



Middle East Youth Initiative

The Middle East and the New Global Economy: The Drive for Competitiveness, Skills and Innovation

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Introduction to the Series

As leaders from the Group of Twenty (G-20) nations prepare to gather in Pittsburgh to take stock of the global economy, the countries of the Middle East will not be represented in great numbers. Nonetheless, economic performance in the region is increasingly connected to global trends and policies. The region has experienced the economic slowdown through a variety of channels, including commodity price and export market volatility and declining tourism and investment. While specific policy priorities during the global recovery will vary across the Middle East, nearly every country in the region must meet the challenge of diversifying their economies to stimulate new, innovative markets and sources of growth. As this entails moving toward greater competition in new global markets, it is certain that the Middle East will play an increasingly significant role in future global economic stability.

Following from our successful online interview series which began last fall – “Food, Fuel, and Finance: How Will the Middle East Weather the Global Economic Crisis?” – the Middle East Youth Initiative (MEYI) turns once again to our network of scholars to ask how the region is faring. Have chronic unemployment challenges in the region been exacerbated by the economic slowdown? Has the global crisis forced a rethinking of development strategies in the region? Have ambitious programs been put on hold due to declining revenues from commodities, investment, exports and tourism?

Part 1: Revisiting Egypt in the Wake of the Downturn

An edited transcript of a discussion between Tarik Yousef and Ragui Assaad on the economic situation in Egypt follows. Yousef is dean of the Dubai School of Government and nonresident senior fellow at Brookings’ Wolfensohn Center for Development. Assaad is professor of planning and public affairs at the University of Minnesota’s Hubert H. Humphrey Institute of Public Affairs and former Regional Director for West Asia and North Africa at the Population Council. He is co-author of two Middle East Youth Initiative studies on youth in Egypt and Yemen, respectively. Assaad’s work will be featured in the forthcoming volume [*Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East*](#), edited by Navtej Dhillon and Tarik Yousef (Brookings Institution Press, 2009).



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The Global Economic Downturn in Egypt

Tarik Yousef: Ragui, thank you for joining us for the series again. When we spoke to you in October of last year, we discussed Egypt's position going into the global economic slowdown. You predicted that Egypt would feel the effects of the global downturn in its real economy insofar as tourism, trade, remittances, and foreign direct investment (FDI) would decline. Now, as the rhetoric shifts from "global slowdown" to "global recovery," where would you say that Egypt stands?

Ragui Assaad: My initial point was that Egypt was not going to be strongly affected by the financial side of the crisis in terms of capital flows, portfolio investments, and asset prices going down. That turned out to be pretty much true: Egypt is not heavily incorporated into the world financial system, so the effects of the crisis have been fairly mild from the financial point of view. On the real economy side – which is where trade and tourism come in – there has been an effect, but this effect has been relatively mild, at least from what I can tell from the growth rates. Real GDP growth rates went down from around 7 percent in 2008 to about 4 percent in 2009, whereas in many countries they declined into negative territory in 2009.¹

Therefore, Egypt has been spared the worse effects of the crisis. However, the crisis arrived at a time when the country already faced a pretty dire unemployment situation, compounded by the effects of an increase of food and fuel prices. This was creating a lot of pain through vulnerability to inflation. The crisis came on top of all of these things and resulted in a slowdown in the economy. This actually had one positive effect: the price escalation that had been occurring before the crisis was mitigated to some extent and there was a slowdown in the inflation of food prices and construction materials. On the other hand, the crisis had a relatively negative effect on demand for labor in some of the more internationally connected sectors like tourism.

Yousef: So there has been an impact on job creation in some of the more internationally connected sectors. Do you get a sense that the crisis had a differential impact on young people coming into the labor market, especially in those sectors that were providing more jobs for university graduates before the crisis?

Assaad: To some extent, but I do not have the data to be able to say that for sure. What I can tell, at least from the official unemployment numbers, is that the unemployment rate ticked up a little bit, but not a huge amount. Since unemployment in Egypt is almost

¹ The IMF projects 3.0 percent real GDP growth for Egypt in 2010. World Economic Outlook Database, April 2009.



