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YOUTH EMPLOYMENT IN THE MEDITERRANEAN REGION: IS FURTHER REGIONAL INTEGRATION THE WAY FORWARD FOR JOB CREATION?

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INTRODUCTION

The employment and social impact of the global financial and sovereign European crises has been particularly severe in the Euro-Mediterranean region. Southern, Eastern and Northern Mediterranean countries have all been experiencing a prolonged employment crisis, whereas the improving employment trend in Northern European countries and related attractiveness for unemployed individuals across the region underpins unprecedented migratory pressures.

This policy paper first delves into the challenge of youth unemployment in the Mediterranean region, explains the underlying reasons from a labour supply and demand and provides recommendations on how further regional integration can tackle this challenge.



THE CHALLENGE OF YOUTH UNEMPLOYMENT

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

Figure 1 shows the ratio between youth and adult unemployment rates in 2015 for Southern Mediterranean UfM countries. The lines represent the number of times when youth unemployment rates are above adult unemployment rates. While considering the very few exceptions, youth unemployment rate is more than three times the adult figure. Young individuals face more difficulties accessing jobs during their transition from school to work than the adult population. The main reason is their lack of experience (what is known in the literature as “experience gap”) but there are several factors that can improve or even worsen this transition (European Training Foundation, 2015a).

These very high unemployment rates, particularly among the youth, have important economic and social consequences. On the one hand, labour market conditions are one of the most relevant pull factors explaining migration flows from certain countries to others, with better labour prospects not only in the European Union but also in other parts of the world. In fact, immigration among youth is clearly increasing and the destination areas are also changing from traditional ones, not only focussing on EU countries as the main destination (United Nations, 2016). On the other hand, the high unemployment rates are also discouraging youth from participating in the labour market (European Training Foundation, 2015b) and, in fact, NEET (Not in Employment, Education or Training) rates are also very high in the region. For instance, and according to latest estimates of the International Labour Organisation with available Eurostat statistics for 2014, the NEET rate for the age group 15-24 in Algeria

is 23%, in Egypt 28%, Israel 16% and 25% in Jordan and in Tunisia, whilst in the European Union, is still around 12.5%.

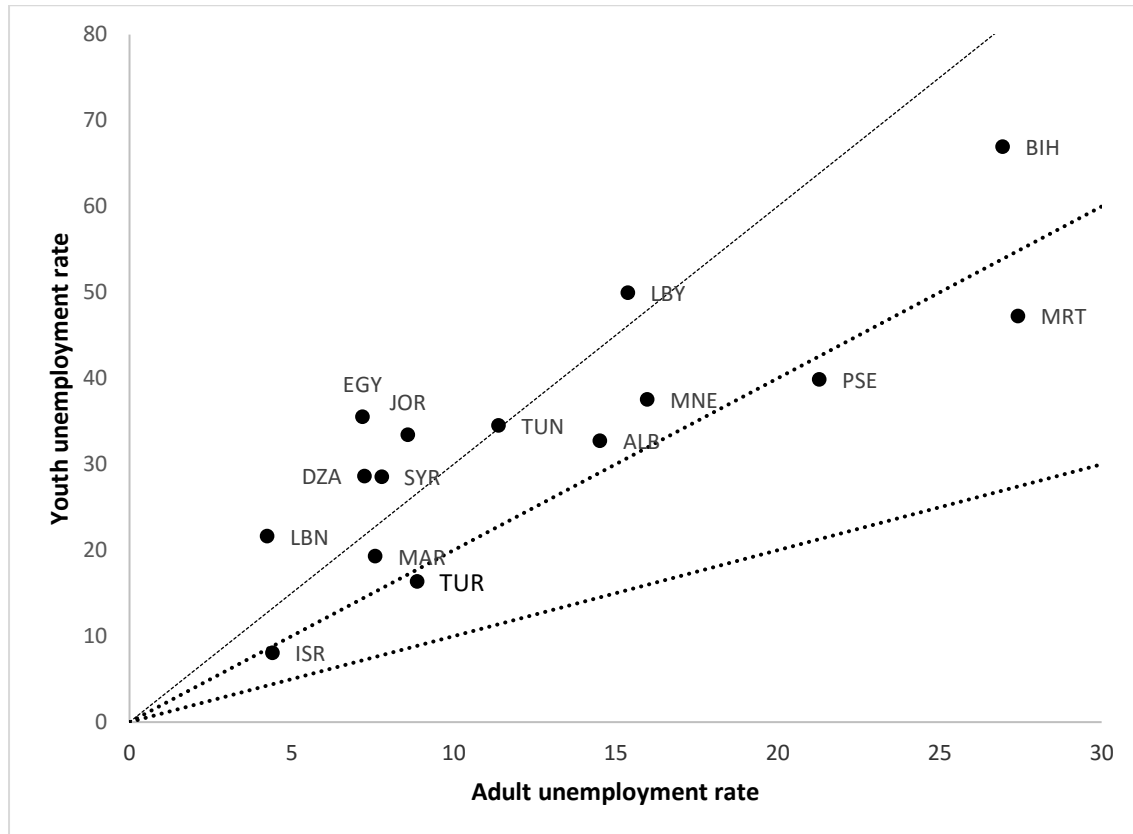


Figure 1. Youth and adult unemployment rates in non-EU UfM countries in 2015

Source: own elaboration using ILO data. ISO 3-digit country codes used to identify the countries.



