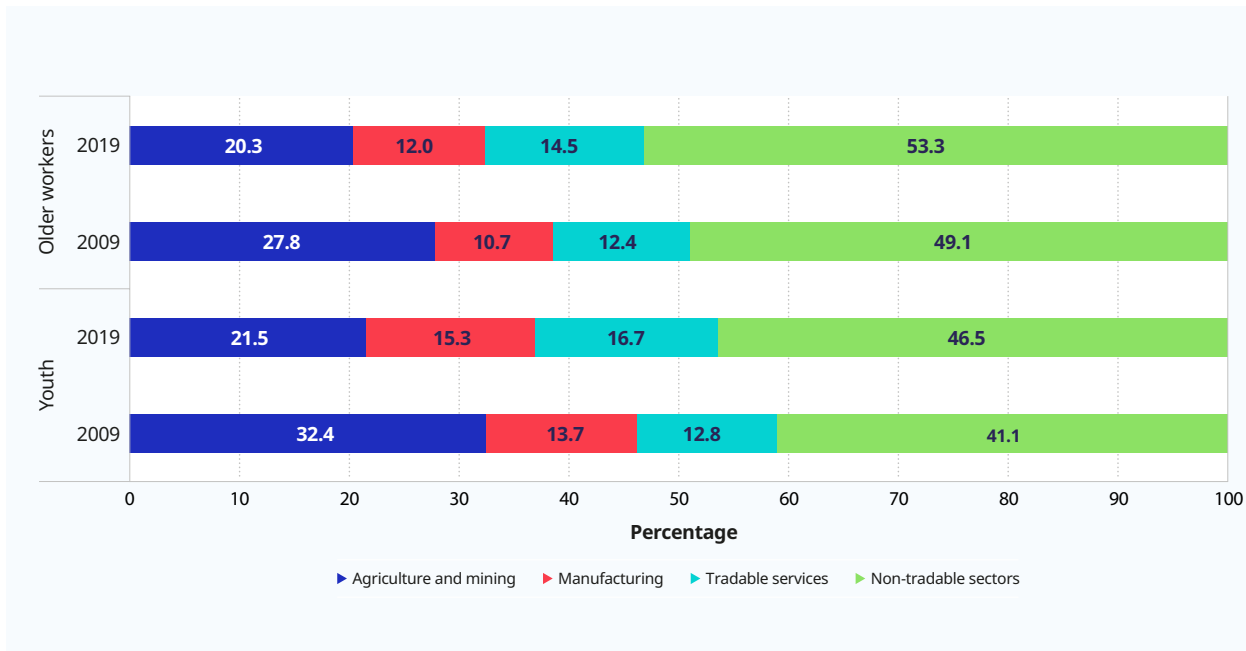
Egypt	2009	2019	2009–2019	Growth 2009–2019 (%)
Labour force, youth (15–29)	9,270	9,952	682.2	7.4 %
Labour force, older workers (30–64)	15,590	18,001	2411.2	15.5 %
Employment, youth (15–29)	7,347	8,293	946.4	12.9 %
Employment, older workers (30–64)	15,217	17,435	2218.7	14.6 %

Source: Author’s computation, based on data provided by ILO Statistics Department.

The youth labour force increased by only 7 per cent between 2009 and 2019, despite the youth working-age population rising by 41 per cent over the same period (table 28). The youth labour force participation rate decreased by ten percentage points, from 42 per cent in 2009 to 32 per cent in 2019. However, youth in the Egyptian labour market have had a more positive dynamic than adult peers during this period. Youth employment grew faster than the youth labour force, leading to a decrease in the youth unemployment rate from 20.7 per cent in 2009 to 17 per cent in 2019. On the other hand, for older workers (30–64), the supply of labour was higher than the demand (16 per cent versus 15 per cent). This led to a slight increase in their unemployment rate from 2 per cent in 2009 to 3 per cent in 2019.

Youth employment in tradable sectors decreased between 2009 and 2019, albeit at a slower pace than for older workers. As was the case for women, the decrease was driven by a labour shift out of agriculture. In fact, the share of manufacturing and tradable services in youth employment increased at a higher pace than for older workers (figure 93). The share of manufacturing and tradable services in youth employment increased respectively by 2 and 4 percentage points. Comparatively, for employed older workers, the share of manufacturing and tradable sectors grew by 1 and 2 percentage points. Employment growth in manufacturing increased the demand for mid- and high-skilled older workers and high-skilled youth workers (figure 95). Overall, trade expansion in Egypt yielded a more

► Figure 93: Employment in tradable and non-tradable sectors by age in Egypt, 2009–19



Source: Author's computation, based on data provided by ILO Statistics Department.

positive impact on youth employment than older workers' employment.

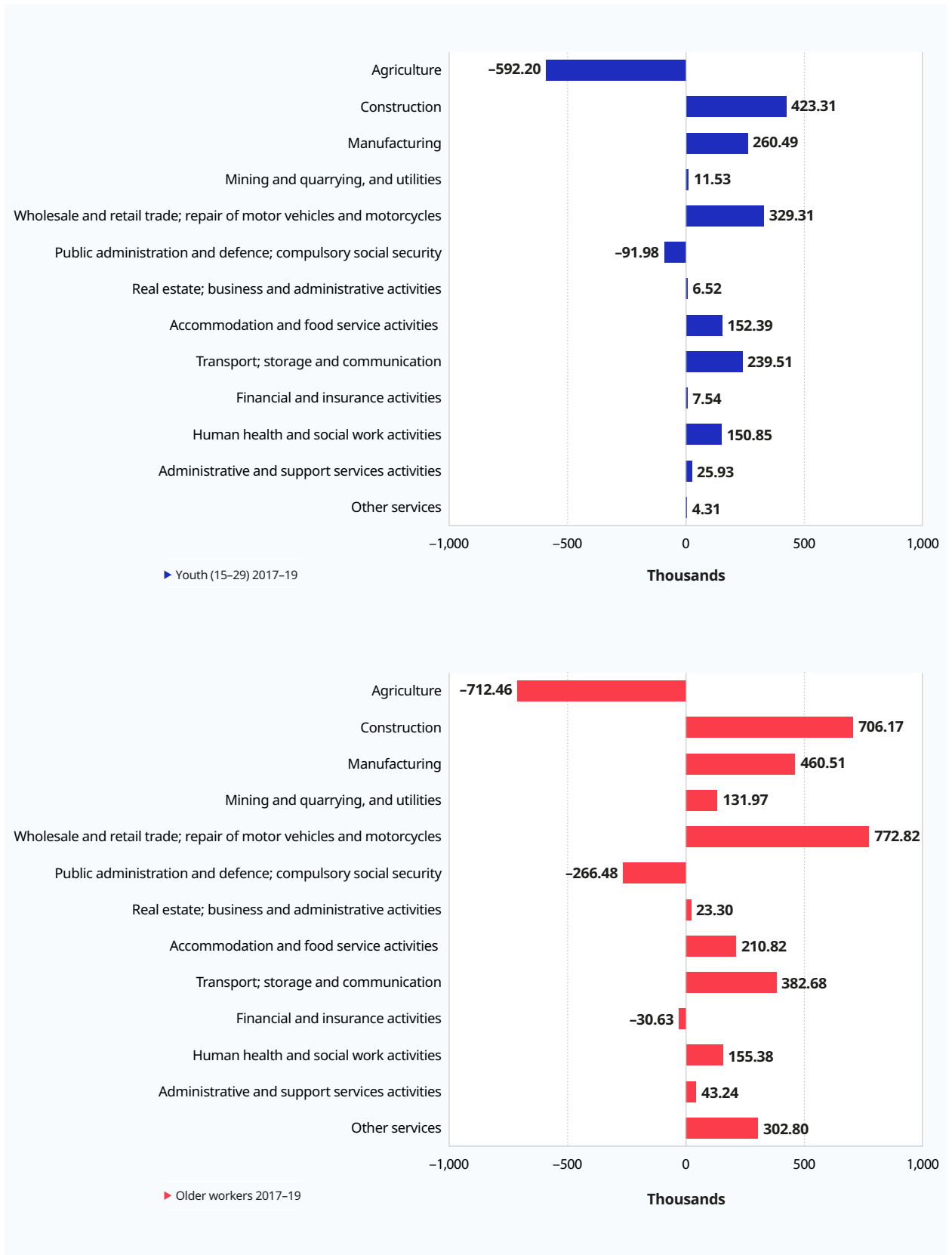
Unlike women, youth benefitted from jobs created in all sectors except for agriculture and public administration (figure 94). This dynamic is mainly driven by male youth, as young women face the same constraints and restrictions as their adult peers. Most of the jobs for youth were created in construction, wholesale and retail, manufacturing, transportation and storage and accommodation and food. These sectors created mostly low and mid-skilled jobs. The share of construction and wholesale and retail in employment has increased more for youth than older workers, suggesting a concentration of job creation for youth in low-skilled non-tradable sectors. However, human health and social work activities also created a significant number of jobs, primarily high-skilled and mid-skilled ones, as 95 per cent of jobs are for youth workers with high and intermediate education. The dynamic in job creation between 2009 and 2018 slightly increased the demand for youth with high levels of education (from 15 per cent in 2009 to 18 per cent in 2018) and for older workers with intermediate education. Most of the youth in the Egyptian labour market have intermediate education (43 per cent in 2018) or basic or less than basic education (39 per

cent in 2018). The distribution of skills in 2018 indicates that youth are generally slightly better educated and have higher skills than their adult peers. In 2018, youth and older workers had similar high-skilled employment levels, but youth had higher shares of mid-skilled employment and older workers had higher shares of lower-skilled employment.

In **Jordan**, the supply of female labour decreased significantly by 19 per cent in only two years from 2017 to 2019, even though the female working-age population grew by 2 per cent over the same period. Female labour force participation rate decreased from 17 per cent in 2017 to 13 per cent in 2019. However, female labour force demand exceeded the supply, as the female labour force decreased by 19.1 per cent while female employment decreased by only 16 per cent between 2017 and 2019. For males, employment and labour force grew at almost identical levels between 2017 and 2019, respectively, 14 per cent and 13 per cent (table 29).

Female employment in Jordan is largely restricted in a limited number of non-tradable sectors, mostly in highly skilled activities and women tend to be more present in non-tradable sectors than men (figure 96). Employment data is only available between 2017 and 2019 and therefore, parallel trends with the evolution of trade are only possible between

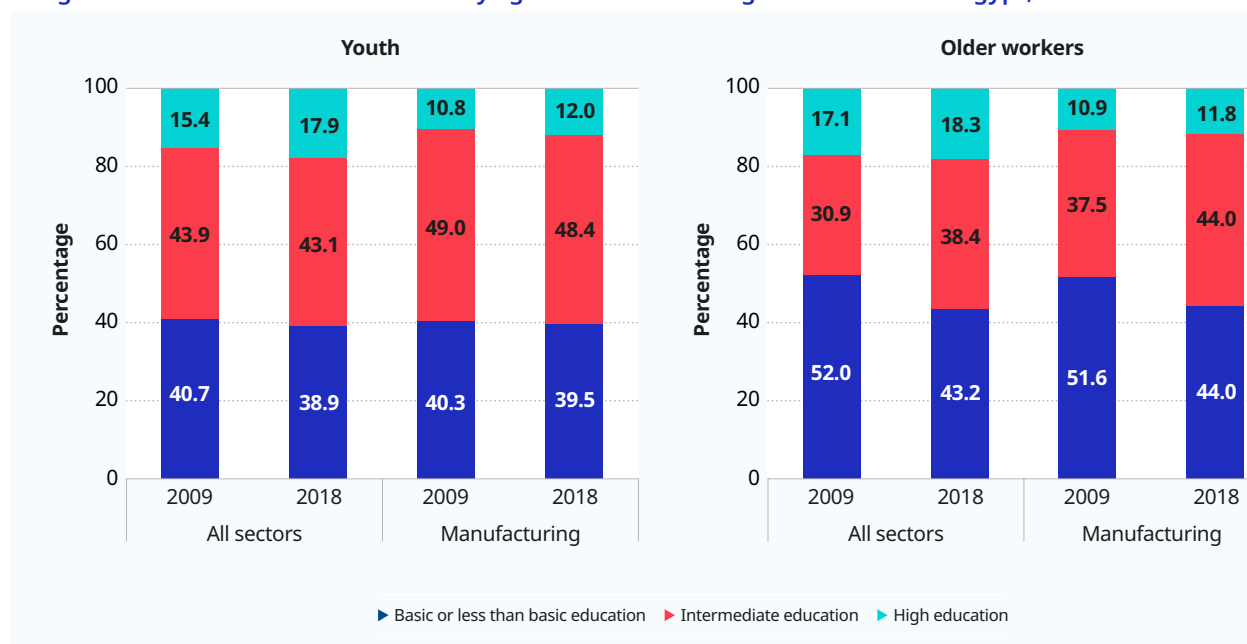
▶ Figure 94: Job creation in Egypt by sector and age, 2017–19 (in thousands)



Source: Author’s computation, based on data provided by ILO Statistics Department



► Figure 95: Distribution of skills levels by age for manufacturing and all sectors in Egypt, 2009–18



Source: Author's computation, based on data provided by ILO Statistics Department.

► Table 29: Evolution of labour force and employment by sex in Jordan, 2017–19 (in thousands)

Jordan	2017	2018	2019	2017–2019	Growth 2017–2019 (%)
Labour force, female	534	464	432	-101.6	-19.1 %
Labour force, male	2,053	2,165	2,326	273.0	13.3 %
Labour force, total	2,587	2,629	2,758	171.4	6.6 %
Employment, female	388	352	328	-60.7	-15.6 %
Employment, male	1,729	1,797	1,967	238.2	13.8 %
Employment, total	2,117	2,148	2,294	177.5	8.4 %

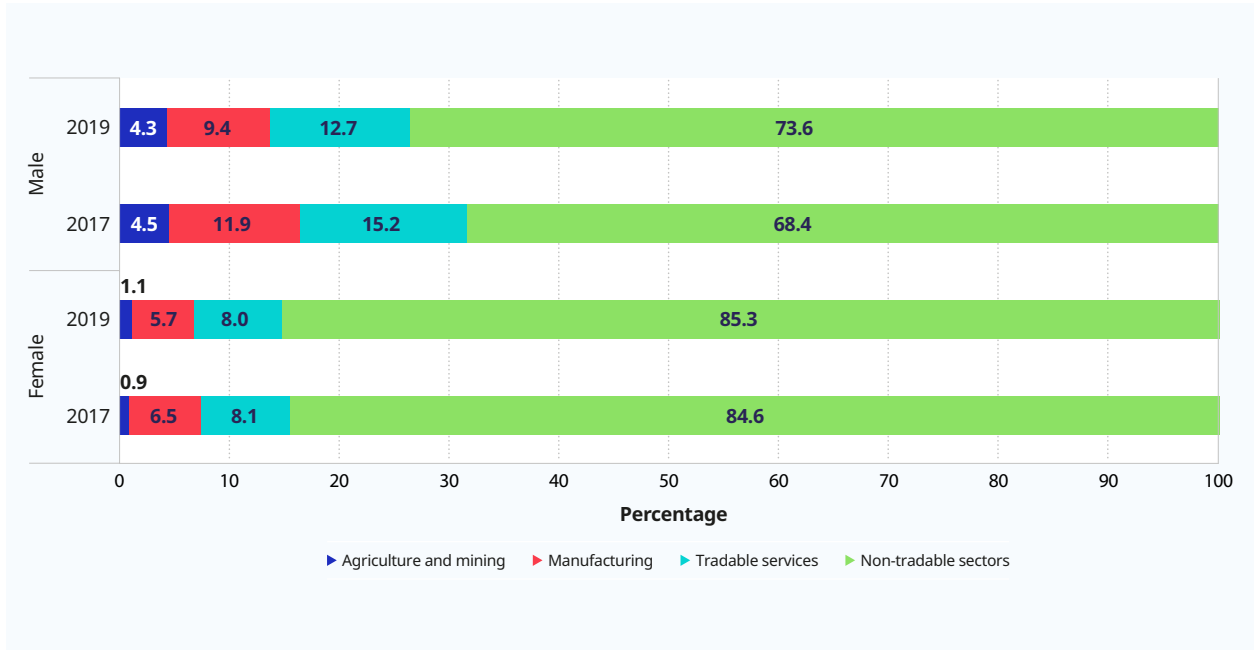
Source: Author's computation, based on data provided by ILO Statistics Department.

these two years. However, there is a clear difference in the employment dynamic between men and women. Women in Jordan do not engage in agriculture (only 1 per cent of women are working in agriculture compared to about 5 per cent of men) and engage at very low levels in manufacturing, less than men.

Tradable sectors employ only a small share of women, at lower levels than men. For instance, manufacturing and tradable services (including financial services, professional, scientific and technical activities and information and communication)

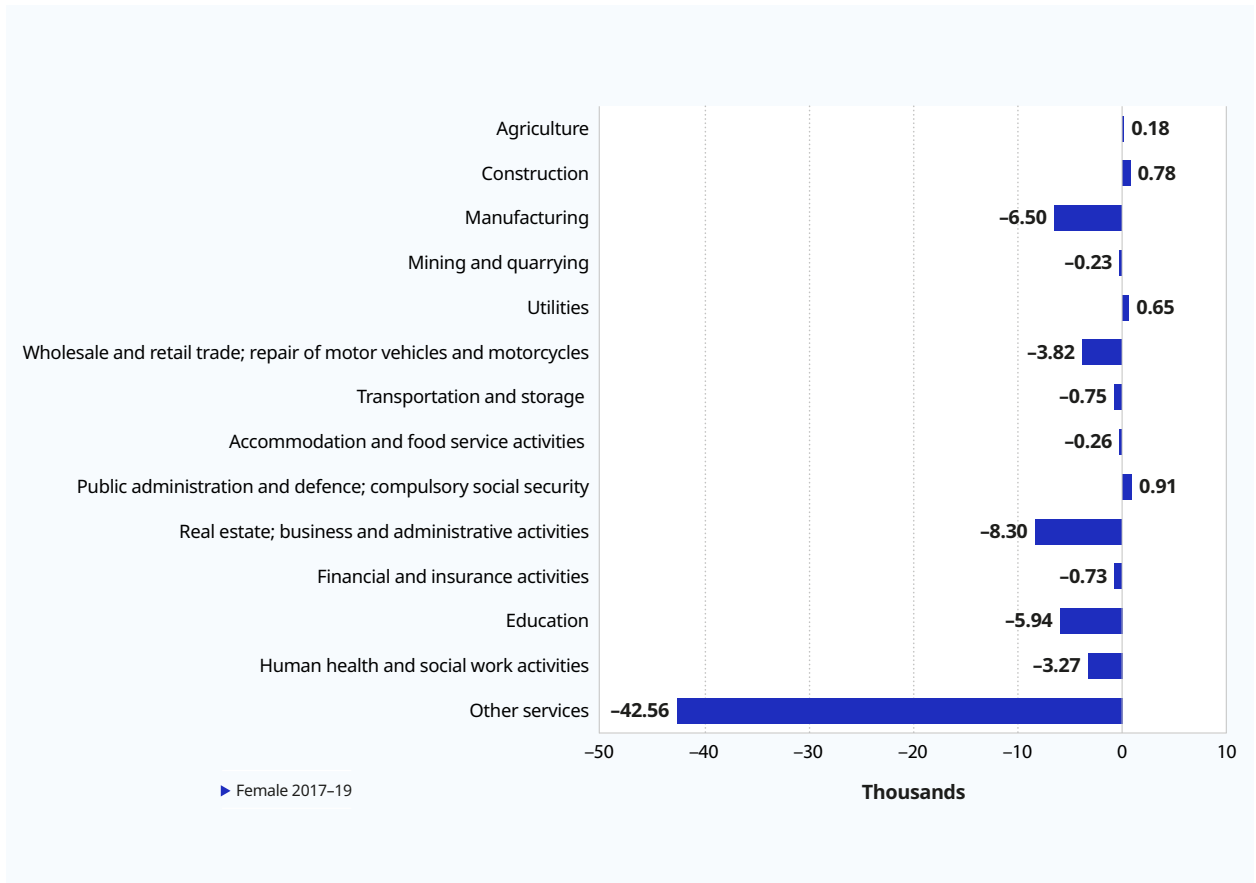
employ merely 14 per cent of women. Between 2017 and 2019, these sectors did not create jobs for women (figure 97). Their share in female employment even decreased slightly over the same period, with job losses for women in manufacturing (figure 98). Manufacturing employs only 6 per cent of Jordanian women, mostly in textile and apparel. In terms of skills, 22 per cent of women working in manufacturing have advanced education and 59 per cent are low-skilled. However, even in manufacturing, the share of women with advanced education is higher than men (figure 98).

► Figure 96: Employment in tradable and non-tradable sectors by sex in Jordan, 2017-19

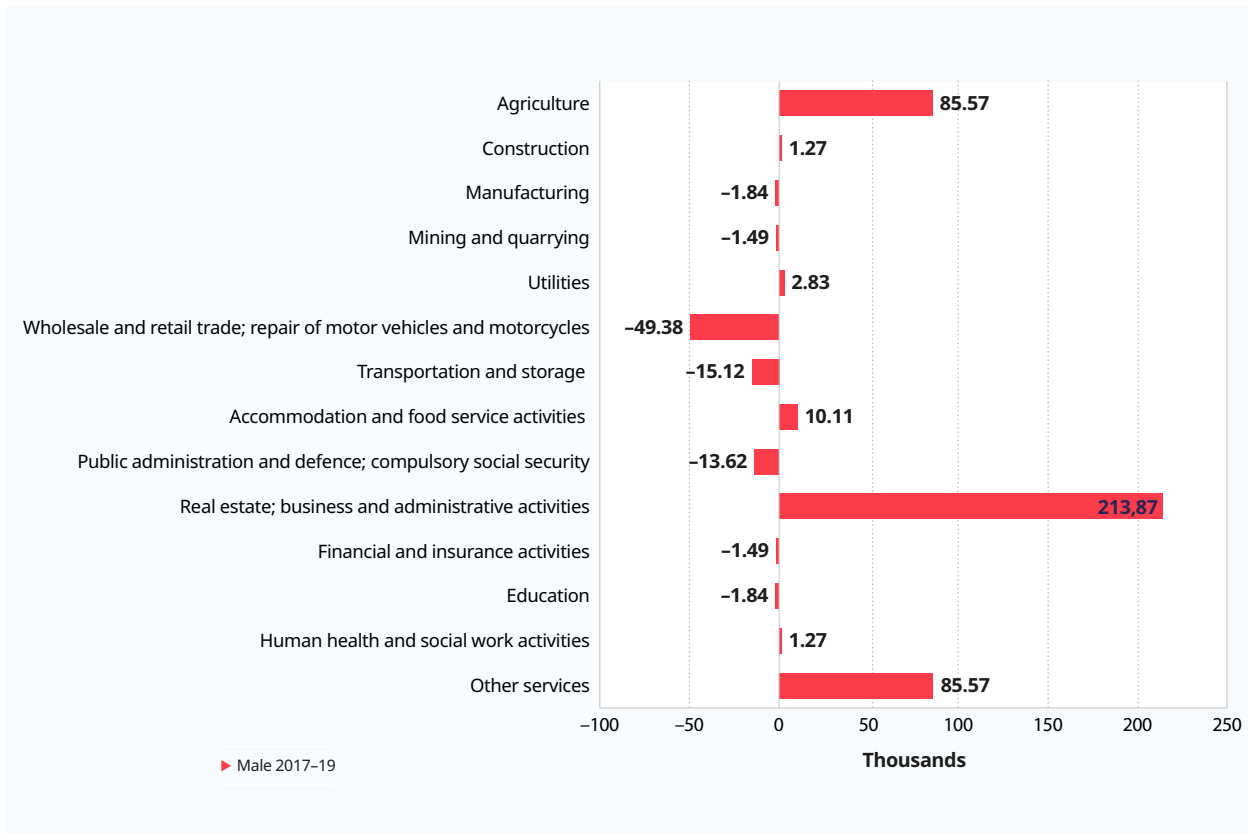


Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 97: Job creation in Jordan by sector and gender, 2017-19 (in thousands)

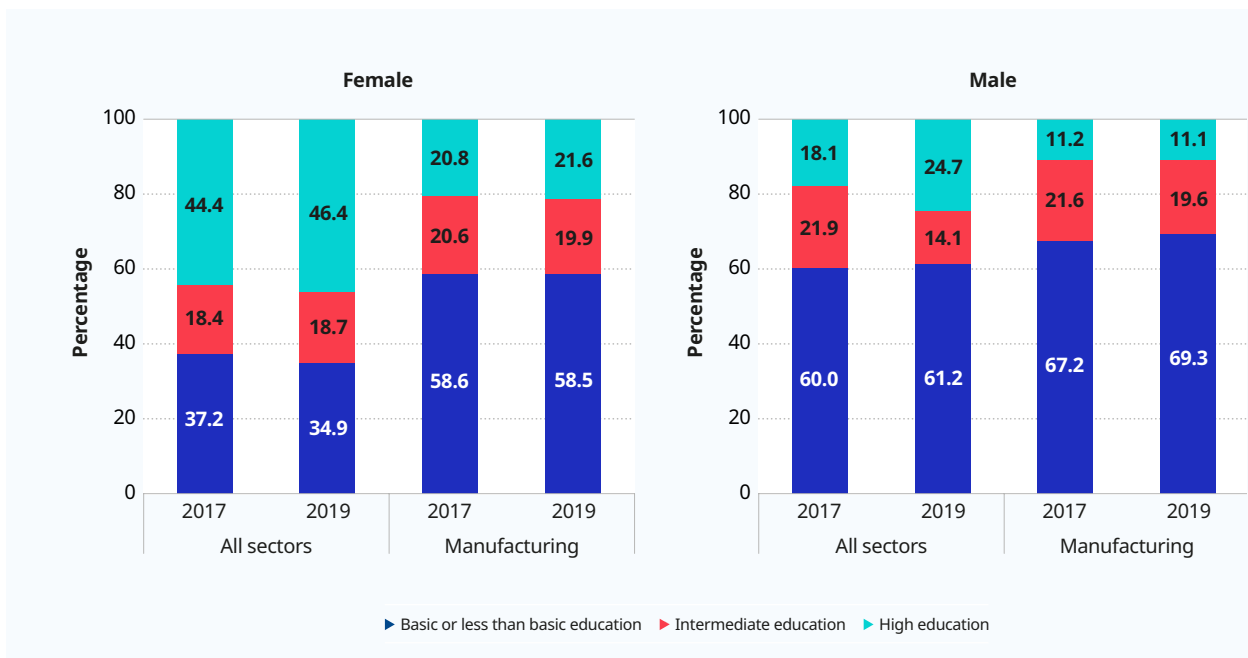


► Figure 97 (continued)



Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 98: Distribution of skills levels by sex in Jordan, 2017-19



Source: Author's computation, based on data provided by ILO Statistics Department.

