



Summary Report on the International Workshop “Employment Creation through Industrial Policy in the MENA (Middle East and North Africa) Countries”

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Tina Zintl

Amirah El-Haddad

Markus Loewe

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Dr Tina Zintl, Senior Researcher, “Transformation of Economic and Social Systems”, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

E-mail: tina.zintl@die-gdi.de

Professor Dr Amirah El-Haddad, Senior Researcher, “Transformation of Economic and Social Systems”, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

E-mail: amirah.elhaddad@die-gdi.de

Dr Markus Loewe, Senior Researcher, “Transformation of Economic and Social Systems”, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

E-mail: markus.loewe@die-gdi.de

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Tulpenfeld 6, 53113 Bonn

+49 (0)228 94927-0

+49 (0)228 94927-130

Email: die@die-gdi.de

<http://www.die-gdi.de>



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Abbreviations

BMZ	Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung / German Federal Ministry for Economic Cooperation and Development
DIE	German Development Institute / Deutsches Institut für Entwicklungspolitik
ESCWA	Economic and Social Commission for Western Asia of the United Nations
FDIs	Foreign direct investments
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (implementing agency of German international cooperation)
ICTs	Information and communication technologies
ILO	International Labour Organization
MENA	Middle East and North Africa
MSMEs	Micro, small and medium-size enterprises
PAI	Plan d'Accélération Industrielle / Industrial Acceleration Plan (Morocco 2014-20)
SMEs	Small and medium-size enterprises
UNIDO	United Nations Industrial Development Organization

Short summary of the workshop

Lack of productive employment is one of the most pressing challenges of countries in the Middle East and North Africa (MENA). No other region in the world has such high rates of unemployment and underemployment. Policy makers across the region are extremely concerned about the problem but have not yet been able to identify an effective strategy to address it. Many academic publications and donor reports focus only on the labour market rather than on what is happening on the production side of the economy. In addition, there is an emerging literature stressing the need of new industrial policies in the MENA region. Very few of these, however, focus on employment creation and promotion as a distinct goal of industrial policies.

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ), has therefore commissioned the German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE) to bring international experts for industrial and labour market policies in the MENA together for a workshop and discuss what industrial policies in MENA should look like in order to generate employment that is sustainable, decent and productive. Eighteen speakers from academia, think tanks, and international organisations including the United Nations Economic and Social Commission for Western Asia (ESCWA), the International Labour Organization (ILO), the United Nations Industrial Development Organization (UNIDO) and the World Bank, from diverse disciplines and with different regional expertise (mainly MENA but also Sub-Saharan Africa and East Asia) discussed possible solutions. Of course, some of these are not entirely new but have been known.

The report at hand, first, summarizes the core takeaways before, second, presenting the main debates and findings at more length. It has been prepared following Chatham house rules and thus does not disclose speakers’ identities while collecting key points in existing debates and identifying agreements and disagreements.

I The workshop’s core take-away messages

1. Consider the trade-offs: jobless growth versus penniless job creation

There are critical trade-offs as not all good things – job quality and quantity, inclusiveness, productivity, growth, competitiveness – come together. So far, industrial policies in the region too often provided jobless growth or growth focused on sectors with low-value-added employment (such as construction) rather than opening up new and higher quality employment opportunities.

A multitude of MENA labour market challenges (queueing for public-sector jobs, underemployment and informal employment) need targeted solutions. Prioritising and sequencing questions depend on country contexts.

2. Low labour demand is the binding constraint, even if supply shortcomings persist

The MENA economies generate too little and too low-value employment because they are still based on the production of products requiring little knowledge. This lack of structural diversification is mainly due to limited incentives for investment in innovation/research and development and economic sectors with longer amortisation periods. As a result of distorting incentives, the labour market provides low returns to education and thus slows down investment in high quality education. This also explains the reluctance of employers to invest into human capital themselves.

On the labour supply side, skills and qualification bottlenecks like low quality education and misqualifications persist. Unemployment is widespread among all groups of the labour force but in particular among females and labour-market entrants.

Against this backdrop, the size of intra-regional and international migration is not surprising.

3. First and foremost, political barriers to job creation need to be addressed

Participants agreed that political barriers are the single most important factor hampering firm growth and job creation. Corruption and cronyism impinge on the business climate, as stagnant oligopolies, which depend mostly on low-skill and little productive labour, continue to thrive. More innovative competitors, potentially creating more high-skill and productive jobs, are kept out of the market. Non-trade-barriers were shown to privilege sectors dominated by crony businesses.

Three strategies to overcome or mitigate the negative impacts of cronyism were debated:

- **Investing in new sectors without vested interests** is most promising. This includes activities with strong international trade-links, which the governments consider important for employment creation and foreign exchange earnings and from which – given their exposure to international competition – cronies cannot easily extract rents without “killing” the activities. Supporting such activities would create new lobby groups interested in a competitive environment without cronyism; and supporting their organization and voice may help to gradually push cronyism back into small pockets of state-owned and monopolistic firms. This could be export-oriented agriculture or assembly-type manufacturing.
- **Capture-proof new policies** would help to create a fairer business climate in the long run. A policy is capture-proof if it (i) is implemented fairly and transparently and (ii) provides benefits irreversibly, based on performance, and with equal access for all firms.
- Managing cronyism, i.e. tacitly accepting **less detrimental forms of cronyism** for job creation (i.e., by cooperating with crony businesses in job-creating projects) – even if normatively problematic – might provide a pragmatic short-term solution.

