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PAPER TRAILS...

October 2013, Discussion Note #1

Unlocking the potential for labor market arbitrage: A realistic look at Europe and MENA

In many ways, the labor market situations of Europe and the Middle East/North Africa (MENA) are mirror images of one another. While Europe faces a shrinking labor force in the coming decades, MENA is set to witness an increase in its own working age population over the same time period. Similarly, while Europe will experience a growing jobs surplus, MENA will likely continue to have difficulty providing adequate employment opportunities to its workers at home. This discussion note explores the possibilities of creating a scenario of mutually beneficial labor market arbitrage between these two regions. It observes that such a scenario cannot be taken for granted due to issues of demographic timing and incomplete worker supply/demand compatibility. However, it also stresses that generating such an outcome remains worth the effort, and the historical and geographical proximities of the two regions provide a helpful backdrop. With immediate, deliberate and coordinated actions, Europe and MENA can use one another's comparative advantages to yield the benefits of a more integrated labor market.

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ABOUT PAPER TRAILS

The International Labor Mobility (ILM) discussion note series, *Paper Trails*, provides an opportunity to highlight ongoing work, discuss emerging findings, and share ideas to build stronger migration systems. The series is intended to spur debate and discussion. To share your thoughts, please refer to contacts on the last page.

Supply, demand and the makings of a "win-win"

Demographic prospects for Europe are bleak. In 2005-50, the EU25+ countries[1] are set to experience a combined loss of some 66 million workers, marking a decline of nearly a third over the 45-year period if labor force participation rates do not change. By 2020, the population of workers aged between 25 and 39 years old is to fall by around 13 million. In the subsequent three decades, the largest drop will occur in workers aged above 40 years old, resulting in a decrease of 30 million. The most acute decline in younger segments will take place in Western Europe's current key labor source markets – namely, the new EU accession countries but also the Mediterranean member states. Countries like Poland and Spain could lose almost half of their young labor force.[2]

Meanwhile, a very different scenario is expected to unfold in MENA. While the region has witnessed a decline in birthrates since the 1980s,[3] by global comparisons it still is forecast to experience by 2050 the third largest increase in workers aged under 40 years old : at 44 million, behind only Sub-Saharan Africa (328 million) and South Asia (157 million).[4] Such countries as Algeria, Egypt, Jordan, Lebanon, Morocco, and Tunisia also will likely see jumps of around 50% or more in their populations of workers aged above 40 years old in 2005-50.[5]

Europe additionally faces a problem of ever widening employment gaps in its labor market, highlighting even further the region's need for alternative sources of labor. In 2006-15 replacement demand (due to the exit of workers for retirement and other reasons) is likely to ac-

Supply, demand and the makings of a "win-win", cont'd.

count for the better portion of projected job openings, eclipsing expansion demand (due to economic and technological evolutions) in such major EU economies as Germany, France, Italy and the UK. More than 61 million jobs are expected to become available in 2005-16, and most employment growth is to take place in services. According to CEDEFOP (2010), business and other services will generate some 7 million jobs in the decade to 2020, at which point services will account for almost three quarters of total jobs in the EU25. Medium and high-skilled segments will account for the bulk of this employment growth, with some 16 million jobs for the tertiary educated created in 2010-20, and with another 3.5 million jobs to become available at the secondary education level during this period. According to findings from the European Commission (DG Employment, 2011), demand is likely to persist in lower level occupations as well.[6]

> *"Given the polarity and complementarity of labor market needs, Europe and MENA appear to be a perfect match for labor market arbitrage."*

