

Jobs in the Middle East North Africa, and the Moroccan case

by Uri Dadush¹

Summary

The jobs markets across the Middle East North Africa region vary greatly, with some oil-rich countries importers of labor while others, including Morocco, are the source of emigrants. Morocco exhibits structural underemployment despite having grown quite rapidly. The reasons for Morocco's job-poor growth run deep. Policies can mitigate the problem but are unlikely to solve it in the foreseeable future.

One cannot speak of a common jobs problem across the Middle East and North Africa (MENA) region. The countries at war – Syria, Yemen, Libya – are, of course, a story of themselves. Some countries not at war, notably Lebanon and Jordan, have seen huge inflows of refugees that have created large downward pressures on wages, especially in the low-skilled informal sector (Dadush & Niebuhr 2016). The remaining countries can be divided into two main groups. The energy importers such as Egypt, Morocco, and Tunisia, have been unable to create sufficient jobs, especially for the young, and are the source of large diasporas. Officially, emigrants are 4-8% of the population and one can probably double that number if undocumented emigrants and the offspring born abroad are included. In contrast, the energy exporters such as Saudi Arabia have generated jobs in excess of their effective labor supply, have little emigration, and attracted foreign workers and their families which add up to some 30% to their native population. The United Arab Emirates and Qatar, oil exporters whose native population

is much smaller than that of Saudi Arabia, have foreign born populations that represent as much as 80% of the total.

Despite the need and large inflow of foreign workers, Saudi Arabia (and to a lesser degree the other Gulf countries) suffers from high unemployment or underemployment among natives and exhibits low labor market participation rates among women and the young. But it is difficult to relate this phenomenon to low demand for labor. Other factors, such as high expectations, high government wages and a preference to work in government, and views on women may be at play. Skill mismatch reflecting inadequate education outcomes is also a problem. Among the elites, the possibility of relying on rents and government sinecures, may have reduced the incentive to work in the private sector. Algeria displays some of the labor market characteristics of energy importers even though it is an energy exporter. It has relatively modest energy endowments compared with its large population, and has high youth unemployment as well as a large diaspora, and hosts almost no foreign-born workers.

¹This brief expands the author's remarks at an event on MENA prospects at the Center for Global Development on November 16 2017. I thank Karim El Aynaoui and Alan Gelb and participants at the event for helpful comments. Bingying Wu and Rim Berahab provided valuable research assistance.

² Most of the data used in this article comes from World Development Indicators, World Bank.

As an illustration of the labor market issues facing the oil importers, Morocco is a particularly interesting case of structural labor market disequilibrium. To be sure, every country is different and there is no perfect example. Thus, employment – much of it in low productivity sectors – grew much faster in Egypt and Jordan than in Morocco and Tunisia. Yet, Morocco grew faster than Egypt and Tunisia.

In fact, Morocco's GDP grew at around 4.5% a year over 2000-2014, a shade over 3% per capita, a very respectable outcome amid comparators. This resulted in some job creation, but falling way short of the increased labor supply. Official unemployment numbers, which have declined over this period but remain near 10%, provide only a very partial picture of the state of the labor market in Morocco, as is the case in other developing countries which exhibit a high degree of informality and underemployment in the countryside and in sectors such as construction.

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The underlying demographic and employment numbers tell a more complete story, I believe. The number of Moroccans employed increased from 10,200,000 to 11,800,000 over 2000 to 2014, or by 115,000 per year. Over this period, the labor force (people of working age 15-65) grew very fast, at 2% a year over 2000 to 2014, or by 383,000 on average, and consequently the share of the working age population employed declined from 53% in 2000 to 48% in 2014. Thus, only roughly one-third of the increase of the population of working age sought and found employment. Sharply rising secondary and tertiary school enrollment account for a substantial part of this gap, but even among the population aged 25 and above the share of employed declined by over 2 percentage points. Many young people emigrated. Without substantial emigration – on which data is at best approximate – Morocco's unemployment problem would have been significantly worse. According to the OECD, over 2000 to 2014, emigration from Morocco to OECD countries was on average about 100,000 per year (about 0.3% of the population), including people of all ages.

However, demographic changes are only one part of the supply of labor story in Morocco. Also important is underutilized labor in the countryside and among the female population. Over 35% of the Moroccan labor force is employed in agriculture and almost 42% of this labor force is engaged in unpaid work ("nonrenumere"), suggesting very low productivity. Female participation in the relevant age group in Morocco is very low, around 26%, yet women are increasingly educated. Precarious employment is prevalent across the Moroccan economy. For example, only about 20% of workers have health insurance. So, there is a very large group of underutilized workers knocking at the door of the labor market, whether in the formal or informal sector, in addition to the young.

