



PARLIAMENTARY ASSEMBLY OF THE MEDITERRANEAN

ASSEMBLEE PARLEMENTAIRE DE LA MEDITERRANEE

الجمعية البرلمانية للبحر الأبيض المتوسط

2nd Standing Committee on Economic, Social and Environmental Cooperation

“The impact of the Arab Spring on the economy in the Mediterranean”

Rapporteur : Hon. Aleksandra Maletić (Serbia)

Report unanimously adopted on 23 February 2017 during the 11th PAM Plenary Session in Porto

I. INTRODUCTION

1. This report aims at providing an update on the Mediterranean economies 6 years after the uprisings of the Arab and the measures adopted nationally to address the economic challenges the countries of the region are facing. The document focuses on unemployment and tackles some issues related to the condition of women. Particular attention is given to the factors determining a contraction of the national economies and of the job market. A comparison with the European countries' economies is also given, in order to comprehend the different situations coexisting in the Mediterranean and how the events of the Arab region influenced Northern states' economies, given that the Arab Spring had a tangible economic impact on all.
2. According to the *National Agenda for the Future of Syria*, an ongoing program launched in 2012 by the United Nations Economic and Social Commission for Western Asia (ESCWA) with the aim of presenting the national and regional stakeholders with solutions and workable scenarios, the Arab Spring of 2011 has cost the region's economies an estimated USD 614 billion of growth because of regime change, continuing conflicts and falling oil prices. During its protracted conflict, Syria alone has suffered GDP and capital losses of over USD 259 billion since 2011. Oil prices began to slide in mid-2014 and fell to 13-year lows in January 2016, hitting producer countries such as Saudi Arabia, and others including Lebanon, that rely heavily on remittances from citizens working in Gulf Arab states¹.

II. DEMOGRAPHICAL ASPECT

3. Populations of the region are exposed to significant differences in living standards, depending on the country in which they live because of a variety of economic conditions, an unstable

¹ Reuters, Arab Spring has cost region 6 percent of GDP: U.N. agency, 2016. Available at the following website: <http://www.reuters.com/article/us-mideast-crisis-un-escwa-idUSKBN13527K>.

geopolitical situation and social mutations. Transformations of demographic structures are challenging problems for southern Mediterranean countries. The demographic boom in Tunisia caused a deficit of USD 196.259 million in the National Fund for retirement and social security in 2013. The deficit increased to USD 305.632 million in 2014 and it is expected to further increase in the future. This may provoke a collapse in the sustainability of the whole system. Possible measures to solve this problem must take into consideration their consequences on the employment sector, in particularly for young people who are already in working age².

III. UNEMPLOYMENT

4. Economy of the MENA region largely relies on oil, agriculture and tourism. This typology of economy dramatically contributes to the expansion of the inequality between high-income and low-income groups. There are significant disparities in performance between sub-regions and also between sub-national levels. In particular, remarkable disparities in income levels exist between rural and urban areas, which are able to attract economic, administrative and financial functions connected to the global economy.
5. According to the International Labour Organization (ILO) estimates, unemployment in Middle East and North Africa region remained, in 2015, the highest in the world. This percentage is even more significant for women in working age: less than 25% of them work or are looking for a job actively. This data remained nearly unchanged over the past 30 years. The creation of a conducive economic environment, as well as new work opportunities is essential to reduce poverty, to achieve social integration and income redistribution.

IV. FEMALE EMPLOYMENT

6. Female unemployment figures in South Mediterranean are the highest in the world, particularly for young women, whose unemployment rate in 2015 was 45.5%, compared to 24.6% for young males. These percentages may be due to social norms prevailing in the patriarchal societies across the region, since specific social roles make it difficult for women to be economically active, to invest or to take advantages of equal possibility of access to financial resources³.
7. Another factor that highlights disparities between men and women is the access to land ownership. Only 4% of the female population has land possession in Algeria, the figure is 5% in Egypt, 4% in Morocco and 6% in Tunisia. In Sub-Saharan Africa, the majority of economically active women work in agriculture. Reducing the drudgery of their work and linking women to markets is key to economic growth.
8. In most countries of the Mediterranean southern shore, social security policies and tax laws are not favorable to women. More specifically, there is a notable lack of measures to protect

² ESCWA, Report on the impact of the Arab Spring on Mediterranean Economies, available at the following website: <https://www.unescwa.org/node/93899>.

³ *Ibid.*

motherhood and a different treatment between women and men is widely common in the retirement age laws and taxes. The implementation of more equal measures would enable women to combine family and professional obligations. In addition, it would also partly absorb irregular employment, which does not guarantee any social cover or application of labor laws to workers, not to mention its damages to national economies in terms of taxes that the country could use for social and economic purposes.