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entirely about young people, then these numbers largely reflect outcomes for youth. In Egypt, we went from an overall unemployment rate of about 9 percent in the first quarter of 2008 to about 9.4 percent in the first quarter of 2009, which is not a huge uptick in the unemployment rate. I don't think the official numbers are biased downwards; at least the trend is not biased downwards in a big way. So while young people would have been affected in terms of poorer labor market outcomes, I don't know if they were disproportionately affected.

Yousef: Can you give us a sense of how the stimulus package that the Egyptian government had put together for 2008-2009, estimated at 15 billion Egyptian pounds (\$2.7 billion), has been implemented?

Assaad: The stimulus package was about 1.5 percent of Egypt's GDP, which is not an insignificant amount. Most of it was spent on infrastructure projects such as water and sanitation projects and roads. This is probably why the construction sector in Egypt seems to have boomed, or seems to have been least affected by the crisis: the bulk of investment from the stimulus has been on these types of construction projects.

The problem though is that some of these infrastructure projects, especially the major national projects, tend to be capital intensive and do not employ a lot of workers. In addition, there has not been that much spent on the smaller village- or neighborhood-level improvements in infrastructure. These take longer to implement, but would be much more labor intensive and would help stimulate employment.

Yousef: Is there any chance that these policies related to infrastructure spending will change in the next year since additional funding is being considered? Will we see a trend toward supporting more village-level projects?

Assaad: I hope so. I think there has been some criticism of the program in Egypt to that effect – that there should be more investment in small-scale infrastructure such as side roads and the local water systems. But it is a lot more difficult to disburse this type of money quickly than it is in the large mega-projects. I think, as time goes on, they will have more time to spend money at the the local level, but it is always a tradeoff

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between getting the money out the door as quickly as possible and doing the projects that are the most labor intensive and most able to impact the lives of poor people.

Egyptian Youth Adjusting to New Economic Realities

Yousef: Let us take this opportunity to segue to your work on Egyptian youth. As you begin to look at data from the new survey of Egyptian youth that you are working on, can you predict any trends and challenges that will be revealed? What should policy makers be paying more attention to as far as youth employment is concerned?

Assaad: I have some ideas about what trends we are likely to see. For example, I expect that youth unemployment will have come down a little bit but that the quality of jobs for these young people will have deteriorated as well. This is a result of the long-term movement away from public employment in Egypt: initially when public employment declines, people still expect to be able to get public sector jobs and they wait for such jobs even when they remain unemployed for long periods of time. As they realize that there is no point in waiting because public sector jobs are not forthcoming, they start getting into other jobs, even jobs they would not have accepted before – more informal jobs. That is probably what is happening right now: the quality of jobs is declining, but young people are no longer waiting for that government job that is not forthcoming.

Yousef: If young Egyptians are increasingly accepting lower quality jobs today, how would you define a “good” job?

Assaad: A good job is essentially a formal job: a job that comes with some kind of social protection or insurance, a contract, the things you associate with formal jobs. Also, a good job is relatively well-paid, is in what we consider a good quality workplace, and is a regular job.

Now, there is also this group of what I would call “fair” jobs. These jobs are not necessarily formal, but they are relatively well-paid within the informal sector. This is the kind of job that a skilled craftsman might get in the informal sector. They do not have social insurance, they do not have a contract, but they are paid fairly well because they have a skill. Then there are the “poor” jobs, which are mostly characterized by irregular, casual employment, wherein one is not guaranteed a job every day and must go and sell his labor on the labor market.

What we have found is that, over time, overall job quality has not changed much in Egypt. It actually has improved a bit for people who are wage and salary workers in the private sector, whereas it declined significantly for people who are non-wage workers or



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who are either self-employed or unpaid family workers in the informal sector. So it is a mixed picture in terms of job quality in Egypt.

Yousef: We know that young women in Egypt went into the economic crisis with unemployment rates nearly four times higher than young men. How are young women faring now in the Egyptian labor market? What do you expect to find in this new survey?

Assaad: I expect to see [labor force] participation rates among women continuing to decline to some extent, especially among educated young women. Many of them in the past would have participated by going to work for the government, as the government was providing jobs for educated young women. Now the public sector is not hiring as much, and the private sector is not as hospitable for these women. They might work for a couple of years before getting married but once they get married they will stop working.

Yousef: Will this trend reverse itself at some point as young women become more educated?