Non-tradable sectors such as education, health-care and public administration represented 56 per cent of total female employment in 2019, with 68 per cent of women working in these three sectors having an advanced education. This and the very low levels of labour force participation indicate that these sectors are considered as “suitable for women”, contrary to other sectors. However, these sectors did not grow to absorb the increasing number of highly educated women in Jordan. Among these sectors, only public administration created less than 1,000 jobs in two years. As indicated in the previous section, Jordanian women are better educated than men within and outside the labour market. In 2019, 46 per cent of employed women had a higher education compared to only 25 per cent of men (figure 98).

In addition to sectors that could absorb most of the low-skilled and mid-skilled in the labour force, Jordan would need to invest in high-skilled tradable sectors, to meet the supply of highly qualified women. High-skilled tradable sectors could expand beyond the local market, create quality jobs for highly qualified female workers and absorb the significant share of unemployed females with tertiary education. In fact, in Jordan, the sectors that employ most of the highly educated women are not expanding and their capacity to expand would be limited if they supply only the local market. This leads to high unemployment among educated women. According to the national statistics department, 81 per cent of unemployed women have at least a bachelor’s degree.

Like women, youth in Jordan are discouraged from entering the labour market, which is reflected in a decrease of the labour force by 2 per cent from 2017 to 2019, despite that fact that the youth population grew by 2 per cent over the same period (table 30). The labour force participation rate slightly

decreased over the same period (from 38 per cent to 36 per cent) but at much higher levels than for women, driven by young male workers.

Unlike women, youth employment is diversified across all sectors in the economy, driven by male youth. Youth are concentrated, like their older peers, in non-tradable sectors. However, youth tend to be slightly over-represented in tradable sectors compared to their older peers (figure 99). Tradable sectors represented 26 per cent of youth employment in 2019 versus 24 per cent of their older peers’ employment. For both groups of workers, employment in tradable sectors slightly decreased from 2017 to 2019. The manufacturing sector employs more low- and high-skilled youth than older workers. However, the largest share comprises older workers with an intermediate skill level (figure 101). As discussed in the previous chapter, demand for low-skilled workers has increased in tradable sectors and manufacturing in Jordan, explaining the slight over-representation of youth in these sectors.

Manufacturing represents a small share of employment for youth and older workers, despite merchandise exports representing around 19 per cent of national GDP. In 2019, 10 per cent of youth were working in manufacturing compared to 11 per cent in 2017. Manufacturing created jobs neither for youth nor for older workers between 2017 and 2019, despite merchandise exports (excluding petroleum products and gas) increasing by 10 per cent over the same period (figure 100). The only sectors that created jobs for youth in manufacturing were food-processing, apparel and leather, for which exports increased slightly between 2017 and 2019, and paper manufacturing, despite a decrease of exports by 11 per cent between 2017 and 2019.

More than half of the youth and older workers were employed in construction, public administration, wholesale and retail, security services and

► **Table 30: Evolution of labour force and employment by age in Jordan, 2017–19 (in thousands)**

Jordan	2017	2018	2019	2017–2019	Growth 2017–2019 (%)
Labour force, youth	1,009	985	999	-24.1	-2.4 %
Labour force, older workers	1,552	1,622	1,742	69.7	4.5 %
Employment, youth	712	682	696	-29.8	-2.2 %
Employment, older workers	1,381	1,445	1,582	63.9	4.6 %

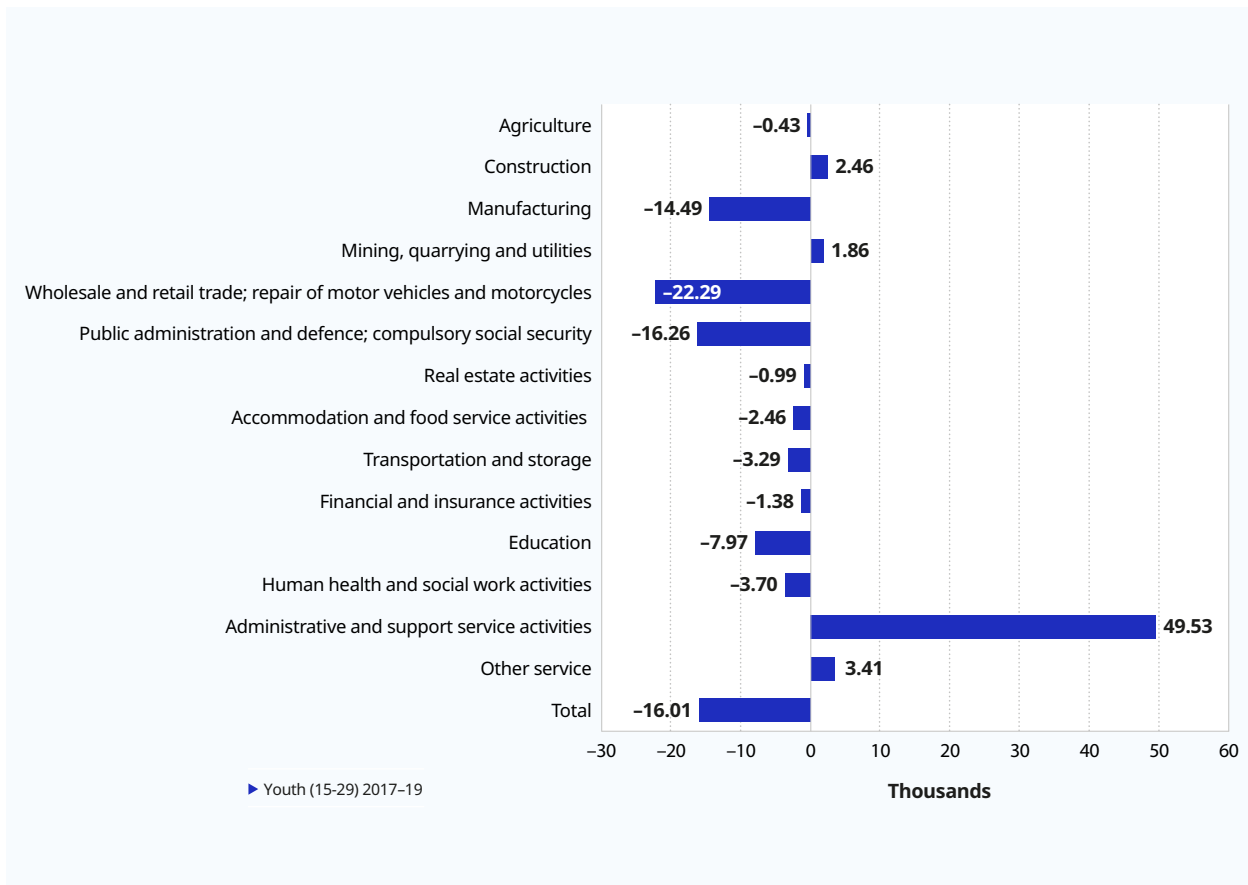
**Source:** Author’s computation, based on data provided by ILO Statistics Department.

► Figure 99: Employment in tradable and non-tradable sectors by age in Jordan, 2017-19

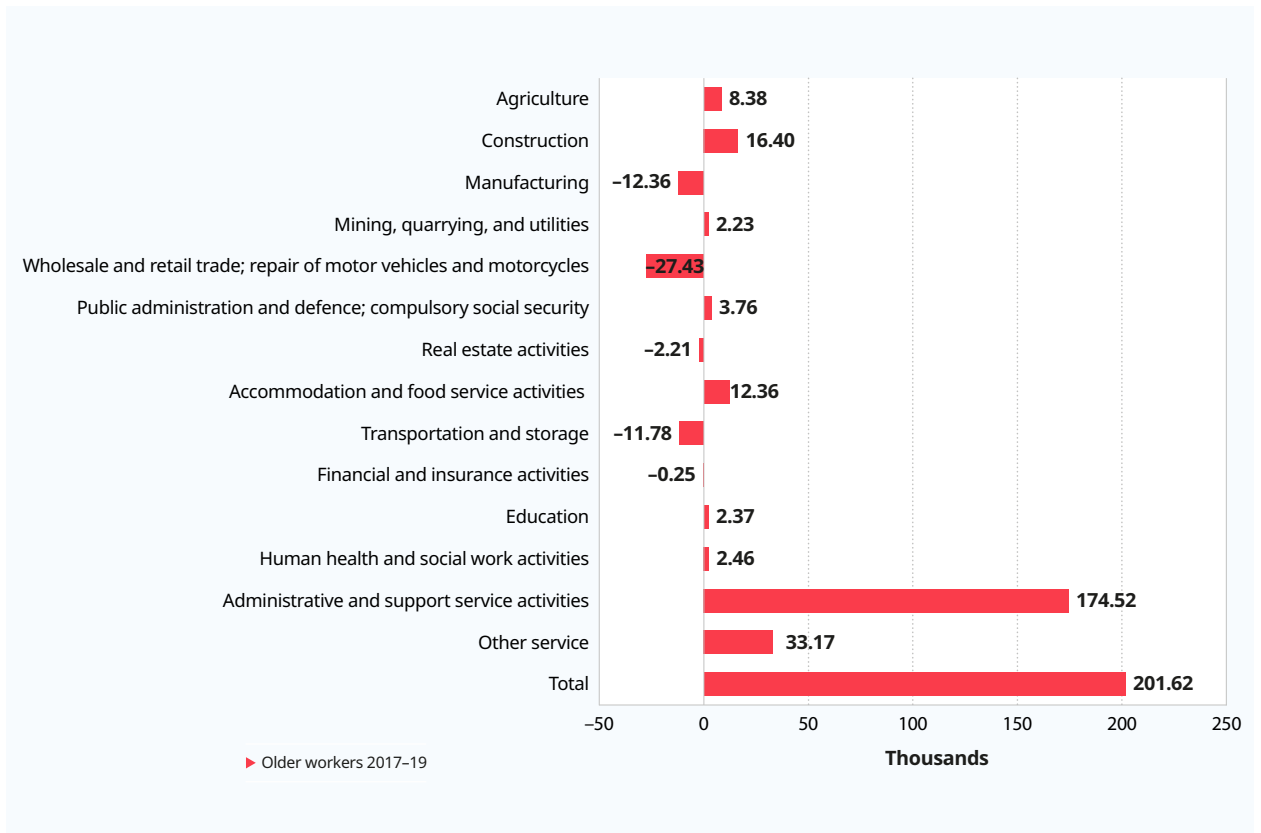


Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 100: Job creation in Jordan by sector and age, 2017-19 (in thousands)

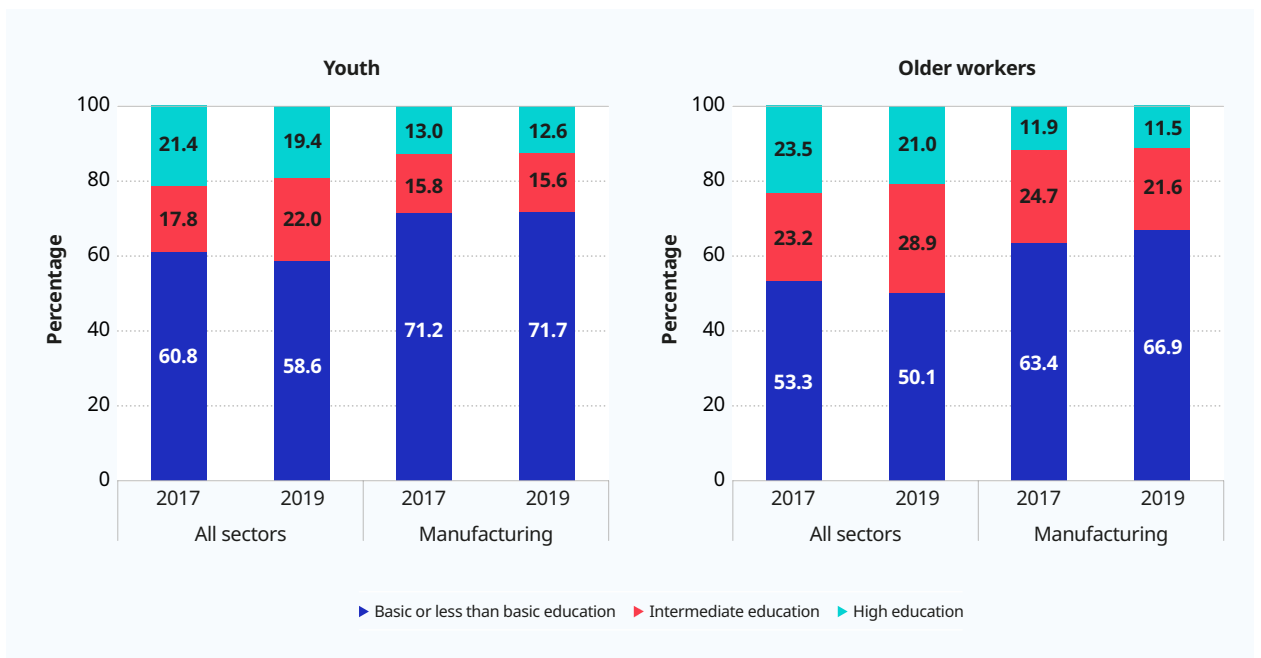


► Figure 100 (continued)



Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 101: Distribution of skills levels by age in Jordan, 2017-19



Source: Author's computation, based on data provided by ILO Statistics Department.

education. Interestingly, youth are more represented in public administration than their adult peers (20 per cent versus 15 per cent in 2019); however, mainly in low-skilled jobs, as 64 per cent of them have basic education compared to 38 per cent of their adult peers. In general, in both tradable and non-tradable sectors, employed youth tend to have lower skills than their adult peers.

In **Morocco**, women's labour force participation has not notably improved between 2000 and 2019, despite the important trade and industrial policies that the authorities have implemented, particularly since 2005. In terms of labour supply, women have been progressively more excluded from the labour market since 2000, with a decrease in the rate of labour force participation from 25 per cent in 2000 to 22 per cent in 2019 (table 31). The rate of labour force participation for men also decreased over the same period (from 77 per cent in 2000 to 71 per cent in 2019). However, in terms of employment and job creation, both females and males have had positive dynamics since 2009. Male employment grew faster than labour force growth from 2000 to 2019, particularly from 2000 to 2009. Female employment also grew faster than the labour force from 2000 to 2019, driven by a particularly positive dynamic from 2000 to 2009. This led to the unemployment rate decreasing between 2000 and 2019 (pre-covid-19 pandemic) from 13 per cent to 11 per cent for women and 14 per cent to 9 per cent for men. It is worth noting that Morocco has the lowest gender gap in unemployment in the region.

Like in Egypt and Tunisia, the share of women working in tradable sectors in Morocco decreased

between 2000 and 2019, driven by a shift of labour out of agriculture. The percentage of women engaged in tradable sectors is significantly higher in Morocco than in Egypt, Jordan and Tunisia. However, this is mainly due to the significant share of women involved in agriculture: more than half of the employed women work in agriculture, a low-productive sector. For instance, in Morocco, agricultural labour productivity, defined as the value-added over employed population, is estimated at US\$3,643 compared to US\$14,167 in manufacturing and US\$11,514 in services in 2019.<sup>54</sup>

Despite the relative quality of industrial policies implemented in Morocco, manufacturing did not generate new jobs for women, although it did generate a limited number of jobs for males, particularly between 2009 and 2019. This is despite the significant levels of merchandise exports growth. From 2000 to 2019, the share of manufacturing decreased by 6 percentage points for women and 1 percentage point for men (figure 102). Like in Egypt and Tunisia, the shift of women out of agriculture has not been compensated with job creation in more productive tradable sectors, limiting the benefits of industrial and trade policies for women in the Morocco economy. Women tend to work more in manufacturing than men in Morocco, with manufacturing representing 13 per cent of female employment in 2019 compared to 11 per cent for men. The shift of labour out of agriculture has been a male phenomenon in Morocco since 2000. The share of men working in agriculture decreased from 42 per cent in 2000 to 28 per cent in 2019, while for female the decrease was less than 6 percentage

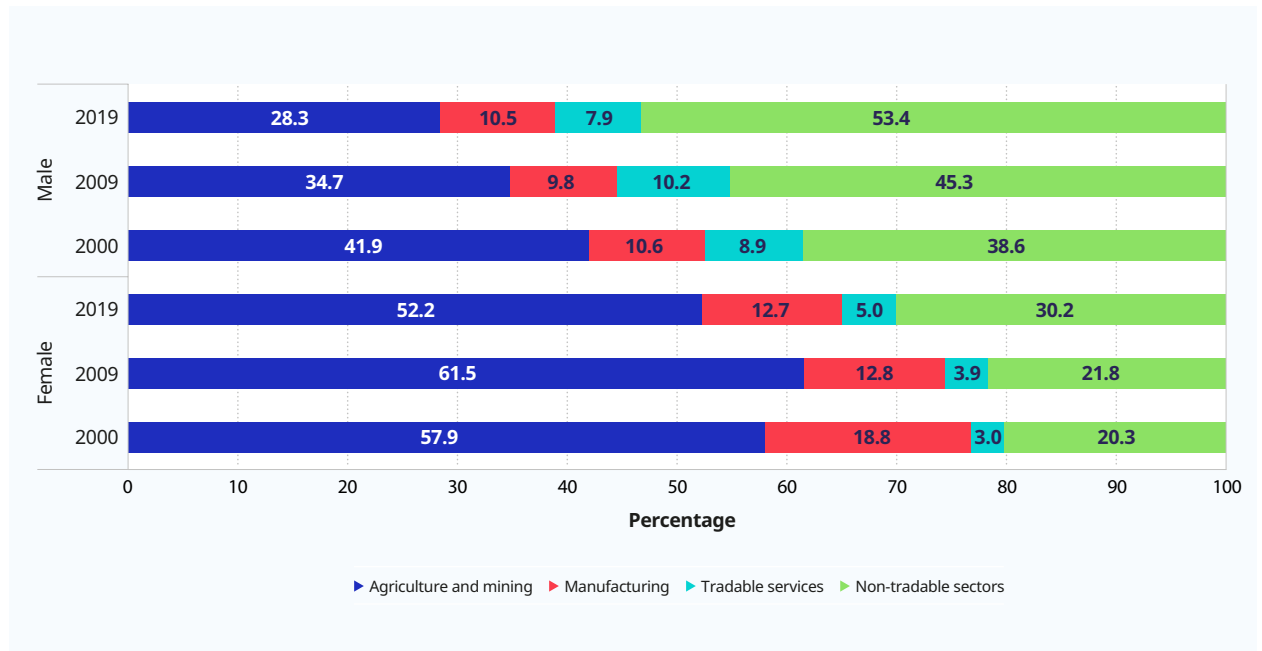
► **Table 31: Evolution of labour force and employment by sex in Morocco, 2000–19 (in thousands)**

Morocco	2000	2009	2019	2000–2009	2009–2019	Growth 2000–2009	Growth 2009–2019
Labour force, female	2,434	2,996	2,934	561.9	-61.8	23.1%	-2.1%
Labour force, male	7,199	8,320	9,150	1,120.7	830.7	15.6%	10.0%
Labour force, total	9,633	11,316	12,085	1,682.6	768.9	17.5%	6.8%
Employment, female	2,117	2,718	2,627	600.7	-90.8	28.4%	-3.3%
Employment, male	6,208	7,584	8,369	1376.2	785.3	22.2%	10.4%
Employment, total	8,325	10,302	10,996	1976.9	694.5	23.7%	6.7%

Source: Author's computation based on ILO STAT data (modelled estimates).

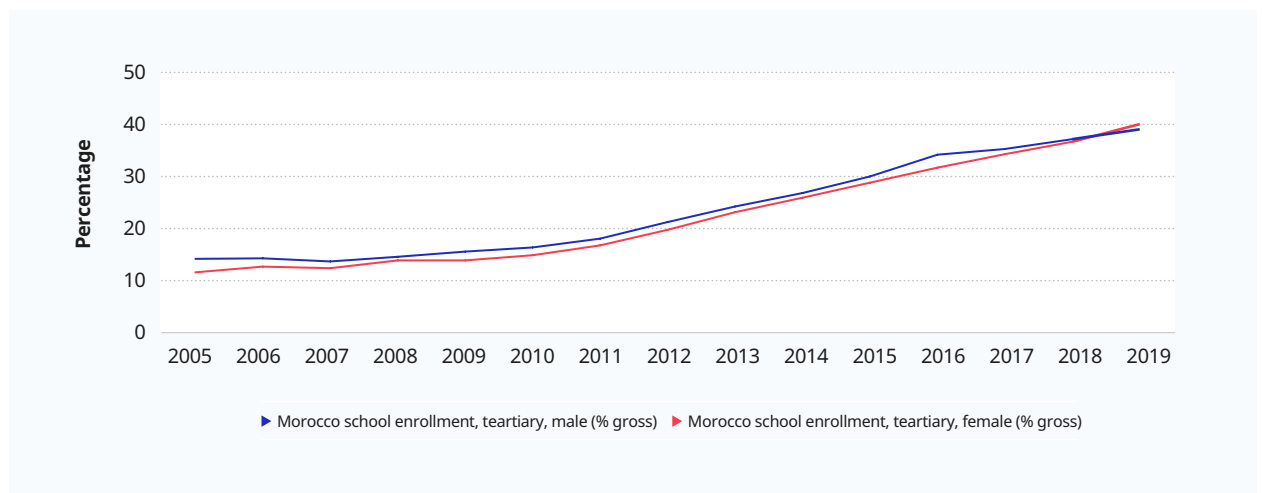
54 Source: author's computation.

► Figure 102: Employment in tradable and non-tradable sectors by sex in Morocco, 2000–19



Source: Author’s computation based on ILOSTAT data (modelled estimates).

► Figure 103: Evolution of enrolment in tertiary education (% gross) for females and males in Morocco, 2005–19



Source: WDI.

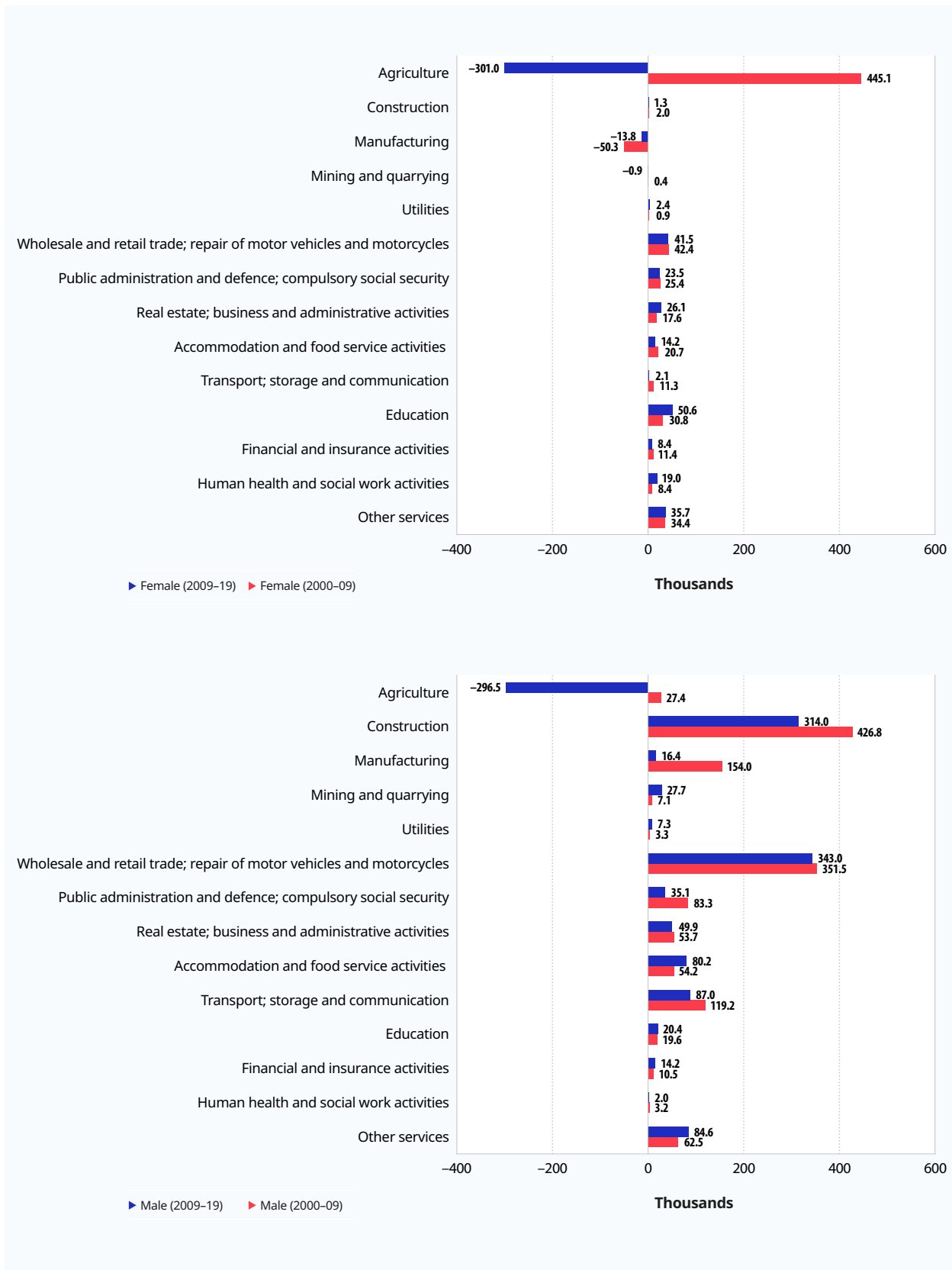
points. This leads to women being over-represented in tradable sectors than men. However, outside of agriculture, employment in other tradable sectors (manufacturing and tradable services) for male and female workers are at similar levels.