9. Economic growth has to benefit all socio-economic segments of the population. Achieving this goal is one of the biggest policy challenges facing governments, corporations and civil society leaders. One of the key barriers to women's economic growth, not only in Mediterranean area but worldwide, is the time they spend doing unpaid work (an average of five hours a day compared to just one and a half for men) .The importance of increasing women's and other marginalized people's use of formal financial services.⁴

V. UNDECLARED WORK

10. Irregular work remains a critical issue in the MENA region, as well as in some countries of Southern Europe. According to World Bank data, during the period 2000-2007, the labor force, which did not contribute to the national Social Security systems, was more than 34% in Libya, 44% in Egypt, 50% in Tunisia, more than 67% in both Lebanon and Jordan, 80% in Morocco and 90% in Yemen. Recent estimates show that these numbers continue to increase and they certainly influenced the results published by ILO, which calculated that 10.5% of the workers were living on less than 2\$ per day in the area, in 2015⁵.
11. It is calculated that, in Egypt, informal jobs rose to 40% in 2012, compared to 30.7% registered in 1998. In the same period, jobs in the private sector increased from 13% to 13.5%, while jobs in the public sector decreased from 34% to 27.1%. The cause may be a too rapid economic growth, which does not allow to create adequate regular work opportunities. Nevertheless, the Central Agency for Public Mobilization calculated that, in the Arab Republic of Egypt, the average wage for public and private workers is respectively of EGP 2.600 pounds per month and EGP 1.600 pound per month. In the future, the effect of such situation may be an incentive to informal underpaid workers to look for a regulated work⁶.

VI. EFFORTS TO IMPROVE: THE CASES OF EGYPT, MOROCCO AND TUNISIA

12. In the last decade, some Arab countries tried to improve their social protection programs to face the complicated challenges of their economies. Morocco, for example, adopted a plan to increase maternity benefits, and launched a program of progressive taxation and of taxes' diminution on essential goods, in order to improve the productivity of poor segments of the

⁴ The Global Gender Gap Report 2016 : <http://reports.weforum.org/global-gender-gap-report-2016/>

⁵ ESCWA, Report on the impact of the Arab Spring on Mediterranean Economies, available at the following website: <https://www.unescwa.org/node/93899>.

⁶ *Ibid.*

population and to redistribute the resources. As a result, Moroccan tax income increased 8% annually from 2000 to 2009. In 2010, it represented 24% of Morocco's GDP, contributing to numerous social services and to public investment on infrastructure. Such policies have proved to be efficient in similar contexts: an analysis conducted on the case of Jordan underlines the existence of a strong positive relation between taxation and other economic variables. This can make the per capita domestic product increase by 5% and the employment raise by 3% to 9%.

13. On the other hand, Morocco needs to solve the controversial problem of children exploitation. Numerous children, under the age of eight, are still reported as domestic workers in the country. They earn a minimum wage of USD t11 per month for about twelve hours of work per day. It must be mentioned that Moroccan law forbids the employment of people below the age of fifteen, nevertheless its implementation is difficult, particularly in rural areas.
14. Despite the fact that some problems still need to be addressed, Morocco has managed to keep the unemployment rate in the range of 8% to 10%, the lowest of the region due to its long-lasting political stability. The percentage of non-working people is higher in the urban areas, where it reached 14.4%, compared to the rural areas where it is about 4%. This difference may be the result of the movement of people from the countryside to the cities, which now suffer of overpopulation and the economy's characteristics of the country, which largely relies on the agricultural production.
15. Egypt adopted a different approach: the Government approved a series of measures to protect low-income groups. These measures focused principally on providing citizens educational skills in order to make them develop essential competencies for the innovation. Having a labour force with skills that match the demand of the market is fundamental, and this point has already been underlined several times by PAM in previous reports.
16. Moreover, Egypt adopted a successful plan of food subsidies, as well as a program aimed at ensuring housing for disadvantaged segments of the population. It is estimated that this measure will assure, in 2017, 1.5 million households for a total cost of EGP 10.89 billion. This will be a substantial and concrete support for 10% of the population and for 37% of Egyptians living in extreme poverty. The estimates suggest that the program would influence the poverty rate of the country making it decrease of 6.3%. This plan is considered one of the most important social security initiatives taken in recent years in Egypt⁷.
17. Tunisia adopted policies with a massive social coverage: 81% of the population benefitted of dedicated interventions in 2013, while in 2007 this percentage was 72.1%. These figures do not consider the many illegal workers who escape from the still high percentage of tax in the country. The Government also focused on the women unemployment. It is evaluated that in the country the official percentage of men employment is at 69.2%, while women workers are 26.1%. This is certainly an acceptable level when compared with the women employment rates of other countries of the MENA region. Nevertheless, it is undeniable that strong efforts

⁷ ESCWA, Report on the impact of the Arab Spring on Mediterranean Economies, available at the following website: <https://www.unescwa.org/node/93899>.

are to be made to reduce the wide difference still existing between men and women employment levels⁸.