In sharp contrast to the European scenario, MENA job markets are likely to remain unable to make full use of their labor assets. One in two people of working age (15-64 years old) does not have a job, and is either unemployed or not active in the labor market at all. MENA also has the lowest share of employed workforce among developing (and developed) regions.[7] To meet labor force growth and absorb the large pool of unemployed, MENA would have to create nearly 5 million jobs per year until 2020. This is a difficult task, as job creation at the moment is barely keeping up with the growing labor force. Although unemployment rates are falling, they remain excessively high with the young and educated particularly effected.[8] The unemployment rate for young entrants to the labor force stands at 21% in MENA and 25% in North Africa. This especially is affecting medium and high skill levels, where labor needs in Europe are the greatest. Unemployment among tertiary educated workers is notably high in North African countries and has more than doubled in Tunisia over the decade to 2010.[9]
Given the polarity and complementarity of these labor market needs, Europe and MENA may appear to be a perfect match for labor market arbitrage, whereby MENA's unemployed skilled workers meet the demand of European employers, and growing populations in MENA satisfy gaps left by increasing shortfalls on the European market. The likelihood of such a mutually-beneficial pairing seems even greater when we consider MENA's geographical and historical connections to Europe. MENA workers have benefited from the relatively close proximity of wealthy European economies, which generally has reduced migration costs. They also have moved along former colonial ties, thus minimizing the significant linguistic and cultural barriers that usually face migrants. In 2000-03, the EU plus Norway and Switzerland had the second highest number of migrants from MENA (42%), just behind the GCC and other Arab countries (45%).[10] In 2000 more than half of North Africa's migrants and about 75% of Maghreb migrants were in EU countries. France was the primary destination for these migrations, with more than 60% of Algerian and Tunisian migrants located in the country.[11]

Timing, talent and how the "win-win" is far from guaranteed

On closer inspection, however, a match up between Europe and MENA is not entirely clean. A major obstacle is Europe's current economic climate, which would not be receptive of a proposal to increase mobility among third-country nationals. This is largely because migration has become a highly politicized subject during the ongoing euro-zone crisis, with unemployment hovering at 10.5% in the EU27, 22.9% among young (under 25 years old) European workers, and 25% in such countries as Spain in 2012.[12] Domestic solutions that simultaneously alleviate unemployment and respond to labor market shortfalls will remain the most attractive to European voters, particularly since a few such options actually do exist. Europe could increase participation rates to those of other industrialized countries like Switzerland and the UK, increase the participation of women to levels comparable to that of men, and increase the participation of older segments of the labor force by raising the retirement age. So encouraging greater international labor mobility is not the first option for Europe to consider for tackling its impending demographic difficulties.[13]

Timing, talent and how the "win-win" is far from guaranteed, cont'd.

Further complicating the case for increased immigration, particularly from MENA's perspective, is the fact that most of the region's workers are likely to be ill-prepared for the higher skilled jobs that Europe will need the most. MENA countries still have not reached the level and quality of human capital seen in more dynamic emerging economies. Findings from the OECD and the Trends in International Mathematics and Science Study indicate that secondary school graduates in MENA are more likely to enter higher education with much lower cognitive skills than their peers in the OECD or South East Asia. Similarly, according to a UNDP-UNESCO regional study (2005) that compared graduates and computer science university programs across several Arab countries and the US on the basis of standardized international tests, the average performance of Arab students was well below the general average observed among Americans. The university system in MENA needs attention too, as it tends to emphasize studies in the humanities and social sciences, at the expense of the technical, scientific and business training European employers value and need. It also fails to promote the inquiry-based learning, problem-solving, and critical thinking that most educated European workers receive before entering the job market. Combine this with the fact that young MENA workers often lack necessary technical skills, soft skills, and relevant professional experience, and it seems that the possibility for a true supply-demand match up is quite low at the moment.[14]

Since it would be very difficult for a scenario of labor market arbitrage to arise organically, policymakers would have to take a concerted effort to develop the necessary elements for making such a scenario a reality. They also would have to act quickly. Europe is in high need of workers to fill widening gaps on its labor market, and MENA will require job opportunities for a growing labor force that it cannot accommodate on its own. In order for a match up to be feasible, MENA workers would have to be trained to European standards and possess the hard and soft skills that make them competitive against other groups on the international labor market. Elevating the skill levels of these workers would take time, as would developing the institutions necessary for providing this training. Thus aligning a match up would not be an automatic process, nor would it be easy.

Why aligning a match up remains necessary

The difficulties involved in encouraging a scenario of labor market arbitrage between the two regions should not suggest that this is an impossible outcome, nor should they make it seem that this is a project that is not worth pursuing. Orchestrating a match up would deliver crucial benefits to Europe and MENA, and its value should not be underplayed. For Europe, such an arrangement would provide a necessary supplement to any domestic efforts to combat the upcoming demographic crisis, since such responses cannot offer durable solutions on their own. Individually, measures to increase participation among the entire workforce, women, and older segments would not provide nearly enough firepower to plug the gap of 66 million workers required by 2050. Implementing all three measures together could have a considerably stronger effect. However, this is not entirely feasible, since it would require (among other difficult measures) lifting the retirement age by about ten years, which is not likely to be welcomed. It also would do nothing to address the problem at the heart of the demographic crisis, which remains an aging European population. So no matter what, Europe still will have to source workers from beyond its borders.[15]

"The reality is that orchestrating a match up would deliver crucial benefits to Europe and MENA, and its value should not be underplayed."