Contrary to Egypt, Jordan and Tunisia, job creation for women in Morocco has been diversified across almost all sectors in services. There is a steady

increase in the share of women working in high-skilled services such as education, health and financial services. The share of women working in these three sectors grew from 8 per cent in 2000 to 12 per cent in 2019, while male employment in these sectors decreased slightly (figure 104). This dynamic reflects the remarkable improvements in female educational attainment in Morocco. For instance, female enrolment in tertiary education increased



► Figure 104: Job creation in Morocco by sector and gender, 2000–19 (in thousands)



Source: Author's computation based on ILOSTAT data (modelled estimates).

significantly from 11 per cent in 2005 to 39 per cent in 2019, recording for the first-time higher levels than males (figure 103). This dynamic indicates the Moroccan economy would need to create more high-skilled jobs for women in the future.

In **Tunisia**, employment prospects are more favourable for females than in Egypt and Jordan, as northern African countries tend to be slightly more inclusive for women than other countries in the region. Tunisia has higher female labour force participation rates and witnessed a larger female labour force from 2005 to 2017 than Egypt and Jordan. Between 2005 and 2017, the female labour force grew by 33 per cent, at a higher pace than female working-age population growth (19 per cent over the same period) and female labour force participation increased from 24 per cent to 27 per cent (table 32). However, the female unemployment rate increased from 15 per cent in 2005 to 23 per cent in 2017, with its highest level in 2011 at 27 per cent. Employment grew overall slower than the labour force, despite a positive trend between 2011 and 2017.

Like in Jordan and Egypt, female employment in Tunisia tends to be concentrated in few sectors. In 2017, 71 per cent of Tunisian women were working in manufacturing, public administration and agriculture. However, unlike Jordan and Egypt, Tunisian females are much more engaged in productive tradable sectors, such as manufacturing. Approximately one in three women in employment is engaged in manufacturing in Tunisia, which is a much higher level than in Egypt and Jordan (8 per cent in Egypt and 6 per cent in Jordan in 2019). However, the share of women's employment in

tradable sectors decreased by more than ten percentage points between 2005 and 2017, while the share of males engaged in both tradable and non-tradable sectors has remained relatively stable (figure 105). As in Egypt, this is mainly driven by a shift of female labour out of agriculture that has not been replaced at similar levels in other more productive tradable sectors. The patterns of employment between men and women in tradable sectors are very different. First, male employment in agriculture, manufacturing and tradable services has remained stable since 2005: male workers have not been transitioning out of agriculture and were not more likely to be working in other more productive tradable sectors. Second, employment in manufacturing is less important for men than for women. Third, tradable services represent a higher share for male workers than female workers. Overall, the employment structure for men did not change much between 2005 and 2017, while women witnessed a transition out of agriculture, mostly to non-tradable sectors.

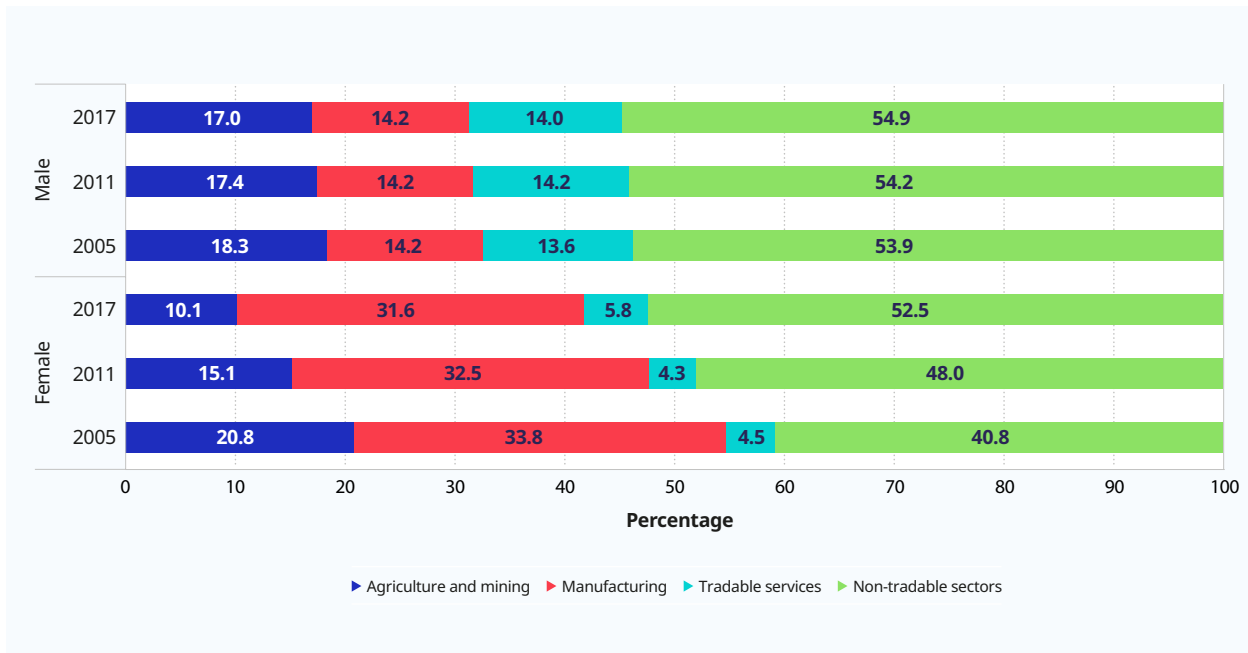
Overall, job creation for female workers has been higher in non-tradable sectors than tradable ones, particularly in public administration and wholesale and retail, than in tradable sectors (figure 106). The share of public administration and wholesale and retail in female employment respectively grew from 25 per cent and 7 per cent to 30 per cent and 12 per cent from 2005 to 2017. In Tunisia, like in Jordan, women, and particularly high-skilled women, are over-represented in public sector administration: 30 per cent of employed women are in public administration, of which 66 per cent have advanced education versus only 16 per cent of men, of which

► **Table 32: Evolution of labour force and employment by sex in Tunisia, 2005–17 (in thousands)**

Tunisia	2005	2011	2017	2005–11	2011–17	Growth 2005–11	Growth 2011–17
Labour force, female	881	1,027	1,174	145.7	146.9	16.5%	14.3%
Labour force, male	2,478	2,818	2,911	339.8	92.7	13.7%	3.3%
Labour force, total	3,359	3,845	4,084	485.6	239.6	14.5%	6.2%
Employment, female	751.1	743.0	865.6	- 8.1	122.6	-1.1%	16.5%
Employment, male	2,208.9	2,419.3	2,570.5	210.40	151.20	9.5%	6.2%
Employment, total	2,960.1	3,162.3	3,436.1	202.20	273.80	6.8%	8.7%

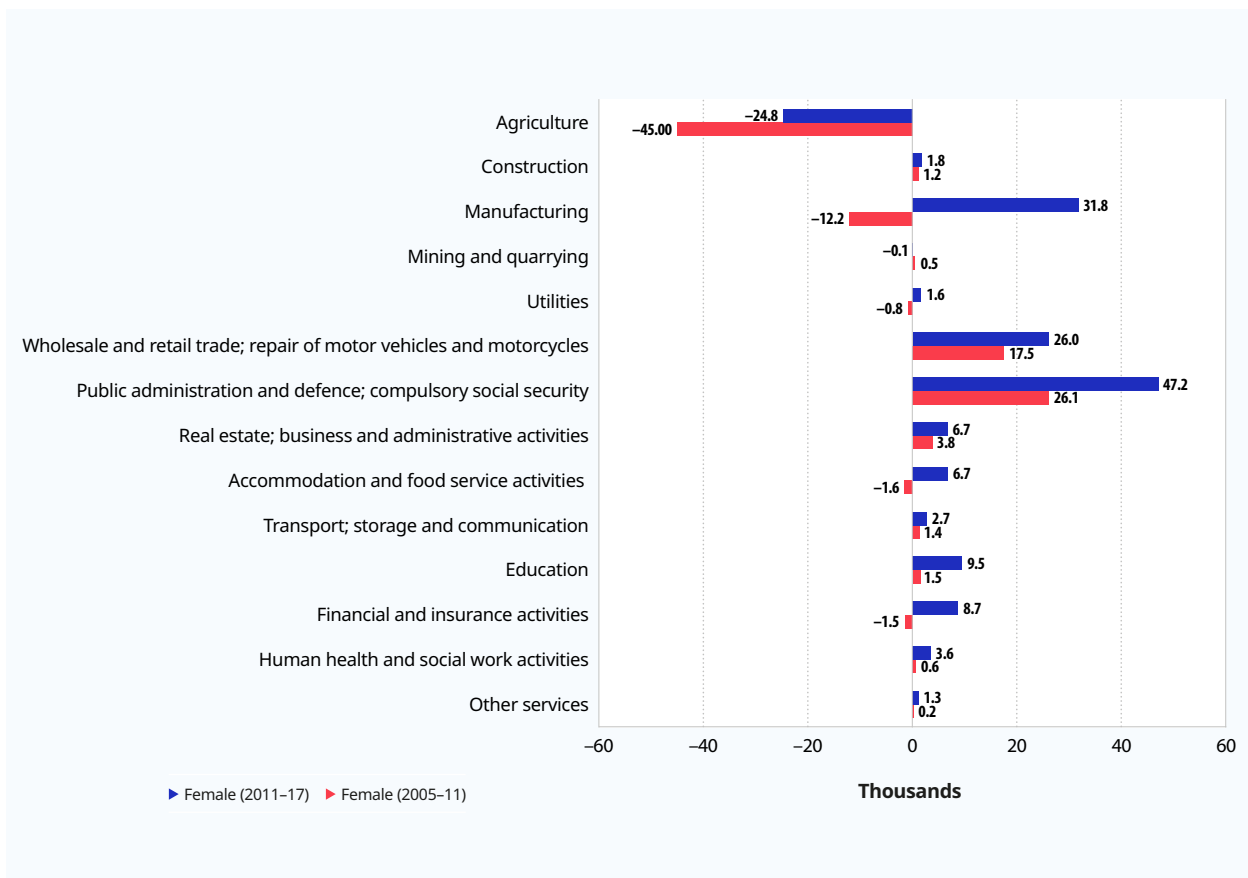
Source: Author's computation, based on data provided by ILO Statistics Department.

► **Figure 105: Employment in tradable and non-tradable sectors by sex in Tunisia, 2005–17**

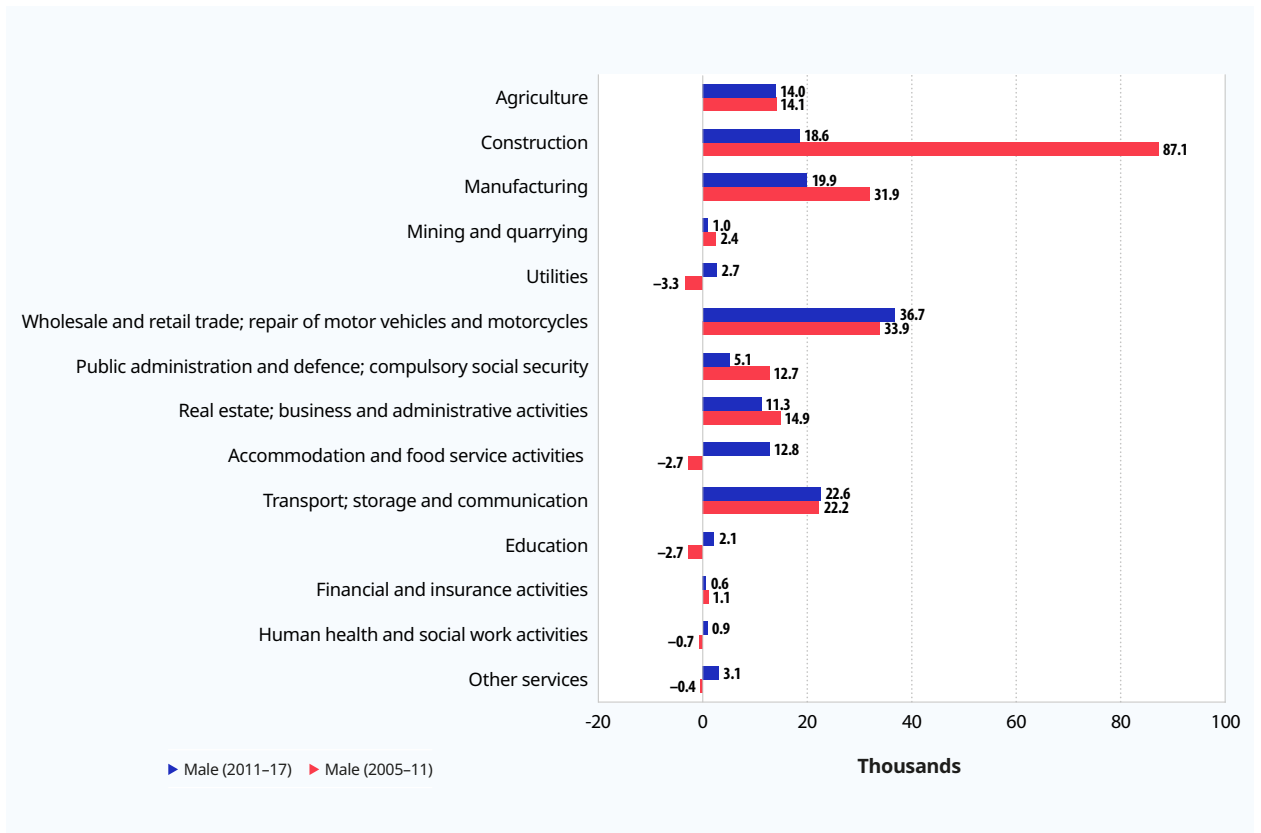


Source: Author’s computation, based on data provided by ILO Statistics Department.

► **Figure 106: Job creation in Tunisia by sector and gender, 2005–17 (in thousands)**

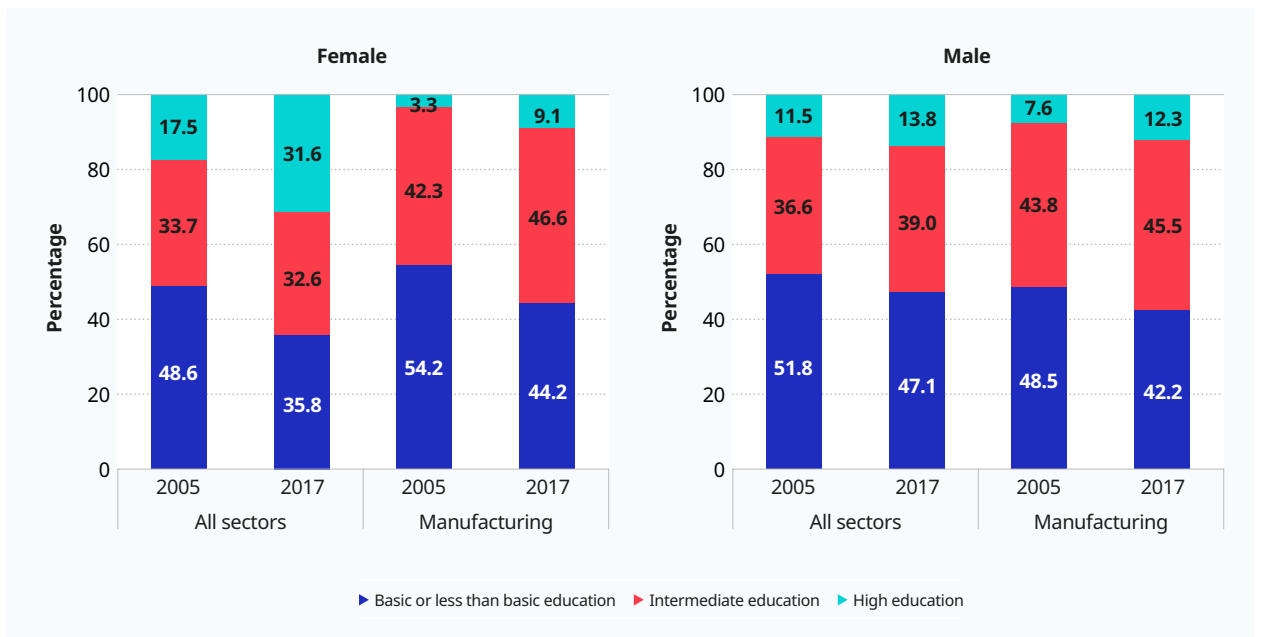


► Figure 106 (continued)



Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 107: Distribution of skill levels by sex in Tunisia, 2005-17



Note: the total is slightly less than 100% due to the existence of a category in which the level of education is not stated.

Source: Author's computation, based on data provided by ILO Statistics Department.

only 35 per cent have advanced education. Also, as in Jordan, women in the Tunisian labour market tend to be more educated than men (figure 107). Job creation between 2005 and 2017 increased the demand for high-skilled female workers, including in tradable sectors such as manufacturing. For instance, the share of high-skilled women in manufacturing tripled, from 3 per cent in 2005 to 9 per cent in 2017. Comparatively, the demand for high-skilled male workers has also increased in manufacturing, however, at a slower pace than for women.

In Tunisia, youth labour market outcomes slightly improved since the 2011 revolution. From 2011 to 2017, youth employment growth decreased at much lower levels than the labour force (-3 per cent versus -17 per cent) and the unemployment rate decreased from 38. per cent to 33 per cent. Comparatively, since 2005 and before the 2011 revolution, youth employment declined by 9 per cent, while the supply of youth labour increased by 8 per cent, leading to a sharp rise of youth unemployment from 25 per cent in 2005 to 38 per cent in 2011. However, there are indications that youth have been more discouraged from entering the labour market after the 2011 revolution. The youth labour force shrank by 17 per cent between 2011 and 2017, a much higher level than the decrease of the youth population (-6 per cent over the same period), leading to a decline in the youth labour force participation rate from 45 per cent in 2011 to 42 per cent in 2017 (table 33).

The industrial and trade policies implemented since the 2000s in Tunisia led to an increased demand for mid and high-skilled youth workers, despite not creating more jobs for youth in tradable sectors compared to older workers. Between 2005 and 2017, the share of youth in tradable sectors

declined, mainly driven by lower youth employment in agriculture and manufacturing (figures 108 and 109). In 2017, 25 per cent of youth were employed in manufacturing versus 30 per cent in 2005. Manufacturing represents a higher share in youth employment than for older workers. However, while there is a negative trend for youth employment in manufacturing, the share of manufacturing in older workers' employment grew from 2005 to 2017. Despite the decline of the manufacturing share in youth employment, the structure of skills has significantly improved for youth in this sector, with higher shares of mid-skilled and high-skilled youth workers in manufacturing in 2017 compared to 2005 (figure 110). Youth employed in manufacturing have higher skills than their older peers, with particularly higher shares of mid-skilled youth workers and lower low-skilled ones. The share of mid-skilled youth workers has increased at higher levels in manufacturing than in the overall economy, suggesting that the demand for mid-skilled workers has particularly risen in manufacturing between 2005 and 2017.

In the Occupied Palestinian Territory, the labour force increased significantly over the two decades, driven by considerable growth in the female working-age population (+92 per cent from 2000 to 2019). The female labour force nearly tripled and the male labour force doubled in 19 years. Employment grew significantly over the same period; however, at lower levels than the labour force, which worsened the labour market outcomes, particularly for women (table 34). The pre-pandemic unemployment rate reached 41 per cent in 2019.

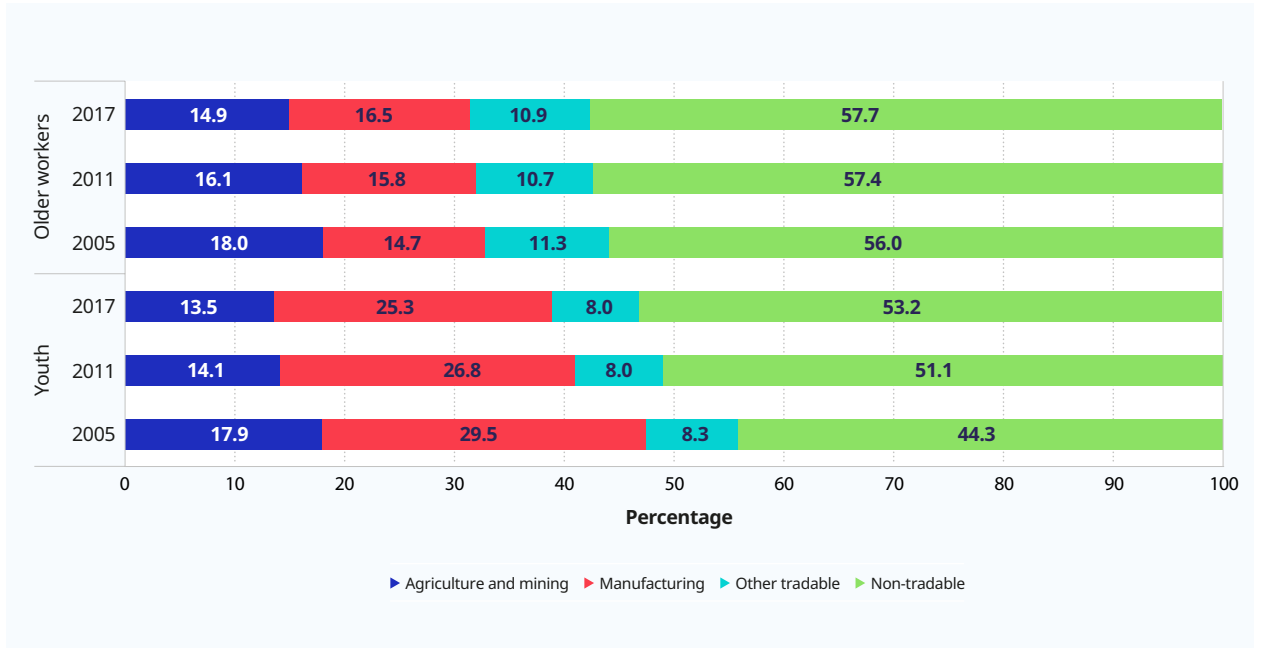
Employment in tradable sectors decreased for both female and male workers between 2000 and 2019, however at a much higher levels for women

► Table 33: Evolution of labour force and employment by age in Tunisia, 2005–17 (in thousands)

Tunisia	2005	2011	2017	2005–2011	2011–2017	Growth 2005–2011 (%)	Growth 2011–2017 (%)
Labour force, youth (15–29)	1,210	1,310	1,089	99.8	-220.4	8.2%	-16.8%
Labour force, older workers (30–64)	2,100	2,489	2,909	388.9	420.6	18.5%	16.9%
Employment, youth (15–29)	902	821	793	-81.4	-27.8	-9.0%	-3.4%
Employment, older workers (30–64)	1,941	2,250	2,603	308.8	352.5	15.9%	15.7%

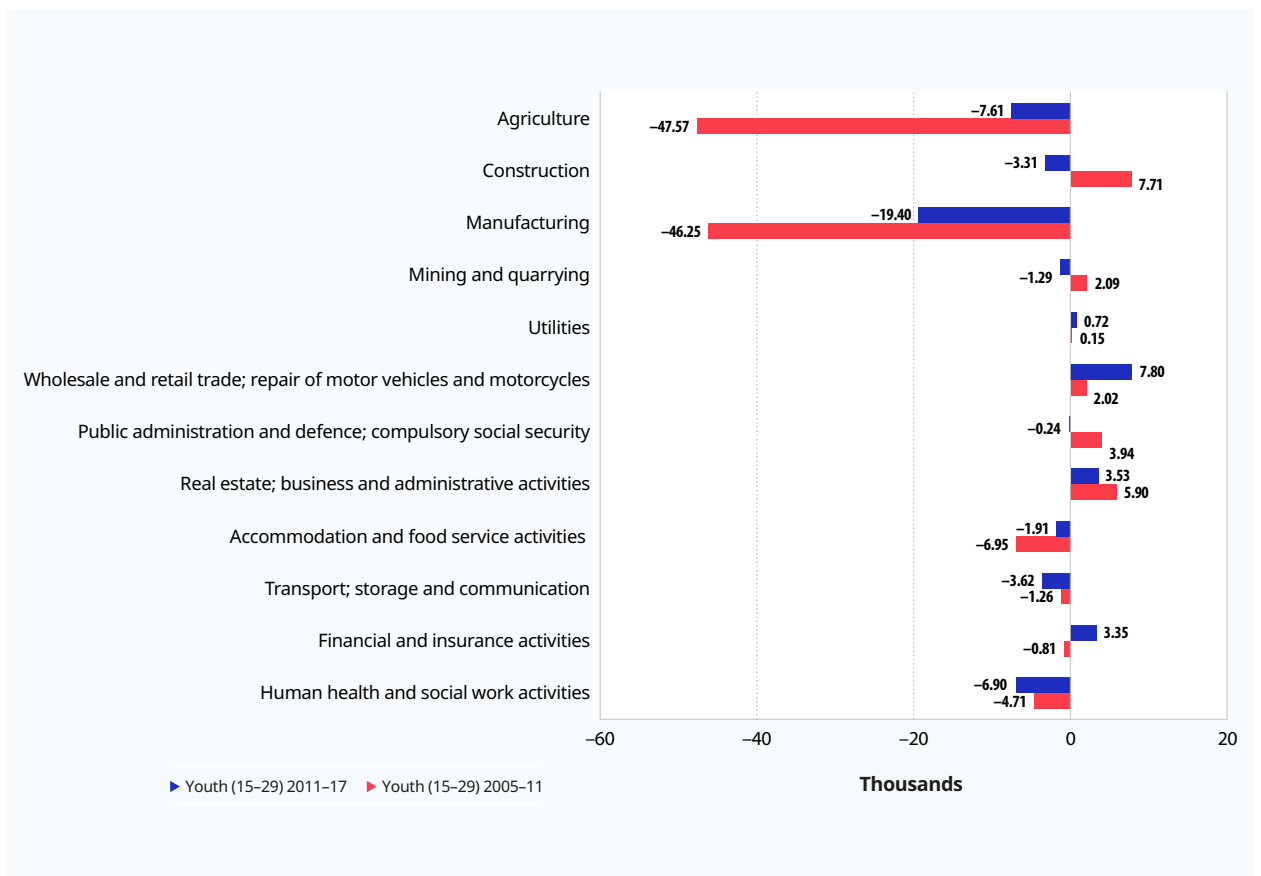
Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 108: Employment in tradable and non-tradable sectors by age in Tunisia, 2005–17