VII. A COMPARISON WITH EUROPEAN ECONOMIES

18. To better understand the extent of the changes in MENA economies resulting from the Arab Spring, it is essential to analyze the economic conditions of North Mediterranean countries and how they reacted to those events. It must be recalled that the financial crisis of 2008 represented a significant shock on the employment sector, and European countries took almost 7 years to recover and to reach again the pre-crisis figures. While North European countries had a faster recovery, in the European Mediterranean countries many problems are still to be overcome: for instance, in Greece, employment rate fell from 66.3 % in 2008 to 52.9 % in 2013, before recovering to 54.9 % in 2015 (an overall fall of 11.4%). Considerable reductions in the employment rate were also recorded in Cyprus (-8.6%) and Spain (-6.5%)⁹.
19. Employment rates in Europe, as in the MENA region, vary depending on society's sections. The women employment rate is, even in Europe, lower than that of men. However, it is important to underline the extent of these differences. In 2015, in Europe, the employment rate for men stood at 75.9 %, compared to 64.3 % for women. A longer-term comparison shows that while the employment rate for men in 2015 was the same as 10 years earlier (75.9 % in 2005), there was a marked increase in the women employment rate, which was 60.0 % in 2005. In 2015, Malta recorded the most significant difference between employment rates by gender (27.8%). Italy, Greece, Romania and the Czech Republic reported gender gaps in the range 16.6% –20%¹⁰.
20. The analysis of the economic performance of European countries considers the 2008 financial crisis as a major factor, but the events of the Arab spring also played a significant role. North African states are consistent markets for the European production of goods. In 2011, France was the main European exporter in North African region with a rate of 11.4%, while Italy was second with 8.2%. The Arab Spring influenced more than the financial crisis the export toward south Mediterranean countries. In 2010, French investments in North Africa amounted to EUR 20 billion, while Italian ones went up to EUR 6.2 billion. After the Arab Spring, the economic flux toward the region diminished significantly, for instance, Italian export in the Mediterranean decreased by 20%, while its extra-EU exchanges increased by 15%. Even though these are sectors that have demonstrated a consistent capacity of recovery, it is reasonable to state that a new socio-economic stability would be fundamental to achieve good results and to improve investment and exchange rates¹¹.

⁸ *Ibid.*

⁹ Eurostat, Employment statistics, 2016. Available at the following website: http://ec.europa.eu/eurostat/statistics-explained/index.php/Employment_statistics#Publications.

¹⁰ *Ibid.*

¹¹ ISPI, Conseguenze economiche della Primavera Araba: la prospettiva italiana dal punto di vista dell'interscambio commerciale e degli investimenti in Nord Africa, 2013. Available at the following link: http://www.ispionline.it/sites/default/files/pubblicazioni/ricerca_ispi_su_primavera_araba_14.12.12.pdf.

21. It is uncertain how much undeclared work graves, as a form of tax evasion, on the sustainability of public and fiscal stability in Europe, given that there is no absolutely reliable and harmonised aggregate data on it. Researches estimated that, in 2015, shadow economy in the European region highly affected the GDP (30.6% in Bulgaria, 28% in Romania and 27.7% in Croatia were the highest). In Cyprus, Greece and Ireland, in the same year, the highest rates of informal work on the base of the total labour force were calculated (53%, 46,7% and 33% respectively)¹².
22. Eurobarometer 2013 revealed that, in Europe, irregular work involves in particular young people (unemployed or students). A European research discovered that de-regulation and tax reductions do not lower undeclared economies, and identified some other social causes of its spread. The main factor contributing to the development of irregular economies is the social perception of an intolerable level of taxation and costs. There is also a strong negative correlation between undeclared work and social protection. Finally yet importantly, an important element, which contributes to the phenomena, is the perception of the corruption in the national economy, it is estimated that irregular work diminishes when citizens perceive a higher rate of transparency¹³.
23. Counties in the Western Balkans: Albania, Bosnia and Herzegovina, FYR Macedonia, Montenegro and Serbia- all aspire to membership of the EU, but they face a challenge in terms of living standards. The Western Balkans has a number of attractive features for investors. Strong macroeconomic stability, strategic geographic location, favourable tax regimes, well-educated population, are common attributes throughout the region. The Western Balkans region lies behind western European countries in terms of competitiveness, governance and ease of doing business. There are however plenty of reasons to be optimistic about this region. Institutions and governance standards have improved, especially in the EU candidate countries.
24. One of the most visible impacts of the global crisis in the Western Balkans has been the sharp drop in foreign direct investment (FDI) to the region. Intra-regional FDI is limited, although Serbia is an important player in Bosnia and Herzegovina (second biggest investor) and in Montenegro (sixth biggest)¹⁴.
25. The share of employed among the population of working age in the Western Balkans countries is low, ranging from just 27 per cent in Bosnia and Herzegovina to 37 per cent in Albania. High unemployment is a common problem, especially long-term unemployment (more than one year) as many of these become discouraged and drop out of the labour force indefinitely. On average, one every ten person is unemployed, out of which at least three-quarters more than one year. What is even more worrisome is that large youth unemployment exceeding 40 per cent in every country of the region. Unemployment, inclusion and ageing remain major issues across the countries. Therefore, understanding the demographics of the

