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Rendering Young People More Employable

THE ROLE OF THE PRIVATE SECTOR

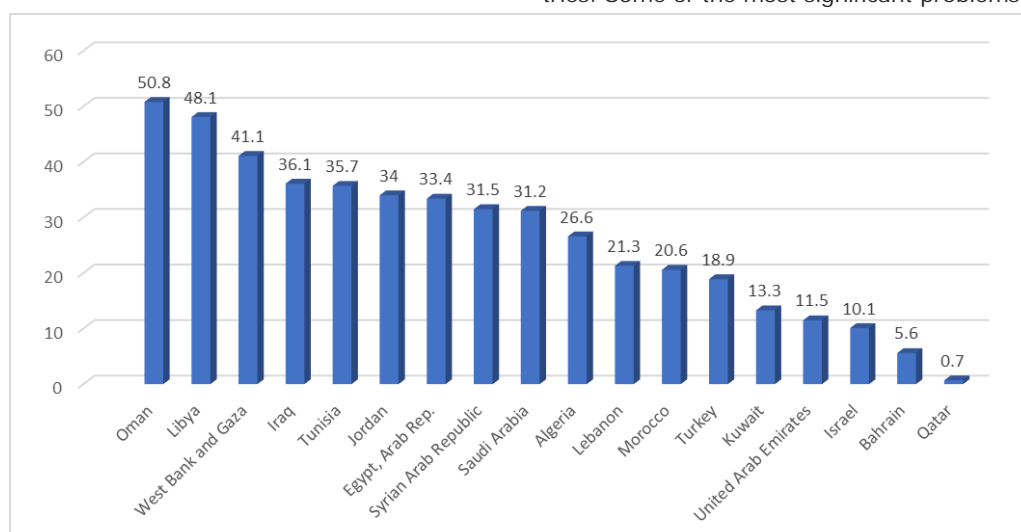
This report brings together the proceedings of an expert roundtable with policy-makers, academics, representatives of think tanks, and private sector representatives on solutions to unemployment and a lack of job generation opportunities in the Mediterranean region from 17 – 20 August 2017.

Introduction

Youth unemployment is one of the most pressing issues on the global agenda, in particular for the Middle East and North Africa (MENA), one of the youngest regions in the world with approximately 57% of its population being under the age of 29 as of 2015.ⁱ The unemployment rate in the region is one of the highest, affecting youth the most: youth unemployment rate reached 30.6% in the Arab Middle East countries and 29.3% in North Africa in 2016, which is

more than double the global average (13.1%).ⁱⁱ The continued growth of the informal sector and the fragility, exposure and precarity it brings is another related problem: in Egypt, the informal sector is about two thirds the size of the formal economy and employs 58% of wage workers with at least secondary education.ⁱⁱⁱ However, it is important to note that youth unemployment is neither a uniquely MENA problem, nor does it afflict all countries in the region in the same way or to the same degree. Different countries operate in different historical, political, social and economic contexts. Therefore, it is imperative that all recommendations are calibrated and adjusted based on local conditions. One-size-fits-all policies are unlikely to be successful.

It is also possible to find commonalities between most countries in the region, despite a certain degree of diversity across countries. Some of the most significant problems



Youth unemployment rate (%) in MENA countries, 2016.¹

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facing MENA are governmental inefficiency, institutional weakness and rigidity. One underlying reason for this institutional setting is related to the history of economic liberalization in the region. Economic liberalization was partial and incomplete, with few exceptions like Morocco and Turkey. The MENA region was in the 42nd percentile worldwide in terms of regulatory quality in 2016 according to the World Bank's Worldwide Governance Indicators (WGI).^{iv} Turkey ranked in the 61st percentile, while Egypt and Algeria were in the 18th and 10th percentiles respectively, being among the lowest in the world and worse than the Sub-Saharan African regional average of 28th percentile.