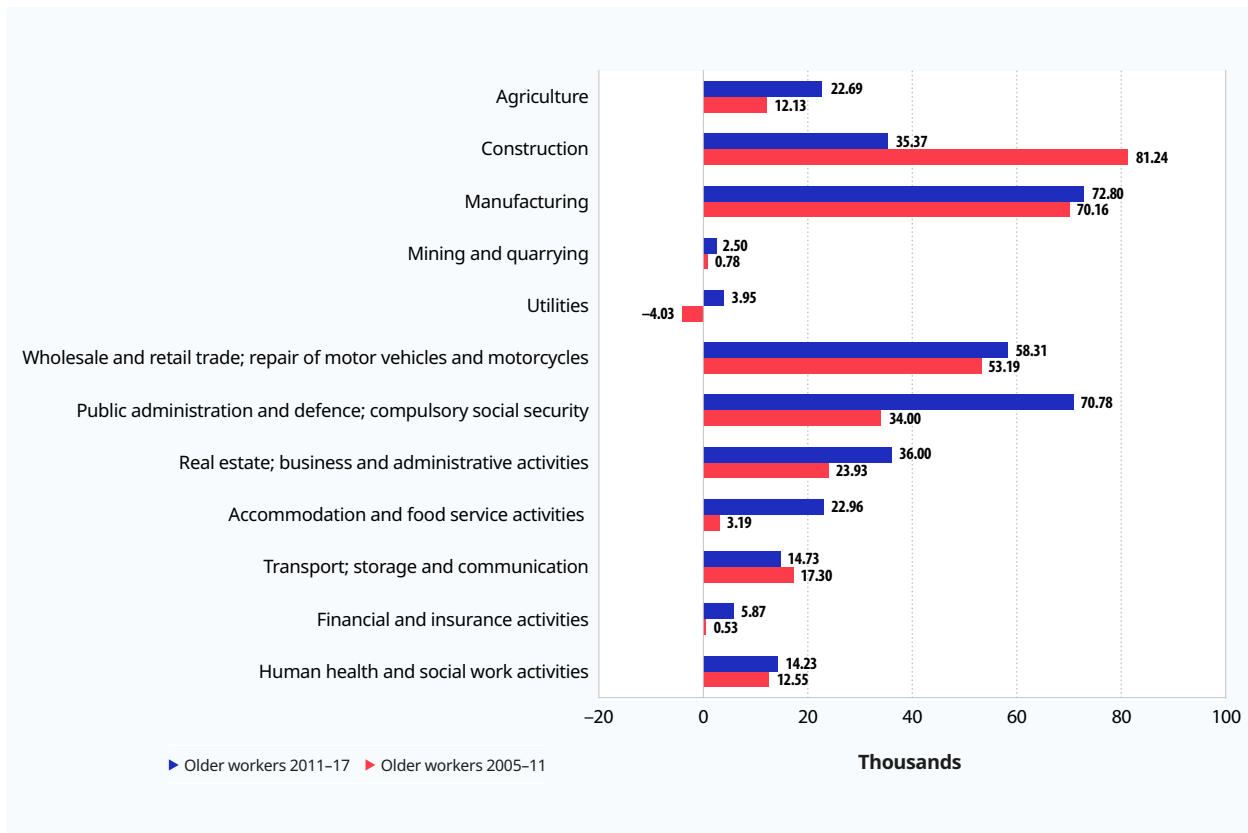


Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 109: Job creation in Tunisia by sector and age, 2005–17 (in thousands)

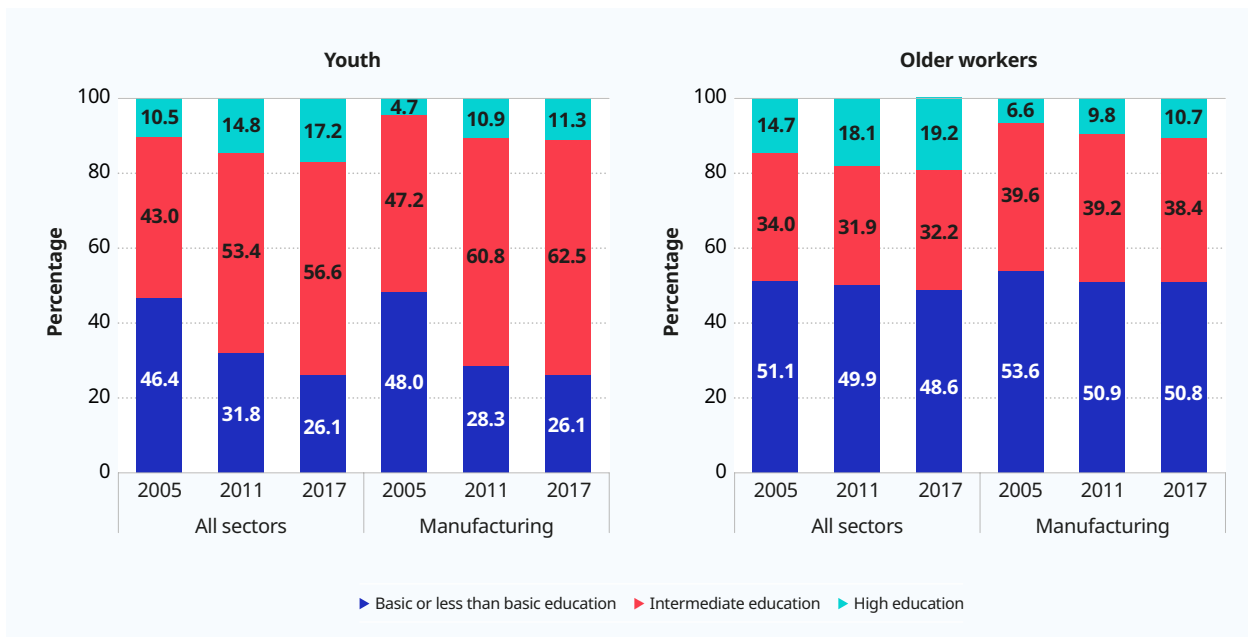


► Figure 109 (continued)



Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 110: Distribution of skill levels by age in Tunisia, 2005-17



Note: the total is slightly less than 100% due to the existence of a category in which the level of education is not stated.

Source: Author's computation, based on data provided by ILO Statistics Department.

► **Table 34: Evolution of labour force and employment by sex in the Occupied Palestinian Territory, 2000–19 (in thousands)**

Occupied Palestinian Territory	2000	2009	2019	<i>Diff</i> (2009–2000)	<i>Diff</i> (2019–2009)	<i>Growth</i> 2000–2009 (%)	<i>Growth</i> 2009–2019 (%)
Labour force, female	97	162	273	65	111	66.6%	68.8%
Labour force, male	548	737	1,084	189	348	34.4%	47.2%
Labour force, total	645	899	1,358	253	459	39.2%	51.1%
Employment, female	89	129	161	40	31	45%	24%
Employment, male	487	585	851	98	266	20%	45%
Employment, total	577	715	1,012	138	297	24%	42%

**Source:** Author's computation, based on data provided by ILO Statistics Department.

(–3 percentage points for males versus –27 percentage points for females) (figure 111). This was driven by a considerable decrease in the share of agriculture from around 35 per cent in 2000 to around 7 per cent in 2019 and to a lesser extent in a reduction in the share of manufacturing in female employment. The share of manufacturing in female employment decreased from 11 per cent in 2000 to 7 per cent in 2009, and is at 12 per cent in 2019, a much lower level than for male workers.

Employment for women has shifted out of agriculture and manufacturing towards mostly high-skilled and non-tradable sectors. In 2000, 71 per cent of employed women were working in agriculture (35 per cent), education (26 per cent) and manufacturing (11 per cent). In 2019, employment in education, healthcare and public administration grew significantly (figure 112), with education reaching almost 40 per cent of female employment, healthcare 11 per cent up from 7 per cent in 2000 and public administration 8 per cent from 5 per cent in 2000. Employment in wholesale and retail, a relatively low-skilled and non-tradable sector, also grew to 10 per cent, up from 7 per cent in 2000.

This shift towards more high-skilled sectors translates the huge improvements in female educational attainment and skills in the labour market. The share of the employed female with advanced education grew from 19 per cent to 57 per cent between 2000 and 2019 at a much higher pace than their male peers (figure 113). The share of females with advanced education has increased in almost all sectors, including manufacturing (from 2 per cent in 2000 to 19 per cent in 2019) and even in whole-

sale and retail (from 12 per cent in 2000 to 38 per cent in 2019).

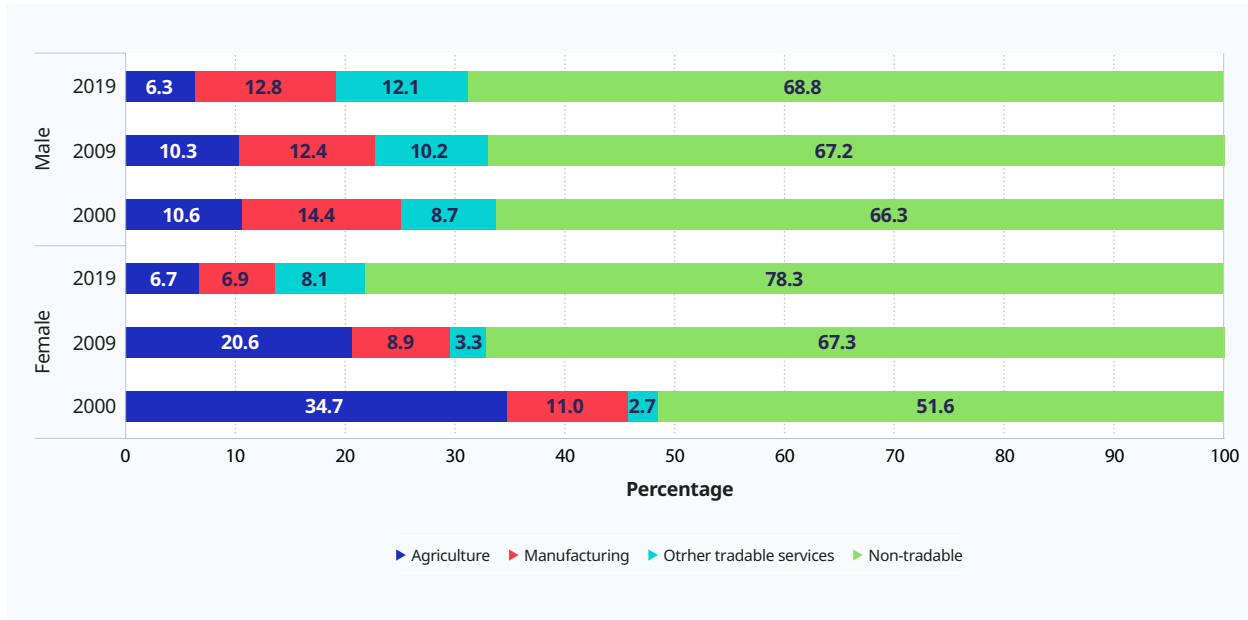
The employment outcomes for Palestinian women significantly changed from a skills and sectors perspective in recent years and are becoming relatively like the Jordanian scenario. Women are highly educated and concentrated in high-skilled non-tradable sectors, such as public administration, education and health and social work activities. This indicates that the Occupied Palestinian Territory would need to focus on developing high-skilled tradable sectors that could expand to create jobs for the increasing number of women entering the labour market and create high-skilled jobs to build on the new comparative advantage of the Palestinian economy: a highly skilled female labour force.

The youth labour force increased significantly between 2000 and 2019 (table 35) and the youth labour force participation rate increased from 34 per cent to 40 per cent. However, the labour force grew at a much higher pace than youth employment growth, leading to a significant increase in the youth unemployment rate, from 15 per cent to 38 per cent. Labour market outcomes for older workers have also worsened over the last two decades, albeit at a lower scale than for youth, with the unemployment rate for older workers rising from 8 per cent in 2000 to 16 per cent in 2019.

There are two trends for youth employment in tradable sectors between 2000 and 2019: a decrease in the overall share due to the decline in employment in agriculture and manufacturing, and an increased employment share in tradable services. Manufacturing's share in youth employment

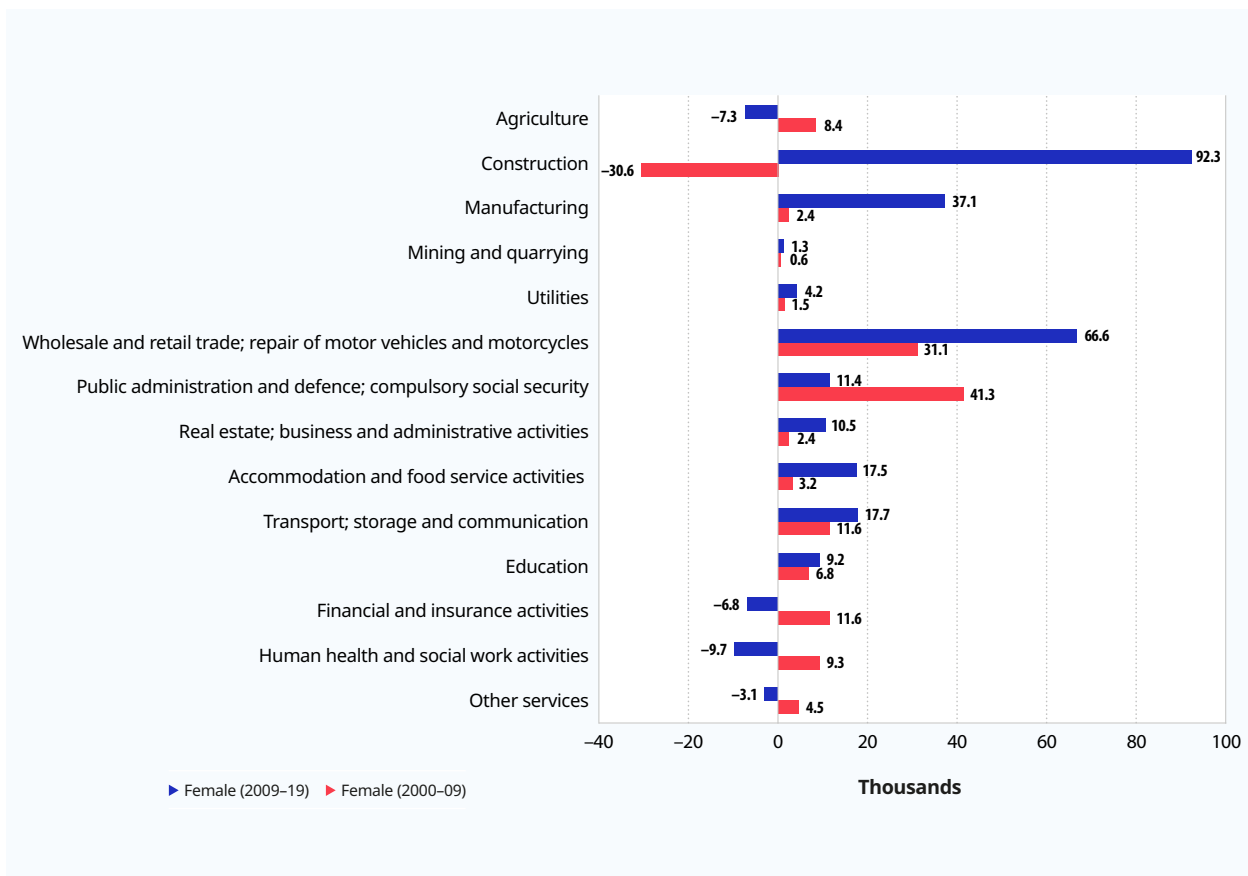


► **Figure 111: Employment in tradable and non-tradable sectors by sex in the Occupied Palestinian Territory, 2000–19**

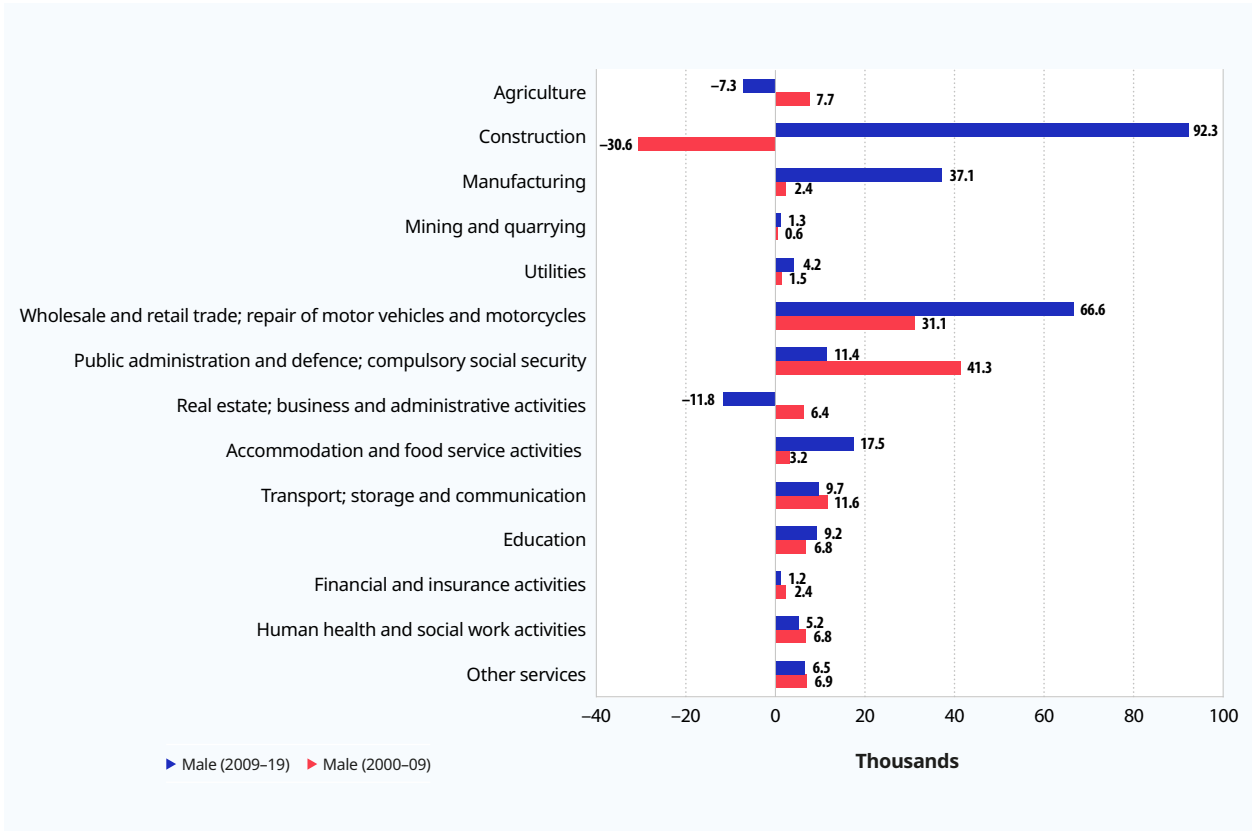


Source: Author’s computation, based on data provided by ILO Statistics Department.

► **Figure 112: Job creation by sector and gender in the Occupied Palestinian Territory, 2000–19 (in thousands)**

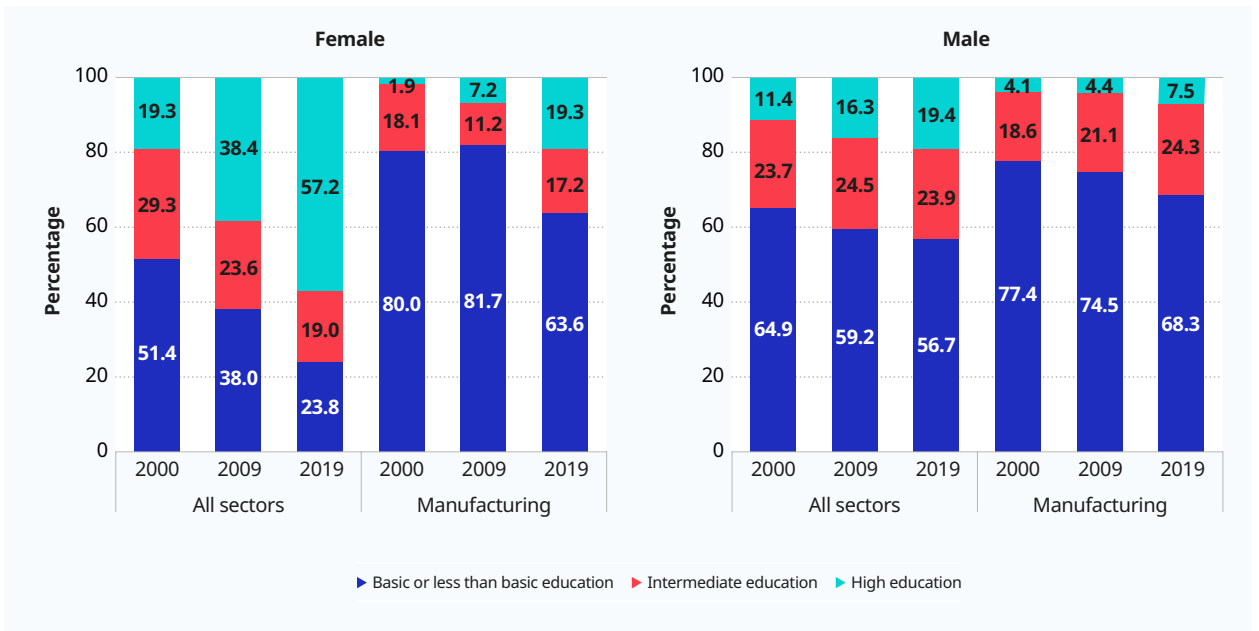


► Figure 112 (continued)



Source: Author's computation, based on data provided by ILO Statistics Department.

► Figure 113: Evolution of level of skills in employed population by sex in the Occupied Palestinian Territory, 2000-19



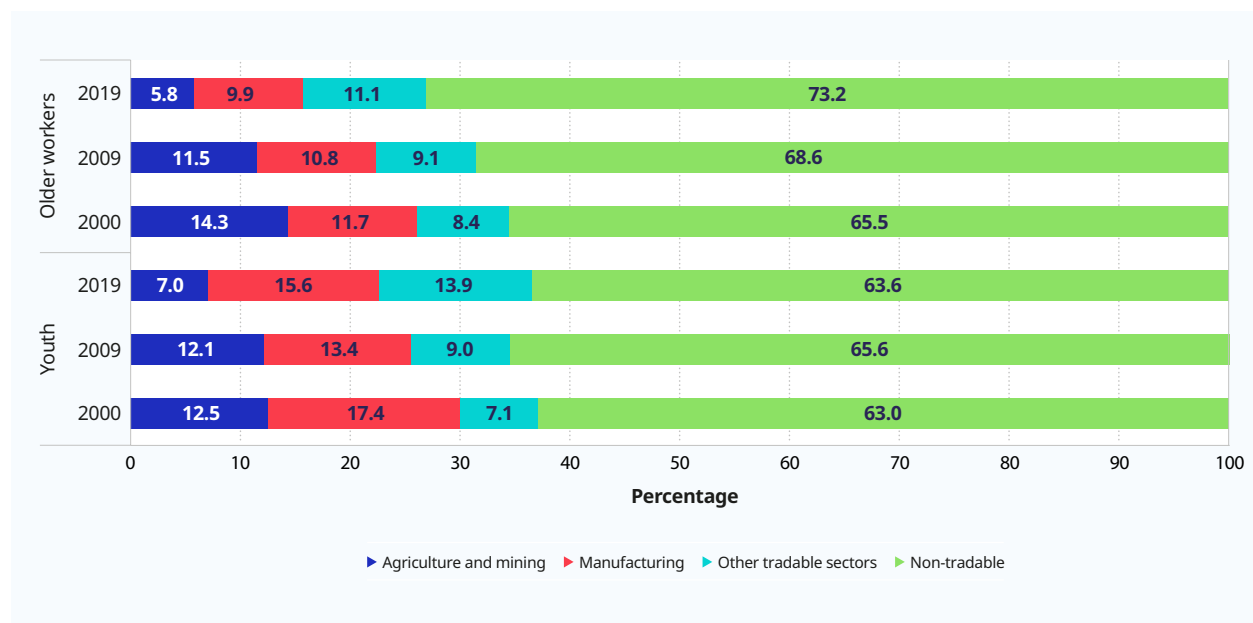
Source: Author's computation, based on data provided by ILO Statistics Department.

► **Table 35: Evolution of labour force and employment by age in the Occupied Palestinian Territory, 2000–19 (in thousands)**

Occupied Palestinian Territory	2000	2009	2019	Diff (2009–2000)	Diff (2019–2009)	Growth 2000–2019 (%)	Growth 2009–2019 (%)
Labour force, youth (15–29)	270	364	572	95	207	35%	57%
Labour force, older workers	362	523	772	161	249	44%	48%
Employment, youth (15–29)	230	255	355	24	100	11%	39%
Employment, older workers	333	449	645	116	196	35%	44%

Source: Author's computation, based on data provided by ILO Statistics Department.