4. Sector selection should focus on value-added and technologically more complex sectors

Structural transformation of late-comers entails a risk of premature deindustrialization, so most workshop participants recommended to focus on both (i) more specialized, higher-value-added manufacturing industries and (ii) more specialized services. While these sectors are dearly needed as an engine for structural change providing high-skill employment, those ‘traditional’ sectors that are most labour-intensive should also be developed further, if possible increasing their value-added component.

Different **ways of sector selection** were discussed with regard to their strengths and weaknesses. Thereby, consensus evolved to focus on innovative and competitive sectors, which can generate some higher quality employment opportunities, but to extend also more traditional sectors that provide large numbers of more basic jobs.

Currently profitable sectors, like the **low-value non-tradable construction sector** (e.g. the widespread real estate mega-projects) often provide temporary, irregular, low-skill, male-only jobs predominantly taken by migrant labour.

ICT and digitalization are potentially job-creating ‘wild cards’, associated with high opportunities but also with uncertain prospects (need for digital literacy, new business formats, unclear global market niches). The **collaborative/ sharing economy** (different forms of digital platforms) **can create opportunities especially for women and youth**, though there might be political and cultural obstacles, as political/patriarchal elites may fear their loss of influence due to those groups’ empowerment.

Building on a country’s economic and educational structures, within-sector or across-sector changes can reap more benefits. As was exemplified by Turkey’s and Tunisia’s development paths, respectively, within-sector changes are better suited for contexts with so far less-skilled labour supply while across-sector changes open up new, high value-added sectors for an already fairly well-educated labour supply (while balancing with ‘traditional’, low-skill and often more labour-intensive sectors is necessary, the latter strategy is more applicable in most MENA countries today).

Despite a regionally and internationally challenging political environment, better **regional integration** could help to create employment through enhanced competition.

5. Industrial policies must focus on job-creating instruments and change agents

While it is well-established that the **private sector** must create the majority of new jobs in order to overcome the costly public-sector focus, it is key to concentrate on the most innovative and job-creating private actors: Many small and medium-sized enterprises (SMEs) in MENA are very traditional and not interested in growing and there is a ‘missing middle’ between large crony firms, on the one hand, and very small independent and mostly informal firms with often little innovative capacity, on the other hand. Taking these challenges into account, **younger firms** provide the best potentials for innovation and job-creation. Linkages and long-term contractual relations between large and small firms would create an environment of mutual learning and foster innovation and – if applied sensitively – employment.

All **foreign direct investments (FDIs) and trade** are important as they generate economic growth, but they could create more sustainable employment if steered toward higher-value-added sectors (manufacturing and agriculture instead of mining and real estate, see 4.).

Instruments to raise the productivity of private companies and hence the quantity and quality of labour demand include: the promotion of value chains between larger and smaller firms, investment into national innovation systems, better quality and relevance of education and training of workers and firm managers, safeguards in the rule of law in private company regulation and a strengthening of institutions that safeguard competition. Mentioned examples comprised wage vouchers, performance-based time-bound support, and the integration of smaller firms into bigger firms to exploit economies of scale. Furthermore, measures should be taken to enhance legal regulations and public infrastructure (internet connectivity, public transport, etc.).

Particular emphasis should be placed on **increasing female labour participation rates**. Instruments in this regard include more flexible working hours, safe transportation to work, measures against violence in working places, campaigns to inform on women's rights, the promotion of women's business networks, the subsidization of maternity leave and social insurance costs, better access of female entrepreneurs to microfinance as well as business associations and chambers of commerce and industry.

Further **research** should clarify why recent job-creating measures on the labour demand side (entrepreneurship promotion, wage subsidies, etc.) have often not been taken up by private firms and thus have had limited results.

6. Job-creating industrial policies need to anticipate and include measures for those "left behind"

Industrial policies need to integrate social policies such as e.g. cash-for-work programmes because MENA countries will not achieve full employment even in the best possible scenario.

Existing welfare systems need to be reformed with an eye on the employment effects on different social and professional groups (e.g. speed of cutting subsidies).

7. In a nutshell, industrial policies need to re-focus on job-creation by identifying motivated change agents and adequate tools

Legitimate change agents must be identified and then be supported in their policy-making in a way that is informed by embedded autonomy and a new social contract. It is desirable that change agents share a vision of how a feasible and desirable structural change could look like and ideally these agents would stem from both, the private sector as well as MENA governments, so that their decisions are more inclusive, also and especially in consideration of a new social contract. Thus, it is crucial to achieve embedded autonomy for most productive and employment-creating industries and to reconfigure state-society relations (i.e., the social contract) in a way so that all important stakeholders see and accept the positive developments.