¹² European Commission, European Semester thematic factsheet, Undeclared work, 2016. Available at the following link: https://ec.europa.eu/info/sites/info/files/european-semester_thematic-factsheet_undeclared-work_en.pdf

¹³ European Commission, European Semester thematic factsheet, Undeclared work, 2016. Available at the following link: https://ec.europa.eu/info/sites/info/files/european-semester_thematic-factsheet_undeclared-work_en.pdf

¹⁴ European Bank: <http://www.ebrd.com/news/2016/how-the-western-balkans-can-catch-up.html>

region is necessary for creating optimal social policies, including reforms regarding labour markets and pension systems.

26. On 1 September 2015, the government of Albania launched a comprehensive campaign against informality. The main purpose of the campaign is to promote formal activity in order to increase payment of taxes and formal employment.
27. Bosnia and Herzegovina adopted a new reform agenda in 2015. Reforms can be broadly grouped into three areas: socio-economic, fight against corruption, rule of law.
28. The Former Yugoslav Republic of Macedonia has implemented a comprehensive package of policy reforms and capacity-building in the area of business environment.
29. The coordinated auction office (CAO) in SEE, established in Montenegro, is responsible for managing cross-border capacity for electricity trading in the region.
30. The Innovation Fund in Serbia is preparing a Serbia Research, Innovation and Technology Transfer Project, supported by €6.9 million from IPA funds, with the goal of promoting technology transfer and commercializing research and development efforts by stimulating collaboration between academia and industry, in addition to offering collaborative research and development grant schemes. The Fund is also actively representing the government of Serbia in the dialogue and designing of new financial instruments for private sector development within the framework of the Western Balkans Enterprise Development and Innovation Facility.

VIII. WHAT PAM CAN DO

31. Data gathered shows that a multidisciplinary approach is fundamental to stabilize the region, both economically and socially. Capacity building actions, which take into consideration the peculiarities of the area, the characteristics of states' socio-economic identities and their historical evolution represent an option to address the problems analysed in this report.
32. Economic development in MENA countries must derive from political and institutional improvement. On this, PAM could promote the further strengthening of open and democratic institutions among states, particularly through parliamentary practices aimed at creating the conditions to reach a more significant political stability and a more active role of citizens.
33. Currently, the main problem is clearly the high unemployment rate. Political stability has a primary role in the development of the capacity to attract foreign investments and to consolidate national economies. These elements, supported by adequate legislations, are undoubtedly essential for the creation of economic impulses to boost job creation and the economic growth in general.
34. In addition to political stability, new legislative measures should be adopted to facilitate the work of Small and Medium sized Enterprises (SMEs), which are the engine of Mediterranean

economies and highly contribute to the wellness of citizens and to national economic stability.

35. On this, and as already highlighted in other PAM documents, administrative and fiscal rules simplification, for instance, to open a business and also to access investments, is strongly needed. A more vigorous action has to be undertaken by southern countries in order to make their markets and their production more competitive in the global economy. Moreover, legislative measures focused on the optimisation of administrative procedures are fundamental to encourage the development of SMEs.
36. In order to achieve an equal human and economic progress of citizens, policies aimed to a more active role of women in the employment sector are needed. It is necessary to guarantee equal conditions of work and treatments to all working age people respecting national identities. MPs should ensure that social security plans be based on the same principle in favour of the economic and social satisfaction of all citizens.
37. Even in this sector, cooperation is key. Therefore, PAM should strengthen its partnership with International Financial Institutions and other economic actors that operate in the Mediterranean.
38. This cooperation has already proven effective with the European Bank for Reconstruction and Development (EBRD). The same approach has been adopted with the World Trade Organization (WTO). The joint PAM/WTO meeting in Casablanca, scheduled for 20-21 April 2017 and to which the EBRD will contribute through its high level experts, is a tangible result of this cooperation.
39. Finally, this report would like to put in evidence the urgent necessity to promote a more effective role of national Governments and Parliaments in countering corruption's phenomena. Transparency is a crucial factor to make countries economically attractive and to consolidate citizens' participation and trust into the social and economic life. This is also an efficient tool to contrast irregular local economies, in order to stabilize national income and spending.