► **Figure 114: Employment in tradable and non-tradable sectors by age in the Occupied Palestinian Territory, 2000–19**



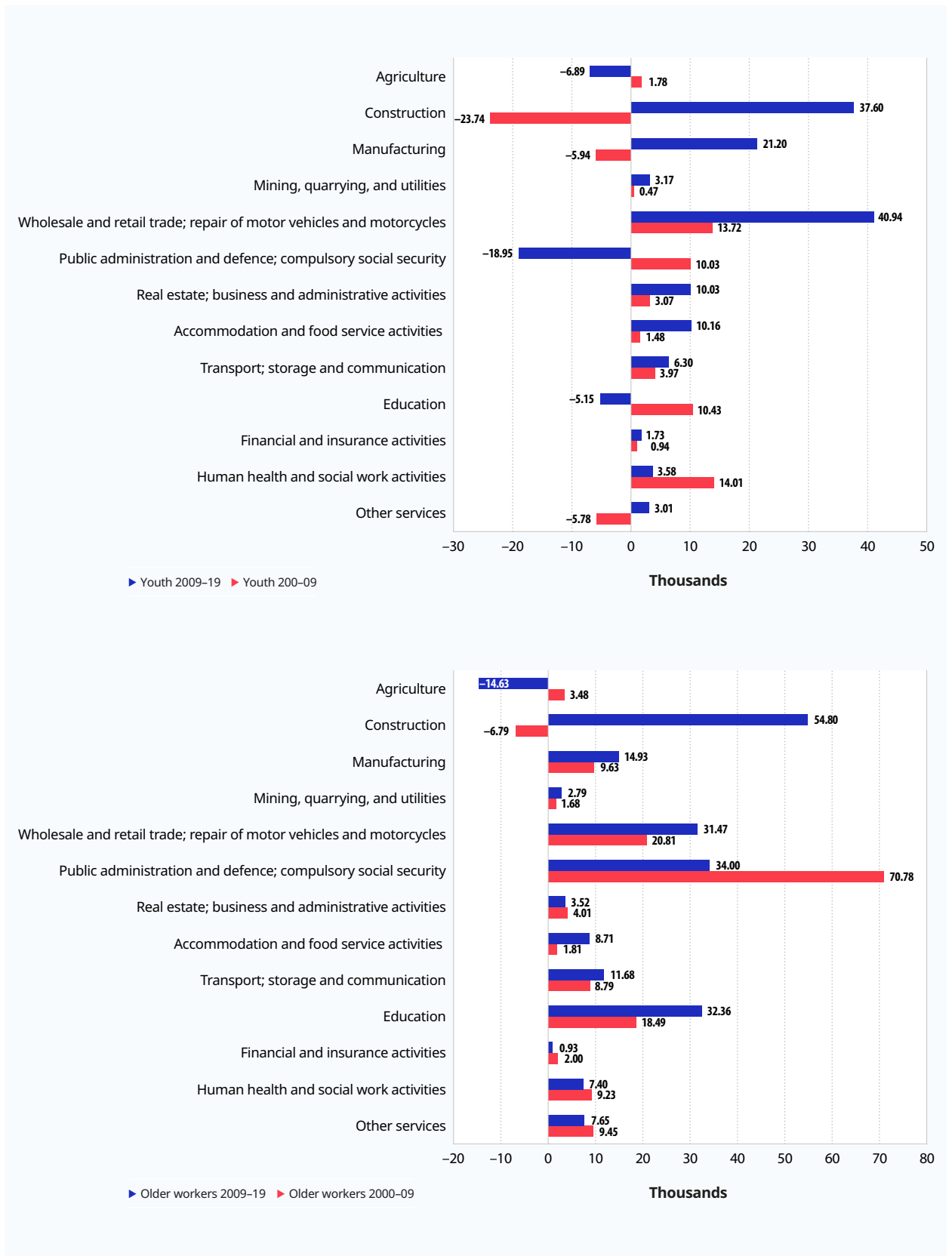
Source: Author's computation, based on data provided by ILO Statistics Department.

decreased overall from around 18 per cent in 2000 to 15 per cent in 2019, despite a significant level of job creation and employment growth between 2009 and 2019 (figure 114). The share of manufacturing's share in older workers' employment also decreased at a slower pace than for youth. Despite this, the share of manufacturing in youth employment remains higher than for older workers. However, tradable services, including financial services, accommodation and restaurants (tourism) and transportation, created a significant number of jobs for youth, driving the total increase in tradable sectors outside of agriculture. Youth employment

in tradable services increased faster than for older workers between 2000 and 2019. This led to tradable sectors having a higher share in youth employment than for older workers in 2019 (36 per cent versus around 27 per cent in 2019).

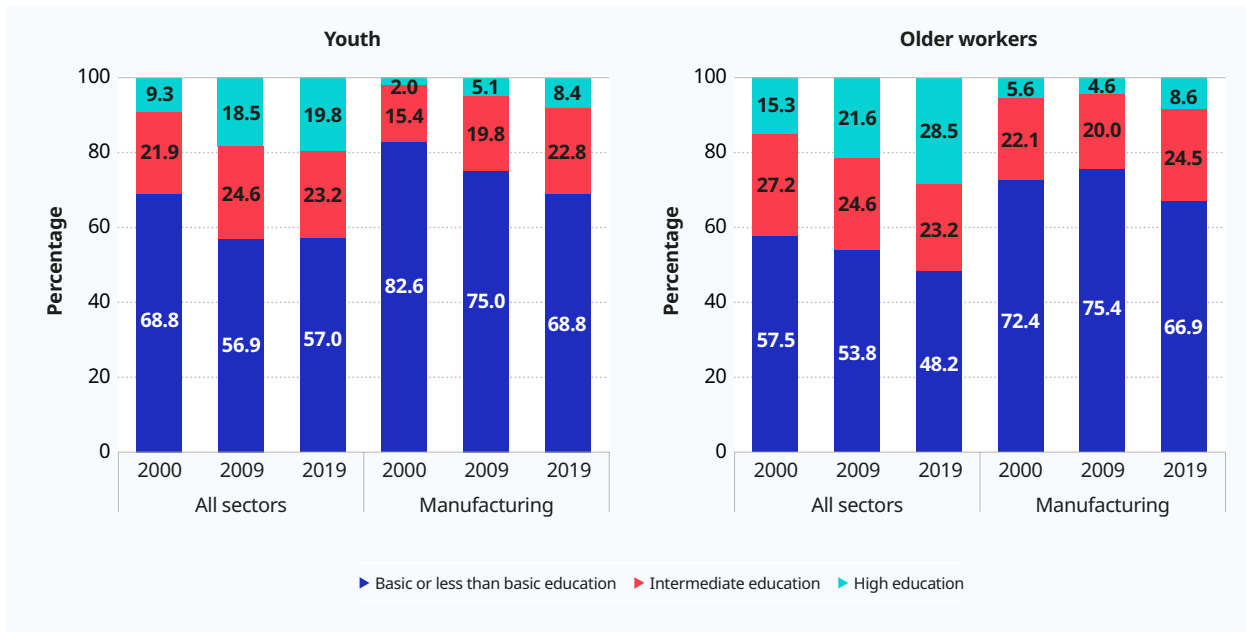
Despite the increase in youth employment share in tradable sectors outside of agriculture, job creation for youth was mainly in non-tradable sectors such as wholesale and retail, healthcare and construction, particularly between 2009 and 2019. Manufacturing was the third sector in job creation for youth during that period, behind wholesale and retail and construction, although, as mentioned

► Figure 115: Job creation in Occupied Palestinian Territory by sector and age, 2000–19 (in thousands)



Source: Author's computation, based on data provided by ILO Statistics Department.

► **Figure 116: Evolution of level of skills in employed population by age in the Occupied Palestinian Territory, 2000–19**



**Source:** Author's computation, based on data provided by ILO Statistics Department.

earlier, its share in youth employment decreased overall between 2000 and 2019. Public administration created a considerable number of jobs between 2000 and 2019, however, mainly for older workers (figure 115). This was especially the case between 2009 and 2019, with an increased share of high-skilled jobs for older workers in this sector reflecting the higher percentage of older workers with advanced education as opposed to youth in the Palestinian economy (figure 116).

In **Algeria**, the labour market outcomes have in overall improved for women between 2000 and 2009, even though less than 20 per cent of working-age women are engaged in the labour market. Since 2000, women have witnessed a significant positive trend as the labour force participation rate increased from 12 per cent in 2000 to 17 per cent in 2019. Over the last two decades, the female labour force grew faster than the male labour force, leading to a decrease in the male labour force participation rate (from 75 per cent in 2000 to 68 per cent in 2019) and a lower gender gap in the labour force participation rate (LFPR). Between 2000 and 2009, employment grew at remarkably high levels both for men and women and at a much higher pace than labour force growth. Women's employment grew by 76 per cent between 2000 and 2009, while

male employment grew by 52 per cent. (table 36) This dynamic led the unemployment rate to drop from 30 per cent to 18 per cent for women and from 30 per cent to 9 per cent for men between 2000 and 2009. This positive dynamic slowed down considerably after 2009, with the labour force for both males and females slightly exceeding employment growth, which led to the unemployment rate rising marginally to 20 per cent for women and 10 per cent for men in 2019.

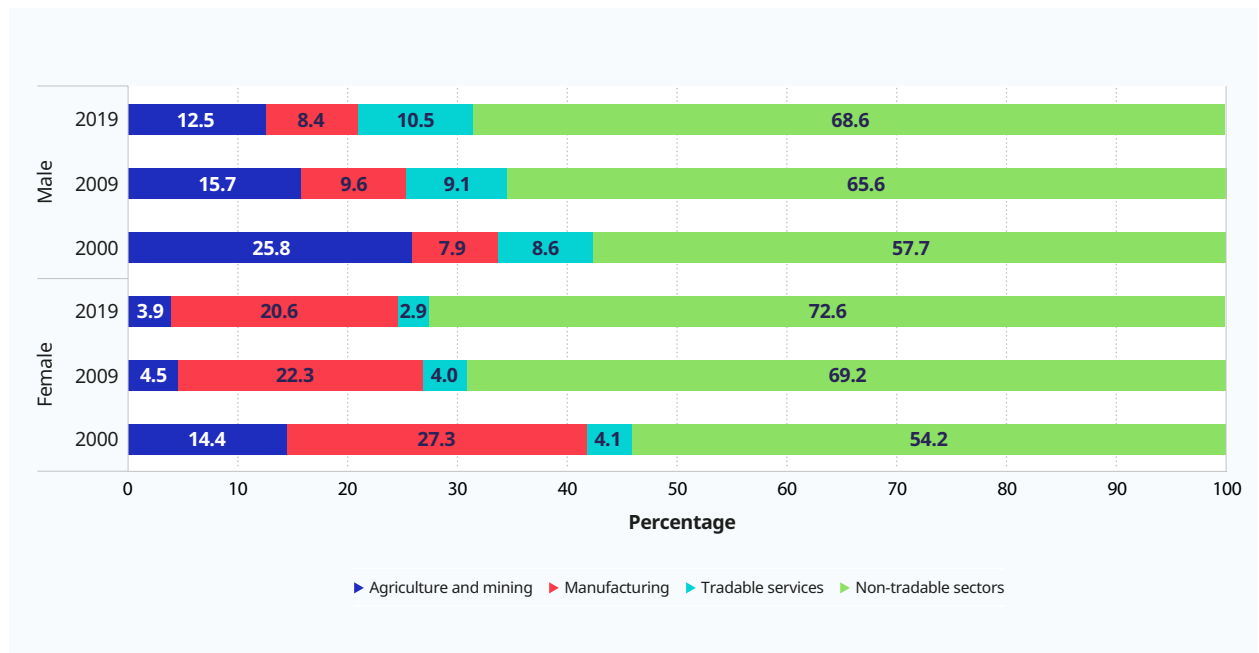
In Algeria, employment in tradable sectors is relatively small and has been decreasing over the last two decades for both men and women, particularly between 2000 and 2009. This decrease is primarily driven by the shift of labour out of agriculture, mainly towards low-productive services. The share of manufacturing in employment for women has significantly decreased over the past 19 years, particularly between 2000 and 2009, while it increased overall for men between 2000 and 2019. Like Tunisia and unlike other countries in the region, manufacturing represents an important sector for female employment, with around 21 per cent of women engaged in this sector in 2019, despite this share decreasing from 27 per cent in 2000 (figure 117). However, like Jordan, women are concentrated in a limited number of sectors: around 77 per cent

► Table 36: Evolution of labour force and employment by sex in Algeria, 2000–19 (in thousands)

Algeria	2000	2009	2019	2009–2000	2019–2009	Growth 2000–2009 (%)	Growth 2009–2019 (%)
Labour force, Female	1,200	1,811	2,528	610	717	50.8%	39.6%
Labour force, Male	7,680	8,990	10,188	1,310	1,198	17.1%	13.3%
Labour force, Total	8,880	10,801	12,716	1,920	1,915	21.6%	17.7%
Employment, Female	844	1,483	2,011	640	528	75.8%	35.6%
Employment, Male	5,393	8,220	9,204	2,827	983	52.4%	12.0%
Employment, Total	6,237	9,703	11,215	3,467	1,511	55.6%	15.6%

Source: Author’s computation based on ILOSTAT data (modelled estimates).

► Figure 117: Employment in tradable and non-tradable sectors by sex in Algeria, 2000–19

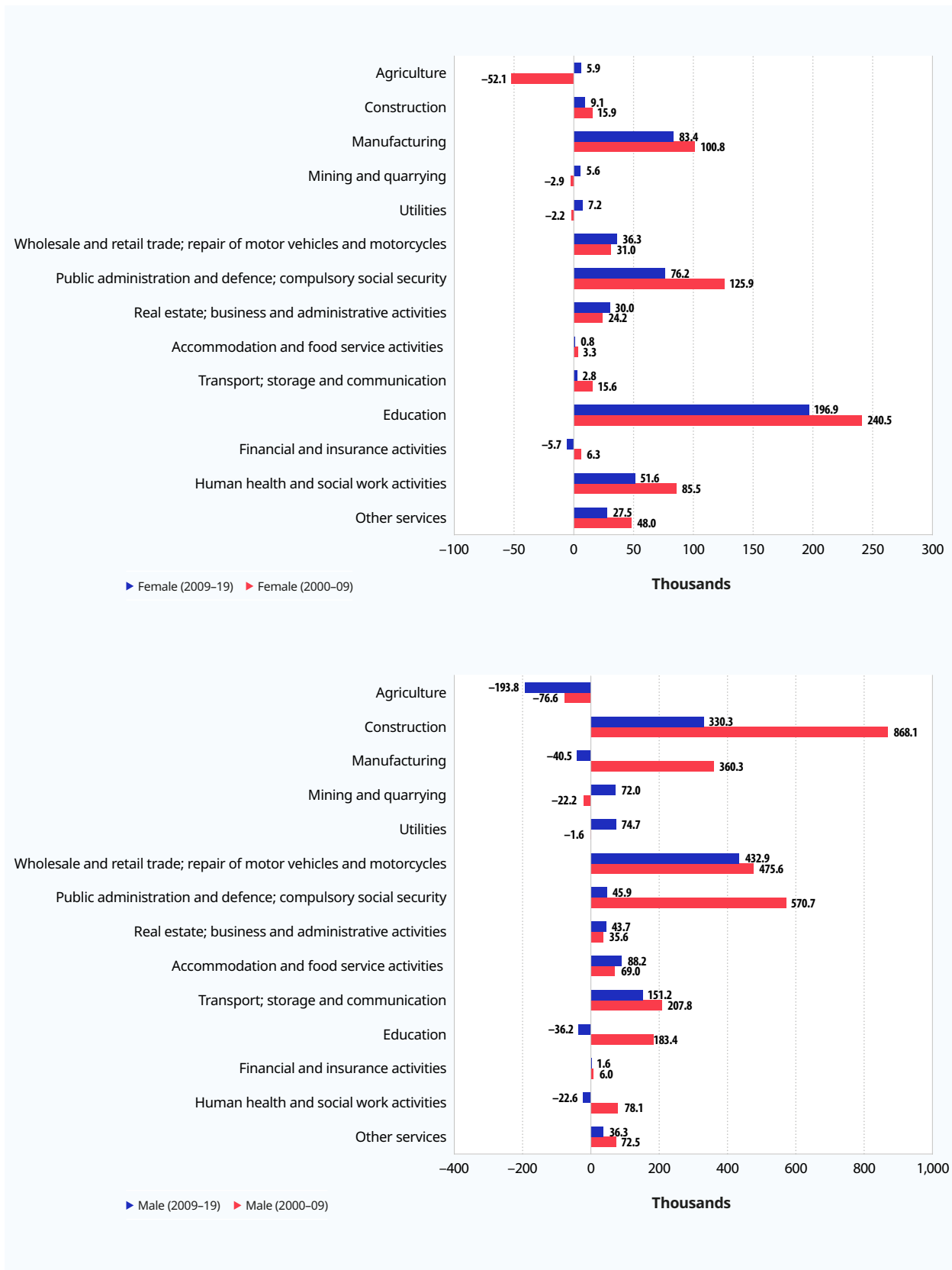


Source: Author’s computation based on ILOSTAT data (modelled estimates).

of women employed in 2019 were in education, healthcare, public administration and manufacturing. Over the last two decades, manufacturing created a significant number of jobs for female workers, despite the decrease of its share in female employment. The sector created 100,000 jobs for women between 2000 and 2009 and 83,000 jobs for women between 2009 and 2019. In that period, jobs created in that sector were mostly for women, as male employment shrank with the destruction of 40,500 jobs (figure 118).

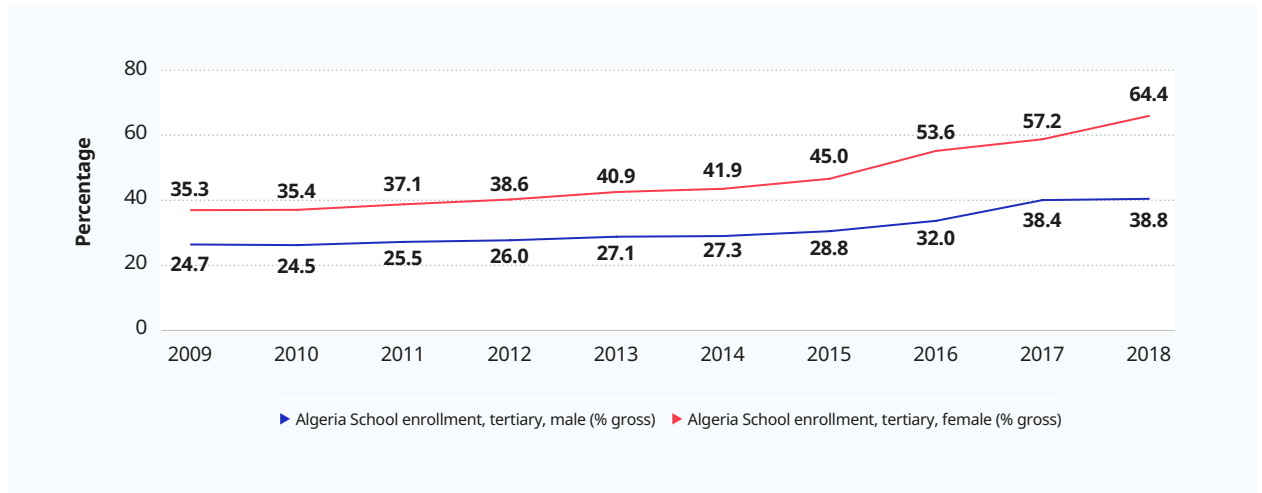
Outside of manufacturing, job creation for women has been mainly driven by services. Women entering the labour market between 2000 and 2019 in Algeria were most likely to get a job in education (+437,000 jobs), public administration (+202,000 jobs) and human health and social work activities (+137,000 jobs). These three sectors represented about 66 per cent of jobs created for women between 2000 and 2019. Jobs in these sectors are generally high-skilled, which reflects the significant improvement in female educational

► **Figure 118: Job creation by sector and gender in Algeria, 2000–19 (in thousands)**



Source: Author's computation based on ILOSTAT data (modelled estimates).

▶ **Figure 119: Evolution of enrolment in tertiary education for female and male in Algeria, 2009–18 (% gross)**



Source: WDI.

▶ **Figure 120: Evolution of occupations by gender in Algeria, 2010–19**



**Note:** High-skilled: Managers and professionals; mid-skilled: Technicians and associate professionals, Clerical support workers, Service and sales workers, Craft and related trades workers; low-skilled: Plant and machine operators and assemblers and Elementary occupations and skilled agricultural, forestry and fishery workers.

**Source:** ILO modelled estimates.

attainment and level of skills and occupation in the labour market in Algeria. Enrolment in tertiary education for females has been steadily increasing since 2009 and has almost doubled between 2009 and 2019 (figure 119), with Algeria having the highest female enrolment in tertiary education in the region (64.4 per cent in 2019). This has translated to a steadily increasing share of women in high-skilled occupations, compared to stagnating levels of occupation for men (figure 120). As in Morocco, this significant increase in female educational attainment

will increase the demand for high-skilled jobs, which would require a focus on tradable sectors in industry and services and a diversification of exports outside of gas and oil.

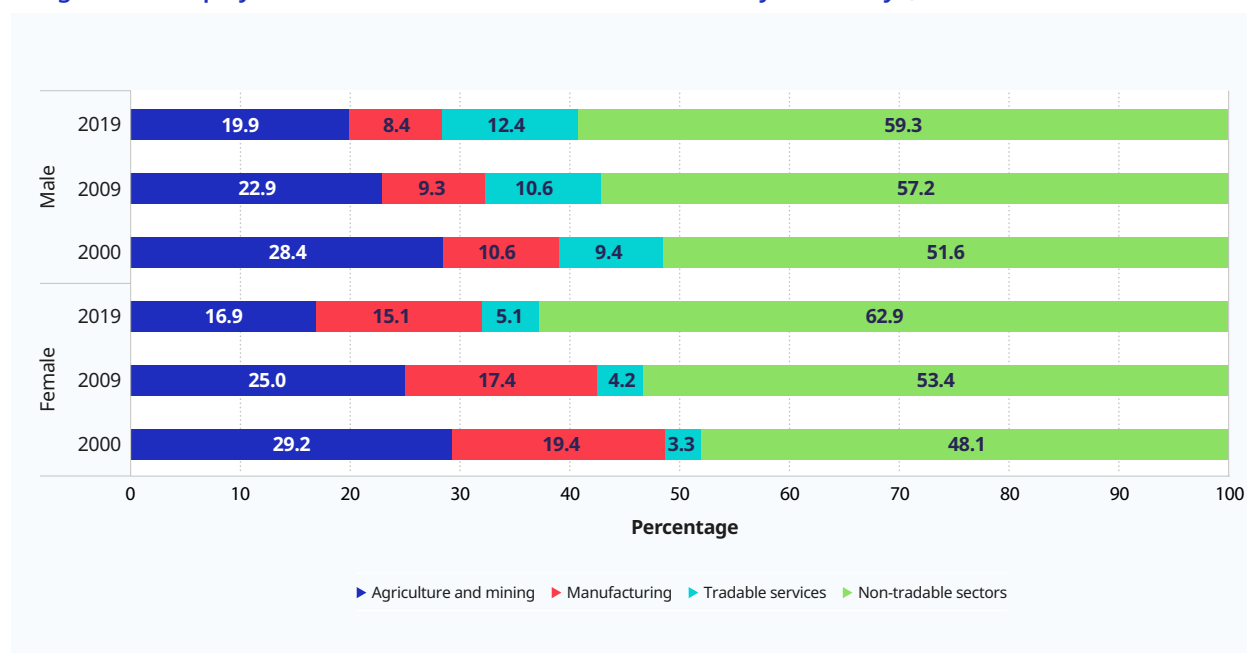
In **Libya**, labour force participation rates increased over the last two decades, from around 29 per cent in 2000 to 34 per cent in 2019 for women and from 59 per cent to 65 per cent for men over the same period. Between 2000 and 2009, the labour force growth rate for both males and females was at



► **Table 37: Evolution of labour force and employment by sex in Libya, 2000–19 (in thousands)**

Libya	2000	2009	2019	2009–2000	2019–2009	Growth 2000–2009 (%)	Growth 2009–2019 (%)
Labour force, female	488	710	826	223	116	45.7%	16.3%
Labour force, male	1,098	1,391	1,597	293	206	26.7%	14.8%
Labour force, total	1,586	2,101	2,423	516	322	32.5%	15.3%
Employment, female	364	532	627	168	95	46.0%	17.8%
Employment, male	917	1,171	1,352	254	180	27.7%	15.4%
Employment, total	1,281	1,703	1,978	422	275	32.9%	16.2%

Source: Author's computation based on ILOSTAT data (modelled estimates).

► **Figure 121: Employment in tradable and non-tradable sectors by sex in Libya, 2000–19**

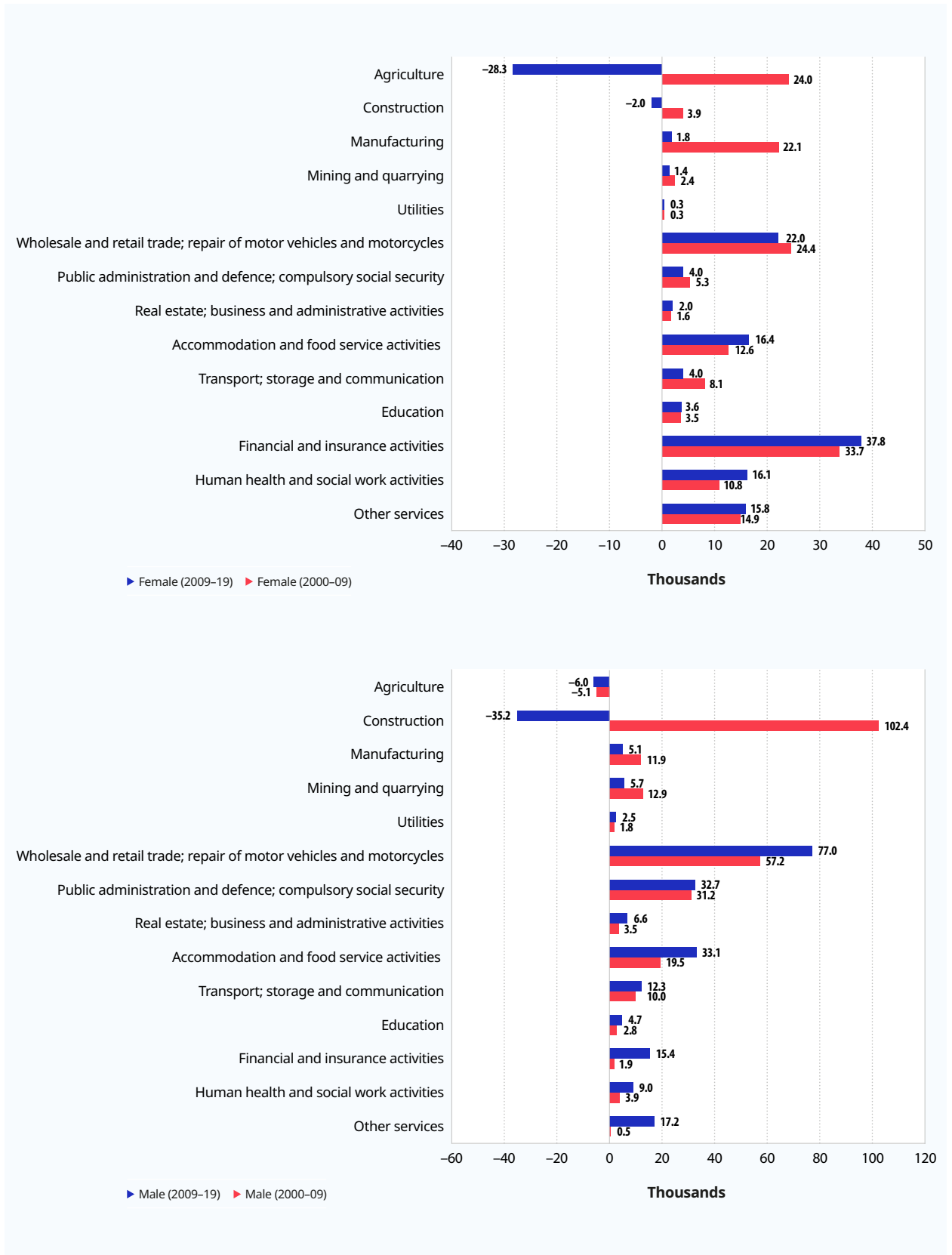
Source: Author's computation based on ILOSTAT data (modelled estimates).

around 46 per cent (table 37). Between 2000 and 2019, despite the significant turmoil that the country has gone through, employment continued to grow at higher levels than labour force growth. This led to a slight decrease in the unemployment rate from 25 per cent in 2000 to 24 per cent in 2019 for women and from 16 per cent to 15 per cent for men over the same period.