Change agents need to be encouraged in their willingness and motivation to effect positive change and to establish a level playing field. They identify tools that focus on promising employment-generating sectors and provide incentives accordingly. This requires a learning and testing environment that also allows failures. The approach also needs to be tailored to the variety of MENA countries (resource-poor vs. resource-rich) and their diverse post-Arab Spring contexts (“surviving” vs. conflict affected).

II Employment and Industrial Policy in MENA: the workshop’s main debates and findings

The workshop proceeded with welcoming addresses, five thematic panels and a closing session. The thematic panels concentrated on the following issues (see workshop program, Annex 1): labour demand as the main binding constraint to high job creation (Panel 1); the potential for employment-oriented industrial policies provided by particular sectors and actors (Panel 2); the role of policy-making in achieving employment-intensive growth (Panel 3); political barriers to decision-making and ways to overcome them for pro-employment industrial policies (Panel 4); and considerations on how to mitigate negative outcomes for those left behind despite employment-oriented industrial policies (Panel 5). The report proceeds in the same order; however, issues that have been taken up repeatedly in the discussion are reported for the panel dealing most with that particular issue.

Welcome address and introduction into the workshop

The opening of the workshop demonstrated the high relevance of the topic and the topicality of the event. In light of the persistently high unemployment figures in the MENA region, it has increasingly become clear that, if the goal is higher employment, government interventions need to re-prioritize their approach in order to create new labour demand. They need to re-focus industrial policies (*Strukturpolitik*) towards employment-creation and a better management of the complex relationship between additional employment, productivity gains and economic growth at large.

In all welcoming addresses, the representatives of the respective BMZ, GIZ and DIE units emphasised what role employment creation plays in German development co-operation with countries in the MENA region. The lack of employment in the region constitutes not only a problem for the respective partner countries, but has an impact on regional and hence international stability as well. For international donors dealing with the MENA region on this topic, two points of interest stick out in particular: First, there is high political interest in the issue due to the debate on lack of employment as an important driver of outward migration. Second, most agencies are already aware how important long-term engagement in industrial policies is, e.g. through measures like cluster approaches to support promising economic sectors or private sector development for MSMEs. Yet, the same agencies are also acutely facing the challenge that these measures need to be further shaped and sharpened because, so far, they have not been able to turn the tide on poor employment prospects in MENA.

Panel 1: Binding constraints to employment growth in the MENA region

The workshop participants were unanimous that low labour demand is the decisive constraint on MENA countries' labour markets. MENA's economic development is weak and less dynamic than in other world regions – and this continuously so: most challenges, like a bloated public sector, low productivity and competitiveness, as well as poor business climate have constantly been reported for many years. This stagnation is due to both economic and political factors (on the latter, see Panel 4).

However, the experts emphasized that also the region's labour supply exhibits several persisting weaknesses and discussed major supply-side-related points:

- Most striking are low returns to education and high graduate unemployment as there is too little labour demand especially for highly-skilled labour. There was an animated discussion amongst workshop participants whether there is even an 'oversupply' of highly-skilled labour – which is, of course, complicated by the fact that the educational quality of offered degrees is low in global comparison. Yet, all concurred that less education and skills training is not a desirable option. In fact, skills and qualification mismatches are widespread, as there is an oversupply of labour educated in the wrong fields or missing 'new' (e.g. digital) skills. These mismatches should be tackled by harmonising supply and demand for certain skills and by adjusting training programmes accordingly.
- There was also unanimous concern about the quality of education, not only of job-seekers and employees but also of (potential) entrepreneurs. Because of the low returns to education, there are hardly any incentives for investing in high quality education tailored to employers' needs.
- The situation is delicate also because of the aspirations and preferences of the unemployed. For instance, the middle classes' expectations during their job searches are quite high and repeatedly disappointed – there is a high preference for white-collar (office) jobs instead of blue-collar (industrial) jobs, and a rather low motivation to take up self-employment or to become an entrepreneur. Many persons affected are rather willing to migrate within or outside the region than to accept a job they deem low reputation or low pay.

Despite the relatively high level of education, productivity remains surprisingly low particularly in small firms. Possible reasons for this are that many entrepreneurs are satisfied if their survival is guaranteed and they are self-sufficient. Often they have no interest in expanding their business or maximizing their profits, as this would lead to unwanted visibility for tax authorities or for – often politically well-connected – competitors.

Targeted solutions to reduce high unemployment rates should not only take into account different country contexts but also particularities of different groups affected:

- Conflict-affected countries face huge losses in human capital, exacerbating the difficulties for private sector growth in these environments.
- While youth and women remain the most vulnerable groups on the labour market and face particular challenges, labour policies but also industrial policies need to keep in mind that the bulk of the unemployed are male adults.

Panel 2: Potential for employment-oriented industrial policy in the MENA region economies

Panel 2 discussed the future potential of MENA economies with respect to employment creation. Its focus was on two questions: (i) Which sectors are able to produce employment-intensive growth? And (ii) which enterprises should be targeted in order to extend the quantity and quality of employment?