The Role of the Actors

The state still plays a vital role in the regional economies. Ideally, the private sector should have been the driving force of change, and the government should have only overseen this process, which can be labelled as "night-watchman state". However, in reality, the government will need to be involved either independently or in public-private partnerships a significant amount of the time. What should the third sector do then? The third sector needs to identify certain issues, clearly define them, and come up with modest solutions by keeping local conditions in mind. It is also important to lobby for further liberal reforms, for more stable and efficient institutions^v and for the state to employ the right people rather than offering public sector employment as a safe haven in the formal labor markets. Policy-makers, the government, state officials, people on the ground/implementers and other actors like unions and NGOs need to be engaged to avoid a mismatch between policies on paper and reality.

The AI Revolution and the Future of Employment

Another important issue on the agenda is the Artificial Intelligence (AI) Revolution/⁴th Industrial Revolution. To quote Stephen Hawking, the 21st century will be "a century of complexity." Industry 4.0 is not only about the economy; it will impact all spheres of life, changing life as we know it.

We will see new technologies, a new workforce, unprecedented mobility and globalization, a dynamic and urban world population living in megacities, which will precipitate new needs and new emerging behaviors. These new technologies could eventually include supply-demand matching algorithms in e-commerce, the end of the currency era and the transition to block chain currency.^{vi} According to World Economic Forum's The Future of Jobs report, the top five skills necessary in 2020 will be complex problem solving, critical thinking, creativity, people management and coordinating with others in the aforementioned order^{vii}, emphasizing the ongoing radical transformation, the transition to a collaborative economy and lowered barriers to entry to the economy. As technology gets more and more developed, the pace of development also increases exponentially. Thus, the expectation is that we will experience an enormous increase in AI ability within our lifetimes. AI will move beyond basic math/computing and routine tasks and be able to learn independently and undertake complex tasks, such as that of lawyers or engineers. This seismic shift begets some vital questions: What will be the political consequences? If AI can undertake complex tasks or even transition into a 'singularity,' what will happen to 'human' jobs, will there still be demand for human employment?

There are both optimistic and pessimistic scenarios. The AI Revolution can usher in an age of direct democracy, sustainable living, and the end of poverty and disease or in a dystopian future where the capacity of totalitarian governments and the possibilities of terrorism are greater and where economic inequalities are much starker than now. Since this is something completely unprecedented in human history, it is impossible to predict with any degree of certainty. As economics and politics are fundamentally interconnected, economic development and political change must go hand-in-hand: we need 'Big Data,' but not 'Big Brother.'^{viii} Where people are free, they are not just happier but also more creative, productive, innovative and prosperous. This premise should be our ultimate goal.

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The question of the necessity for ‘human employment’ has been a constant worry since the 19th century, but up until now, job creation from increased productivity and the creation of new sectors have exceeded job losses from displacement caused by technology in the long run. The invention of ATMs did not cause *less* bank clerks to be employed; somewhat counterintuitively, *more* clerks were hired thanks to the increased productivity. The new technology allowed banks to hire fewer clerks per branch, but as the cost of running a branch decreased, there was a boom in the number of new bank branches. Will the same story repeat itself in the future? The scale of technological advancement will be much greater this time, and we do not know what the effects of that might be. Thankfully, there are ways to get prepared for the future. As mentioned before, building a suitable environment for all people to think and create is a prerequisite for economic development. This entails, inter alia, a liberal democracy with a truly free and competitive market, strong institutions, transparency and accountability, civic rights and rule of law, measures for gender equality, strengthening local governments, and youth and women’s participation.

Skills Mismatch and the Role of Education

Another issue is skills mismatch, which is a serious problem (unemployment rate *increases* with education in MENA) that will only be exacerbated by the AI Revolution. An overhaul of the education system, with a focus on new learning methods, a dynamic curriculum, vocational training, STEM education, and cooperation with the private sector is needed. Stanford University is a great example in leading the way: Information and lectures can be accessed online, so there is no need to waste time with traditional lectures in the classroom. Instead, most lecturers are practitioners and time in the class is spent on simulations, practice and discussions. In face of an ongoing transformation, we need to change the way we think in all walks of life, and education is no exception. The private sector can play a vital role in education in cooperation or competition with the public sector, as well

as supplying job training, certificate programs and online education to equip people with necessary skills. As traditional university education and diplomas fail to guarantee young people a better future; skills, qualifications and entrepreneurship are becoming more and more important. Looking at the economy holistically, good governance and educational reform should lead to more innovation, entrepreneurship and productivity gains, driving growth up and reversing the unfortunate trends of deindustrialization and brain drain.