Like other economies in the region, employment in tradable sectors decreased for both men and women from 2000 to 2019, mainly due to the

decrease of employment in agriculture. However, the shift out of tradable sectors for women has been significantly higher than for men between 2000 and 2019 (figure 121). The share of manufacturing in female employment decreased at higher levels than men, while tradable services have created more jobs for men than for women. Overall, the increase in trade reduced the share of women in tradable sectors, both in manufacturing and services. The share of manufacturing in female employment decreased from 19 per cent to 15 per

► Figure 122: Job creation in Libya by sector and gender, 2000–19 (in thousands)



Source: Author's computation based on ILOSTAT data (modelled estimates).

cent between 2000 and 2019, even though the sector created a significant number of jobs. Male employment predominated in other tradable sectors, in services such as transportation and storage and financial services, despite gaining shares in female employment. These sectors represented 5.1 per cent of female employment in 2019, up from 3 per cent in 2000.

The Libyan economy is the only economy in the region that created more jobs for women than men in manufacturing between 2000 and 2019 in numbers (figure 122). Manufacturing created 23,900 jobs for women versus 17,000 jobs for men between 2000 and 2019, with most of the jobs for both created between 2000 and 2009, before the 2011 events. Outside of manufacturing, most of the jobs for women and men have been created in non-tradable sectors. There is a steady growth of employment in high-skilled non-tradable sectors such as education and healthcare for women, reflecting the improvement in female educational outcomes. For instance, in 2019, the enrollment in tertiary education for females was at 39 per cent compared to 10 per cent for men. In education and healthcare, 80 per cent of the jobs created between 2000 and 2019 were for female workers, and the share of both sectors in female employment increased from 26 per cent in 2000 to 30 per cent in 2019.

### Conclusion

As mentioned in the previous chapter, trade policies might lead to high adjustment costs for vulnerable workers, especially for women in the Southern Mediterranean Countries. Addressing this requires integrated trade, industrial and domestic policies that reduce the possible unequal impact of trade liberalization on the labour market. Women in the region tend to be highly educated and engage mainly in formal employment; therefore, focusing on high-skilled tradable sectors that could absorb this labour force is crucial for women's economic empowerment and inclusive trade and investment policies. Industrial policies should be used as a transmission channel for trade and investment policies to realize a productive structural change and yield the intended results, including creating opportunities for women and youth to benefit from trade liberalization and sophistication of exports. For women in the region, outside of the impact of trade policies, the lack of public transportation and social facilities such as childcare facilities confines women to their traditional roles in society and prohibits them from being economically active. For youth,

two main root causes need to be addressed. The first is the skill mismatch due to the gap between the education system and the needs of the labour market. The second is slow structural transformation, which limits the economies in the region to mainly creating low-productive jobs. As a result, the most educated youth and women experience very high unemployment rates, which represents a huge loss of human capital for economies in the region.

### 3.4. Policy orientations: What could be done to improve the impact of trade and investment policies, including for women and youth?

The possible negative impact of trade in the labour market should be addressed by policy measures that maintain open markets while providing the necessary support to enable firms and workers to adjust and to increase their human and technological capabilities. Trade liberalization should be part of effective and well-implemented industrial policies, and these in turn require the intervention of well-capacitated public institutions and a formalized, documented and effective public-private dialogue.

Trade liberalization reforms alone are not enough to improve economic outcomes, including on the labour market. The potential gains from trade liberalization require a competitive business environment, functioning economic institutions and well-developed infrastructure to ensure a fast and efficient allocation of productive factors. Underdeveloped infrastructure limits the reshuffling of productive factors, including labour mobility and delays, and decreases the benefits of trade reforms. In particular, as discussed earlier, physical infrastructure development would improve the logistics, flow of information and communication with clients.

The set of interventions required to improve the impact of trade on the labour market and mitigate the additional burden and exclusion imposed on women and youth require that coherent and complementary policies be designed and implemented through well-orchestrated coordination. These policies should address three main challenges that we discussed in this report:

- The slow structural change and the early de-industrialization that countries in the region are experiencing reduces the capacity of the

economy to create productive and quality jobs for its relatively young and increasingly educated population.

- ▶ The high adjustment costs that trade policies and increased competition impose on firms and workers, especially vulnerable ones, might lead to sub-optimal outcomes. In the case of the Southern Mediterranean Countries, this has led to a decreased participation of women in tradable sectors in the labour market.
- ▶ The structural issues that women and youth face in the labour market, beyond the impact of trade policies, negatively impact labour productivity growth and output growth in the region, with an economic potential that remains untapped. Increased labour participation for youth and women would help to improve economic outcomes in the region through increased human capital accumulation and increased household income. This in turn would potentially lead to further consumption, increased local demand and finally, a decrease in the dependency ratio.

The set of proposed policies and interventions listed below aim to provide some recommendations to address these challenges. An underlying condition of all these policies' success lies in an effective implementation, which requires well-capacitated public institutions, dedicated resources and strong political leadership. These interventions would help countries in the region realize a number of Sustainable Development Goals (SDGs), including SDG 8 which promotes sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (including targets: 8.3. 8.5. 8.6. 8.b), SDG 9, which promotes resilient infrastructure, inclusive and sustainable industrialization and fosters innovation, as well as SDG 10, which focuses on reducing inequality through fiscal and wage reforms and equal access to productive employment.

### 3.4.1. A focus on structural transformation through effective industrial policies can help to reverse early deindustrialization and foster long-term and inclusive growth

**The focus on structural transformation would require adopting effective and modern industrial policies that would act as transmission**

### **channels to yield an inclusive and positive impact of trade policies on the region's labour markets.**

Structural change from low-productive activities to high-productive ones is necessary to ensure sustainable growth and enable physical, human and technological capital accumulation. As demonstrated by the experience of the Southern Mediterranean Countries, the shift of labour out of agriculture is not necessarily accompanied by substantial gains in per capita income, with labour moving primarily to low-productive sectors and activities. The manufacturing sector remains an important driver of this structural transformation, by enabling capital accumulation, increased labour productivity and higher value-addition. This ultimately would lead to increased diversification and higher sophistication of exports and better overall competitiveness of the region's economies. High value-added sectors in services can also contribute to the structural transformation; however, policymakers in the region should be wary of the potential inequality that focusing only on these services would lead to. Tradable services require higher-skilled workers than manufacturing. An increased trade within these sectors might lead to an increased demand for these workers at a higher pace than in manufacturing and would lead to higher inequalities, especially in the absence of significant investment in human capital and infrastructure. Evidence suggests that countries that have gone through a structural change driven by manufacturing have witnessed less inequality than those in which structural change was driven by services (Ravindran and Babu, 2021; Baymul and Sen, 2020).

Overall, Northern African countries have been doing better than other countries in the region in terms of industrial policies; however, even in these countries, the design and implementation of these policies require significant improvement. Below, we provide a summary of the necessary features for effective modern policies, based on the discussion provided in the previous chapter and based on the framework developed by Rodrik (2008) and by ILO (2020a):

- ▶ **A mix of targeted and transversal industrial policies is needed:** As identified in the literature, a mix between focusing the public support on a selected and well-identified sector and a more transversal approach to fix the business environment and improve the soft infrastructure. Transversal industrial policies in the region should focus on investment in R&D and human

capital to improve technological capabilities. For targeted policies, identifying the high-potential sectors should follow a continuous self-discovery process, which remains mostly unimplemented in the region, except for encouraging signs in Morocco, and should be based on a deep understanding of the changing competitive advantages and reality in the economy. We recommended in this report (chapter 2) three methodologies that can help countries in the region identify these sectors and concentrate their efforts to maximize resource allocations' impact and efficiency. For countries with a significant supply of highly qualified labour, especially among women, as in Jordan, Tunisia and the Occupied Palestinian Territory, targeted sectors should absorb both high-skilled workers, including female workers, and low- and mid-skilled ones. This, in practice, might translate into a selection of a mix of targeted sectors between manufacturing and services.

► **Modern and effective industrial policies require:**

► **Conditional support to minimize rent-seeking:** The carrot-and-stick feature, or in other words, the conditionality of the support provided to firms, is also almost completely absent in the region, except for the recent start-up act in Tunisia. This is a fundamental feature to the new wave of industrial policies and would require strong monitoring and evaluation mechanisms and transparency in the design of criteria and conditions of support.

► **Actionable interventions with clear institutional responsibilities:** Industrial policies need to identify clear implementation mechanisms, including clear institutional mandates and accountability, to avoid duplication of efforts and maximize synergies.

► **A strong social dialogue and public-private partnerships:** Such partnership would be important in designing these policies and their implementation to ensure the continuous self-discovery process. The public-private dialogue needs to be inclusive of different components of the private sectors not just big and already well-connected players, as is the case in the region. This might require programmes and interventions to build the capacity of the private sector in terms of organization and sustainability, to include SMEs and small firms generally not represented in big employers' associations. The public-private dialogue should be institutionalized, formalized and

with clear objectives and governance mechanisms. These formal platforms should have periodic and publicly published deliberations.

► **A strong political support and should ideally be implemented at the centre of Government:** Industrial policies are at the centre of economic policies and translate a vision for the economy and society. Their implementation requires an integrated approach and constant alignment with other economic policies and instruments such as trade policies. Ideally, their implementation should be led by the centre of Government to ensure policy coherence and synergies.

► **A financial commitment:** Financial resources should be dedicated to implementing both targeted and transversal industrial policies to fund the incentives and financial support. The financial resources can be secured from private investment as well as public investment.

► **A strong and well-capacitated institutions and clear and transparent monitoring, evaluation and learning mechanisms:** Institutions included in the implementation of industrial policies should be well-capacitated and clear monitoring and evaluation mechanisms should be in place. The results of industrial policies should be periodically published in a transparent way to ensure accountability and to ensure the application of a self-discovery process, in case of meagre results due to the selection of the wrong sector or the design of the wrong incentives and interventions.

**Overall, the success of industrial and trade policies requires reforming the economic institutions to address rent-seeking and to unleash the economic potential of the region.**

As indicated in the previous chapter, economic institutions in the region tend to be extractive (using the definition of Acemoglu and Robinson, 2012). Reforming these institutions is crucial to any economic reform in the area and to unleashing the potential of innovation and entrepreneurship. This is not a straightforward process and is typically at the intersection of political and economic individual and collective power. However, countries in the region should reform their regulatory framework through more effective and transparent competition laws and institutions and adopt and respect intellectual property rights. Policymakers should also focus on reforming the set of rules and require-

ments that govern economic activities by setting clear and transparent rules that promote competition and level the playing field. Policymakers should also focus on removing the barriers to entry and exit of businesses. A simplified and easy firm entry and exit in an economy would facilitate the entry of more productive firms and the exit of unproductive ones, which would lead to a better reallocation of resources and ultimately to an improvement of aggregate productivity. More generally, policymakers in the region should promote the rule of law if they are to stand a chance in developing their economies and benefitting from a positive impact of trade and investment on their economies.

### 3.4.2. A close monitoring and mitigation of the impact of trade policies on the labour market, including for women and youth, and investment in infrastructure could help facilitate the reshuffling of productive factors

Active and passive labour market policies and programmes can be used as a tool to facilitate labour mobility, facilitating the reshuffling of productive factors and improving the capacity of vulnerable workers to face the significant adjustment costs imposed by trade liberalization. These policies and programmes should be designed and implemented in a coherent manner with trade, investment and industrial policies in the region. Vulnerable workers are restricted by low human capital, a difficult school-to-work transition and significant skills mismatches. This leads to inefficient labour mobility and, therefore, the incapacity to adapt to the consequences of trade liberalization. The reallocation of factors is a huge process in all countries and trade liberalization and technological change will only increase its magnitude.

#### **Adopt passive labour market programmes to reduce the adjustment costs for workers, focusing on women and youth.**

Workers in the Southern Mediterranean Countries are for the most part not covered by unemployment insurance. Passive labour market policies can help protect workers and facilitate their reallocation across firms and sectors, facilitating their re-employment and reducing the risk of informality and structural exclusion from the labour market. This

is the case, for instance, in most of the developed economies, which offer a certain level of social protection, job retention mechanisms, wage insurance programmes and unemployment benefits. These mechanisms and benefits have been widely used in Europe to offset the significant demand and supply shocks imposed by the COVID-19 pandemic. Some countries in the region, such as Morocco and Tunisia, used temporary direct cash transfers to offset the COVID-19 pandemic (see Chapter 4).

Formalizing these policies and mechanisms would allow authorities to intervene and support a specific group or activity impacted by a crisis and an economic downturn. For example, these mechanisms can be applied to support workers working in previously protected industries when going through a trade liberalization reform. Policymakers in the region should design passive labour market policies in collaboration with social partners and define them according to the level of incomes in their domestic labour market and the level of skills of the various age groups in the labour force that are mostly impacted by trade reforms.

#### **Improve the quality of employment services and design active labour market policies and programmes to improve the capacity of women and youth to deal with the impact of trade on the labour market.**

Active labour market policies and policies and programmes (ALMPs) are mostly used in countries in North Africa to support the unemployed population, mostly focusing on youth graduates. ALMPs include intervention on both the supply and demand side of the labour market. They generally include vocational training and upskilling programmes, support in the job search process through employment services, entrepreneurship programmes and subsidized employment and public work schemes. For instance, in Tunisia, several ALMPs have been launched to improve youth employability, including Forsati and others promoting small businesses and transition to work. However, most of these programmes were designed for university graduates and did not target other low-skilled and mid-skilled youth (World Bank, 2014).

Most of the countries in the region have employment services and employment agencies and provide labour intermediation services. For instance, in Morocco ANAPEC (Agence Nationale de Promotion de l'Emploi et des Compétences) is responsible for labour intermediation between jobseekers and

employers. Similarly, in Tunisia, ANETI (Agence Nationale pour l'Emploi et le Travail Indépendant) provides employment services to self-employed and unemployed. However, the quality of the services they provide is not satisfactory and these services require modernization to be able to link the supply effectively to the demand in the labour force (European Training Foundation, 2006; ILO, 2015).

Policymakers in the region should ensure that ALMPs support workers displaced by trade policies and improve the inclusiveness of the labour markets in general. Particularly, policymakers should invest in reforms that aim to improve the education and professional training systems to improve human capital and help the upskilling of low- and mid-skilled workers, who would be impacted by trade reforms. Investment in these programmes would help enhance the capacity of these workers, especially youth, to adapt to the needs of new activities. The adaptability of the labour force to the new needs of the labour market is a challenge that will only intensify with the technological revolution. Therefore, a significant investment in these programmes is of key importance for a functioning labour market and inclusive industrial and trade policies.

**Invest in physical public infrastructure to reduce the non-tariff barriers to trade to enable the adjustment of firms and workers to trade policies and invest in social facilities to support women's economic empowerment.**

As discussed previously, investment in physical infrastructure can foster employment creation and trade expansion by facilitating labour mobility and reducing the adjustment costs of workers and firms to trade liberalization. Investment in infrastructure can also foster trade expansion by lowering the trade-related transaction costs, including communication costs, domestic transport costs, time and money spent in ports on border procedures and international transport costs. Overall, a well-developed physical infrastructure reduces the non-tariff barriers to trade.

Policymakers in the region should significantly invest in physical infrastructure to facilitate trade and logistics. Most countries in the region require a significant upgrade of their maritime transport, their road networks and public transportation. Particularly, investment in public transportation

can help workers deal with significant adjustment costs and improve their mobility. Also, investment to improve accessibility to digital infrastructure is crucial to facilitate the flow of information, an important input to well-functioning markets.

In order to foster women's integration in the labour market, policymakers in the region should focus on investing in childcare facilities and other social infrastructure that would help liberate women in the region from their traditional roles and engage in productive employment. Considering the important needs in the region in terms of infrastructure and the extreme low female labour force participation rates in these countries, infrastructure projects could provide a significant source of employment for women in the region, particularly low-skilled ones, either directly or indirectly. However, the design of these programmes would need to consider the gender constraints and issues, particularly the cultural ones in the Southern Mediterranean Countries. The ILO has developed a framework to design and implement programmes that are employment intensive for women in infrastructure (ILO, 2016) and couple of these programmes have been implemented in Tunisia and Jordan, for instance. In Tunisia, the ILO implemented the "Support Programme for the Development of Underprivileged Areas" in 2012, focusing on integrating women in employment generated by infrastructure projects. The programme has created a total of more than 152,000 work days in infrastructure projects and the supply of materials for women in under-developed regions in the country, and created more than 200 indirect jobs for rural women in their communities.<sup>55</sup> In Jordan, the "Employment through Labour Intensive Infrastructure", implemented in 2016, was designed to integrate women's constraints into the different steps of the project in order to create a female-friendly environment for female labour in infrastructure or public works. As a result, female worker-days made up 16 per cent of worker-days over more than two years in the programme.<sup>56</sup> In 2016, the project developed a gender strategy to lay the grounds for efficient gender mainstreaming throughout the project cycle in order to ensure gender equality concerns are thoroughly included in implementation, monitoring and evaluation. The strategy foresees, among others, measures related to setting targets (a minimum 10 per cent of all direct beneficiaries in Employment

55 ILO, "Tunisia: Empowering women through the induced effects of investments for economic diversification", Employment Intensive Investment Programme.

56 ILO, "Jordan: Advancing gender equality and supporting job creation among refugees and host communities through public works", Employment Intensive Investment Programme.

Intensive Investment Programme (EIIP) interventions to be women); a gender-friendly work environment to enable women to balance their domestic and care responsibilities with EIIP employment; awareness-raising to address gender stereotypes and a zero tolerance for sexual harassment and sexual violence at work; and technical and soft skills-building for women in the areas of construction, agriculture, and business management.

Invest in other soft infrastructure, including human capital and innovation, to foster the convergence process and improve the functioning of the financial sector, for it to act as an efficient backbone for trade and industrial policies.

Educational outcomes in the region have generally increased; however, there are signs of a decreasing trend in enrolment in tertiary education in countries like Jordan and Tunisia. Also, the Human Capital Index shows that the region is not benefitting from almost half of its human capital. The region should not increase its focus on education and human capital in general as past investments in education and health policies might not be enough to prepare the labour force for the impact of the technological revolution on the labour market beyond the impact of trade policies.

Public investment in education, health and R&D and innovation to foster human capital and technolog-

ical upgrade should be a focus on policymakers in the region. Education levels would determine countries' capacity to adapt to new technologies, foster innovation and compete globally. Investment in R&D and innovation, including in the private sector, will foster technological upgrades in the economies in the region. The digital growth economy provides a tremendous opportunity for countries in the region. However, to benefit from this opportunity, individuals in the region should be prepared to deal with change and learn new skills quickly. Particularly, there is a need to focus on education, from an early age, on "learning to learn" and soft skills, which can help individuals face the challenges imposed by trade policies and prepare future generations for the reality of future labour markets.

Finally, reforming the financial sector and facilitating access to credit is crucial for an effective adjustment to trade policies. Countries in the region should focus on improving the quality of financial infrastructure to facilitate access to credit. This can be done notably by adopting innovative FinTech technologies to transform the financial sector's capacity. Also, the diversification of sources of financing for businesses outside of the traditional banking sector should be a focus of policymakers, notably by developing both public and private equity finance segments, including stock and corporate bond markets.





# ▶ Chapter 4

**Future trends and impact  
on the labour market**

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## ► Chapter 4. Future trends and impact on the labour market

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### 4.1. Short-term: Impact of COVID-19 and pathways to recovery

#### 4.1.1. Global impact of the COVID-19 crisis

The COVID-19 pandemic has brought about severe global, economic and employment crises. In fact, in 2020, the global GDP contracted by 4 per cent.<sup>57</sup> The COVID-19 economic crisis has resulted in an unprecedented shock to the private sector and continues to negatively impact global demand and international supply chains. For example, there has been a huge drop in demand in most export-oriented sectors, both globally and in the Southern Mediterranean Countries. The COVID-19 crisis is unprecedented as it has impacted both supply and demand in all economies. The uncertainty that the COVID-19 crisis has created has led to wait-and-see behaviours among economic agents, including firms and households. Moreover, social distancing and lockdown measures have had a huge impact on local demand and economic activities across the globe.

The COVID-19 crisis has most severely hit international trade, global supply chains and global value chains. In 2020, global trade decreased by approximately 8 per cent, both in value and volume.<sup>58</sup> Specifically, trade in goods witnessed a drop of 5 per cent in 2020, although it steadily recovered by 8 per cent in the first quarter of 2021.<sup>59</sup> Meanwhile, trade in services witnessed an even sharper drop, with a 20 per cent decrease in value in 2020. Furthermore, trade in services is recovering at a slower pace than trade in goods. For example, travel and transport were the most severely hit, and are not expected to fully recover in 2021. This contraction in trade is mainly due to a global slowdown of economic activity and demand, as well as several trade restrictions

by governments, including inputs necessary for vaccine production. Due to lockdown measures in many industrialized countries, supply chains have been severely disrupted. For instance, maritime transport was relatively disrupted by the pandemic, which is significant because maritime transport is at the heart of global supply chains, carrying more than 80 per cent of global merchandise by volume and more than 70 per cent by value. According to UNCTAD, container vessel port calls fell by around 3 per cent in 2020 compared with 2019, and port calls for dry break-bulk carriers fell by around 8 per cent (UNCTAD, 2021a). The disruption in maritime transport affects almost all sectors depending on imported inputs, particularly in manufacturing, in all countries. GVCs, driven by FDIs, have also been severely hit by the crisis. UNCTAD estimates that the global levels of FDI dropped by 35 per cent in 2020, reaching US\$1 trillion, down from US\$1.5 trillion in 2019, at a lower level than the post-global financial crisis (UNCTAD, 2021b). However, the drop in FDIs has been more severe in high-income countries than LMICs. FDIs in LMICs decreased by only 8 per cent, despite a severe 42 per cent decrease in the number of newly announced greenfield projects (UNCTAD, 2021b).

The COVID-19 crisis has also hit international travel and tourism in an unprecedented manner. Airports worldwide either closed or drastically decreased their activities, due to the massive drop in international travel and tourism driven by social distancing and lockdown measures. According to the International Civil Aviation Organization (ICAO), global passenger traffic fell drastically by 60 per cent in 2020 (year-over-year), sending global air traffic back to 2003 levels.<sup>60</sup> Similarly, the tourism sector witnessed a sharp contraction, with a 74 per cent decrease in international tourist arrivals (UNCTAD, 2021c). According to World Travel and Tourism Council, the tourism and travel sector is estimated to have lost US\$4.5 trillion in 2020.<sup>61</sup> The

57 Source: WDI.

58 UNCTAD, [Impact of the COVID-19 pandemic on trade and development: Recovering, but unevenly](#), March 2021.

59 WTO, [World trade primed for strong but uneven recovery after COVID-19 pandemic shock](#), 31 March 2021.

60 ICAO, [2020 passenger totals drop 60 percent as COVID-19 assault on international mobility continues](#), 15 January 2021.

61 World Travel and Tourism Council, [Economic Impact Reports](#).

recovery in both related sectors remains uncertain, and international travel is expected to remain lower than pre-pandemic levels for at least the next year, considering the uneven progression of vaccination around the world and the uncertainty about the duration of immunization provided by the currently existing vaccine. Moreover, tourists adjusted during the pandemic by visiting destinations that were closer to them, and these behavioural changes might persist even after the end of the pandemic.

Globally, manufacturing activity witnessed an important shock, but recovered relatively quickly, driven by a quick recovery in China. According to UNIDO, manufacturing output decreased by about 7 per cent in early 2020 due to the pandemic but showed a significant recovery in the last quarter of 2020 with an increase of 2 per cent (UNIDO, 2021). The drop in output is, however, uneven across different sectors. Some manufacturing products have witnessed a relatively significant growth in 2020, driven by an increase in demand. This includes basic pharmaceutical products, electrical equipment, computer, electronic and optical products as well as motor vehicles. Other sectors recorded a significant drop in 2020, including textiles and apparel, and food and beverage. The crisis has also impacted countries unevenly. For example, the manufacturing sector in China quickly recovered to record a growth of 9 per cent between March and December 2020, while outputs in the sector remained stagnant in Europe and East Asia and decreased in North America by around 3 per cent in 2020 (UNIDO, 2021).