One presenter argued that MENA countries should identify industrial sectors in which they might be able to develop comparative advantages in the future by using Hausmann et al.’s ‘product space methodology’. This methodology suggests considering the production of goods, which (i) require capabilities that are similar to those required by the production of goods that a country exports already but (ii) are still somewhat more sophisticated. Applying the methodology in its crude version to Egypt and Tunisia would deliver a recommendation for focusing on very basic export products such as yogurt, plastics, metals and minerals (for Egypt), respectively containers, plastic and wooden products (for Tunisia). A more interventionist version of the methodology would steer the economy towards maximum sophistication, thus identifying highly complex manufactured metals, machinery, equipment, electronics and chemicals. The second approach, however, identified sectors that require less but high-skilled workers. The trade-off between quantity and quality of jobs, or between jobless versus penniless growth, is thus quite apparent here.

A middle ground is thus a forward-looking strategy that takes sectors’ shares in world trade into account. This approach identifies medicaments in the chemicals sector; seats (e.g. car and aeroplane seats) in the “other highly manufactured” sector; inflated rubber tyres in the chemicals community (plastics and rubber); containers, bobbins and packages of plastics also in the plastics and rubber section; and articles of iron and steel in the metals sector for Egypt. The top product for Tunisia is furniture in the highly manufactured and special purpose goods community, followed by three products in plastics and rubber in the chemicals community, and finally three machinery sectors.

In another presentation, the potential of digitalisation for the MENA region was highlighted. The sector of information and communication technologies (ICTs) offers enormous opportunities for the creation of high-quality employment in MENA countries – provided that governments invested into the digital literacy of labour-market entrants, changed legislation in order to allow for new business formats and provided information on global market niches.

The same presentation made clear that the collaborative / sharing economy (i.e., business models that build on digital platforms) provides additional employment opportunities in particular for women. Being economically active in the collaborative economy eases the access to finance, allows for more flexible working hours (particularly important for female labour force participation), and provides alternatives to public transport (also particularly important for women who are afraid of sexual harassment). The sharing economy’s potential can be raised through online education programs, crowdfunding, online marketplaces and transport platforms such as Uber and Careem.

A third presenter argued that MENA countries might have substantial potential in developing their textiles and clothing sectors when other countries will abandon these

sectors in order to embark on more sophisticated sectors. The potential depends, however, on the question if the developed countries continue competing in these sectors or even extend their production of textiles and clothing – as well as on future trends in automation and rationalisation in the sector.

In the subsequent discussion, the fact that MENA countries face two major challenges to structural transformation was highlighted. The first is premature deindustrialisation: Once these countries succeed in attracting producers from new sectors, the production in these sectors may already have been automated to a point that it creates only limited numbers of new jobs. As a result, even if the contribution of manufacturing to gross domestic product (GDP) rises, its share in total employment may stagnate or even decline as has already been the case in several MENA countries.

The second challenge results from high investment into construction and real estate, which crowds out investment in manufacturing and agriculture and, hence, binds large parts of the labour force in low-productivity, low-wage employment. The challenge is partly due to huge public mega-construction projects (especially in Egypt, where the government is enlarging the Suez Canal, building a new capital and developing new areas for settlement). But it is also due to the preference of private investors for quick wins (rather than higher but long-term profits bearing more uncertainties), which can be realised in construction, infrastructure and tourism but only rarely in manufacturing. The mechanism is one in which this low-quality product demand (e.g. construction) limits the returns on education, in turn limiting investments into high-quality education that goes beyond poor-quality diplomas, which do not impart the right kind of knowledge and skills. This in turn perpetuates a low skilled labour force, which reinforces the generation of low wages in the economy. In addition, the resulting jobs are mainly temporary and irregular in nature, suitable neither for better-educated workers nor for women, all of which contributes to the high rates of youth unemployment among the educated as well as low rates of labour force participation among women; two well documented phenomena in MENA countries.

Panel 3: Industrial policies needed to address constraints and exploit potentials in the MENA region

A major topic was, of course, the question which instruments are most effective in the promotion of employment-intensive economic development. Mainly six sets of instruments were discussed in more detail: (i) regional integration, (ii) a better integration of women into labour markets, (iii) improvement of the quality and relevance of education and training, (iv) support of private firms in innovation, (v) improvement of the investment climate, in particular for SMEs, and (vi) a shift of investment from real estate to more productive sectors.

One presenter stated that regional integration was a necessary condition for faster progress in structural change and employment creation in the MENA region. He argued that MENA countries have strong complementarities because of differences in factor endowment (workers, human capital, water, hydrocarbons). As a result, oil-rich countries used to import workers and goods from oil-poor countries and invested parts of their revenues in oil-poor countries. But the exchange collapsed after Saddam Hussein's invasion in Kuwait. Oil-rich countries replaced Arab by South Asian migrant workers and promoted the structural

transformation of their economies. As a result, unemployment in oil-poor countries increased. Some participants argued that opening the door to inter-Arab labour and capital movements was the only way to revert past trends. Other participants objected: MENA countries can also integrate with the EU market or with sub-Saharan African countries while an integration within the region would be at unequal terms. Mainly the Gulf countries would benefit, while oil-poor countries would suffer a severe brain-drain. Anyhow, participants were unanimous that the chances of regional integration are very bleak because of multiple political discords between governments in the region.

