



World Economic Situation and Prospects

Weekly Highlight

Prepared by Sergio Vieira

1 April 2014

Labour market mismatches in the Middle East

In the next few years, youth unemployment will continue to be a major concern in the Middle East, due to the fact that 27.2 per cent of young people in the labour force were unemployed in 2013. Although this is a historical issue in the region, youth unemployment has been accelerating since the beginning of the global financial crisis, reaching new record highs (see figure). In some countries, such as Jordan and Saudi Arabia, youth unemployment is close to 30 per cent, while it reached about 40 per cent in the State of Palestine.

There are several factors leading to the recent increase in youth unemployment in the Middle East. In the last few years, economic growth has decelerated in several countries in the region as commodity prices and world trade slowed down. Moreover, recent political and military instabilities have also reduced economic prospects in the aftermath of the global financial crisis.

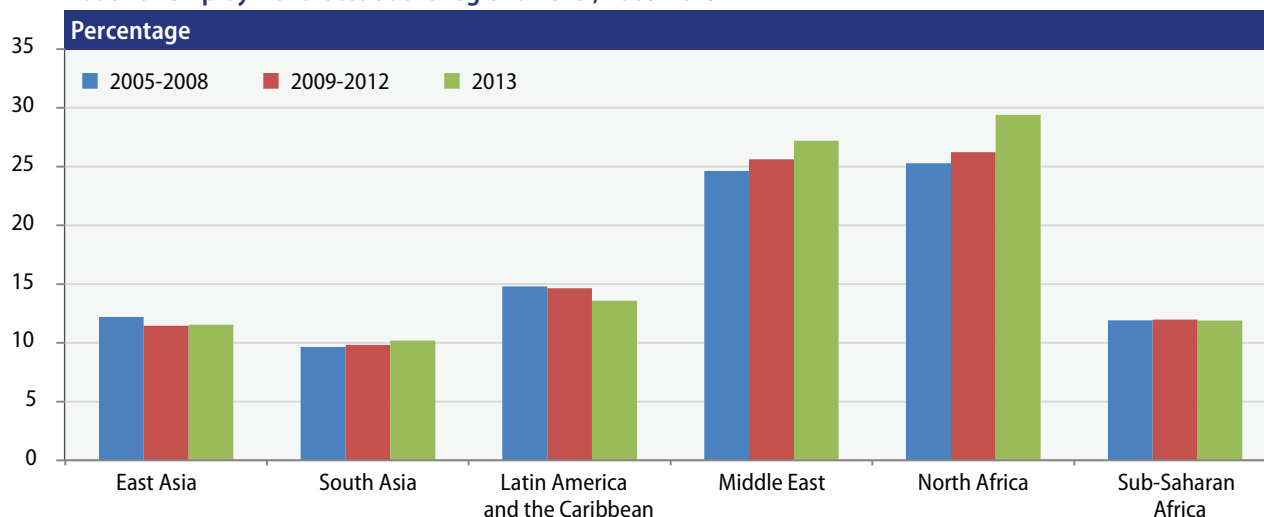
More important, however, are the historical structural challenges in local labour markets. First, the region is specialized in economic sectors that generate relatively few employment opportunities, with few high-value-added jobs in particular. Second, young graduates are struggling to find opportunities that can match their educational attainment. This delays their transition from school to work as they wait for opportunities in the public sector or for highly paid jobs in the private sector. The main issue, though, is the fact that there are a limited number of opportunities in the public sector for highly qualified individuals, while demand for their skills is non-existent in the private sector. Thus, unemployment among those with tertiary

education is particularly high in the region, reaching 43 per cent in Saudi Arabia, for example. As a result, many young people end up in jobs for which they are overqualified and receive relatively low wages. In Jordan for instance, more than 40 per cent of the employed population is considered overqualified for available positions.

Since a large share of the population—young people as well as women—do not participate in the labour market or do not contribute with their full potential, labour markets in the region are functioning at low-productivity equilibrium.

In some countries, local authorities have been limiting the number of immigrants in an attempt to revert jobs to nationals, including in the services sector. However, these initiatives will hardly generate job opportunities that match the skills that educated young people possess. Addressing this situation will involve correcting mismatches between labour supply and demand, while stimulating new economic sectors. The mismatches in the labour market could be reduced by promoting educational programmes in line with private sector requirements. At the same time, more high-value-added jobs are essential; evidence suggests that there is only limited labour reallocation towards more productive jobs. Creating these kinds of jobs would require higher investment in new economic sectors and greater economic diversification. Unless consistent medium-term policies—both in the educational system and in the productive structure—are implemented, youth unemployment will continue to be a major challenge in the region.

Figure
Youth unemployment rates at the regional level, 2005-2013



Source: Based on ILO, Global Employment Trends 2014. The data for 2013 is a preliminary estimate.