The COVID-19 crisis has led to a severe deterioration of labour markets across the world, with increased unemployment, significant job losses and decreased labour income. According to the ILO, the crisis has led to a decrease of about 9 per cent in total global working hours in 2020, which is equivalent to 255 million full-time jobs. The number of hours worked has increased since then, but remains lower than pre-pandemic levels, with a decrease of around 5 per cent in the first quarter of 2021, and 4 per cent in the second quarter. The decrease in number of hours worked is either due to job losses or to reduced working hours among workers who remained employed without working. The global labour force participation rate decreased by 2 percentage points between 2019 and 2020, at much higher levels than the 2008 global financial

crisis, with about 81 million people becoming inactive. ILO estimates that at least 114 million workers lost their jobs in 2020 as a direct consequence of the global pandemic, and that this increased the global unemployment rate by 1 percentage point between 2019 and 2020.<sup>62</sup>

The effects of the COVID-19 crisis have been more severe on vulnerable workers, including women and youth, in almost all countries around the world. In fact, women have been more likely than men to become economically inactive. Globally, employment loss for women reached 5 per cent, compared to almost 4 per cent for men. Similarly, youth witnessed about 9 per cent of the employment loss in 2020, compared to 4 per cent for older workers. There is a risk of disconnection between youth and the labour market, which might lead to long-lasting effects.<sup>63</sup>

#### 4.1.2. COVID-19 in the Southern Mediterranean Countries

The Southern Mediterranean Countries have not been spared by the COVID-19 crisis, or by its economic and social consequences. All countries in the region have witnessed a significant GDP contraction, with more pronounced decreases in Lebanon and Libya. In Lebanon, the COVID-19 crisis is exacerbated by a massive social and institutional crisis that is eroding the economic fabric of the country. In general, the depth and impact of the COVID-19 crisis cannot yet be completely quantified, as the health crisis is still ongoing. The IMF estimates a recovery in the Southern Mediterranean Countries, except for Lebanon (table 38). However, these estimations might be too optimistic. Most of the countries in the region do not have sufficient access to COVID-19 vaccines, so their vaccinated populations remain relatively low. Moreover, as of June 2021, Tunisia is facing a severe third wave that is impacting all economic activities in the country, reducing the probability of an economic recovery in 2021. According to the latest figures of the IMF's World Economic Outlook, the level of investment has also significantly dropped in most countries in the region, except for Jordan and Libya. Investment in Jordan slightly increased in 2020 compared to 2019. In Libya, the investment rate has significantly increased, driven by the public sector (table 39).

62 ILO, [ILO Monitor: COVID-19 and the world of work](#). Seventh edition Updated estimates and analysis, 25 January 2021.

63 ILO, [ILO Monitor: COVID-19 and the world of work](#). Seventh edition Updated estimates and analysis, 25 January 2021.

► **Table 38: GDP growth between 2019 and 2021, constant prices**

Country	2019	2020	2021
Algeria	0.8	-5.9	2.9
Egypt	5.6	3.6	2.5
Jordan	1.9	-1.9	2.0
Lebanon	-6.7	-25	n/a
Libya	13.2	-59.7	130.9
Morocco	2.5	-7.0	4.5
Tunisia	0.9	-8.8	3.8
Occupied Palestinian Territories	1.4	-10.9	5.7

**Source:** IMF World Economic Outlook April 2021, estimation for 2020 and 2021.

► **Table 39: Total investment (percentage of GDP)**

Country	2019	2020	2021
Algeria	45.9	45.7	49.3
Egypt	17.9	13.8	16.4
Jordan	16.7	18.8	18.7
Lebanon	n/a	n/a	n/a
Libya	192.5	363.4	117.1
Morocco	32.2	29.1	29.7
Tunisia	17.2	7.8	10.6
West Bank and Gaza	26.8	20.9	25.4

**Source:** IMF World Economic Outlook 2021, estimation for 2020 and projection for 2021.

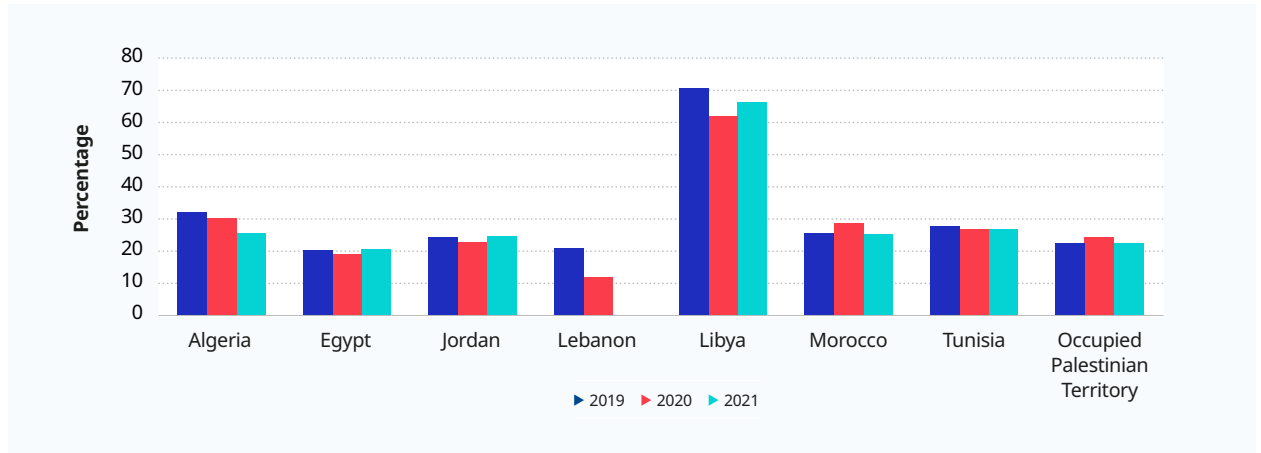
The COVID-19 crisis is also impacting macro-economic balances in the Southern Mediterranean Countries, with an increase of gross debt (percentage GDP) in most countries, and a decrease in public revenues. In most countries in the region, public revenues dropped in 2020, driven by the shock on the real economy. Only Morocco witnessed a slight increase of 3 percentage points in its public revenues in 2020. In parallel, the level of public debt also increased quickly in 2020 in most countries, except for Lebanon. For instance, gross debt as a percentage of GDP increased by more than 10 percentage points in Jordan, Morocco, the Occupied Palestinian Territory and Tunisia. Tunisia recorded the highest increase, with 16 percentage points. These trends reflect the impact of COVID-19 on the real economy as well as the cost of the countries' COVID-19

responses, which aimed to reduce the economic shock on households and firms and support the real economy (see next section).

Trade in the region, particularly exports, has dropped significantly due to the pandemic. Countries in the region exported fewer goods and services in 2020 (table 40). While high-income countries are slowly recovering, it remains unclear how the recovery will be for the Southern Mediterranean countries. Exports of goods in 2020 have particularly decreased in Libya, driven by the oil crisis (table 41). Only Egypt has witnessed a growth in goods exports between 2019 and 2020, at 3 per cent.

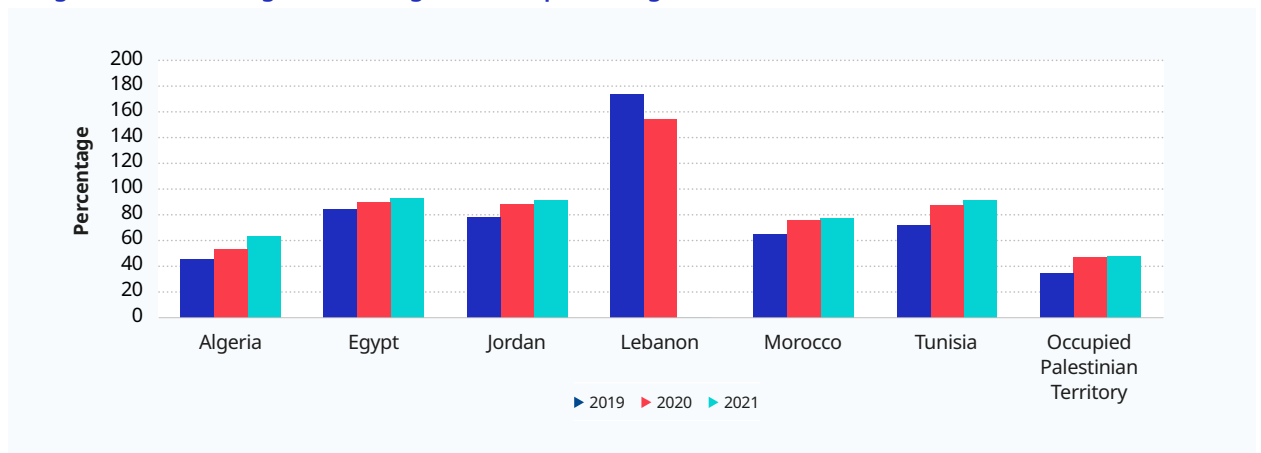
FDI inflows decreased in half of the countries in the region and remained stable in the other half (table 42). FDI inflows to Tunisia declined by 23 per

▶ **Figure 123: General government revenues (percentage of GDP)**



Source: World Economic Outlook 2021, estimation for 2021.

▶ **Figure 124: General government gross debt (percentage of GDP)**



Source: World Economic Outlook 2021, estimation for 2021.

cent between 2019 and 2020, to reach US\$652 million, with most directed to the manufacturing sector (UNCTAD, 2021b). In Algeria, FDI inflows dropped by 16 per cent, and remained mainly directed to the extractive sector, despite some reforms adopted which aim to diversify the sectors of FDI. Inflows in Egypt dropped by 35 per cent, but the country remained the largest recipient in the region, and in Africa as a whole. FDI inflows to Jordan, Lebanon and Morocco remained relatively stable, with a slight increase of 1 per cent in Jordan and Lebanon, and 3 per cent in Morocco.

In particular, the COVID-19 crisis has impacted the tourism sector, a strategic sector in most of the countries in the region. For instance, Jordan's tourism sector, which represented about 18 per cent of GDP and total employment in 2019, witnessed a sharp decrease, and is expected to remain at around 40 per cent of 2019 levels in 2021.<sup>64</sup> In Tunisia, tourism represented about 5 per cent of GDP in 2019<sup>65</sup>, and witnessed an 80 per cent decline in passenger arrivals, which impacted the tourism sector and transport.<sup>66</sup> According to the Tunisian Central Bank, the growth in value

64 World Bank, [Jordan Economic Update – April 2021](#).

65 OECD, [Economic Outlook: Tunisia](#), Volume 2020, Issue 2.

66 World Bank, [Tunisia Economic Update – April 2021](#).

► **Table 40: Change of volume of exports of goods and services (percentage)**

Country	2019	2020	2021
Algeria	-2.9	-4.2	0.3
Egypt	9.8	-4.1	-18.1
Jordan	11.6	-17.4	4.6
Lebanon	-3.0	-49.5	n/a
Libya	-12.9	-80.9	285.1
Morocco	3.3	-20.5	16.2
Occupied Palestinian Territory	2.0	-10.9	2.6
Tunisia	-5.1	-12.3	10.0

Source: IMF World Economic Outlook 2021, estimation for 2020 and projection for 2021.

► **Table 41: Change of volume of exports of goods (percentage)**

Country	2019	2020	2021
Algeria	-4.5	-9.3	-1.5
Egypt	7.0	3.6	-0.2
Jordan	17.6	-6.0	6.2
Lebanon	24.3	-19.4	n/a
Libya	-12.9	-81.1	287.9
Morocco	1.2	-8.6	7.4
Tunisia	-5.1	-12.3	10
West Bank and Gaza	-0.5	-10.9	2.6

Source: IMF World Economic Outlook 2021, estimation for 2020 and projection for 2021.

► **Table 42: FDI inflows to countries in the region between 2019 and 2020**

FDI inflows	2019 (US\$ million)	2020 (US\$ million)	Percentage change between 2019 and 2020
Algeria	47,143	39,785	-16%
Egypt	9,010	5,852	-35%
Jordan	730	726	-1%
Lebanon	2,055	2,067	1%
Morocco	1,720	1,763	3%
Occupied Palestinian Territory	132	52	-61%
Tunisia	845	652	-23%

Source: UNCTAD – World Investment Report 2021.

add in the tourism sector is estimated to contract by 30 per cent in 2020.<sup>67</sup> In Morocco, authorities implemented a strict lockdown and closed the borders in the second quarter of 2020, which severely impacted the travel and tourism industry. The revenues of Morocco's tourism sector have dropped by about 60 per cent in 2020 compared to 2019.<sup>68</sup> Finally, in Egypt, the tourism sector's contribution to GDP decreased from 10 per cent in 2019 to about 6 per cent in 2020.<sup>69</sup>

The COVID-19 pandemic has hit the labour market in the Southern Mediterranean Countries severely, as it has all around the world. To monitor the impact of the pandemic on the labour market, several organizations have put in place surveys of businesses and households in most countries in the region. For instance, the World Bank has conducted phone-based surveys of firms in Jordan, Morocco, the Occupied Palestinian Territory, Tunisia and Lebanon, as well as phone-based household surveys in the Occupied Palestinian Territory and Tunisia. The goal is to assess and monitor the impact of the crisis on the real economy. The ILO and Economic Research Forum (ERF), a think tank focusing on the MENA region, have put in place similar surveys in Egypt, Morocco and Tunisia, and the ERF has also put in place a firm survey in Jordan. Below we report the main results from these surveys, focusing on two layers of impact: impact on businesses, outputs and activities and impact on jobs and incomes for workers.

As expected, and as witnessed across the world, a majority of businesses reported severe drops in sales and outputs due to the COVID-19 crisis. In

Jordan, Morocco and Tunisia, more than 86 per cent of firms reported decreased monthly sales compared to a year before the interview, according to World Bank firm surveys. For instance, in Jordan, firms reported an average percentage change in monthly sales year-over-year of -52 per cent as of July 2020. Businesses in Morocco reported on average an output loss of 47 per cent as of August 2020. In Tunisia, the same indicator reached 68 per cent as of June 2020. In Morocco, according to the European Investment Bank (EIB) and the World Bank enterprise survey for COVID-19, the decline of the average change in monthly sales was about 12.4 per cent, compared to the previous year, and strongest for medium-sized companies (18 per cent). In Jordan, sales collapsed on average by 33.4 per cent with the strongest decline for small firms (39.8 per cent).

The COVID-19 crisis has severely impacted businesses turnovers but has had a relatively low impact on the continuity of activities. According to the EIB and World Bank Enterprise survey for COVID-19, a large number of firms have closed permanently since the COVID-19 pandemic, for instance in Morocco (11.8 per cent) and Jordan (14.6 per cent). Small-sized companies were disproportionately affected in both Morocco (12.9 per cent) and Jordan (18.8 per cent). A survey by the Institut National de la Statistique (INS) in Tunisia together with the International Finance Corporation (IFC), interviewed firms through December 2020 and found that 10 per cent of firms closed permanently in 2020, and that 3 per cent of these enterprises reported closing due to COVID-19.<sup>70</sup> The highest

► **Table 43: Selection of indicators from the firm high-frequency survey**

Country	Share of establishments that fired workers in the last 30 days	Share of establishments that reduced hours in the last 30 days	Share of establishments that reduced wages in the last 30 days	Last month of interview
Jordan	18.2	n/a	n/a	July 2020
Morocco	7.9	n/a	n/a	August 2020
Tunisia	8.6	13.9	15.6	June 2020
Occupied Palestinian Territory	13.8	3.7	9.2	August 2020

**Source:** World Bank high-frequency firm survey; survey unavailable in Algeria, Egypt, Lebanon and Libya.

67 Tunisian Central Bank, [Annual Report 2020](#) (in French), June 2020.

68 World Bank, [Morocco Economic Update – April 2021](#).

69 WTTC, [Economic Impact Reports](#).

70 INS and IFC, [Business Pulse Survey, Tunisia: Impact of the COVID-19 Crisis on the Finance Sector in Tunisia](#), 2020.



level of closure was among firms in services, particularly those operating in hotels and restaurants. Interestingly, non-exporting firms were more concerned about ceasing activities than were exporting firms (10 per cent for non-exporting versus 4 per cent for exporting companies).

The COVID-19 crisis has also led to a relatively important level of job layoffs in the region. According to World Bank firm surveys, the share of firms that fired workers is relatively high, with 18 per cent of firms in Jordan (July 2020), 8 per cent in Morocco (August 2020), 9 per cent in Tunisia (June 2020) and 14 per cent in the Occupied Palestinian Territory (August 2020). In more recent surveys done by ETF, the results indicate that, of those who were private-sector wage workers in February 2020, 10 per cent in Morocco and 16 per cent in Tunisia became unemployed by October 2020 (Krafft et al., 2021).

The COVID-19 crisis has significantly impacted both the levels of wages for workers and household incomes in the Southern Mediterranean Countries. In Morocco and Tunisia, respectively 37 and 40 per cent of private sector wage workers reported a decrease in income by more than 25 per cent, according to ETF surveys. There, farmers and informal workers have been the most concerned about the decrease in incomes. Respectively 61 and 53 per cent of farmers in Morocco and Tunisia reported a decrease in their income of more than 25 per cent, while respectively 59 and 52 per cent of informal workers there reported similar reality. Wage-employed workers in the public sector have been the least concerned by decreases in wages. The labour market outcomes improved in both countries between November and February 2021, as labour force participation rates increased (from 61 per cent to 68 per cent in Morocco, and from 64 per cent to 68 per cent in Tunisia). At the same time, employment in Morocco and Tunisia increased by four to five percentage points, while in Jordan, the labour force participation rate remained lower than that of November 2020. The COVID-19 pandemic has also worsened labour market outcomes in the Occupied Palestinian Territory. The latest labour statistics produced by PCBS show that the unemployment rate has reached 28.5 per cent during the third quarter of 2020, up by three percentage points in comparison with the first quarter of 2020.

### 4.1.3. Responses in countries in the region

Most countries in the region have adopted several measures to reduce the impact of COVID-19 on their economies and have done so relatively quickly.<sup>71</sup> Many of these measures were adopted in the second quarter of 2020, despite relatively low incidences of COVID-19 at the time. The measures had three main objectives: stimulating the economy, protecting jobs and incomes and protecting workers in the workplace. These objectives are aligned with the ILO policy framework for tackling the economic and social impact of the COVID-19 crisis, which includes four pillars: (a) stimulating the economy and employment; (b) supporting enterprises, jobs and incomes; (c) protecting workers in the workplace and (d) relying on social dialogue for solutions.

In **Egypt**, the economic and social response to COVID-19 has been relatively strong and included a wide range of policies. In terms of monetary and financial policies, the Central Bank of Egypt reduced the interest rate from 13.25 per cent to 10.25 per cent. Additionally, financial institutions delayed credit dues for both business loans and personal loans by 6 months, and implemented a debt relief programme, financed by the Central Bank, to aid 225 distressed firms, and individuals at risk of financial distress. They also provided soft loans with preferential interest rates to SMEs in industry and tourism, as well as to low- and middle-income families. On top of this, the authorities announced a stimulus package for US\$6.4 billion, which represents approximately 2 per cent of the country's GDP. The stimulus package aimed to support health workers and health services, as well as affected sectors, businesses and workers. Notably, the authorities used this package to finance a set of measures that aim to support vulnerable workers and businesses in affected sectors, through the expansion of social protection mechanisms. In terms of support to businesses, the authorities (a) lowered the energy costs for the entire industrial sector, (b) provided a real estate tax relief to businesses in the industrial and tourism sectors and (c) implemented several other tax reduction measures to reduce the financial burden on businesses. Moreover, the authorities provided targeted support to the tourism sector, one of the most affected sectors from the COVID-19 crisis. They

71 The policy responses listed here are drawn from the ILO and IMF policy trackers.

mobilized US\$3.2 billion to finance the renovation of tourism enterprises through the extension of a credit line of US\$1.3 billion to the tourism sector. The medical and health sector also benefited from targeted support, with about US\$64 million (one billion Egyptian pounds) provided to the Ministry of Health to acquire preventive supplies and help curb spread of the virus. The authorities also provided a 75 per cent allowance over current wages to medical professionals and health workers. Furthermore, a number of measures were put in place to support vulnerable and informal workers. For instance, social protection programmes were expanded to 100,000 affected households, and a one-off direct cash transfer was provided to informal workers, with 40 per cent of the beneficiaries being women. Finally, a set of tax measures were introduced to reduce the financial burden on low-income families, with the introduction of a new tax bracket of 2.5 per cent for low-income citizens, and an increase tax exemption income bracket, from 8,000 EGP (US\$508) to 15,000 EGP (US\$952).

Similar to Egypt, **Jordan** also quickly implemented a number of policies aiming to support the real economy and reduce the financial burden on businesses and distressed families. On the monetary front, the Central Bank of Jordan reduced the interest rate twice in March 2020, to reach a level of 2.5 per cent, down from 3.5 per cent. The Central Bank also reduced the cash reserve requirement for banks, from 7 to 5 per cent, to release an additional liquidity of US\$775 million. Also, several measures were put in place to help businesses preserve their levels of cash flow and reduce their financial burdens. For instance, authorities gave tax relief on sales tax to companies in the food supply and health sectors so that rather than paying taxes upon signing contracts, they would do so upon selling their goods. Other measures included reducing customs fees to 30 per cent, and postponing payment for the 70 per cent remaining. Moreover, social contributions such as pensions were temporarily reduced and eased for businesses. To inject funds into businesses and support them in facing the drops in demand and revenue, the authorities established two funds: one managed directly by the Government, and one managed by the private sector. The fund managed by the private sector received direct contributions from private actors and provided direct financial support to identified distressed businesses. The fund managed by the Government, named the National Aid Fund, financed social protection measures to about 200,000 families who were not supported by existing social protection programmes.

The authorities also put in place several measures to protect jobs and retain workers. For instance, authorities allowed for a wage reduction mechanism, with the consent of workers, to reduce the financial burden on businesses and reduce job-lay-offs. Temporary wage subsidies were provided to firms under specific requirements and conditions. The authorities also put in place targeted support to the most affected sectors, including the tourism, transportation and the health sectors. For the tourism sector, guarantee schemes and credit facilities were put in place, including soft loans for hotels and tourism facilities, and businesses in the sector also benefitted from targeted tax relief measures.

In **Morocco**, authorities quickly took an extensive set of measures to protect businesses and the economy. The Central Bank of Morocco reduced the interest rate from 2.25 per cent to 2 per cent and softened the requirements for credit to financial institutions. On the fiscal side, the authorities established a special fund equal to about 3 per cent of GDP, to finance medical and health needs and to provide financial support to businesses and households. The fund was financed from both public contributions and contributions from international financial institutions such as the IMF. The measures financed by the fund included (a) business loans guaranteed by the state, (b) the deferral of social insurance contributions under certain conditions, (c) the expedition of the State's payments to small and medium enterprises and (d) an access to zero-interest loans for micro-enterprises. The authorities also put in place several social protection measures financed by the fund, including direct cash transfers to laid off workers from April 2020 to March 2021, and ongoing direct cash transfers to informal workers since April 2020.

In **Tunisia**, authorities implemented a set of unprecedented support to businesses and affected households. Like in Morocco, Jordan and Egypt, the Central Bank of Tunisia decreased the interest rate by 100 basis points to reach 6.75 per cent, and additional liquidities were availed to banks so that they could finance real economy needs. The authorities also implemented several measures to protect businesses and jobs. This included the establishment of an investment fund (US\$250 million) to support the restructuring of affected businesses, as well as a guarantee fund (US\$179 million) to facilitate businesses' access to finance. Exceptionally, the authorities allowed exporting businesses to sell 50 per cent of their products in the local market, up from only 30 per cent prior to the crisis. Businesses also

benefitted from tax breaks, tax deferrals and social contribution deferrals. In terms of social protection mechanisms, the authorities used for the first-time mobile cash transfers to provide social protection to an additional 260,000 households threatened by poverty, representing 7.9 per cent of the population (Krafft et al., 2021). This support was implemented between April and May 2020 during the first lockdown imposed by authorities. Authorities also provided a one-time additional pension payment, temporary unemployment payments and temporary cash transfers to the self-employed, in mid-May.

In Algeria, measures have been relatively limited and mostly aimed at facilitating administrative procedures and reducing the cost of credit in the economy. The Central Bank of Algeria (Bank of Algeria) reduced the interest rate by 0.25 per cent in March 2020 and has maintained it at the same level since. Authorities have eased tax procedures for businesses, provided cash transfers to frontline health workers, and eased procedures for social security contributions for businesses.

In Libya, the authorities announced dedicating an amount equivalent to 1 per cent of the GDP to finance specific measures to address the COVID-19 crisis. In early January 2021, the Central Bank of Libya stated that the total amount of funds spent to combat the pandemic had reached about US\$290 million (more than 2 per cent of the GDP), mostly directed to the health sector.<sup>72</sup>

In Lebanon, the COVID-19 response was less extensive, compared to Egypt and Jordan. However, authorities implemented several measures with the objectives of reducing the financial burden on businesses affected by the crisis, and supporting vulnerable populations at risk of falling under the poverty line. For instance, the Lebanese Central Bank provided instructions to financial institutions to facilitate businesses' access to loans, backed by five-year zero per cent interest rate lines of credit in dollars, provided by the Central Bank to financial institutions. Also, several measures were implemented to preserve the businesses cash flows, including postponement of payment of taxes and social contributions for all productive sectors. Moreover, the authorities put in place several social protection measures, such as temporary emergency cash transfer schemes. In June 2021, Lebanon's parliamentary committees approved a ration card for populations under the poverty line, which is

increasing at an alarming rate. However, financing mechanisms for this are not clear yet, as half of the population is at risk of falling below the poverty line.

Finally, in the Occupied Palestinian Territory, authorities provided a certain level of support to affected businesses and workers. These measures included postponing credits and tax payments and establishing a US\$300 million SME fund to provide soft loans, which was notably financed from banks' reserves. In 2020 and according to the IMF, total COVID-related spending in 2020 reached 1.1 per cent of GDP, out of which 0.8 per cent of GDP was dedicated to the health response, and 0.3 per cent of GDP was dedicated to social protection mechanisms. This includes the support of laid-off workers in affected sectors, such as construction, tourism, services and transport.

Despite these numerous policies, the number of firms receiving support on the ground is relatively low. For instance, according to the many World Bank firms surveys, only 6 per cent of firms in Jordan declared accessing credits, and only 22 per cent declared receiving wage subsidies. Furthermore, the policies implemented in Jordan faced criticism from the private sector, as businesses reported that the implemented policies were more about protecting employees rather than protecting and supporting businesses (Building Markets, 2020). In Morocco, the share of firms receiving support is a bit higher, with 12 per cent receiving cash transfer and 25 per cent receiving wage subsidies. In Tunisia, however, only 9 per cent received wage subsidies, and merely 2 per cent benefitted from payment deferral.

#### 4.1.4. Pathways to short-term recovery from COVID-19

The recovery from the COVID-19 crisis in the Southern Mediterranean Countries will strongly depend on how quickly and effectively each country responds. In July 2021, countries like Tunisia and Jordan witnessed a strong wave of contamination, and most countries in the region are still at very low levels of vaccination. Morocco and Jordan are the only two countries in the region to have higher vaccine rates. Specifically, respectively 26 per cent of Morocco's population, and 18 per cent of Jordan's population, have received at least one vaccine dose,

72 IMF, [Policy Responses to COVID-19](#), Policy Tracker.

compared to 13 per cent of populations globally.<sup>73</sup> Egypt has one of the lowest vaccine rates in the world, with merely 2.3 per cent of the population having received at least one dose of the vaccine.