For MENA, increasing labor mobility would address unemployment pressures while providing triggers for the implementation of necessary growth-inducing reforms. This particularly would come by raising the standards of education and training so that they converge with those found in Europe. Doing this would provide more immediate and long-term benefits. In the shorter term, it would facilitate the entry of MENA workers on the European job market. In the longer term, it would allow these workers to receive superior training during their time in Europe, increasing the possibility and impact of knowledge transfer if they return for work back home.

The road ahead: how to make this valuable match

In order to take advantage of the potential win-win that sits before them, Europe and MENA need to take immediate, deliberate and coordinated actions. For Europe, this means creating demand-driven immigration schemes that reflect those of the more successful immigration countries like Australia, New Zealand, Canada and the US. This requires implementing policies that focus less on political factors like family reunification, asylum and human rights, and more on the demands of employers and longer-term assessments of skill shortages. It also demands that Europe become a better place to innovate, start a business and reward risks. This can be accomplished by increasing the number of contestable jobs and reforming social safety nets.[16] Finally, Europe would have to enhance its mechanisms that encourage migrant integration, improve the portability of social protection, and create financial services that facilitate transnational investment.[17]

For MENA significant investment would be required to raise the quality of education and training to meet European standards. This would be best undertaken in close coordination with European policymakers, employers, and regulators to ensure that skills are developed in the specializations and to the levels that have value on the European market. MENA also may want to pursue partnership agreements with European countries (particularly at the sectoral level) to facilitate the placement of its workers, in addition to creating incentives to encourage return home and to trigger virtuous circles of human capital investment.[18] Over all, the region will have to invest considerable effort into increasing the competitiveness of its workers, especially since it already faces competition from more-developed labor exporting markets, such as those in East Asia.

Finally, change must take place immediately, especially in MENA. As mentioned earlier, it will take time for MENA to devise and implement the reforms needed to raise training outcomes to competitive standards. It will take even more time for policymakers to see returns on these actions, since training institutions will need to integrate these changes into their curriculums, and since students will require several years of education before they are ready for consideration by European employers. Policymakers on both sides of the Mediterranean should act as quickly as possible to make sure that results are delivered sooner rather than later, and that this opportunity for a match up is not wasted.

Conclusions

Orchestrating a scenario of labor market arbitrage between Europe and MENA may not provide an easy solution to the challenges that the two regions face. However, both have incentives to undertake and facilitate this process in order to access benefits that currently remain locked. Complementary labor market needs already make Europe and MENA good candidates to exploit the comparative advantages that they offer one another. Most importantly, intersecting histories and geography lay the groundwork for the cooperation required to ensure that this match up translates fully into a win for both sides. Aligning this match up will require immediate coordinated actions from the two regions. Otherwise, the opportunities bound in this unique scenario may be lost forever.

Contacts:

For more information on this topic or the International Labor Mobility Program, please visit our website (cmimarseille.org/migration) or email us at ilmprogram@worldbank.org.

Notes:

1 Refers to the EU25 plus the Channel Islands, Iceland, Norway and Switzerland.
2 World Bank 2009, 53 and 62.
3 Fargues 2005, 4.
4 World Bank 2009, xvi.
5 World Bank 2012, 86.
6 Ibid 86-87; ILM 2012.
7 World Bank 2009, 7-8.
8 Ibid, xx.
9 World Bank 2012, 88.
10 World Bank 2009, 17.
11 World Bank 2012, 86.
12 Eurostat.
13 World Bank 2009, 62-63.
14 World Bank 2012, 89; ILM 2012.
15 World Bank 2009, 63-64; Gill and Raiser 2012, 293.
16 Gill and Raiser, 337.
17 World Bank 2009, xxii-xxiii.
18 Ibid, 84-86.

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