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Another prominent feature of the labor supply is the many new diplome' and university graduates who are looking for good formal sector jobs and not finding them. According to the Haut Commissariat au Plan, university graduates in Morocco have the highest unemployment rates. They represent 22% of the total officially unemployed population (which is predominantly urban) versus 4% for those without a degree. However, these numbers have to be interpreted with care, since the official unemployment numbers tend to cover more accurately the urban population and university graduates reside predominantly in cities.

The demand for workers in Morocco has grown slowly in part because growth has been job-poor. As a matter of arithmetic (not economics!) Morocco's very rapid labor productivity growth, 3.4% a year over 2000-2014, would have required growth rates near 6% (not the 4.5% actually achieved) to absorb the inflow of new workers. The private sector, which accounts for some 90% of jobs in Morocco, has produced more with relatively few workers.

Why was labor productivity growth so rapid? Beyond the obvious observation that labor productivity in Morocco was low to start with, three factors are at work. First,

3. Haut Commissariat au Plan, 2017

4. OECD International Migration Database. Nearly all of the estimated 5.6 million Moroccans living abroad are in the OECD, and less than 200,000 are in the Gulf.

Morocco exhibits high rate of savings and investment, 32% of GDP in 2014. According to a comprehensive recent study by Toufik Abbad, (OCP Policy Center 2017) capital deepening played a big role in Morocco's recent development. The capital/labor ratio has grown at 4.9% a year over 2000-2014, far faster than nearly all comparable countries. This large investment was associated with declining rates of capital productivity and relatively low rates of Total Factor Productivity growth (1.1% a year). In a preceding study, Agenor and El Aynaoui (OCP Policy Center, 2015) found that Morocco has one of the lowest rates of investment productivity rates in the world as measured by the Incremental Capital Output Ratio (ICOR). Although a disproportionate share of this investment was public, as in infrastructure, and not always efficient, it nevertheless was complementary to private investment and to labor, and helped both substitute for labor and boost its productivity.

Second, large investment in human capital has played a role. Morocco's labor force remains low-skilled in comparison with other MENA countries and countries of similar per capita income (Agenor and El Aynaoui, 2015). According to UNESCO, in 2015 17% of male adults and 37% of female adults were illiterate. Morocco's 15-year-olds score low on international standardized tests. However, there has been a very large increase in school enrollment rates, and outcomes are improving. For example, adult literacy rates have improved by some 15% points over the last ten years as the primary school completion rate increased from 58% of the relevant age group in 2000 to 102% in 2014. The male secondary school enrolment rates increased from 42% to 59% over 2005-2012, and those of girls reached 90% of that of boys.

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Third, while it is difficult to be sure how much of Morocco's labor productivity growth may be attributed to technological change, there is evidence that it plays a significant role (see Abbad, 2017). Nearly all of Morocco's labor productivity improvement is within sectors and

relatively little is due to shifts from low value added to high value-added sectors. Morocco's capacity to adopt technology has increased as workers became more educated (4 in 10 have completed lower high-school compared to 3 in 10 in 2000) and as it has become a far more open economy. Between 1990 and 2014 its trade/GDP increased from 25% to 35% and its FDI/GDP increased from 0.5% to 3.1%. Morocco's intense interaction with its large diaspora also contributes to its ability to absorb technology. Insofar as Morocco's technology adoption conforms to international trends (and I believe it does), it is skill-biased, meaning that it tends to substitute unskilled workers and is complementary to skilled workers. This, together with capital deepening, would help explain the widespread perception of a skill shortage in Morocco and the comparatively high wages of skilled workers.

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One prominent manifestation of Morocco's rapidly increasing labor productivity is the declining share of employment in manufacturing, even as the sector's value added grows. According to the Haut Commissariat au Plan, over 2000-2014 Morocco's manufacturing sector created jobs in food processing, furniture and metal-work and in the high-value added automobile sector, but nearly all these job gains were offset by a large reduction in employment in the garments and textile sector. Nearly all of Morocco's net employment growth is in services and construction. Openness and trade agreements might have been expected to raise the demand for Morocco's labor,

5.The following link shows the details of these numbers at a quarterly (figure 1) and annual (figure 2) level. http://www.hcp.ma/Taux-de-chomage-national-selon-le-diplome_a267.html

6.According to the Haut Commissariat au Plan (2017), 39% of Moroccans over the age of 15 are illiterate (49% among women)

especially of the unskilled, but this has not happened. There has been no acceleration of manufacturing employment. One should add that Morocco is only one among many middle-income countries that have suffered from competition in garments and textiles in the wake of the end of the Multi-Fibers Arrangement in 2004. Only very few countries, such as Vietnam and Bangladesh, have seen significant increase in manufacturing employment in recent years (Dadush 2015).