Conclusion

This brings us to our final point: What have the MENA countries been doing during the calm before the storm? The answer at the moment seems to be, regrettably, not much. This is in contrast to countries like the United States of America, Germany, Japan, and China or even smaller countries like Switzerland and New Zealand, which have made concrete plans, roadmaps and investments. The “Industry 2025” platform in Switzerland has published a white paper, outlining tomorrow’s business and enterprise model. Automation of agriculture and animal husbandry with drones is being used in the United States^{ix} and New Zealand.^x Bosch will invest 300 million USD in “Bosch Center for Artificial Intelligence” between 2017-2021.^{xi} On the contrary, the viewpoint in MENA seems to be one of dismissal, that “we have more important things to do now”. But this is real, this is happening, and this is going on now. For the first time in history, developing nations can catch up to developed nations by carving a niche for themselves and capitalizing on it. We need to be realistically optimistic: there are great challenges, but there are also great opportunities. The policymakers should understand this and act urgently. We have not missed the train yet, but the clock is ticking. Raising awareness for the government, but also for small and medium-sized enterprises and young people is very important.

ⁱ Data taken from UN World Population Prospects 2017 (<https://esa.un.org/unpd/wpp/>,

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accessed September 26, 2017). The selection for the data includes the following countries: Algeria, Egypt, Libya, Morocco, Tunisia, Western Sahara, Bahrain, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, State of Palestine, Syrian Arab Republic, Turkey, United Arab Emirates, Yemen.

ⁱⁱ Data taken from ILO, World Employment and Social Outlook 2016: Trends for Youth report (http://www.ilo.org/global/research/global-reports/weso/2016/WCMS_513739, accessed September 26, 2017).

ⁱⁱⁱ Doaa Farid, "Informal Sector Volume Records Around EGP 1.5tn: ECES", Daily News Egypt, 23 September 2014, <http://www.dailynewsegypt.com/2014/09/23/informal-sector-volume-records-around-egp-1-5tn-eces/>. Quoted in Adel Abdel Ghafar, "Educated but Unemployed: The Challenge Facing Egypt's Youth", Brookings Institution, 2016, https://www.brookings.edu/wp-content/uploads/2016/07/en_youth_in_egypt-1.pdf, p.6. Accessed October 19, 2017.

^{iv}

<http://info.worldbank.org/governance/wgi/>. Accessed September 26, 2017. 100 is the highest rank, while 0 is the lowest.

^v This is the key to success, according to Daron Acemoğlu and James A. Robinson, "Why Nations Fail: The Origins of Power, Prosperity and Poverty", Crown Business, 2013.

^{vi} For more information about blockchain and other potential uses, see "The promise of the blockchain: The trust machine", The Economist, published October 31, 2015, <https://www.economist.com/news/leaders/21677198-technology-behind-bitcoin-could-transform-how-economy-works-trust-machine>. Accessed October 19, 2017.

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<https://www.weforum.org/agenda/2016/01/the-10-skills-you-need-to-thrive-in-the-fourth-industrial-revolution/>. Accessed October 19, 2017.

^{viii} For a worrying trend to the contrary in China, see: <https://www.wsj.com/articles/xi-jinping-leads-china-into-big-data-dictatorship-1508237820>. "China Uses 'Digital Leninism' to Manage Economy and Monitor Citizens", Wall Street Journal, published October 17, 2017. Accessed October 19, 2017.

^{ix} "Agricultural Drones", MIT Technology Review, published April 23, 2014. <https://www.technologyreview.com/s/526491/agricultural-drones/>. Accessed October 19, 2017.

^x "They're Using Drones to Herd Sheep", Wall Street Journal, published April 7, 2015. <https://www.wsj.com/articles/theyre-using-drones-to-herd-sheep-1428441684>. Accessed October 19, 2017.

^{xi}

<http://www.bosch-presse.de/pressportal/de/en/artificial-intelligence-300-million-euros-for-new-center-87250.html>. Accessed October 19, 2017.