Another presentation detailed the challenge to raise female labour force participation rates. Half of the population are women, and employment is particularly low among them, as many are economically inactive or unemployed. In addition, gender diversity in firms raises their productivity – at least in knowledge-intensive sectors. Today, 67 per cent of the female labour force works in low-quality / low productivity jobs. The main reasons are traditional sociocultural norms inhibiting women to work in certain professions and the reduction of jobs in the public sector (where many women used to work in the past). Increasing female labour force participation requires more flexible working hours, safe transportation to work, effective measures against violence in working places, campaigns to increase women’s awareness of legal rights, the promotion of women’s business networks, the subsidization of maternity leave and social insurance costs and in particular the promotion of women entrepreneurs (e.g. through preferential access to microfinance and better representation in business associations and chambers of commerce and industry): The employment of women in leading positions is an eye-opener for others and particularly important to overcome traditional stereotypes. One participant commented, though, that all these measures are at risk to help only privileged women from rich and well-educated families, without having an impact on most parts of the female population. Others stressed that it will take a long time to bring women into male dominated economic sectors and recommended therefore to focus on sectors in which women are already well-represented – e.g. child education – in order to make faster progress.

In the subsequent discussion, this point was linked up with the skills mismatch mentioned above. One participant stressed that the main challenge of MENA countries was the low quality of education and training systems as was shown by the fact that unemployment was highest among young, educated women. The skills of labour market entrants did not meet the expectations of employers. Priority should therefore be given to reform the structures, forms and contents of education in the region at all school levels in order to improve its quality and relevance. Some participants seconded that even university graduates had severe deficits in analytical and critical thinking, creativity and the ability to work in teams.

Several interventions in the discussion highlighted the need for faster structural change, which is essential for job creation, a better quality of jobs and the achievement of economic, social and environmental development. Structural change, though, requires innovation – both in the product space (especially more complex products and new export markets) and in the production process (higher productivity and competitiveness). MENA countries lag behind in innovation because of the demand as well as the incentive structure outlined in Panel 2 above but also because of limited skills and knowledge, inflexible mind-sets and lack of exposure to developments on world markets. In addition, the region lacks a social dialogue that creates consensus on the long-term vision of development. As a result,

technology accumulation and total factor productivity tend to be low. Governments should therefore develop national innovation systems.

One presentation focused on the constraints of SME development. Its argument was that the bulk of future employment will have to be created by the private sector but only few private firms are creating larger numbers of jobs today. Most of them are medium-sized companies but only few medium-sized companies exist today. Most micro and small enterprises (MSEs) are very traditional and not interested in growing apart from some, typically young and small companies. They would like to grow into the segment of medium-sized companies but they face multiple challenges. For instance, they face difficulties to mobilise enough capital, to get registered and to find adequate workers. In addition, these companies suffer from the insecurity in the legal system, and sometimes large competitors use their political influence to make life difficult for the newcomers. It is therefore important to reform the policies that regulate firm entry and competition. The rule of law must be protected; public policies need to be reliable. And MENA countries need strong institutions that safeguard a level playing field: competition authorities, independent judiciaries, transparent procurement procedures, public administration based on merit, disclosure of assets by politicians and citizens' access to information.

Finally, the discussion returned to the issue that economic growth in many MENA countries is largely based on real-estate led development, which creates mainly temporary, low-skill and irregular jobs. In the past, some governments had invested heavily in public industrial companies or, a bit later, into mining, tourism and infrastructure. Today, public and private investment prioritises real estate rather than more productive sectors with the effect that most new jobs are created in construction and tourism. As a result, unemployment is mainly growing among highly-educated people and females. A property tax was therefore recommended as a means not only to generate additional government income but also to reduce real-estate speculation.

Panel 4: Processes of decision-making and policy implementation for employment-intensive growth

In this panel and throughout the workshop, problems of patronage and clientelism were discussed in considerable detail. Participants agreed that political barriers – both, barriers to entry and to competition – are the single most important factor hampering firm creation and growth, productivity gains as well as job creation. Widespread practices like corruption and cronyism impinge on the business climate, because stagnant oligopolies continue to thrive. More innovative competitors, potentially creating more high-skill and productive jobs, are thus kept out of the market.

The previously existing 'balance of power' between different parts of society (bureaucracy, government, middle classes, etc.) has been falling apart in many MENA countries. This reflects the erosion of the old welfare-providing social contracts¹ that granted many benefits

1 For a definition and operationalization of the term social contract – with special reference to the MENA region – see: Markus Loewe, Bernhard Trautner & Tina Zintl: *The Social Contract: An analytical tool for countries in the Middle East and North Africa (MENA) and beyond*. DIE Briefing Paper, forthcoming in 2019.

like subsidies, employment in public sector jobs, and free health and education, but at the expense of a productive and competitive private sector. Liberalization efforts did not improve the situation but favoured the state bourgeoisie and a well-connected business elite, notoriously privileging patronage over performance.