Globally, there are signs of recovery in international trade, especially within high-income countries, but the pathways for recovery in the Southern Mediterranean Countries remain uncertain. International travel remains highly disrupted, which directly impacts the tourism sector, a strategic sector in most countries. The recovery of the tourism sector remains highly uncertain around the world, especially for the Southern Mediterranean Countries that are still trying to address the health crisis, such as Tunisia and Jordan. Recovery in FDI is also highly uncertain, particularly for new greenfield projects in the manufacturing sector, outside of the extractive industries.

For countries in the region, investment and production dynamics are particularly important within certain sectors, such as textile and apparel, pharmaceutical and electronics and automobile equipment. These sectors might shift to favour more near-shore and reshore activities. For instance, Bárçia de Mattos et al. (2020) indicate that in recent years, nearshoring and onshoring have grown in importance for some buyers in the textile and apparel industry. The disruption in international supply chains has highlighted the relevance and necessity of these trends. Before COVID-19, the reshoring dynamic was very low, as highlighted by Dachs et al. (2019). The authors find that 105 out of 2,450 firms (4 per cent) reported back-shoring or reshoring their activities, with more reshoring in high and medium-high technology sectors (7 and 6 per cent of surveyed high/medium-high technology firms). However, the COVID-19 crisis might favour the nearshoring dynamic, as the crisis has put into light the fragility of international supply chains and GVCs. For the textile and apparel sector, the most strategic production location remains Asia, and particularly Southeast Asia for now. The nearshoring trend could benefit the Southern Mediterranean Countries if confirmed, particularly countries that have a strong physical infrastructure and a relatively stable political and social climate, such as Morocco. Other regions such as West Africa might become a competitor of the Southern Mediterranean Countries, despite being now almost a greenfield for the industry. West Africa might become attrac-

tive since the region represents about 5 per cent of global production of cotton, relatively lower labour prices and recent improvements in the business environment in countries such as Côte d'Ivoire and Senegal. These elements might constitute an attractive package for textile and garment manufacturers and brands looking to reduce the risk of disruption in their supply chains. Lastly, the growing importance of reshoring or nearshoring might also be observed for the electronics industry, which has developed in Morocco in recent years. A reshoring or nearshoring trend for European manufacturers might particularly benefit Morocco, and probably other countries in the region too, such as Tunisia, if the social and economic environment in the country would stabilize.

Another pathway to recovery in the region includes the level of public and private investment into productive sectors, which could upgrade technological capabilities and strengthen local manufacturing sectors. The COVID-19 crisis highlights the importance of industrial policies, developing local production capabilities and diversification strategies. Industrial and trade policies should be geared not only towards integrating countries in the region into global value chains, but also towards building high-growth SMEs in high-productive sectors. This could strengthen the countries' resilience in the case of a new global pandemic and significant disruptions in the GVCs. Other pathways to recovery include higher levels of investment in human capital, as well as governments having more bandwidth to drive reforms that promote structural transformation. Also, diversification into new sectors and products must be at the centre of structural transformation, as this could help countries in the region reduce the shock and impact of future crises (ILO, 2020b). However, there are other trends that might shape the future of work, both in the region and around the world, driven by the technological revolution that may have accelerated during the COVID-19 crisis. As highlighted by Korinek and Stiglitz (2021), the disruption imposed by COVID-19 in daily interactions between humans might provide incentives to accelerate the automation of jobs that require physical interaction. In conclusion, the important shift brought on by the COVID-19 crisis in the world of work and in the use of technology, might lead to long-lasting effects on the economies in the Southern Mediterranean Countries, accelerated by exponential technological advancement.

73 Our World in Data, [Coronavirus Vaccinations](#).

## 4.2. Long-term trends: the technological revolution and the future of work in the region

### 4.2.1. Future of work: The state of the debate

What the future of work might look like, and what impact new technologies will have on the labour market, are among the most debated questions today. The debate is generally associated with huge anxiety on the part of the public, policymakers and some economists. For instance, Pew Research Center carried out a survey on the impact of technology on the labour market in ten countries, with the results indicating a widely shared view that the nature of work is likely to be transformed over the next half-century, with machines taking over much of human labour (Wike and Stokes, 2018). These concerns are rooted in the unprecedented pace of innovation, which is expected to severely disrupt the labour market, unevenly, between high-income countries and low- and middle-income countries. Overall, the adjustment costs to these new technologies might be high, especially for low-skilled workers currently engaged in routine-based tasks that are more likely to be computerized and automated. This might lead to an increase in inequality among low- and high-skilled workers, as high-skilled workers are generally not involved in routine-based tasks. In fact, the new technologies are likely to increase the demand for high-skilled workers. More broadly, technological innovation might slow down or disrupt the convergence process and widen the inequality gap between high-income, and low- and middle-income countries. Often this anxious debate is based more on assumptions and models that try to predict the potential impact of these technologies. Today, it is virtually impossible to predict the exact impact of new technologies on the labour market and their exact impact on workers, aggregate employment and welfare. However, it is possible to highlight potential trends and potential drivers of impact, building on a growing body of literature.

Technological innovation is evolving at an exponential and unprecedented pace and will affect all economic sectors. Technologies that are likely to be the most disruptive include artificial intelligence, big data, the Internet of Things and connected devices, text, image and voice processing, robot-

ics, 3D printing and modelling, cloud computing and biotechnology (World Economic Forum, 2020). These technologies are expected to impact production and supply chains in all sectors. For instance, in agriculture, technology is being used to develop precision agriculture and vertical farming, among other techniques, which are expected to significantly increase aggregate productivity in agriculture, especially in low-income countries. Similarly, in services, artificial intelligence (AI) and big data are changing the way services are being produced, with a tendency towards more personalized and optimized services. The main new technologies that are expected to disrupt the manufacturing sector are robotics, AI, the Internet of Things and 3D printing.

A growing body of research focuses on the impact of technologies on the labour market by observing and assessing the tasks that computers can do, and therefore jobs that could be automated and done by machines. Routine tasks are easy to codify, as they are composed by repetitive steps and rules. Therefore, they are easy to be programmed and performed by computers. On the contrary, tasks based on cognitive skills, which include problem solving, creativity, critical thinking and decision making, are harder to codify and are thus less likely to be operated by computers and machines (Autor et al. 2003; Acemoglu and Autor, 2011). Based on this, Frey and Osborne (2013) estimated that 47 per cent of jobs in the US and 35 per cent of jobs in the UK are automatable from a technological capabilities point of view. Their estimations are based on identifying different occupations with well-defined procedures, which algorithms can easily perform, and which could therefore be automated. Machine-learning experts assessed the characteristics of over 700 occupations and determined the probability of job automation in the United States. Using the same methodology, other studies have focused on estimating the potential impact for other countries. For instance, Bowles (2014) estimates that for Europe, the share of jobs susceptible to automation ranges between 45 per cent to more than 60 per cent, with Southern European workforces facing the highest exposure to potential automation. Other studies have taken a different approach in estimating the number of jobs at risk of being automated. In a paper revisiting these findings, Arntz et al. (2016) take another approach to estimate the number of jobs that can be automated. This approach considers the heterogeneity of tasks within occupations and jobs by utilizing the Survey of Adult Skills (PIAAC) within 21 OECD countries. The authors consider the considerable variation across

tasks within one job, as well as the different levels of routinization, and therefore predict the likelihood automation of these tasks. Following this approach, the authors find that within the 21 OECD countries, an average of 9 per cent of jobs are automatable. There are variations across countries, of course, due to differing levels of education and previous investments into automation technologies. Nadelkoska and Quintini (2018) build on the methodology used by Arntz et al. (2016) and expand the focus to all 32 countries that participated in the PIAAC survey. The authors find that, on average, 14 per cent of jobs in these countries are at a high risk of automation (that is, probability of automation of over 70 per cent). However, the authors go beyond just estimating the number of jobs to be automated, and study how the new technologies will impact the task composition of different jobs. They find that 32 per cent of jobs could change their task composition due to technology adoption. These jobs have an automation risk between 50 per cent and 70 per cent, meaning that a significant share of tasks, but not all, might be automated, which would lead to a substantial change in the skills required for these jobs. In other words, technology in the labour market will not only impact the number of automated jobs; it will also significantly change the skills required for currently existing jobs, which will use more intensive technologies (ILO, 2018a). To monitor the exact and real impact of technology on the labour market, the World Economic Forum (WEF) has put in place a monitor of automation in the labour market in 26 countries, mainly in high-income and some middle-income countries, such as India, China and Brazil. The 2020 WEF survey indicates that 43 per cent of the businesses surveyed indicate that they will reduce their workforce due to technology adoption.

The magnitude of the impact of these technologies on net job creation is, however, widely debated. Some economists argue that, like with the Industrial Revolution, these technologies will create different jobs and probably better ones. The debate on the impact of technology on the labour market is, after all, an age-old one, and the fears that technology creates today are similar to the ones generated by the Industrial Revolution. For instance, the mechanization of spinning and weaving replaced manual routine jobs, and the world's technological progress since 1980 has also contributed to a decrease in jobs with routine tasks, as demonstrated by Autor et al. (2003). Advancement in technology often contributes to productivity growth, as well as the creation of better-quality jobs and higher living standards.

It can lead to more job replacement and creation, rather than just job destruction and displacement. For instance, Acemoglu and Restrepo (2018) argue that the jobs that these new technologies might displace could be counterbalanced by the jobs that they might create. The authors argue that the automation process (which is to replace labour with cheaper technology), would decrease the cost of automated task production, increase productivity, and therefore increase the demand for non-automated tasks and labour. A 2018 study by WEF indicates that while 75 million jobs could be lost by 2022 due to automation, 133 million new jobs could be created over the same period, suggesting that by 2022, the technological revolution would contribute to the net creation of 58 million jobs.

However, using historic patterns to predict the future might be a limited approach, considering the important differences between the Industrial Revolution and the current technological revolution. These two revolutions diverge on at least two levels: the pace of innovation, and the impact on labour organization and the bargaining power of workers. As discussed above, the pace of innovation is exponential and unprecedented, enabled by a well-developed digital infrastructure, and technology's exponentially growing ability to store and process data and information. The increasing ability of computers and robots fuels the speculation that one day, computers and machines will be able to completely replace human labour, in both cognitive and non-cognitive tasks and skills. In terms of the organization of labour, the first Industrial Revolution enabled the formation of organized lines of production where workers depend on each other's outputs and engage in coordinated, orchestrated and chained tasks. This ultimately enabled workers to organize through the formation of trade unions and workers' associations. The current technological revolution is expected to fragment labour and isolate workers, especially within the services sector and sectors that are highly digitalized. The COVID-19 crisis has already disrupted the organization of labour, with a significant share of jobs being done remotely and online, even if they are mostly blue-collar jobs in high-income countries. This trend is expected to increase and be sustained by the technological revolution, with increased fragmented and remote labour, and lower worker tenure. For instance, the services sector is already marked by smaller establishment and lower worker tenure (Korinek and Stiglitz, 2021) and the technological revolution is expected to give rise to more monopoly power to superstar firms, which would

ultimately decrease the bargaining power of workers, and would increase the monopsony power of employers in the labour market (Korinek and Xuan Ng, 2017; Korinek and Stiglitz, 2021).

#### 4.2.2. How does this apply to low- and middle-income countries, including in the Southern Mediterranean Countries?

For low- and middle-income countries, the impact of technologies is linked to another central and critical question: will these technologies slow down or speed up their convergence process, and will this provide an opportunity for these countries to “leapfrog” and bridge the productivity and knowledge gaps between them and high-income countries? Technologies such as AI are likely to save labour, which would devalue the main competitive advantage that most low- and middle-income countries have (Korinek and Stiglitz, 2021). These technologies might lead to productivity gains in low- and middle-income countries adopting them; however, they might lead to fewer manufacturing jobs created, particularly for unskilled and mid-skilled workers. Moreover, firms in unindustrialized countries might struggle to leapfrog into using new technologies, given that there is less development in these countries’ manufacturing and service ecosystems (Hallward-Driemeier and Nayyar, 2017). Therefore, there is a worry that the technological revolution will only slow down the convergence process and further increase the gap with high-income countries, and that the manufacturing-led growth model might be less feasible.

A major driver of concern for low- and middle-income countries is the trend towards “nearshoring” and “reshoring” that automation might enable, which the COVID-19 crisis has brought to light. As opposed to offshoring, production in nearshoring is brought back to close-by destinations, and production in reshoring is brought back to high-income countries. This includes production in labour-intensive manufacturing. The cost of new technologies that are expected to disrupt the manufacturing sector will decrease, so offshoring locations might become less attractive for different manufacturing goods. The decrease in cost might also increase the political arguments and pressure for reshoring to industrialized economies (Bárcia de Mattos, 2020; World Bank, 2016). The EU (2021) indicates that the trend towards reshoring is driven by several

factors, including an increase in costs in low- and middle-income countries, the underestimation of the full cost of offshoring, and the need for production to be closer to markets, highlighted further by the COVID-19 crisis and the disruption to supply chains. This trend would translate to a decrease in FDI inflows in low- and middle-income countries, including countries in the Southern Mediterranean Countries, and therefore to a decrease in the number of jobs that FDI and offshoring activities were expected to create. Ultimately, this might slow down the convergence process and the technological catch-up. What’s more, it would not only increase inequality across countries, but also within countries, as manufacturing plays a huge role in structural transformation and the reduction of inequality among workers.

The studies trying to assess the potential impact of technology on the labour market have mainly focused on high-income countries; however, some studies have tried to predict and assess the impact on low- and middle-income countries, using different methodologies. For instance, Chang and Huynh (2016) use the same methodology as Frey and Osborne (2013) to estimate the number of jobs at high risk of automation in ASEAN countries. They find that three in five jobs face “a high risk of automation”, and highlight the differences in impact between high-, middle- and low-income countries. The World Bank (2016) also uses the same methodology as Frey and Osborne (2013) to assess the automation risk in low- and middle-income countries and find similar results to Chang and Huynh (2016). The report indicates that the share of jobs at risk of automation is higher in low- and middle-income countries than in high-income countries. Specifically, the share of jobs at risk of automation is 77 per cent of all jobs in China, 69 per cent in India, more than 80 per cent in Ethiopia and over 70 per cent in Bangladesh, China, El Salvador, Guatemala and Nepal. A study done by McKinsey focuses on assessing the risks of automation in six countries from the MENA region: Bahrain, Egypt, Kuwait, Oman, Saudi Arabia and the United Arab Emirates (McKinsey, 2018). The study uses a similar methodology, but also incorporates the current level of technology adoption, to assess the risk of automation. It finds that in these six countries, 45 per cent of the existing occupations could be automated, with the highest automation risk in Egypt, at 48 per cent. The study highlights that the risk of automation is higher in low- and mid-skilled activities. However, the study also highlights technology’s job creation possibilities, with the potential

emergence of “middle jobs” to assist machines, which would be performed by humans. However, and as discussed earlier, the results using Frey and Osborne’s methodology should be read with caution, as they might be over-estimating the share of routine-based tasks within jobs and not accounting for technology’s job-replacement potential. For instance, Ahmed and Chen (2017) apply the same methodology as Arntz et al. (2016) by breaking occupations down into tasks with different levels of routinization, and find that in low- and middle-income countries, only 2 to 8 per cent of jobs are at a high risk of automation. The World Bank (2016) looks at the historic impact of technology on the labour market and find that between 1995 and 2012 the share of low- and high-skilled routine jobs fell by only 8 percentage points in low- and middle-income countries, while the share of non-routine jobs increased in most countries. This indicates that routine jobs are negatively impacted by technological improvements, but at a much lower scale and magnitude than the one presented by studies using the methodology of Frey and Osborne (2013). However, and as mentioned earlier, it is important to highlight that the pace of the current technological innovation and change is so unprecedented that the historic trend might not hold in the future. Overall, there is a need to improve the understanding of the impact of technology in low- and middle-income countries, and this can be done through considering different trends and dynamics, such as the evolution of GVCs and trade, and the nearshoring and reshoring trends, among others. The potential of job replacement and creation should also be considered, rather than only focusing on job displacement.

As mentioned earlier, technological advancement will impact all sectors in the economy. The threat of automation in low- and middle-income countries is more of a concern within the manufacturing sector, considering the historic role that this sector has played in structural transformation. Manufacturing has historically absorbed mostly low-skilled labour, and this is considered as one of the comparative advantages of low- and middle-income countries, engaged in repetitive tasks that could be highly exposed to automation. In manufacturing, three main technologies are expected to disrupt the industry: robotics and artificial intelligence, 3D printing and the Internet of Things. These technologies can be combined and are most likely to be adopted in parallel, to respond to the increasing demand for customized and personalized products in different sectors.

Robotics and artificial intelligence (AI) are expected to be the most disruptive technologies. AI, which includes machine learning, is providing computers and robots with skills that they did not have a decade ago, like reading, writing, speaking and recognizing patterns. AI technologies are growing at a rapid scale, as demonstrated by the number of AI patents, which increased by at least fourfold between 2012 and 2016 (ILO, 2018b). The evolution of these technologies might lead to computers and robots becoming agents of their own (Korinek, 2019), with a certain level of autonomy and decision-making enabled by machine learning. These skills would allow computers and robots to engage in tasks that are traditionally performed by human labour. The current pace of innovation and the level of sophistication of AI indicate that the share of tasks that these technologies could perform could be relatively high. As highlighted by Korinek and Stiglitz (2021), if computers and machines can engage in all the tasks traditionally performed by labour, then human labour would become redundant and irrelevant. However, this is highly unlikely, as some skills and tasks are not easily automated and performed by machines, including non-cognitive, or “soft”, skills, such as problem-solving, teamwork, creative thinking, and so on. This reduces the probability of the extreme scenario under which innovation is fully labour-saving. The main variables that will determine how much labour these technologies will replace are (a) the cost of these technologies compared to that of human labour, and (b) the level of efficiency and productivity gains that these technologies provide.

3D printing is also expected to significantly impact the manufacturing sector, by reducing the cost of pieces of machinery and disrupting the supply chains in the sector. 3D printing is currently used across many sectors, including in the automobile sector, and it has significant advantages which include a high speed of delivery and a high level of customization and personalization. As the cost and robustness of the technology decrease, the adoption of 3D printing, to access pieces of machinery and necessary components for production, will increase, and this will disrupt the current means of production. For instance, 3D printing can improve the production of car components, plastics and footwear among others (World Bank, 2016). For low- and middle-income countries, this could represent a significant advantage. By decreasing the cost of access to machinery and means of production, and increasing their availability, firms in low- and middle-income countries might be more able



to engage in manufacturing production. However, manipulating 3D printing technology requires a high level of skill that is currently unavailable in low- and middle-income countries. This could lead to an emergence of hubs of 3D printing activities in high-income countries.

The Internet of Things is also expected to significantly impact the manufacturing sector and its development in the Southern Mediterranean Countries. The Internet of Things refers to technologies that enable the collection, interpretation and analysis of data without human intervention. The Internet of Things will offer real-time and detailed visibility to all manufacturing processes, enabling their monitoring and improvement. This would enable a constant optimization of the production chain, leading to productivity, quality and efficiency gains, and could impact virtually all sectors. These technologies are also expected to generate a new set of services and jobs, which will aim to use the significant amount of data generated. Ultimately, these technologies are expected to increase the demand for high-skilled labour, such as engineers, data scientists, programmers and so on, and decrease the demand for mass low-skilled labour.

Within manufacturing, different sectors are exposed to the automation threat in different ways. Hallward-Driemeier and Nayyar (2017) identify automotive and transport equipment, pharmaceuticals, electronics and car components as the sectors within manufacturing that are the most at risk for automation. According to the same report, these sectors are also the most exposed to disruption by 3D printing techniques, which might lead to a high level of reshoring of activities within these sectors. There is some evidence that automation is already happening in the automotive and electronics industry. According to International Federation of Robotics (IFR), the automotive and electronics industries are among the industries that purchased the most robots over the last years. In 2019, the electronics industry replaced the automotive industry as the leading sector in industrial robot installations, with the electronics industry accounting for about 34 per cent of all industrial robot installations, and the automotive industry accounting for about 28 per cent.<sup>74</sup> The importance of these two industries adopting industrial robots and technology is expected to continue growing in the next years as high-income countries purchase and install robots. These sectors are relatively important in

the Southern Mediterranean Countries, as some countries in the region have prioritized them in their development plans, and as they represent an increasing share of investment and trade in countries like Morocco, Tunisia and Jordan.

The textile and apparel sector, a particularly important sector for structural transformation in developing countries, including for countries in the Southern Mediterranean Countries, seems to be a bit more protected by the automation risk. Historically, the technological evolution has highly disrupted some parts of the value chain in this sector, particularly the textile value chain. However, current evidence suggests that this sector is not expected to be highly automated, particularly the apparel value chain. For instance, the World Bank (2016) indicates that the signs of this sector being automated are weak, as there is currently a low usage of robots in the industry. The report also indicates that a large-scale reshoring within this sector is unlikely, despite the potential high adoption of 3D printing particularly in the footwear industry, driven by higher demand for product personalization. This prediction on the textile and apparel sector is further confirmed by a couple of studies which attempt to assess the current level of automation within the sector. For instance, Parschau and Hauge (2020) adopt a qualitative approach to assess the impact of automation on the apparel industry in South Africa and to improve the understanding of how automation will impact developing countries. In interviews with 26 firm managers in industry and government and union officials, the authors find that automation has thus far had a very limited impact in South Africa and is in fact expected to have a rather positive impact on the labour market by increasing firms' productivity. Interviewed firms responded that some tasks cannot be automated, and that automation will be relatively slow and incremental considering that in the apparel industry, labour costs are much lower than the cost of technology. This is a considerable constraint to automation. It indicates that the impact of automation and new technologies on the labour market in low- and middle-income countries is still unclear, and that the job replacement and creation potential of these technologies might be underestimated. Similarly, Bárcia de Mattos et al. (2020) use a series of in-depth interviews with 11 representatives from four leading brands in the industry to assess the current and future use of automation

74 International Federation of Robotics (IFR), [Executive Summary, World Robotics 2020 Industrial Robots](#).

► **Table 44: Share of firms that started or increased the use of digital platforms during COVID-19 crisis (no micro-firms) June–August 2020**

Country	Sector	percentage of firms
Jordan	Manufacturing	38.4
	Retail	36.8
	Other services	38.4
Morocco	Manufacturing	28.6
	Retail	28.2
	Other services	30.9
Occupied Palestinian Territory	Manufacturing	8.4
	Retail	21.8
	Other services	41.5
Tunisia	Manufacturing	34.4
	Retail	27.5
	Other services	32.9

**Source:** World Bank high-frequency firm survey 2020.

technologies in the sector. They focus on apparel manufacturing rather than the early stages of the value chain in the sector. The authors find that automation in apparel manufacturing is currently limited, as automation is mainly concentrated either in the textile value chain, or in logistics and distribution processes. The authors also find that one of the main constraints of automation in apparel manufacturing is technical, as current technologies do not allow for a flexible handling of fabrics which require a high dexterity, including in the sewing process. The authors also find that the current cost of technology is a constraint for automation in the sector, considering the low cost of labour and very thin margins in the sector. Finally, the study finds that the impact of automation and technologies on employment in the sector is unlikely to be significantly negative, and that rather than net job displacement, technologies might create new “middle-jobs” to improve machine-worker collaboration. However, the skills of workers will need to evolve for them to be prepared for the middle-jobs and to be able to handle the expected growing collaboration between worker and machine.

The impact of these technologies on the labour market, and the way that countries will benefit from this ongoing revolution, will be determined by at

least four main variables, which will influence the potential adjustment costs in different economies: (a) the pace of global innovation and technological change, which is currently growing exponentially, (b) the level of digital infrastructure in each country, (c) the level of skills and the readiness for technology in each country and (d) the absorption rate of technology by firms, both globally and in each country. In the Southern Mediterranean Countries and around the world, the absorption rate of technology by firms will be influenced by the cost of technology compared to cost of labour. The rate will also be influenced by the adoption of the current levels of human capital within firms, and their capacity to understand, invest in and adopt these technologies. The absorption rate of firms heavily affects the potential for automation. The World Bank (2019) highlights that the use of mobile telephony, for example, spread faster than earlier technologies, and faster than the internet. However, in the Southern Mediterranean Countries, the COVID-19 crisis has accelerated the use of digital platforms by firms, as well as their inclusion in the digital economy. For instance, the results of the high-frequency firm surveys conducted by the World Bank indicate that more firms are using digital platforms for their activities (table 44) in the manufacturing and services sectors.

Overall, it is very difficult to assess the impact of these technologies on the labour market in the Southern Mediterranean Countries, as it depends on many variables and dynamics explained above. It is, however, easier to assess how technology will shape the demand for skills, than it is to estimate its effect on job losses. There seems to be a consensus on the role of human capital in the future of work, and that the highest disruption caused by technological change will probably be on the demand for skills. As discussed above, routine tasks are the most likely to be highly automated, which would decrease the demand for low-skilled workers. Moreover, soft, noncognitive skills are expected to gain importance and momentum, as they are unlikely to be automated, which would increase the demand and premium for these skills. Therefore, the quality and composition of human capital in

the Southern Mediterranean Countries, as well as the level of investment to prepare workers in these countries for the technological revolution, will play a significant role in adjusting their economies to the future of work. These important variables will determine whether countries in the region will witness more job displacement, or more job replacement and creation.

Policymakers in the region need to proactively align industrial and trade policies with the technological revolution. This includes designing and implementing proactive and anticipative education and training policies to prepare the labour force for the coming disruptions in the labour market. There is a need to invest in the development of both digital and soft skills for all workers, including for low-skilled workers, who will be the most affected by the technological revolution.

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## ▶ **Trade, investment and employment in the Southern Mediterranean Countries**

Thematic Report of the “Mainstreaming Employment into Trade and Investment in the Southern Neighbourhood” project

Trade, investment and industrial policies are at the heart of economic transformation and of job-rich strategies in developing countries. In the Southern Mediterranean Countries, despite the many reforms adopted over the past decades, structural transformation remains slow and the impact of these policies on job creation remains low, especially for women and youth. This thematic report examines the evolution of these policies and their impact on economic transformation, diversification of exports and the labour market, with a focus on youth and women, and on small and medium-sized enterprises in the region. The report also provides an analysis of future trends that are expected impact to the labour market in the region.