SKILLS MISMATCH & INSUFFICIENT LABOUR DEMAND

A striking feature of this phenomenon, specific to the region, is that education is not a guarantee against unemployment. Data suggests that youth unemployment rate in the region increases consistently with the level of education attained. In countries such as Egypt, Jordan or Tunisia, youngsters having completed their tertiary education are two to three times more likely to be unemployed than those with primary education or less (International Labour Organisation, 2015). This contrasts with the situation in most developed and developing regions where unemployment decreases as the level of education rises. The main reason for these high unemployment rates for more educated workers is the existence of a skills mismatch in labour markets across the region. In order to improve the situation, governments could reform education and training systems, in order to develop adequate skills (United Nations Educational, Scientific and Cultural Organisation, 2016). Moreover, intermediation systems can also be improved to achieve more efficient job matching.

Putting aside the factors described up to now which mainly relates to labour supply, labour demand remains the prime determinant of how much and what type of jobs are created, and most labour markets in Northern and Southern Mediterranean countries have important constraints from the demand side. First, macro-economic conditions and institutional frameworks are not supportive for business development and job creation, as regularly highlighted in the World Bank Doing Business reports or by the World Economic Forum (2016). Labour market regulations are identified as an important impediment to employment creation and, more broadly, a core constraint to business expansion. The negative effects of a rigid regulatory framework and the resulting risk-averse behaviours of employers are particularly severe for first time job seekers. Second, the high share of the public sector in terms of employment (Behar and Mok, 2013) and the large presence of informal firms and jobs (Organisation for Economic Cooperation and Development, 2009) also represent an important limit to the creation of high quality jobs and to increased productivity growth, as previously noted.



REGIONAL INTEGRATION & JOB CREATION FOR THE YOUTH

As highlighted by the UfM ad hoc work group on job creation (2016), labour market policies should not only concentrate on the supply side but they should be designed as a comprehensive package of measures involving supply and demand policies and looking for positive synergies among them. The main policy objective should be to improve workers' employability and to achieve a better match, and to create more and better opportunities for jobs, by means of sustained and inclusive growth on the demand side. Governments should increase resources devoted to more efficient Active Labour Markets Policies (ALMPs) and focus on vocational and education training, orientation, intermediation and career guidance.

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

The effect of the tariff reduction on economic welfare can be broken down into three areas: the gain to consumers from lower domestic prices, the loss of profits to producers and the loss of tariff revenue to the government. Under standard assumptions, consumer gain would exceed the producer and government loss from reducing tariffs and that there would be an overall gain in national welfare as a result of this policy change. Similar results would be achieved in the case of non-tariff barriers. A part of trade creation, trade diversion would also occur: imports from a third external country would now be displaced by imports from partners, now cheaper in relative terms, which would also contribute to job creation.



However, although the effects of further integration would be positive in the medium and long run, there could be initial displacement of workers. In particular, trade liberalisation would induce an expansion of export-related sectors, but, at the same time, there would be a reduction in the local demand for import-competing sectors displacing workers in these sectors to non-tradable activities or, alternatively, to new created sectors. In fact, further economic integration would generate clear productivity gains. In theory importing creates more competition forcing domestic firms to become more efficient or, if not, to cease whilst also providing better access to new technologies and transfer of know-how. Those firms riding the wave of continuing transition toward higher productivity in tradable activities typically pay higher wages to their workers and these workers tend to have greater skills and to be in less routine occupations; but low-skilled workers and workers undertaking routine jobs could be damaged by this situation. For this reason, policy efforts should understand the dynamics and be focussed on minimising the negative effects of this transition.

If closer integration via competition improves the efficiency with which factors are combined, it is also likely to induce greater investment. While this additional investment is taking place, countries may experience a medium-term growth effect. If such investment is associated with faster technical progress or accumulation of human capital, long-term growth rates may also be improved. Lastly, there are other economic aspects that could also add to the trade effects already described. In particular, infrastructure development could be improved and provide better access to markets through more efficient transport networks, that could also attract more foreign direct investment reinforcing the positive effects of integration on labour markets.

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



Youth employment in the Mediterranean region: Is further regional integration the way forward for job creation?

The main assumption underlying this vision is that stepping up the position of the Mediterranean countries would require a reinforced and accelerated deeper regional integration process using a multi-dimensional comprehensive and novel infrastructure, innovation and industrial policy (underlined in a co-development strategy) agenda implemented across several sectors: transport, energy and de-carbonization, water, digital economy, blue economy, sustainable urban development), and strengthened cooperation in innovation, R&D, education, employment and young employability programmes, and social agenda issues (e.g. youth and women empowerment). The guiding principles and targets of this new policy for the region would develop a new constructive dynamic, boosting investment, regional projects and infrastructure development. This would create a multiplier effect in terms of economic growth and job creation.



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The Euro-Mediterranean Network for Economic Studies - EMNES is a network of partners and associates research institutions and think tanks working on the Mediterranean region. EMNES aims to provide a renewed vision for socio-economic development in the Mediterranean region, mainly focusing on employment creation, social inclusion, and sustainable development.

EMNES areas of research include the role of institutions and institutional reforms, macro-economic policies, private sector and micro, small and medium sized enterprises and employment creation, role of education, innovation, skill mismatch and migration, finance, regulation and the real economy and regional integration.

EMNES will produce books, studies, scientific and policy papers and will disseminate through the organization of annual conferences, and workshop meetings in the region bringing together leading senior and junior researchers, academics, policy makers and representatives of the civil society to discuss and debate optimal policies for the future of the region.

EMNES is built on four core principles: independence, excellence, policy relevance and deep knowledge on Euro-Mediterranean affairs.

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