Negative examples discussed during the panel included the following: Energy subsidies in Egypt are mostly received by politically connected firms and favour capital-intensive over labour-intensive manufacturing firms. Firms (partly) owned by current or former government officials are more likely to receive generous (energy) subsidies, but also have much better access to government procurement contracts, foreign exchange and bank loans. Industrial policy-making so far has had limited success as, in many instances, it ended up supporting well-connected individual firms instead of industries. With the reduction of import tariffs, non-tariff trade-barriers became more widely used and could be shown to privilege sectors dominated by crony businesses.

The participants discussed the following strategies to overcome or at least mitigate the negative impacts of cronyism. A combination of strategies will likely show the best results.

- Public agencies and the private sector should invest in new sectors or sub-sectors without pre-existing vested interests. Especially activities with strong international trade-links are promising, as governments consider them important for foreign exchange earnings while – given their exposure to international competition – cronies cannot easily extract rents from them without “killing” the activities. Labour-intensive activities should be given priority to stimulate as much employment creation as possible. Supporting new sectors and activities ideally creates new lobby groups interested in a competitive environment without cronyism; and supporting their organization and voice may help to gradually push cronyism back into small pockets of state-owned and monopolistic firms. In Morocco, the selection of so-called “ecosystems” (networks of firms and their service providers) through the Industrial Acceleration Plan (Plan d’Accélération Industrielle/PAI), 2014-20, helped to support specific sectors and not specific (well-connected) firms.
- In the MENA region, the original concept² of ‘embedded autonomy’ should be enlarged to encompass a broad, tripartite stakeholder dialogue that enables a fairer playing field through better coordination and inclusion of smaller, less powerful stakeholders. Embedded autonomy thus could help to solve the ‘hen and egg’ problem as to whether transformative power in industrial policy-making is more likely to originate from the economy or from politics. Both realms at the moment lack potential change agents, as crony capitalists and existing political and military elites depend on each other, thriving on joint patronage networks and thus undermining opportunities for competitive policy-making or entrepreneurship. Policy-making in general lacks a long-term vision for economic policies and a social dialogue that could create consensus on a developmental vision supportive of job creation.

2 Peter Evans: *Embedded autonomy: states and industrial transformation*. Princeton, N.J.: Princeton University Press, 1995.

Creating a comprehensive ‘embedded autonomy’ is easier in innovative sectors, but ideally experiences made there should spill over into other economic sectors. Some of this can already be exemplified by the Moroccan automotive and electronics sectors, which have made some promising progress even though they are still weak in some regards (learning experiences, monitoring & evaluation). Especially SMEs can be a catalyst for inclusion and investments, provided they gain a voice as happened with Moroccan SMEs, which before the process felt neglected and disadvantaged vis-à-vis large (mostly state-owned) companies.

- To enable a level playing field and a fairer business climate in the long run for *all* economic activities across the board (not only in innovative fields), new policies need to be safeguarded against policy capture. A policy is not captured if it (1) is implemented fairly and transparently and (2) provides benefits based on performance, and with equal access for all firms.
- In the short run, managing cronyism provides a pragmatic way ahead. This would involve tacitly accepting not too detrimental forms of cronyism, “using” and cooperating with crony businesses in projects that promise to be most labour-intensive and job-creating. As this approach is normatively problematic, it should ideally be applied only temporarily, and increasingly this cooperation ought to be tied to the fulfilment of fairer and more performance-based indicators. Still, this approach has only low chances of leading to “gradual reforms from within” and should be implemented especially in the interest of job creation. And this should not happen at the highest echelons of power: Most of the workshop participants strongly rejected the idea that a development-oriented strong man (temporarily) in power could help further economic development.

Panel 5: Policies to provide assistance to those left behind by industrial development

The first presenter raised the question whether industrial policies alone can eradicate poverty and unemployment. He argued that they might be able to do so, but only under the condition that they focus not only on growth but also on mass quality employment. In the MENA region, however, they so far have not. Even in times of high economic growth, poverty and unemployment rates have not been reduced substantially because industrial policies enabled the exploitation of windfall profits from trade, tourism, traffic and real-estate speculation rather than an increase in total factor productivity. As a result, wages have not risen substantively, and the number of working poor remained high. In addition, most investments were done in capital-intensive sectors so that the employment-intensity of growth was low.

According to this presenter, industrial policies in MENA countries should instead aim at long-run productivity growth – and be complemented by social policies catering for those who will continue to be left behind. Productivity growth results typically from innovation and structural change and requires macro-economic stability, accountability with respect to legal and administrative norms, and procedures and measures to prevent government capture. And social policies should include not only social transfers but also the universal provision of health, education, nutrition and housing services.

The second presenter highlighted that social policies have to be designed with caution because every strategy creates winners and losers. Employment-creation programmes, for example, build typically on vocational training, cash-for-works programmes, micro-credits, job-placement services and implementing labour standards. They typically benefit employers, skilled workers and some unskilled workers – but less so those outside the labour force: children, old-aged people, disabled persons and female-headed households. In addition, the political context and the global system can have a strong influence on the efficacy of social policies. All in all, social policies have to be more redistributive.