Assaad: The way I see it is that the public sector, by providing relatively good jobs for women in past years, was inflating to some extent their participation rate. What we are coming back to now is what the participation rate *would* have been had there not been a public sector. So the decline in participation rates that we are seeing for educated young women is coming back to the so-called “normal” participation rate, given the state of our private sector and how hospitable it is to women.

I think the participation rate would start coming back up again if and when demand for labor in the economy improves and the private sector feels that it needs to make changes to accommodate for women in the labor force. That is probably going to happen only if the economy grows rapidly and if the sectors that tend to hire women – such as textiles, garments, electronic processing – grow rapidly.

[It] is absolutely crucial that businesses themselves become formal... However it is a necessary but not sufficient condition: you could have businesses formalizing, but still hiring workers informally. Two things need to happen: the cost of formalization for the business needs to decline – and small and micro enterprises make up over two-thirds of employment in the private sector in Egypt, so it's a huge sector. But at the same time, the cost of hiring a worker, even for a formal business, needs to decline a little bit.



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Formalizing Businesses and Jobs: Balancing Flexibility and Security in Future Reforms

Yousef: According to the World Bank's *Doing Business*, Egypt's recent economic growth has been underpinned by improvements in the business environment, particularly in areas such as starting a new business, registering new property, and business licensing procedures. This would seem to indicate that the environment for businesses to formalize is becoming a little bit less burdensome. What steps should subsequent reforms seek to address?

Assaad: It is absolutely crucial that businesses themselves become formal. There is no way that a job is going to become formal unless the business that it is in is also formal. However, it is a necessary but not sufficient condition: you could have businesses formalizing but still hiring workers informally. Two things need to happen: the cost of formalization for small and micro businesses needs to decline – and small and micro enterprises make up over two-thirds of employment in the private sector in Egypt so it is a huge sector. At the same time, the cost of hiring a worker, even for a formal business, needs to decline a little. This cost is made up of two factors. First, it is made up of the job security regulations that make it difficult for the firm to lay off the worker if they need to. These regulations changed as a result of the 2003 labor law. Second, the costs of hiring a worker also relates to the cost of social insurance coverage.

We see evidence that since the passage of the new labor law in 2003 there has been an increased level of formalization due to the fact that it is now easier to lay off workers. There is a forthcoming paper by Jackie Wahba that has actually demonstrated that the rate of formalization has increased since the passage of the labor law.

Yousef: Have the labor law reforms come at the cost of less job security for young people in particular? In other words, how have these reforms been phased in so as not to disadvantage new entrants?

Assaad: Under the old labor law, older workers with contracts had job security but new workers were often hired without any formal papers. Now, the new law is giving incentives to employers to hire younger workers under these looser job security rules. These rules are not as strict as the ones that are protecting the older workers but are much better than being under no formal employment at all. Thus, I think the law has improved the security for young people who can at least have some formal employment, although more flexible than the old version of formal employment.



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As a labor market insertion process to encourage employers to provide formal employment, [the Egyptian labor law] definitely has made a dent. Now the big question is the social insurance load, which is very high in Egypt. For an entry level worker, 40 percent of the wage – half of which is paid by the employer and half of which is paid by the worker – is paid to the social insurance administration. As the wage goes up, the [social insurance contribution] goes down a bit but, essentially, this is the contribution rate for many workers.

There are ways that employers get around this by reporting a lower wage than the worker is actually paid, but still it is a pretty high burden. One of the proposals on the table now is to have the government assume part of the social insurance contribution. Rather than the employer and the worker sharing the entire [cost], there would be a subsidy from the government for small and micro enterprises to encourage employers to put more workers on the social insurance rolls.

Yousef: How have the economic shocks over the past two years shaped the debate and policy on social protection and the government's role in protecting people, in general?

Assaad: I was aware of this discussion on changing the social insurance system well before this crisis has hit, there has been a lot of discussion, especially between the World Bank and Egypt, about reforming the social insurance system and making the pension that workers get based on the entire contributions that workers make throughout their career, not just over the last five years of their working career. The old system provides a lot of incentives basically for both employers and workers to evade the system until they come very close to retirement and then start contributing. Therefore, the discussion on social insurance has evolved over some time. There is even now a discussion of an unemployment insurance, or at least making the one that exists on paper more effective. In truth, I have not seen how that discussion has interacted with the recent financial and economic crisis. It probably has changed a little bit, but I am not aware of the ins and outs of it.