It is clear, then, that the core of the continued unemployment and underemployment in Morocco lies both in labor supply factors – rapid labor force growth and availability of surplus labor - and labor demand factors – a respectable rate of GDP growth but one associated with vastly improved labor productivity, a reflection of investments in physical and human capital as well as technology improvement.

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All this begs the question, however, as to why the market for labor does not adjust faster through lower wages, or why labor demand does not grow more rapidly in the light of labor's increased productivity. In the classical tradition, one can cite a host of product market (e.g. lack of contestability) and labor market (e.g. strict hire and fire rules) rigidities in Morocco that prevent this, which are well known and will not be repeated here (Chauffour 2018). I have little doubt that these rigidities help explain the failure of the labor market to adjust in the formal sector. But I, for one, do not find these explanations sufficient. There is, for example, much informality in Morocco (some 30% of work is in the informal sector), suggesting flexibility in a large part of the economy. Why have not wages declined to absorb the surplus labor in the informal sector?

As in the case of the Gulf countries, we can refer to high expectations and high reservation wages, but a complete explanation eludes us. I would venture to speculate that the speed of change matters. Morocco is an economy undergoing a large-scale demographic and structural transformation in a very short time. It is not an exaggeration to say that the majority of the Moroccan population is moving into the 21st century from a traditional rural society. Having achieved independence

only in 1956, Morocco is a nation having to cope quite suddenly with the most advanced technologies, hyper-globalization, the emancipation of women, urbanization, longer lives, and less children. Another big change is the formalization of labor relations, which previously were based on established customs and norms, and now are – in the formal sector - governed by strict hire and fire rules. It is, in short, an economy that needs time to adapt to a different world, and this is especially evident in its structural labor market disequilibrium. A few initially very poor economies in Asia have done much better than Morocco in dealing with this tsunami of change, but most other poor economies have done worse.

Will the Moroccan labor market get better soon? We can be comforted by the fact that labor force growth is slowing sharply due to a massive drop in fertility over the past generation, to less than 1.5% a year presently compared to 2.5% a year in 2000, and that, with luck, GDP growth could be quite solid in coming years (as Europe recovers, oil prices remain low, etc.) (IMF 2017). But, unfortunately, other factors will continue to aggravate the employment problem. Technology adoption will almost certainly continue to save more labor, especially low-skilled labor. Morocco's savings and investment rates are likely to remain high and (given the slower growth in the labor force) the capital/labor ratio will continue to increase rapidly. Emigration is constrained. More women are increasingly educated and want to work. And still a large part of the population is in the countryside looking for a better life. So, I don't expect that Morocco's employment problem is going away in the foreseeable future. This rather pessimistic conclusion is in line with that of Agenor and El Aynaoui (OCPPC 2015). Their model simulations suggested that, assuming heroically that a sustained growth rate of 6% is achieved, enough jobs will be generated for new entrants, but the stock of unemployed (and underemployed) will barely change.

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Policy cannot hope to transform Morocco's surplus labor problem quickly, but can contribute to its mitigation. Beyond the well-known and valuable recipes on how to accelerate growth (make markets more contestable, accelerate governance and business climate reforms, etc.) (Chauffour, 2017), I believe three measures could yield meaningful results: first, recognize explicitly that

large and dynamic service sectors, and not only or mainly manufacturing, are the biggest job creators. This implies a more systematic approach to removing barriers to growth in sectors such as tourism, construction and finance. Second, find ways to channel less investment (finance) to the public and more to private sector, and especially in the most labor-intensive sectors and among small enterprises that account for the bulk of job creation in Morocco. Third, look to conclude international agreements deals for more orderly emigration with countries needing labor, which, I admit, is easier said than done at present. An interesting question is whether additional big investments in education will help the labor market adjustment in Morocco in the long run. The answer is almost certainly no – instead, the overriding need appears to be to make education spending more effective by making it more targeted, selective and by reducing waste.

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