In the subsequent discussion, one participant seconded that investments in social protection generate positive social – and often also economic – returns. Another one stressed that in one way, industrial policies can be social policies as well, in particular if they aim at providing a level playing field for all economic actors and sectors (i.e., small and large enterprises, well-established firms and newcomers, manufacturing and agriculture), or if they are steered at changing the gender balance in employment or entrepreneurship. He added that agriculture was a very interesting sector in that it continues to bear potential for generating growth and employment in several MENA countries by simply extending production. And he reminded that policy makers have to balance their policies between different objectives with employment creation being just one of them.

Closing discussion

The workshop concluded with a discussion about the 2-days event’s main messages. The participants re-emphasised that MENA labour markets suffer in particular from low labour demand, even though labour supply remains to be problematic, especially in terms of low quality education and skills shortages contributing to low productivity and lacking innovativeness. Labour demand should be raised through SME development and through prudent sector selection, complementing the existing labour-intensive traditional sectors by stepping up investment in technologically more complex and more productive sectors. This would provide more jobs for the highly-skilled and for women, who both hardly find jobs in the momentarily favoured sectors such as real estate and construction. Political interests and private interests interfere with economic decisions on all levels and remain one of the most pressing problems hampering effective industrial policy-making. As for concrete instruments to be used by policy-makers, the workshop participants admitted that there is still too little research and authoritative knowledge about the employment effects of particular instruments.

The workshop participants valued the event as a good opportunity to collect and exchange knowledge about the employment-industrial policies nexus. They expressed their interest in continuing the discussion and in sharing the results with policy-makers and practitioners, for instance by organising additional presentations for the workshop’s hosting and funding institutions. Being of utmost urgency for the stability and prospects of MENA countries and individuals’ decisions to stay or to migrate alike, the promotion of decent employment will remain extremely important in the framework of international cooperation with the region.

Annex 1: Workshop Programme

Friday, 21 September

- 09.00h Welcome address, introduction into the workshop, explanation of logistics
- By: *Lars Wilke, German Federal Ministry for Economic Cooperation and Development (BMZ), Bonn and Berlin*
- Regine Qualmann, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Eschborn and Bonn*
- Markus Loewe, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Bonn*
- 09.30h **Panel 1: Binding constraints to employment growth in the MENA region**
Which are the binding constraints to create and improve employment in MENA countries: Which are the main demand side factors responsible for slow or 'job-less' growth (weak private sector, lack of innovation, limited structural change, inappropriate industrial policies...)? What additional role do supply-side factors such as education, training, labour laws and job seekers characteristics play? How does context affect labour demand and supply in MENA?
- Input by: *Zafiris Tzannatos, Lebanese Center for Policy Studies (JOR/LEB):*
Which side is binding: The labour demand or the labour supply?
- Chair: *Markus Loewe, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Bonn*
- 10:30h Coffee break
- 11:00h **Panel 2: Potential for employment-oriented industrial policy in the MENA region economies**
What is the potential for employment-intensive growth in MENA countries? Which sectors are able to produce such growth? Which enterprises should be targeted that have potential to create employment? How do we identify them? Which actors can make what kind of contribution to improving the situation of MENA countries' labour markets? Can we ensure that both the quantity and quality of employment rises?
- Inputs by: *Amirah El-Haddad, DIE (DEU):*
Penniless or jobless growth? Insights from Egypt and Tunisia
- Izak Atiyas, Sabanci University (TUR):*
Employment-oriented industrial policy: Some remarks and lessons learned from the Turkish experience
- Michelle Marshalian, Université Dauphiné (FRA):*
Productivity, structural change and skills dynamics in Tunisia and Turkey
- Chair: *Dina Fassbender, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Eschborn and Bonn*

12:15h Lunch break

13:45h **Panel 2 continued: Potential for employment-oriented industrial policy in the MENA region economies**
(description see above)

Inputs by: Nobuya Haraguchi, UNIDO (AUT):

Prospect for employment generation through industrial development in MENA countries

Nora Aboushady, FEPS (EGY):

Do exports and innovation matter for the demand of skilled labour?
Evidence from MENA countries

Katarzyna Sidlo, CASE (POL):

The role of collaborative economy in boosting female labour market participation in the MENA region

Irmgard Nübler, ILO (CHE)

Social capabilities and the job-creating dynamics of structural transformation

Chair: *Tina Zintl, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Bonn*

15:15h Coffee break

15:45h **Panel 3: Industrial policies needed to address constraints and exploit potentials in the MENA region**

What are the most needed policies to raise the demand for labour in MENA countries? How can governments attract investments that generate employment? What is the role of regional and international integration given that some MENA countries have very small internal markets? What roles should the government, public administration, foreign investors, large-scale domestic firms, SMEs and micro entrepreneurs play in future employment-intensive industrial policies?

Inputs by: Giacomo Luciani, Grad. Inst. Geneva (CHE) / Sciences Po (FRA):
Regional integration as necessary condition for employment creation

Salim Araji, ESCWA (LBN):

How productive and inclusive is the private sector in the Arab region

Mona Said, American University in Cairo (EGY):

Promoting Gender Diversity in knowledge and technology-intensive industries in Egypt

Chair: *Georg Schäfer, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Eschborn and Bonn*

18:00h End of Workshop Day 1

19:00h Dinner for Workshop Participants

Saturday, 22 September

09.00h Welcome address, introduction into the day

By: *Georg Schäfer, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Eschborn and Bonn*

Markus Loewe, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Bonn

09.15h **Panel 4: Processes of decision-making and policy implementation for employment-intensive growth**

How should the process of industrial policy making look like in order to make it geared towards employment-intensive growth? Can embedded autonomy work at all in the institutional and political contexts of MENA countries?

Inputs by: *Ragui Assaad, University of Minnesota (USA):*

The labour market consequences of a real-estate-led development strategy: the case of Egypt

Georgeta Vidican Auktor, Univ. of Erlangen-Nuremberg (DEU) and Tina Hahn (DEU):

Industrial policy-making in Morocco. Towards a new social contract?

Chair: *Amirah El Haddad, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Bonn*

10.15h Coffee break

10.45h **Panel 4 continued: Processes of decision-making and policy implementation for employment-intensive growth**

(description see above)

Inputs by: *Marc Schiffbauer, World Bank (USA):*

First order priority of growth policies? Avoiding policy capture

Adeel Malik, University of Oxford (GBR):

Politics of trade protection in North Africa

Hany Abdel-Latif, Swansea University (GBR):

Are politically connected firms turtles or gazelles? Evidence from the Egyptian uprising

Chair: *Amirah El Haddad, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Bonn*

12.15h Lunch break

13.45h **Panel 5: Policies to provide assistance to those left behind by industrial development**

Who will still be without a decent job? How to mitigate adverse effects on losers of industrial policy reforms?

Inputs by: *Mahmood Meskoub, International Institute of Social Studies (NLD):*
The ‘growth-employment nexus’ in the MENA region

Rana Jawad, University of Bath (GBR):

Implications of the rise of non-contributory social assistance for poverty-reduction in the MENA region

Chair: *Tina Zintl, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Bonn*

15:00h *Coffee break*

15:30h **Closing discussion: Conclusions and possible products**

What lessons have we learned for creating employment through industrial policy in the MENA region? To what extent do applicable strategies differ between countries of the region? Possible formats for publicizing the conclusions (e.g., follow-up workshop with policy-makers for drafting a roadmap; academic publications like special issue or edited volume)?

Chair: *Markus Loewe, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE), Bonn*

17.00h End of Workshop Day 2

Annex 2: List of Participants

Hany Abdel-Latif, Swansea University, UK

Nora Aboushady, Cairo University, Egypt

Salim Araji, UN-ESCWA, Beirut, Lebanon

Ragui Assaad, University of Minnesota, Minneapolis, USA

Izac Atiyas, Sabanci University, Turkey

Amirah El-Haddad, German Development Institute / Deutsches Institut für
Entwicklungspolitik (DIE),

Dina Fassbender, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Bonn
and Eschborn

Jörn Fritzenkötter, German Development Institute / Deutsches Institut für
Entwicklungspolitik (DIE)

Verena Gantner, German Development Institute / Deutsches Institut für
Entwicklungspolitik (DIE)

Alaa Halaka, Hochschule für Technik und Wirtschaft (HTW), Berlin, Germany

Nobuya Haraguchi, United Nations Industrial Development Organization (UNIDO),
Vienna, Austria

Rana Jawad, University of Bath, UK

Regina Kaltenbach, German Development Institute / Deutsches Institut für
Entwicklungspolitik (DIE)

Laura Kuhnert, German Development Institute / Deutsches Institut für
Entwicklungspolitik (DIE)

Markus Loewe, German Development Institute / Deutsches Institut für
Entwicklungspolitik (DIE)

Giacomo Luciani, The Graduate Institute Geneva (Emeritus), Switzerland / Sciences Po,
Paris, France

Adeel Malik, University of Oxford, UK

Jeanna Mangold, German Development Institute / Deutsches Institut für
Entwicklungspolitik (DIE)

Michelle Marshalian, Paris Dauphine University, France

Mahmood Meskoub, International Institute of Social Studies (ISS), Den Haag,
Netherlands

Prescott Morley, Friedrich Alexander University of Erlangen and Nuremberg, Germany

Irmgard Nübler, International Labour Office, Geneva, Switzerland

Irene Pasqua, German Development Institute / Deutsches Institut für Entwicklungspolitik
(DIE)

Janna Post, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Bonn and
Eschborn

Regine Qualmann, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Bonn and Eschborn

Mona Said, American University in Cairo, Egypt

Georg Schäfer, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Bonn and Eschborn

Marc Schiffbauer, The World Bank, Washington DC

Gregor Schwerhoff, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Bonn and Eschborn

Katarzyna Sidlo, Center for Social and Economic Research (CASE), Warsaw, Poland

Mirko von Stosch, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

Zafiriz Tzannatos, Lebanese Center for Policy Studies (LCPS), Beirut, Lebanon / Amman, Jordan

Georgeta Vidican Auktor, Nuremberg Institute of Technology, Germany

Lars Wilke, German Federal Ministry for Economic Cooperation and Development (BMZ)

Fabian Winder, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)

Tina Zintl, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE)