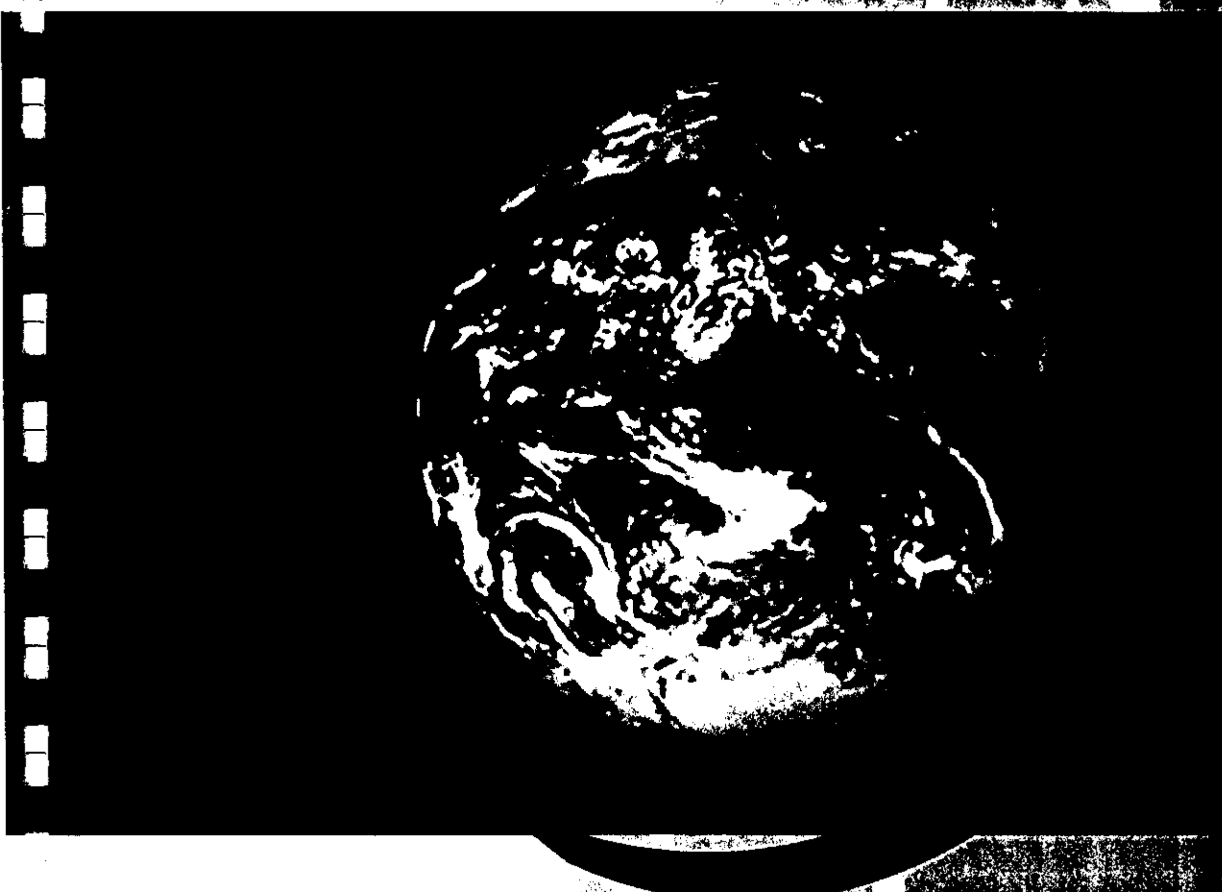
Economic and Social Commission for Weste

الجمهورية اللبنانية
مكتب وزير الدولة لشؤون التنمية الإدارية
مركز مشاريع ودراسات القطاع العام

GLOBALIZATION AND LABOUR MARK IN THE ESCWA REGI



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Center for Public Sector Projects and Studies
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ABBREVIATIONS

ALO	Arab Labour Organization
ASEAN	Association of South-East Asian Nations
CSOs	civil society organizations
ECLAC	Economic Commission for Latin America and the Caribbean
ERF	Economic Research Forum for the Arab Countries, Iran and Turkey
ESCWA	Economic and Social Commission for Western Asia
EU	European Union
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
GCC	Gulf Cooperation Council
GDP	gross domestic product
GNP	gross national product
ICTs	information and communication technologies
ILO	International Labour Organization
IMF	International Monetary Fund
IT	information technology
LE	Egyptian pounds
MEA	Middle East Airlines
MENA	Middle East and North Africa
NAFTA	North American Free Trade Agreement
NGOs	non-governmental organizations
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
QIZ	qualifying industrial zones
R and D	research and development
S and T	science and technology
SEs	small enterprises
SMEs	small and medium enterprises
TNCS	transnational corporations
TRIMS	Trade-Related Investment Measures
TRIPS	Trade-Related Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations Children's Fund
USAID	United Nations Agency for International Development
WEF	World Economic Forum
WTO	World Trade Organization

INTRODUCTION

This study is a preliminary attempt to focus the attention of policy makers in the Economic and Social Commission for Western Asia (ESCWA) region on the implications of the globalization process for the socio-economic situation in the region and, in particular, the future of their labour markets.

Over the past 20 years, State social welfare policies played an integral role in delaying the need for restructuring. But the extent to which policies can prevent the impact of the socio-economic changes resulting from globalization and rapid technological change is debateable. Globalization will undermine the ability of countries to maintain existing levels of social provision. A minimal State role in the production sectors, greater reliance on private initiative, increased openness and greater integration into the world economy are currently envisaged. Globalization is not only exacerbating social exclusion, but is also hampering the ability of Governments to implement policies to soften its negative impact.

The study identifies targets to be pursued. The role of education and knowledge is stressed. Globalization is considered as a positive, exogenous force aimed at encouraging integrated regional socio-economic policies on employment, skills development, investment and trade.

I. THE PROCESS OF GLOBALIZATION

A. DEFINITION

Box 1. Defining globalization

There are many dimensions to globalization, including the economic, political, social, cultural and environmental. Limited versions of the phenomenon have existed for centuries. Here, however, the term refers to new patterns of global trade, investment and finance and, more specifically, flexibility in the design, manufacture, production and sale of goods and services around the world. The allocation of various phases of the product or service cycle to different countries encourages specialization in order to benefit from economies of scale. Globalization means efficiency: the efficiency of the marketplace and the standards that result from its application. In a debate held during the 6th plenary meeting of the General Assembly of the United Nations, it was stated: "Everything seems to indicate that globalization is inevitable, that it is a fact of life and not an option. It is a positive force of global proportions, not a negative one, but in some circumstances it can act blindly. To avoid that possibility it must be very carefully channelled at the national and international level.

There is no doubt that globalization is the most important socio-economic phenomenon of this generation. With every day that passes, trade, technology and the information age erode our national boundaries and transform our planet into an enormous metropolis, which is wired together by the Internet".

While there is no formal consensus on the definition of globalization, there is broad agreement that globalization is a form of accelerated transnational economic activity that finds expression in the increased movement of information, capital, goods and services. It is a dynamic process, rather than a phenomenon, that involves and transforms many aspects of financial, technological, economic, social, cultural and geopolitical activity. This process is being institutionalized by an international policy of openness and enforced by international agreements on trade, technology and capital movements whereby millions of decision makers influence prices and allocate resources, including labour, in a manner that erodes the control of national authorities.[1]

Recent studies suggest that globalization involves more than commitment to trade liberalization because of its integrated, technology-driven nature, which involves computerization, miniaturization, digitization, satellite communication, fibre optics and the Internet. Globalization entails the spread of free market capitalism to every country in the world and implies that the degree to which market forces rule and the economy is open to free trade and competition dictates the efficiency and success of an economy. However, globalization is far too complex a system to be explained by theories alone. Of its many dimensions, the economic aspect is the most illuminating. Here, three basic components are involved. The first is the extent of the economic liberalization spreading across the globe; the second is the acceleration of scientific and technological innovation in information and communication technologies; and the third is the interdependence of the first two.

With regard to the first component, globalization is spreading rapidly across countries, irrespective of income level. Prior to 1970, only goods and services and, to a lesser extent, capital, crossed borders. Today, most production factors are being exchanged, including technology, skills and financial flows, which are all becoming increasingly mobile and creating an economic geography that subsumes the existing boundaries of countries.[2]

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[1] This is stated more simply in the United Nations Development Programme (UNDP) *Human Development Report 1999*, which describes globalization as being more than the flow of money or commodities: it is, rather, a manifestation of the growing interdependence of the world's peoples. Globalization is best seen as the process of integrating economy, culture, technology and governance through a series of rapid exchanges. Such exchanges, which are taking place against a background of liberalization, deregulation and privatization, have increased so greatly in the past few years that they have changed the way decision-making power is distributed in the world economy.

[2] It is estimated that less than 2 per cent of the foreign exchange that is traded on financial markets is used for trade payments. Martin Khor, "Globalization and the South: Some critical issues", United Nations Conference on Trade and Development (UNCTAD) Discussion Paper, No. 147 (2000).

As for the second component, the rapid pace of innovation in communications and microelectronics is stimulating globalization in an unprecedented manner. High-tech digital techniques used by the Internet, mobile telephones and satellite networks have taken communications to a new level. Such innovations facilitate the universal exchange of ideas, goods and services and are the most visible aspect of globalization. Transactions that formerly took weeks to complete and required a cumbersome infrastructure are now processed in a fraction of a second. This has created an integrated communications network that is affecting the economic, political and cultural life of every society.

The third component relates to the interdependence of the first two. Technological innovations have so greatly facilitated capital flow that a global stock market has been created. This functions 24 hours a day and moves an increasing volume of capital from one location to another: it is estimated by the *Wall Street Journal* that US$ 1.5 trillion moves about the globe every day. This has led to the increasing interdependence of companies, irrespective of location. Such a process can only lead to a globalized world and a global society that must, in order to survive, continuously produce new forms of social organization, knowledge and expertise. It is imposed on all levels of society, which must constantly adapt in order to keep abreast of global trends. The combined effects of these three components have reinforced the impact of globalization on societies throughout the world.

B. CHARACTERISTICS

The current wave of globalization is multidimensional and cuts across a variety of issues. Vertically, globalization impacts on individuals and social groups, entities and States, systems, organizations and institutions at national, regional and international levels. Horizontally, the impact is on a range of fields, including economic, social, cultural and institutional issues, civil society, sovereignty, democracy, human rights, employment, local participation and the environment.

This report will not dwell on the history of the process or the different interpretations that have been generating a growing global debate.[3] Rather the issues discussed are limited to aspects of globalization that have a direct impact on the labour force, including productivity, competition and emerging labour markets. In this context the most relevant characteristics of globalization are speed, competition, homogeneity and inequality, as outlined below.

Globalization demands that societies move faster, work more efficiently and take greater risks than at any other time in history. The new information and communication technologies (ICTs) have both increased the volume and accelerated the flow of activity at every level of society.[4] Quicker responses and faster decision-making is required in order to remain competitive. Traditional management control and coordination functions are too slow and incapable of responding in real time to the speed and volume of information coming through the Internet. In the new information age, time is the critical commodity: a year represents something akin to an eternity in cyberspace. Bringing any society up to the speed necessary for globalization is an enormous task.

The flexibility of the global system makes it easy to link everything that is of use by dominant values and interests while disregarding everything that is not relevant or has become devalued. It is this simultaneous capacity to include and exclude people, products, companies, activities or even countries that

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[3] Several international debates have taken place during the past two years, including the World Bank Globalization, Development and Poverty Online Discussion that took place in May 2000. The debate involved some 5,000 participants, mostly from developing countries which disagree with the World Bank over basic free-market principles. Contributors included scholars, development professionals, economists, activists and World Bank staff. There were some sharp disagreements over basic free-market principles. However, even the most committed neo-liberals among the contributors shared their opponents' view that, in practice, many poor countries and people are excluded from any of the benefits of globalization, and that Governments and international institutions should take steps to mitigate the negative impact of globalization on the poor and help them to access the benefits. Many gave examples on how globalization is causing a deterioration in their standard of living and resulting in their further marginalization. See globalization@worldbank.org.

[4] The time taken to reach 50 million users by information and communication technologies (ICTs), television, radio and the telephone was 4, 13, 38 and 74 years respectively.

emphasizes the importance of competition in the new global economy. Hence competitiveness, defined as the ability to sustain income growth in an open setting, can be sustained only if industries can nurture new, higher value-added activities and produce goods and services that hold their own in open global markets.

The Internet is currently the closest thing to a model for free competition: there are no barriers to entry and no protection from failure, and consumers and producers alike have direct, free access to all information. Thus, for any enterprise to "retain its edge and profit margins it is going to have to run faster, get bigger or get smarter" or risk becoming unviable overnight.[5] The only factor that distinguishes a company from its competitors is information.

The globalization of world markets creates a "winner-takes-all" situation where, in each economic sector, certain brand names dominate the global market while other, similar, products are sidelined.[6] Advertising, aided by Trade-Related Intellectual Property Rights (TRIPS) and other World Trade Organization (WTO) agreements ensure that those names maintain their dominance of the global market. This system, which is growing stronger day by day, encourages the dissemination of what can be called a "development model" which covers consumption habits, forms of production, ways of life, institutions, criteria for social success, ideologies, cultural references and even forms of political organization. Therefore, while globalization is mainly driven by economic aims, its impact extends well beyond the economy: it is forcing peoples, States, societies and cultures and civilizations that have existed for centuries to conform to a single development model.

As a consequence of the three above-mentioned characteristics of globalization, opportunities and rewards are being spread unequally and inequitably among different groups, power and wealth are being concentrated in a select group of people, nations and corporations, while all others are marginalized. This inequality is being reinforced by WTO and international agreements including TRIPS and Trade-Related Investment Measures (TRIMS). Enforcement of the TRIPS Agreement, for example, will enable multinational companies to dominate the global market even more easily, while reducing opportunities for developing countries. Such arrangements are unfair, especially when it is taken into consideration that, in the past, developed countries had a much freer environment when setting up their own national industries[7] (see box 2.9 in the United Nations Development Programme (UNDP), *Human Development Report 1999*).

The unequal benefits of globalization have fuelled heated arguments over the past few years, and led to vociferous protests being staged during conferences including, *inter alia*, the Third WTO Ministerial Conference, held in Seattle in December 1999. Non-governmental organizations (NGOs) and other civil society organizations are demanding a more equitable share for developing countries through fairer trade terms, debt forgiveness and the levying of taxes such as the Tobin tax[8] on major beneficiaries, including multinational corporations, in order to fund social development.

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[5] Thomas L. Friedman, *The Lexus and the Olive Tree* (New York, Farrar, Straus and Giroux, 1999), p. 67.

[6] "In this global village, the top players—those who can deliver the best product—can earn enormous profits. While those with only marginally inferior skills will often do much less well and those with few or no skills will do very poorly. Therefore the gap between the first place and second place grows larger and the gap between first place and last place becomes staggering... The more that different market get globalized and become winner-take-all markets, the more inequality expands within countries and between countries" (Robert H. Frank and Philip J. Cook, *The Winner-Take-All Society* quoted in Friedman, op. cit., p. 250).

[7] Branko Milanovic, in "Income, inequality and poverty during the transition from planned to market economy" (World Bank, 1998), quoted in the *United Nations Research Institute for Social Development (UNRISD) News* No. 22, Spring/Summer 2000, states that both intra- and inter-country inequality rose during 1988 and 1993, with the latter growing most. The average income of the top 5 per cent of the world's population, which was 78 times greater than that of the bottom 5 per cent in 1988, was registered as 114 times greater in 1993. The bottom 5 per cent grew poorer, while the richest quintile gained 12 per cent in real terms. That is more than twice the increase in mean world income. The richest 1 per cent of people in the world received as much as the poorest 57 per cent.

[8] First proposed by James Tobin in 1978 as a small tax to be levied on foreign exchange transactions in order to deter short-term currency speculation. With the rise in capital transactions in the 1990s, the idea gained momentum. It is estimated that if a 0.25 per cent tax were to be levied on transactions larger than US$ 1 million, the tax would yield between US$ 150 and 300 billion annually. Such a sum would be enough to eradicate all forms of poverty and environmental destruction throughout the world.

The widening income gap is a product of the "winner-takes-all" phenomenon, whereby the winners dominate the global market while others are restricted to selling only in their own, much less lucrative, local markets. The unprecedented openness and opportunity for mobility enables, encourages and in many ways requires companies, industries and professionals to compete for dominance the global market. Globalization, by opening up the global market and ensuring that it is dominated by a handful of actors, is playing a significant role in spreading inequality. This will be discussed further in chapter II.

C. THE NEW GLOBAL ECONOMY

It is evident from the above that globalization is creating a new global economy that differs vastly from the traditional economy depicted in classical economics. It is evolving rapidly, and its architects continuously add new rules and introduce new measures and requirements. The new rules of globalization are being shaped by the multilateral and other agreements currently being negotiated, including TRIPS, TRIMS and General Agreement on Trade in Services (GATS) on which the developing countries, that comprise more than 80 per cent of the world population, have little influence. Many such countries have difficulty in comprehending the new rules or even in ensuring representation at meetings, while the agreements themselves are binding on national and highly restrictive Governments.[9] For example, in the past, most developing countries exempted agricultural, medicinal and other products from national patent laws. However, under TRIPS,[10] almost all knowledge-based production is subject to tight, internationally unified intellectual property protection. Furthermore, that Agreement is unbalanced: it provides an enabling environment for transnational corporations (TNCs) and tightens their technological dominance while increasing the cost of acquiring new technologies and therefore limiting developing countries' potential to develop and compete in such industries as pharmaceuticals.[11]

As globalization advances and the new forms of organizational structure emerge, the classic economic indicators are not able to serve their original purpose. New indicators are emerging to take their place, but have not yet been fully developed by the international community. There is for example, a tendency to use the terms "fast world" and "slow world" in order to describe the division between developed and developing countries. The new methodology for measuring the readiness of a country for globalization does not depend on gross domestic product (GDP) but, rather, on a new form of accounting that measures a country's readiness to change. GDP is no longer sufficient, because it does not reflect sources of growth. Countries are currently graded on the quality of their governance, judicial system, disputes settlement procedures, social safety nets and rule of law rather than their income level. Other new competitiveness indicators relate to the degree of connectivity, level of computer literacy and legal aspects including the laws that regulate trade, the corporate laws that facilitate capital flows and taxation incentives to encourage the establishment of new companies.

In order to optimize global employment, two factors are of the utmost importance: skills and flexibility. Skills are a vital resource in the new information age, while labour flexibility means mobility, low segmentation and minimal regulation and can be critical in attracting foreign direct investment (FDI) and increasing competitiveness. There is a need to develop methods to measure such indicators for countries in transition. Moreover, the complementarity of those two factors should be taken into consideration because skills are insufficient without flexibility and vice versa.

Europe and the United States of America offer good examples of such complementarity. Europe has the competitive advantage in skills but has rigid labour markets. As a result, it is less competitive than the United States. European countries are less flexible because of their expensive welfare systems. With the

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[9] UNDP, op. cit., p. 35.

[10] On history of Trade-Related Intellectual Property Rights (TRIPS), see UNRISD, "ICTs and social development. The global policy context", discussion paper, October 1999. For impact on ESCWA countries, see *Proceedings of the Expert Group Meeting on the Challenges and Opportunities of the New International Trade Agreement WTO for ESCWA Member Countries in Selected Sectors* (E/ESCWA/ED/1999/12).

[11] UNDP, op. cit., p. 69.

exception of the Netherlands, where the official unemployment rate is 4 per cent,[12] unemployment in Europe is about double that in the United States and periods of unemployment are longer. In 1999, the Netherlands deregulated its labour market and made it more flexible: over 40 per cent of the labour force works part-time, more than 10 per cent are employed on flexible contracts and 3.2 per cent are hired through temporary work agencies.[13] Moreover, the Government has cut the period for which unemployment benefits are payable from nine years to four. It has also introduced a programme whereby jobs for young people are subsidized.[14] Tax credits are offered to those on low incomes, and increased childcare and after-school facilities to facilitate women's employment.[15] As a result, more than 25 per cent of total European Union (EU) FDI goes to the Netherlands. In addition, 57 per cent of all foreign headquarters in Europe are in the Netherlands. In 1998, the Economist Intelligence Unit survey classified the Netherlands as the country with most favourable business climate for the period 1997-2001.

Literacy is not one of the skills required for globalization: the ability to read and write is not sufficient.[16] Rather, the human resources necessary to take advantage of the information revolution are now the most important indicators. A new key yardstick of connectivity is computers per household and percentage of people online. Sub-Saharan Africa is the only region in the world where connectivity is lower than in the ESCWA region.

The following section introduces the main players that are emerging in the new global economy, namely, TNCs, FDI and communication technology. The declining role of national Governments will also be highlighted.

D. NEW PLAYERS

In the global age transnational companies, pension funds, banks, the Bretton Woods institutions and the WTO[17] have acquired overwhelming influence. The International Monetary Fund (IMF), for example, has been assigned the task of overseeing the functioning of the international monetary system. The World Bank has special responsibility for development strategies and projects and for helping developing countries to reduce the poverty generated by globalization, while the WTO is responsible for dealing with global trade rules with the principal objective of ensuring that trade flows as smoothly, predictably and freely as possible.

Within this framework, globalization produces three types of players, namely, those who globalize, or initiators of globalization, those who are globalized and lastly, those who are left out of globalization. This subdivision can apply to countries, regions, subregions and even individuals. According to the new rules set forth in multilateral agreements, those who globalize, namely, TNCs and their ancillary networks of small and medium businesses, concentrate on capital resources, knowledge and the control of information. Those who are globalized are information-poor and knowledge-poor consumers of the products of globalization. Those who are left out have little or no access to information and knowledge, no absorptive capacity as consumers and are irrelevant to technological production. This segmentation and division of both societies and the entire international community is becoming more and more accentuated. Individuals and groups of

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[12] Lauren Comiteau, "Europe's jobs challenge", *Time Europe*, 8 May 2000.

[13] Netherlands Foreign Investment Agency. "The Dutch workforce: How flexible is it", *Labour Flexibility in the Netherlands*, 2000, available at www.nfia.com/flexlabor. See also United States Embassy, "Netherlands Investment Climate Statement", United States Embassy, the Netherlands, Economic Section, August 1999.

[14] The United Kingdom has followed a similar path by enacting the "New Deal" programme that includes four-month intensive jobs counselling that leads to a subsidized private sector job, a public sector job or entry into full-time training or education.

[15] Lauren Comiteau, op. cit., http://www.nfia.com/flexlabor/hague.html.

[16] An indicator for globalization in a developed country is computer literacy, while the ESCWA region still suffers from basic illiteracy. Computer literacy is vital if the technological gap in the region is to be closed. Technical and vocational training must be improved.

[17] UNCTAD, which is mandated to assist developing countries in trade negotiations, does not have the global influence of the International Monetary Fund (IMF) or World Trade Organization (WTO). Its position on global governance tends to be sidelined at international forums.

these three types of players exist in every country. Those who globalize are and will probably remain a minority, but their influence will be felt by other societies.

1. *The role of TNCs*

International production is at the core of the globalization process. TNCs currently comprise over 500,000 foreign affiliates established by some 60,000 parent companies.[18] In recent years the number of TNC affiliates has more than doubled: from around 200,000 in 1994 to more than half a million in 1998. Over the same period, the sales of foreign affiliates increased from US$ 6.6 trillion to US$ 11.4 trillion. The global reach of TNCs is extending not only through direct control of affiliates but, increasingly, through joint ventures, strategic alliances, mergers and acquisitions, subcontracting and outsourcing. On the basis of data on FDI stock, it would appear that most international production in developed countries is increasingly geared to high-tech services, while most international production in developing countries is in manufacturing. This trend reflects changes in the structure of the world economy, the varying competitive advantages of companies, the locational advantages of different countries and the responses of TNCs to globalization.

2. *The role of FDI*

Before 1980, the Governments of many developing countries and many development economists had considerable reservations about and mistrust of foreign investment. With the stagnation and subsequent decline of official development assistance (ODA) to developing countries during the 1980s, there has been a growing tendency to view foreign investment more positively. During the 1990s, the inflow of private capital gained momentum and became the most prominent source of development finance for developing countries. Private capital inflows replaced both ODA and lending by the international financial institutions as the primary source of foreign investment, and FDI became the most important source of private financing. By 1999 global FDI outflows reached US$ 800 billion, an increase of 16 per cent over 1998. The indications are that FDI in 2000 may well surpass the US$ 1 trillion.[19] Developing countries' share decreased from 38 per cent in 1997 to 24.5 per cent in 1999. In the Western Asia region, FDI amounted to US$ 6.7 billion, a mere 0.8 per cent of global FDI, while the Economic Commission for Latin America and the Caribbean (ECLAC) region received US$ 74 billion.

TABLE 1. REGIONAL AND GLOBAL FDI INFLOWS, 1987-1992 AND 1993-1998 (ANNUAL AVERAGE)
(*Billions of US dollars, percentages*)

	1987-1992	1993	1994	1995	1996	1997	1998	1999
World total (absolute figures)	159	219	256	332	378	473	680	865
Percentage distribution								
Developing countries	22.1	35.9	39.9	32.3	37.7	37.1	25.8	24.0
Latin America and the Caribbean	7.8	9.1	12.4	10.0	12.9	14.7	11.1	10.5
South, East and South-East Asia	12.3	25.0	25.1	20.7	22.8	20.6	13.2	11.1
Africa	1.9	1.6	2.1	1.3	1.6	1.6	1.2	1.0
ESCWA member countries	0.8	1.6	0.8	-0.3	0.1	0.9	0.7	0.8

Source: United Nations Conference on Trade and Development (UNCTAD), op. cit., and *World Investment Report 2000*.

The inflow of FDI to a developing country is conditional on a stable macroeconomic environment, suitable legal infrastructure, strong technological capacity and skills. Because FDI participates directly in the production process, its role goes beyond providing financial resources to direct participation in the productive sectors of an economy. Its advantages range from the transfer of technology, expertise management and marketing techniques to its positive impact on productivity, efficiency and the

[18] The annual revenues of the top five corporations were more than double the total GDP of the 100 poorest countries (see table 5.1 in UNRISD, "Visible hands", Geneva, 2000, p. 77).

[19] UNCTAD, *World Investment Report: Foreign Direct Investment and the Challenge of Development*, Geneva, 1999.

competitiveness of exports in world markets. It also creates more and better employment opportunities. Factors that impede the flow of FDI include high transaction costs, namely, the cost of establishing and operating facilities, importing and exporting goods and services, paying taxes and bribes and generally dealing with the authorities. All other things being equal, such costs significantly affect the competitive position of a host country. An important part of any competitiveness strategy thus consists of reducing unnecessary and wasteful business costs, including administrative and bureaucratic costs. Moreover, attracting FDI requires not only that transaction costs be lowered, but that they be benchmarked against those of other competing host countries.[20]

Box 2. The role of TNCs and FDI

The role of TNCs seen through their operations

In 1997, the world's 100 largest non-financial TNCs together held US$ 1.8 trillion in foreign assets, made foreign sales of products worth US$ 2.1 trillion and employed some 6 million persons in their foreign affiliates. They accounted for an estimated 15 per cent of the foreign assets of all TNCs and 22 per cent of their sales. Close to 90 per cent of these companies are from countries in Triad including Europe, Japan and the United States, while only two are from developing countries, namely, Venezuela and South Korea. Automotive, electronics, electrical equipment, petroleum, chemicals and pharmaceuticals are the dominant industries in which they operate.

On the production side, the value of the output of parent TNCs and foreign affiliates represents 25 per cent of global output. One third of that output is produced in host countries. Foreign affiliate sales of goods and services in domestic and international markets were worth some US$ 11 trillion in 1998, compared to world exports worth almost US$ 7 trillion in the same year. International production is thus more important than international trade in delivering goods and services to foreign markets. In the past decade, both global output and global sales of foreign affiliates have grown faster than world GDP.

In 1998, FDI flows to all countries rose by nearly 40 per cent to US$ 644 billion, with a further rise in 1999 to US$ 800 billion. Most of this FDI was in developed countries and mainly reflected the rising volume of mergers and acquisitions. The flow of FDI into developing countries in 1999 fell from US$ 173 billion to US$ 166 billion. Nonetheless, FDI in emerging markets has been remarkably stable compared with the decline in bank lending. It is likely to account for as much as 75 per cent of all the external financing available to developing economies in 1999, and according to the Institute for International Finance, is replacing ODA. Five emerging markets account for 55 per cent of all FDI flows to developing countries, while the 48 least-developed countries share just 1 per cent of the total.

Increasingly, FDI is being geared towards technologically intensive activities and technological assets are becoming ever important to TNCs in maintaining and enhancing their competitiveness.

Innovation and research and development (R and D) are at the heart of the ownership advantages that impel companies to engage in international production. On the basis of data for Japanese and international TNCs, it seems that parent companies undertake the bulk of R and D. Affiliates tend to spend much less on R and D, especially in comparison to the R and D expenditures of their host countries, notable exceptions being Ireland and Singapore. These factors limit the proportion of R and D allotted to developing countries.

Source: UNCTAD. Annual trade and development reports and *World Investment Report 1998, 1999* and *2000*.

It is therefore clear that TNCs, aided by FDI, are the principle drivers of the globalization process. A striking feature of the new environment is the fact that TNCs will shift their portfolios of mobile assets across the globe in order to find the best match with immobile production factors. The ability to provide the latter thus becomes a critical component of the competitiveness of developing countries. Such factors include a well-developed infrastructure, skilled and productive labour, innovative capacities and the required support institutions and services. Cheap, unskilled labour remains a competitive advantage for any developing

[20] Khor, op. cit.

country, but its importance is diminishing in the new knowledge-based era. The same applies to natural resources.

3. *The role of ICTs*

Many researchers argue that globalization is not a recent phenomenon: it has been taking place since the first industrial revolution. However, the current transformation is entirely new, because it is tooled by new ICTs that are the basis for new production sources, new organizational forms and the formation of a global economy driven by technology rather than trade. As a result, by the end of the twenthieth century, the world was oriented towards computer networks, and the entire domain of human activity currently depends on information and a sequence of technological innovations that accelerates its pace by the day.[21] Many tend to equate the importance of the current digital revolution with the impact of the invention of electricity on industry.

The role of ICTs in stimulating economic development is crucial. It allows countries to skip certain stages of economic growth by modernizing their production sectors and increasing their competitiveness more rapidly than in the past, as has happened in the Asian-Pacific economies. However, countries unable to adapt to the new technological system become increasingly disadvantaged. The ability to move into the information age depends on the access of the whole society to education and its ability to assimilate and process complex information. That, in turn, depends on the education system as a whole from primary school to university, and on the overall level of cultural development, including the level of functional literacy, the content of the media and the diffusion of information throughout the population.

On the other hand, electronic commerce (e-commerce) reduces the importance of physical distance and of transportation costs as barriers to entry to international product markets, making it possible even for small companies to market their products and services around the world in a competitive manner. As a result, during the period 1995-1999, output per labour hour in the United States rose by some 2.5 per cent per annum, nearly double the average pace of the preceding 25 years. Two thirds of that increase was accounted for by information technology (IT).[22]

4. *The role of Governments*

Globalization fundamentally redefines the role and affects the operations of Governments. Government capacity to control internal financial markets is restricted because those markets are shaped by external factors that depend on information from various sources. In order to maintain some capacity to manage flows of capital and information, national Governments have tended to join forces to create such supra-national institutions as the North American Free Trade Agreement (NAFTA), the EU and other regional cooperation agencies. According to Castells,[23] such agreements serve the purpose of creating a new form of sovereignty that links States in a "network of interaction and shared decision-making that becomes the prevalent political form of the information age: the network state". With the spread of globalization,

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[21] Genetic engineering is progressing by leaps and bounds as a result of information processing capacity, and is enabling humans to unveil the secrets of living matter and manipulate life, with extraordinary consequences. Manuel Castells, "Information technology, globalization and social development", UNRISD discussion paper, September 1999. Advances in microchip technology have resulted in computing power doubling roughly every 18 months over the past 30 years. Advances in compression technology: the amount of data that can be stored on a square inch of disk surface has increased by 60 per cent every year since 1991. Meanwhile, the cost of storage capacity has fallen from US$ 5 to 5¢ per megabyte, making computing power greater and more accessible every day. Innovations in telecommunications have steadily brought down the cost of such communications and data transfers, while constantly increasing the speed, range and amount of information that can be transmitted. As a result, the information revolution will eventually be viewed as one of those great leaps forward in technology, like the discovery of electricity, which represent a fundamental break with the preceding era. For more information on the growth and impact of ICTs, see A.A. Kubursi, "Sustainable human development under globalization: The Arab challenge", *Human Development Studies Series No. 10* (E/ESCWA/SD/1999/5).

[22] S. Oliner and D. Sichel, "The resurgence of growth in the late 1990s: Is information technology the story?" *Journal of Economic Perspectives*, vol. 14, No. 4 (2000).

[23] Castells, op. cit., p. 5.

multinational companies are beginning to undermine the power of Governments. In the global economy, where transactions are largely beyond the control of States, the capacity of Governments to direct their economies is restricted and territorial boundaries are made largely irrelevant by the technological revolution in transport and communications.

The new international trade agreements transfer an increasing amount of political power away from the nation State to TNCs. According to Rifkin,[24] the WTO, NAFTA and Maastricht Treaty reflect the changing patterns of power in the global community. Under these agreements, hundreds of laws governing the affairs of sovereign nation States become void if they compromise the freedom of TNCs to engage in international trade. This erosion of the role of the State has created a hiatus in international politics. It is becoming increasingly clear that nation States have to be supplemented or in some respects replaced by global bodies capable of dealing with global problems, including the global environment and economy, global inequalities and the globalization of cultures.[25]

In the new era, the role of a Government evolves according to the degree of its country's integration into world markets. During the initial or restructuring stage, when the country is opening up to globalization, strong fiscal measures are required in order to encourage the private sector to assume the leading role, reduce the welfare role of the State and build the institutions required in order to attract FDI. In order to ensure successful integration into globalization, Governments should focus on the following key factors: transparency, standards, control of corruption, and the freedom of the press, in order to allow for the free flow of information and an independent judicial system. Once the country has been integrated into global markets, the role of the Government changes to one of maintaining competitiveness by erecting the flexible legal and tax frameworks necessary for rapid expansion. During this phase, Governments are responsible for regulating markets, encouraging enterpreneurship and competition and eliminating bureaucracy, as well as ensuring the provision of education and health services to the poor. In the age of globalization, what counts is the quality, rather than the size of the State: the quality of its legal and financial systems and economic management.

The challenge for the Governments of countries that have become integrated into the globalization process is to narrow income differentials and instability caused by globalization. Most of the traditional functions of the State, with the exception of the redistributive functions, can be carried out by the private sector or through the market. Redistributive functions include the collection of an appropriate proportion of profits and its redistribution among the population according to some criterion of public interest, common welfare and social needs. There is a vital need to provide education, healthcare and income maintenance for the needy. In future, as globalization exacerbates inequalities, such functions will become more and more essential to the maintenance of social stability.

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[24] Jeremy Rifkin, *The End of Work. The Decline of the Global Labor Force and the Dawn of the Post-Market Era* (New York, Tarcher/Putnam, 1995), p. 237.

[25] Cynthia Hewitt de Alcantora, *Global Vision* (Blackwell, Oxford and Cambridge, 1996), p. 65.

II. GLOBALIZATION AND THE GLOBAL LABOUR FORCE

A. ADVANTAGES AND DISADVANTAGES OF GLOBALIZATION

Box 3. Globalization and social exclusion

Globalization is creating extraordinary new opportunities, which have been the major driving force behind the accelerated growth of the world economy. Yet the inequality of opportunities has been just as exceptional, both within and between countries. It is now becoming evident that the benefits are not reaching a sufficient number of people. Many parents who have achieved a decent standard of living are afraid that their children may not have a better life than their own. In many countries increased global competition has led to job losses, or to flexible employment arrangements that are often less secure and provide fewer social benefits than full-time jobs. In addition, the volatility of capital movements is resulting in financial and economic crises that lead to sharp rises in unemployment and poverty. All these factors are contributing to a growing sense of insecurity, which accounts for the resistance to globalization by many countries and groups of people in different parts of the world.

Source: International Labour Organization (ILO), *World Labour Report: Income Security and Social Protection in a Changing World* (ILO, Geneva, 2000).

Generally speaking, globalization has increased opportunities for wealth creation, albeit its rewards seem to be reserved for the strongest economies. Assisted by rapid, low-cost communications, globalization spurs productivity and innovation. It also stimulates competition between countries by enhancing efficiency and upgrading human capacities. Consequently, the benefits of globalization are mostly gains in productivity, promoted by the efficient allocation of resources worldwide. This situation may enable many previously powerless economic groups to improve their incomes. The computer literate, for example, may pull ahead of those who cannot adapt to the pace of change in IT.

While the advantages of globalization appear to be purely monetary and reserved for the strongest economies,[26] the disadvantages are much more diversified and cover a wide range of economic and social aspects. The negative social impact of globalization differs according to the socio-economic development of the country or region under consideration. In developed regions, globalization and the rapid introduction of technology brings an increase in the number of stress-related health problems, including depression, tension and anxiety. Social problems include lack of privacy, alienation, erosion of cultures that do not fit the "ideal model" and social tension resulting from the increased polarization of societies.[27] Among the less-skilled workforce, globalization will result in low wages, a frenetic pace set at the workplace, a rapid rise in part-time contingent work and increased long-term unemployment that breeds crime and violence.[28] When the impact is on affluent and unskilled living in the same area, the affluent increase their demands for personal security and avoid contact with the less fortunate.[29]

In developing countries, the negative economic consequences of globalization are both more intense and accelerating. Inflation, devaluation, financial volatility and economic insecurity are all potential threats, because FDI, portfolio investment, foreign loans and speculative funds are the major categories of foreign capital flow. Furthermore, these countries are economically insignificant on the global market and are

[26] The benefits of globalization are spreading very fast in developed economies, and, in particular, in the Triad economies, which are now enjoying growth at rates expected to quadruple living standards within a generation. UNCTAD. *World Investment Report: Foreign Direct Investment and the Challenge of Development*, Geneva, 1999.

[27] A study by the International Labour Organization (ILO) entitled, "Mental health in the workplace: introduction" (October 2000), researches such syptoms in Europe and the United States and finds that mental health in the world of work is in peril.

[28] UNDP, *Human Development Report 1999*.

[29] Rifkin, op. cit., pp. 210-214.

vulnerable not only to the decisions of the institutions which determine the volume and timing of capital flows, but also to the manipulative activities of some of the speculative global players.[30]

The likely social consequences of globalization in developing countries are not yet clear. The mix of creation and destruction inherent in growth becomes more pronounced with the acceleration of globalization, and there are likely to be winners and losers throughout any society. The major social disadvantages posed by globalization include widening income inequality, where the wealthy few become wealthier but the majority grow poorer (polarization); the marginalization of those who are unable to benefit; the spread of conspicuous consumption in a tiny minority, exacerbating tension; the social exclusion of the unskilled and the further stratification of societies; the volatility and vulnerability of markets to external forces and their negative economic implications; growth of the black economy and illegal activities related to drugs, money laundering and corruption; and the erosion of the welfare state as a result of financial pressures. In consequence, certain trends may be detected, including an increase in inequality between countries in general. While inequalities in some countries, including India, the countries of the Asian-Pacific region and Spain have decreased, in others, including the United States, the United Kingdom and Brazil, they have increased. Polarization is on the rise everywhere.[31] In 1994, the ratio of the income of the top 20 per cent of the world's population to that of the bottom 20 per cent jumped from 30:1 in 1960 to 78:1. Meanwhile, the personal assets of the top 300 billionaires worldwide are greater than the combined annual income of the countries with 50 per cent of the global population.[32] Consequently, the number of people living in poverty has increased significantly everywhere, and the section of the population living in extreme poverty is becoming the fastest-growing segment of the population in almost every country.[33]

As already mentioned, marginalization is a serious problem, particularly in developing countries. There is a widening gulf between countries which are able to benefit from globalization and those which are not benefiting or are finding it difficult to globalize. By the late 1990s, the richest fifth of the world's population controlled 86 per cent of world GDP, 82 per cent of world exports, and 68 per cent of FDI, compared to a mere 1 per cent respectively for the poorest fifth.[34] If this trend continues, globalization will yet further widen the economic gap between the globalizers and other countries.

B. THE EMERGING GLOBAL WORKFORCE

In debates on the nature and activities of the new global workforce being created by globalization, views are polarized. One school of thought claims that the third industrial revolution will create more job opportunities than it eliminates and that dramatic increases in productivity will be matched by elevated levels of consumer demand and new global markets that will absorb the deluge of available new goods and services.[35] Critics, however, are beginning to question how new jobs will be created. In the past, the slow process of absorbing new technologies has secured job opportunities in developing countries for many generations.

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[30] Capital may be withdrawn overnight, leaving people jobless, as happened in East Asia in 1997, when all countries reported erosion of the social fabric and social unrest, with increased levels of crime and domestic violence (see UNDP, *Human Development Report 1999*, p. 4 and Khor, op. cit., p. 32).

[31] Castells, op. cit., p. 7.

[32] UNDP, *Human Development Report 1999*, p. 36.

[33] In analysing the social trends emerging with globalization, we must differentiate between four factors: inequality, polarization, poverty and extreme poverty or misery. Inequality refers to the unequal appropriation of wealth by individuals or social groups. Polarization is a specific process of inequality that occurs when both the top and the bottom of a scale of wealth distribution grow faster than the middle. Poverty is an institutionally-defined norm establishing the level of income that a society considers necessary in order to live according to an accepted standard. Extreme poverty or misery, usually defined as the proportion of people who live below 50 per cent of the poverty line, is an institutionally-defined level where survival is problematic (see Castells op. cit., pp. 6 and 7).

[34] UNDP, *Human Development Report 1999*, p. 3.

[35] For more details on the lifestyle of the first class see Rifkin, op. cit., p. 176.

In order to understand the impact of globalization on the global labour force, it is best to deduce the position of the rest of the world from that of the United States. In the United States, society is being divided into two social classes, namely, the global elite and the rest. The global elite, regardless of their place of residence, follow the same basic consumption patterns and show preferences for the same global brands. The pressure for competitive spending mounts. "Keeping up with the Joneses" now means pursuing the lifestyles of the rich and famous as depicted in films and television. According to Reich this global elite consists of three groups.[36] Less than half of one per cent of the United States population, the super rich, control 56 per cent of all United States private business assets. Four per cent of the working population consists of the knowledge workers who manage the new high-technology information economy; this group earns as much as the bottom 51 per cent of wage earners in the United States. A further 16 per cent consists of knowledge workers, whose income increases annually, irrespective of economic activity; these groups are alike in their use of state-of-the-art IT in order to identify, process and solve problems. They are the creators, manipulators and purveyors of the stream of information that makes up the post-industrial, post-service global economy. At the bottom of the social strata is the other, less fortunate pool of urban residents whose collective function is to provide services to the workers in the upper tier.

Such a scenario may initially seem unrealistic; it will, however, be elucidated by a closer examination of current capital accumulation activities. Of the price of a semiconductor chip, less than 3 per cent goes to the owners of raw materials and energy, 5 per cent to those who own the equipment and facilities, and 6 per cent to routine labour. More than 85 per cent of the cost goes to specialized design and engineering services and to cover the cost of patents and copyrights. Intellectual property rights have therefore become even more important than finance in some industries. In regions other than the United States, where the economic benefits of globalization are at maximum, the outlook is bleak. Overall, the widening of the income and wealth gap between the rich and poor in the same country and between countries and regions is threatening the social stability of the globe. As concluded by Kubursi: "It is difficult to believe that one can keep the effect of poverty, unemployment and social tension arising from globalization at bay. There will eventually be an eruption of large and massive illegal immigration and boat people, drugs, terrorism or political and social violence. The globalized world is increasingly becoming a less stable and secure world."[37]

At global level, labour competitiveness is directly linked to productivity. In a globalized world, an individual can either be qualified to compete with the high-productivity segment of the market, which is characterized by minimal bureaucracy, flatter structure and where most repetitive physical work has been replaced by intelligent machines, or can join the underpaid, underemployed labour force. According to Castells, this transformation of the occupational structure is characterized by the rise of highly educated social groups. Of these groups, scientists and managers are of foremost importance. It is expected that their absolute numbers will increase substantially and that they will gain strategic importance in organizations and society.[38]

There are many elaborations on the new emerging global labour classes.[39] Ratinoff, for example, predicted the emergence of four strata of labour networks. The first network includes those who control global businesses in multinational companies and who will continue to enjoy the highest rates of return, receiving top ranks of remuneration, employing the best personnel and operating free of parochial restrictions. The second group consists of well-qualified administrators and local productive services employed by multinational companies around the globe. The third network is composed of a set of geographically-oriented activities that are indispensable to supplying goods and services for local

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[36] Robert Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* (Random House, New York, 1992), quoted in Rifkin, op. cit., p. 174.

[37] Kubursi, op. cit., p. 26.

[38] Castells, op. cit.

[39] Several models of the emerging labour classes are described in Abdul Rahman Embong, "Globalization and transnational class relations: Some problems of conceptualization", *Third World Quarterly: Journal of Emerging Areas*, vol. 21, No. 6, December 2000.

consumption. Finally, there is a residual low-productivity network that supplies the large pool of unskilled and semi-skilled labour.[40]

The relative importance of each network varies according to a particular country's stage of technical progress, its production and technology absorption capacity and its social strata. In more advanced countries, the global sectors represent a more significant proportion of the economy, than in developing countries. Links between the highly-productive global network and locally-oriented production are more apparent in developed countries, fostering a natural community of interest, while in developing countries the linkages are few, minimizing the overall prosperity induced by globalization. Most job creation in these countries relates to serving local consumption and will face tremendous challenges when WTO rules are applied. Such countries will therefore inevitably be further marginalized with globalization.

C. THE GLOBAL EMPLOYMENT SITUATION

Towards the end of the 1990s, the employment situation was deteriorating in the majority of countries, excluding North America, Australia, New Zealand, China and India. Following the Asian crisis, unemployment rates doubled in the most affected economies of the region. In 2000, unemployment in Latin America stood at its highest level for 15 years and escalated to new highs in the Arab region.[41]

The lack of demand for labour in formal activities has forced most new entrants to the labour market to seek informal employment, where working conditions are below standard. This is the case in Latin America, where the percentage of the workforce engaged in informal activities rose from some 40 to 55 per cent between 1980 and 1995. It has also been the experience of transition economies in Europe. In Bulgaria and the former Yugoslav Republic of Macedonia, for example, one third of the workforce is to be found in the shadow economy, while in sub-Saharan Africa, an informal economy that already accounts for at least two thirds of all jobs continues to grow.

Temporary or part-time jobs are typical of emerging labour markets: in Latin America eight out of ten new jobs are part-time or temporary, while the rate in Western Europe in 1997 was 18 per cent.

Wages are relatively low in the current labour market. Intense competition for employment gives workers in most countries little bargaining power. As a result, real wages throughout much of Latin America, Africa and the Middle East have yet to return to levels considered normal 20 years ago.

Another consequence of the globalization process and its related restructuring is that millions of workers are being placed on reduced pay or forced to take leave. In a recent ILO report quoted in the *International Herald Tribune*, conservative estimates showed that at least 130,000 jobs had been lost in Western Europe as a result of merger activities during the 1990s. The report predicted that between 1999 and 2002, 300,000 jobs would be lost in European banking sector alone as a result of consolidation and the deregulation of the national markets. In China millions of workers in State and collective enterprises are being placed on leave at half pay or less. In the Russian Federation, where the official unemployment rate is 10 per cent, 11 per cent of the labour force is kept on the public payroll at minimal rates or pushed into taking so-called holidays that are disguised forms of job loss.[42]

Wage differentials are widening within countries and industries. In most parts of the world, the pattern of growth has favoured and paid an increased premium for skilled rather than unskilled labour. International wage differentials are also growing wider, a trend that encourages the migration of the most highly-skilled labour in developing countries to developed regions in Asia, North America or Europe. This not only results in the loss by the former of investment in human resources, but also means that the resources of developing

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[40] Luis Ratinoff, "Global insecurity and education: the culture of globalization", *Prospects*, vol. XXV, No. 2, June 1995, p. 158.

[41] ILO, *Life at Work in the Information Economy* (ILO, Geneva, 2001).

[42] UNRISD, "Visible hands" (Geneva, 2000).

countries, are contributing to the further development of already developed regions, thereby exacerbating the marginalization of the former.[43]

D. THE IMPACT OF GLOBALIZATION ON LABOUR

Globalization is rapidly transforming jobs, markets and even communities by creating new jobs, and supplanting old lifestyles, markets and industries. In the past, when a technological revolution has threatened job losses in an economic sector, a new sector has emerged to absorb the surplus labour. After the rapid mechanization of agriculture, for example, manufacturing absorbed many of the millions of jobs that had been lost. Between the 1950s and 1980s, the fast-growing service sector re-employed many of the blue-collar workers who had been displaced by automation. Currently, all three sectors of the traditional economy, namely, agriculture, manufacturing and services, are experiencing technological displacement and millions are being forced into unemployment. No significant new sector has developed, or is expected to develop, that is capable of absorbing the millions who will be displaced, mostly in developing countries, as a result of rapid restructuring and automation. The only potential such sector is the information sector, made up of a small elite of entrepreneurs, scientists, technicians, computer programmers, professionals, educators and consultants. While this sector is growing, it is not expected to compensate for more than a fraction of the jobs that will be lost in forthcoming decades in the wake of revolutionary ICT developments.

Box 4. Jobs of the future*

1. ICT-related jobs (representing more than half of the jobs of the future):

(a) Web-security specialist: Computer viruses and attacks by hackers have made Web security an important specialty. Rigorous background check requirements tend to make posts hard to fill;

(b) Robotic engineers: Engineers will be needed to build robots that do everything from assembling machinery to caring for aging parents;

(c) Telematics: Telematics is the term used for the new industry of equipping cars with e-capabilities. Analysts predict that 84 per cent of new cars sold in 2005 will be telematic-ready. Jobs require a combination of telecommunications and computer-science skills;

(d) Wireless developers: The Internet is going wireless, and the demand for programmers and architects familiar with this somewhat arcane coding, which bears little resemblance to HTML programming, is increasing exponentially;

(e) Tech support: Technology is not flawless and skilled workers who can deal with frustrating problems are always needed. Estimates show a 222 per cent increase in computer-support jobs by 2008;

(f) Data miners: Researchers will be needed to extract useful information from mountains of all types of data.

2. Non-ICT related jobs, most of which rely on new technologies:

(a) Knowledge engineers: Artificial intelligence brokers who will translate expertise into software;

(b) Tissue engineers: With man-made skin already on the market and artificial cartilage not far behind, researchers have grown new intestines inside animals' abdominal cavities and work has begun on building liver, heart and kidney tissues;

(c) Programming artists: The high-end graphics popular in Hollywood animation, computer games and virtual media require artists who are computer programmers. The United States Department of Labor predicts that by 2008, employment for commercial artists will rise by 25 per cent, spurred in part by an increased demand for digital talent;

(d) Technology teachers: As technology use increases in all industries, more adult education teachers are needed in order to give workers survival skills;

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[43] UNRISD, "Visible hands" (Geneva, 2000), p. 10, and "International migration 2000", *International Social Science Journal*, issue 165, September 2000 (Blackwell Publishers/UNESCO).

Box 4 (*continued*)

(e) Gene programmers: Digital genome maps will allow technicians to create customized prescriptions, altering individual genes by rewriting lines of computer code. After scanning DNA for defects, doctors will use gene therapy and "smart" molecules to prevent a variety of diseases, including certain cancers;

(f) Pharmers: "Pharmers" will raise crops and livestock that have been genetically engineered in order to produce therapeutic proteins. Work in progress includes a vaccine-carrying tomato and drug-laden milk from cows, sheep and goats.

3. The jobs that will disappear:

(a) Stockbrokers, car dealers, postmen, insurance and real estate agents: The Internet will eradicate middlemen by the million, with a hardy few remaining to service the computer illiterate;

(b) Teachers: Distance learning is becoming more popular. While a complete conversion is unlikely, outsourcing the education system might prove an economic option;

(c) Printers: With newspapers and magazines making the switch to digital paper, Xerox and other visionaries are racing to produce a material that is as flexible as normal paper and as versatile as a computer screen;

(d) Stenographers: Sophisticated voice-recognition software will replace court reporters and many secretaries and executive assistants;

(e) COES: Top-down decision-making will be too cumbersome. A global team of quick-thinking experts will carry companies through the Internet age and beyond;

(f) Long drives: Interstate highways will have "smart" lanes enabling computer-driven vehicles to travel bumper-to-bumper at high speeds. Suburbia will decongest as bottleneck sensors in cars are used in order to suggest alternative routes.

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* Based on surveys conducted by *Time* and *Newsweek* Magazines (Rawe, 2000 and Stone, 2001).

1. *The impact of the reorganization of production modes*

By tailoring products to demand, ICTs save time and labour costs. Increasingly, computers are providing all the necessary information for the economic process, eliminating the need for salespersons, account executives and handling, shipping and billing personnel. Moreover, all new modes of production in advanced countries are flexible. Such production alters industrial work organization and skill profiles. It merges traditional functional roles, flattens organizational hierarchies, decentralizes responsibilities and involves employees at all levels in the company's business strategy. The jobs of lower-level workers are broadened to incorporate some of the supervisory, planning, maintenance, repair and support functions that were previously assigned to managers and specialists.

Under this new, flexible regime, the objective is to customize products while achieving the cost benefits of mass production. This implies a move from production-oriented to product and customer-oriented markets which puts pressure on all levels of the production process to be more responsive to market demands. Increasingly, products are tailored to consumer needs with maintenance and follow-up services becoming an integral component of the value-added in the production process. Although this concept was originally applied in the manufacturing sector, it also applies to services. In banking, for example, the combination of computerization and competition have forced financial services to become customized, and transformed banking services. All the new, flexible production modes are based on the delivery of high quality goods and services at high speed and low cost, employing accelerated innovation.

While this type of system depends less on direct supervision, it requires workers with broader job skills, more initiative and better problem-handling abilities. Such changes reduce the number of jobs available to those with fewer skills and dictate what workers need to know, how they must use that knowledge and the long-term value of any expertise they possess. According to Rifkin, corporate re-organization is only in its infancy. Eventually, the problem of massive job losses is likely to increase, because companies, faced with more intense global competition, will use increasingly sophisticated technology in order to raise productivity and reduce labour force requirements.[44]

2. *The impact of continuous innovation*

Continuous innovation is resulting in the rapid translation of ideas into products. Computer companies are producing three different models of each of their computers every year, and each model is more advanced than the previous one. However, both developed and developing countries are facing increasing technological unemployment as TNCs build state-of-the-art, high-technology production facilities all around the world, forcing unemployment on millions of workers who can no longer compete with the cost efficiency, quality control and speed of delivery achieved by automated manufacturing. Current surveys show that fewer than 5 per cent of all companies have begun to make the transition to the new machine and IT culture. This implies that massive unemployment on an unprecedented scale may be expected in the near future. Moreover, the enforcement of TRIPS and TRIMS agreements gives the technical and intellectual component of production more weight than the blue-collar component. The wage component of the total production bill continues to shrink in proportion to other costs. That being the case, cheap third world labour is becoming a less important factor in the overall production mix. While cheap labour might still provide a competitive edge in such industries as textiles and electronics, the advantage of human labour over technology is fast diminishing.

3. *The impact of outsourcing*

The post-Uruguay international trading system has allowed an increasing number of companies to globalize production structures through investment abroad, which in turn has provided a further stimulus to trade. As a result, every company is forced to remain competitive by diversifying its production chain and outsourcing each segment to the country that can produce it at the lowest cost. This is leading to more TNCs investing in an increased number of cost-saving production facilities worldwide. Outsourcing has become a permanent feature of the Japanese economy and is becoming increasingly popular in the United States and Europe. The developing countries that can provide cheap production modes and the necessary back-up services, including satellite links, are benefiting from such arrangements. Bangalore in India is a good illustration of this. Over the past few years, it has grown from a modest, low-income village to a software centre that caters for international computer companies (see box 5).

Box 5. Bangalore: an example of a high-tech city

Bangalore is located in the Indian State of Karnataka, which has supported science and technology (S and T) since 1911. Since the 1950s, many of India's public sector high-tech industries have been located there.

The concentration of electronic and aeronautics industries in Bangalore has drawn upon the 20,000 technical professionals graduating each year from nine universities, 51 engineering colleges, 169 polytechnics and 35 technical training institutes.

The academic community in Bangalore has contributed to the vibrant nature of upstream and downstream activities associated with electronic and computer industries. The climate and dust-free environment have enhanced IT industry. As software development has superceded hardware production in India, Bangalore has become a key location for the Indian software industry.

Bangalore, being the State capital, has benefited from its proximity to decision makers in overcoming bureaucratic and time-consuming barriers. The cosmopolitan character and culture of the city, together with low rents and low levels of inflation and wages, have encouraged large public sector corporations and multinational affiliates to relocate to this part of India.

The culture of learning, tolerance and openness in Bangalore is an additional advantage which attracts software industries, where the workforce is predominantly young and highly educated.

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[44] Rifkin, op. cit., pp. 105 and 106.

Box 5 (*continued*)

The strong industrial base of Bangalore encourages learning and innovation through technology and information sharing. Networking and labour mobility between competing industries promote technological diffusion.

The strong educational system in Bangalore, in theoretical sciences and engineering in particular, its English-speaking skilled labour and cosmopolitan life style have labelled it the "Silicon Valley of India." Many high-tech United States industries including Texas Instruments, Hewlett-Packard, IBM, Oracle, Nofell, Fujitsu and Digital Equipment have established branches in Bangalore with an eye on the Asia-Pacific region. Furthermore, many multinationals including Siemens, Deutsche Bank, Motorola, Citicorp and VeriFone, outsource much of their software development work to Bangalore.

Subsequent to the arrival of these industries, numerous measures were taken to attract investment, in line with the State government's objective of encouraging high-tech industries. Such measures included establishing stable and predictable relationships between the State government and the private sector and continuous dialogue between representatives of top executive companies and the chief minister; the provision of the required infrastructure (including an airport); a guaranteed supply of electricity, telecommunication facilities and technical training; tax incentives and the provision of land at low cost in order to attract and promote investment in electronic industries in the newly established "Electronic City", known as KEONICS just outside Bangalore. Another pioneering initiative was the establishment in 1964 of the Karnataka State Industrial Investment and Development Corporation (KSIIDC), an investment promotion agency responsible for identifying projects, providing information and financial assistance, and facilitating the obtaining of necessary clearances.

Nevertheless, it is fair to assume that it was foreign investment which led to the boom in the software industry in the 1990s. The move by Texas instruments, the first to locate to Bangalore, guided policy makers, who focused on that industry in the package of Incentives and Concessions for New Industrial Investments in Karnataka in the period 1993-1998. These concessions included investment subsidies and sales tax concessions for energy efficient and non-polluting IT.

Throughout the 1990s, the Government was quite successful in marketing Bangalore. Collaboration between the European Commission (EC) and the Department of Electronics of the Government of India resulted in the Software, Services, Support and Education Centre Limited (3SE project) being launched in 1994. This project provides information services to European companies about India's software companies and encourages them to outsource or form alliances with companies in Bangalore. It also informs Indian software users of products brought by European companies. These efforts further encouraged such an inflow of European software industries to Bangalore to an extent that the city is continuously expanding its physical and telecommunications infrastructure.

Source: ILO, International Institute for Labour Studies, *Linking Up with the Global Economy: A Case Study of Bangalore Software Industry*, 1997. Available at http://132.236.108.39:8050/public/english/bureau/inst/papers/1997/dp96/ch.4.htm.

It is correct to assume that globalization will lead to increased specialization. Specialization in turn requires domestic economic adjustment and change. During this process some groups in society will be at a disadvantage with the costs of adjustment determined by how long it takes for displaced workers to find similar jobs elsewhere or to retrain and acquire new skills. Particular problems arise when the declining activity is regionally concentrated, making whole towns, cities or regions economically depressed. As new technologies and production processes transform the macroeconomy, the success of individual countries depends, more than ever before, on the capacity to acquire, transmit and apply knowledge. Manufacturing and high-value services no longer trickle down from developed to developing countries based on labour costs alone. Because of new goods including consumer electronics and such new processes, such as numerically-controlled machine tools and computer-assisted design and manufacturing, the location of industries and high-value services depends increasingly on the producers' capacity to control quality and manage flexible information-based systems. Comparative advantage among countries is becoming as much a function of labour quality as of low wages.

The Third Industrial Revolution will bring a few, specialized jobs for the new class of elite knowledge workers and long-term unemployment for millions of others. Developing countries are threatened economically because existing jobs there are being rapidly transformed, downsized, streamlined or made obsolete by ICTs. Globalization and global competition are also forcing Governments to downsize with no safety net available. The clear trend, says Shaiken, is "a continuation of the extensive polarization of incomes and the marginalization of millions of people".[45] The prospect for developing countries is bleak. More than 1 billion jobs will have to be created throughout the world over the next 10 years in order to provide an income for all the new job entrants in both developed and developing countries. With new ICTs, robotics and automation rapidly eliminating jobs in every industry and sector, the likelihood of finding enough work for the hundreds of millions of new job entrants appears slim.[46]

E. CHALLENGES FACING DEVELOPING COUNTRIES

Developing countries are facing obstacles in acquiring the technology that is crucial to their competitiveness in the global market. They are consumers rather than producers of technology, while the current global intellectual property apparatus of patents, trademarks and copyrights gives TNCs monopolistic power in the markets. Moreover, with the technological progress that devalues existing low-skilled jobs and creates new, knowledge-intensive ones, changes in the relative importance of production factors are resulting in a loss in comparative advantage for developing countries.

One of the current dilemmas for developing countries is whether to embrace globalization or adopt a more cautious approach. The question is whether developing countries can take advantage of globalization and the liberalization process, which to a large extent is being forced on them by the WTO, World Bank and IMF, while minimizing the disruptive consequences to their societies. A selective approach that aims at striking a careful balance between opening and protecting the domestic market is more appropriate than rapid liberalization. According to UNCTAD, the ability to manage liberalization will henceforth be a crucial aspect of national policy-making. The conventional view, namely, that trade liberalization is necessary and will automatically have a positive impact on development, is being challenged empirically and analytically.[47]

The Harvard University economist Dani Rodrick[48] argues that developing countries must participate in the world economy on their own terms, not the terms dictated by global markets and multilateral institutions. Noting the premise that reducing barriers to imports and opening to capital flows would increase growth and reduce poverty, Rodrik's study concludes: " The trouble is, there is no convincing evidence that openness, in the sense of low barriers to trade and capital flows, systematically produces these results. The lesson of history is that ultimately all successful countries develop their own brands of national capitalism. The States which have done best in the post-war period devised domestic investment plans to kick-start growth and established institutions of conflict management. An open trade regime, on its own, will not set an economy on a sustainable growth path".

Trade liberalization should therefore not be pursued automatically or rapidly as an end in itself. Rather, what is important is the quality, timing, sequencing and scope of liberalization, and how the process is accompanied by other factors. Crucial factors, including the strengthening of local enterprises, human resources, technological development, export capacity and markets must be given priority. The logical conclusion is that if the conditions for success do not currently exist in a country, liberalization can have specific negative consequences and even cause persistent recession.

Another aspect of globalization that is drastically affecting developing countries is financial liberalization. While a relatively new phenomenon, it has been a contributing factor in the severe financial turmoil and economic losses affecting several of the developing countries that have integrated into the global financial market. It is an irreversible process that provides additional sources of funding, but the volatility of those sources can have dramatic social consequences. The risks involved are especially pronounced for the small- and medium-scale companies that increased their liabilities during the boom and face prohibitive new debt-servicing conditions in the recession, when the social consequences of financial volatility are most pronounced. In order to avoid risk, FDI must undergo social and environmental impact assessment as part of

[45] Interview with Harley Shaiken on 5 May 1994, quoted in Rifkin, op. cit., p. 205.

[46] Rifkin, op. cit., p. 207.

[47] Khor, op. cit.

[48] Quoted in Khor, op. cit., p. 13.

the application, selection and approval process. Only those that are positively assessed should be approved, with conditions attached if necessary. Moreover, foreign investors must be asked not only to operate with respect for domestic laws, but also to make a positive contribution to social and environmental development.[49]

With respect to the acquisition of skills, while it is important to strengthen general education, the provision of opportunities to acquire advanced knowledge and skills must be pursued concurrently in order to harness new technologies. Technological capacity, namely, the ability to assess, select, adapt, use and develop new technologies, is becoming a critical determinant of any country's competitiveness. Institutions of higher education and training must be strengthened in order to equip individuals with advanced knowledge and to serve as channels for the acquisition, transfer, adaptation and dissemination of knowledge generated elsewhere in the world. The challenge for these institutions is to introduce new science, mathematics, information and technology management curriculums and establish new linkages between universities and industry. The developing countries most likely to benefit are those with a substantial pool of skilled labour capable of working on or near the frontiers of computer technology. The case of Bangalore in India, which is already benefiting from e-exports, again illustrates this point. Such global trends imply that ESCWA member countries cannot afford to take a passive attitude towards the competition between developing countries over the newly-opened markets of both developed and developing countries. Otherwise, the gradual enforcement of WTO agreements will create great difficulties for non-competitive domestic industries in the region. Chapter III will explore how the ESCWA member countries are dealing with the requirements for globalization, with particular reference to their labour markets.

Box 6. Why the United States is at an advantage

The United States has a system of bankruptcy laws and courts that encourages people who fail in business ventures to declare bankruptcy and try again. Bankruptcy is viewed as a necessary and inevitable risk of innovation.

Flexible entry is offered to people with skills from around the world without any discrimination on the basis of race or complexion. This is necessary in order to have access to and attract a highly-skilled labour force.

United States companies have already carried out most of the downsizing, privatization, networking, deregulation, reorganization, streamlining and restructuring required for full adjustment to and exploitation of globalization.

It has a culture of openness.

There is a minimal welfare system: those in Japan and Western Europe make capitalism less creative and enriching.

Source: Friedman, op. cit., pp. 300-304.

[49] The right of developing countries to request that foreign investors fulfill certain obligations should be recognized. These may include the transfer of technology, the training and employment of local workers, professionals and executives, the development of linkages to the domestic sectors, and the provision of local participation or partnership in equity ownership. Governments must screen FDI applications carefully in the light of national social and environmental goals and discourage or reject such projects as would be detrimental to those goals. Projects or enterprises that result in net loss of jobs, endanger the health or safety of workers, promote unsustainable consumption patterns and lifestyles, adversely affect local cultural norms or damage the environment must be rejected.

III. THE CHALLENGES OF GLOBALIZATION IN THE ESCWA REGION

With globalization, economic sectors must be efficient and productive in order to survive. This may not be immediately possible because the competition requirements include low business operation costs, high productivity, low labour costs and low taxation. Strong institutions that support the mechanisms of a market economy must be in place, and ensure the effectiveness of both the private and public sectors. In the ESCWA region, Government-affiliated sectors tend to be inefficient and are mostly over-staffed. In the private sector, efficiency dictates that labour markets are highly flexible and companies able to hire and fire according to market needs. Labour markets in the ESCWA region are more or less rigid, and if proper measures are not undertaken to increase their flexibility, globalization will ultimately result in an increase in unemployment.[50] Furthermore, the changing global environment discourages policies that rely on State ownership, bureaucratic controls and protection from outside competition. It also requires that the conduct of business becomes more flexible and transparent. This calls for international standards of accounting and disclosure to be applied supported by a reliable legal system. Governments are required to create an enabling environment attractive to FDI, remove labour market distortions,[51] control corruption and eliminate the monopolies and vested interests of the few who control the economy.

A. THE SLOW INTEGRATION OF THE ARAB REGION INTO THE GLOBAL ECONOMY

Arab countries in general, and ESCWA countries in particular, are lagging behind in such economic links with the rest of the world as trade flows or the ability to attract capital inflows, and in terms of economic growth. Their position vis-à-vis the rest of the world has been deteriorating since 1982 and they are facing the risk of becoming even more marginalized. A comparison of the relative economic importance of the Arab region in 1999 and 1980 shows that its share of world GDP declined from 3.3 to 1.5 per cent, while its share of world exports declined even more dramatically, from some 10 per cent in 1980 to 2.8 per cent in 1999. This implies that the region is being marginalized on the global economic scale. Furthermore, the economic performance of the region is undermined by wars and internal conflicts. Fiscal budgets are routinely overdrawn by inflated spending on large bureaucracies, subsidies and military allocations. As a result, fiscal deficits were persistent throughout the 1980s and 1990s and averaged some 7.6 per cent of GDP for the region as a whole.

With the exception of its trade in oil, the region's integration into the world economy is minimal. Non-oil exports from the region account for less than 1 per cent of world exports and the ratio has been declining over the past 20 years. The inflow of FDI into the region has risen gradually during that period, but remains small. Most has been concentrated in Saudi Arabia and Egypt. The increasing regional tension caused by Israeli practices in the Occupied Territories and the economic blockade of Iraq has a negative effect on the inflow of FDI (see annex II on risk rating). The ESCWA region's share in world FDI inward stock dropped in 1995 to 1.6 per cent from 2.1 per cent in 1990 and 3.9 per cent in 1985. By 1998, this share had dropped further to a mere 1.3 per cent. The inflow of FDI to the region has therefore not kept pace with global FDI levels. The UNCTAD *World Investment Report 2000* states that in 1999 FDI inflows to the Middle East and North Africa (MENA) region increased by 15 per cent over those of 1998, an increase comparable to that of 15.6 per cent seen in developing countries as a whole but considerably less than the global increase of 48 per cent. However, not all countries performed equally.[52] In order to attract foreign investors, the Lebanese Government decreased direct taxes (progressive tax) and while capital flow does not yet meet expectations, Lebanon has increased its FDI from US$ 150 million in 1997 to US$ 230 million in 1998. Iran and Morocco recorded very high increases, while Jordan, Oman and Qatar reported a decline. Egypt recorded the highest

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[50] Economic and Social Commission for Western Asia (ESCWA), *Social Impact of Restructuring with Special Reference to Employment*, United Nations, New York, 1999 (E/ESCWA/SD/1999/4).

[51] Labour flexibility is a major requirement for globalization. The Gulf Cooperation Council (GCC) region suffers from major labour market inflexibilities because of the many impediments to labour mobility, including high benefits and burdensome Government regulations. See E/ESCWA/SD/1999/4 for details.

[52] The Economic Research Forum for the Arab Countries, Iran and Turkey (ERF), "Economic trends in the MENA region", *ERF Indicators*, ERF, Cairo, 2000.

absolute figure for North Africa, as a result of deregulation and privatization: it attracted a total of US$ 1.5 billion in FDI inflows, a rise of 40 per cent over the previous year. Saudi Arabia was the lead recipient in the region as a whole, recording FDI inflows of US$ 4.8 billion in 1999. The fact that most of the inflows were in the hydrocarbon sector limits the impact of FDI in terms of employment, technology and management transfers. Not only is the type of FDI not performing its expected role as an engine for growth but it is responsible for setbacks in the region accounted for by the following:

(a) The inflow of FDI is still relatively poor compared to other developing regions even in countries identified as suitable for investment;

(b) The countries of the region have not experienced a process of import substitution and transfer of foreign technology such as has been carried out in some Asian countries. They are still highly dependent on imported technology and expertise;

(c) Petrochemicals in the Gulf Cooperation Council (GCC) States attract most FDI. As a consequence, the inflow of FDI is highly volatile;

(d) FDI does not concentrate on labour-intensive export-oriented industries that enhance the productive capacity of the region, but prefer the non export-oriented service sectors, including food retailers, hotels, insurance and banking. This phenomenon is triggered by the continuous increase in nationals' conspicuously high consumption of foreign goods, which has a pronounced negative effect on savings. It is also due to the fact that wages in the ESCWA region are higher than in other competing countries in the MENA region such as Iran and Turkey and to the lack of the simple and transparent regulations and political stability that are crucial for investment.

B. DIFFICULTIES FACED BY THE LABOUR FORCE DURING TRANSITION

Box 7. Globalization and the Arab world

The process of globalization is inevitable and cannot be halted or ignored. The powerful forces that drive globalization are progressing with advances in ICTs and are largely independent of Governments. Participation in globalization is not optional, given the irreversible changes in the external environment facing any developing country. Any delay in adjusting to global forces will make it even more difficult for the country or group of countries to join the process later when the Arab region is viewed against the background of a fast-moving world. There is a strange sense of calm and stability and stagnation may be suspected. The region's economic importance and international competitiveness has declined and by failing to reform or prepare for change, the countries of the region have failed to reap the benefits of globalization.

Until recently a country could benefit from trade liberalization by having a comparative advantage in a specific sector. Such is not currently the case when businesses are becoming increasingly mobile and TNCs have different headquarters in different areas, making the goal absolute advantage worldwide rather than comparative advantage.

With respect to labour markets, the transition from an economy that is protected from external competition to an economy that is open to such competition has significant implications for the labour force. Companies must allocate human and capital resources more efficiently in order to increase productivity, and when forced to compete internationally, domestic companies must develop their human resources and become more technologically and managerially mature. A more competitive economic environment, that is able to adapt to changes in demand for product type and quality is required, and it will be more difficult to predict what skills will be needed in the future and for how long: a more mobile workforce that is highly flexible in adapting to new skills will be required. The application of WTO agreements will further increase the pressure on ESCWA countries to meet competitiveness challenges in terms of agility, networking and learning, and to rearrange production in order to increase productivity. In the short term, workers are unlikely to be able to adapt quickly to the demands of a more competitive global economy. Those who lack the skills on general education necessary in order to learn new skills rapidly may be displaced and there may be a shortage of qualified workers for the new modes of production. Such an imbalance between the supply of and demand for skills is resulting in both an underemployed workforce, and an economy that increasingly relies on capital-intensive production methods.

C. REQUIREMENTS FOR PROPER INTEGRATION WITH GLOBALIZATION

In order to benefit from the new global economy and take advantage of the opportunities offered by globalization, ESCWA countries must provide an enabling macroeconomic environment, the necessary physical and institutional infrastructure and a competitive labour force. When all these requirements are met in a given sector, the economy will be able to move forward. Otherwise, the consequences of marginalization within the global context will have to be faced. No sector in the region meets all the requirements simultaneously, with the possible exception of the petrochemical sector in the GCC States and tourism in Egypt and Jordan, which are the only sectors that are attracting FDI and have a promising future in the globalized era. Table 2 reflects the status of ESCWA members as to the main prerequisites for globalization.

TABLE 2. STATUS OF ESCWA MEMBERS AND GCC STATES AS TO THE MAIN REQUIREMENTS FOR GLOBALIZATION

Required area	Degree of preparedness		
	Good	Fair	Poor
Macroeconomic conducive environment			
Minimal dependency on volatile sources of income	Dubai	Egypt, Jordan, Lebanon	GCC, Iraq, Yemen, Syrian Arab Republic
The public sector as regulator	Dubai	None	All[a/]
Strengthened private sector	Dubai	Jordan, Egypt, Lebanon	GCC, Syrian Arab Republic, Iraq, Yemen
Physical infrastructure	GCC	Egypt, Jordan, Lebanon	Syrian Arab Republic, Iraq, Yemen
Institutional reform			
Legal system attracted to FDI	GCC (in oil industries)	Egypt, Jordan, Lebanon	Syrian Arab Republic, Iraq, Yemen
Increased transparency and curtailed corruption	None	Egypt, Jordan, Lebanon	GCC, Syrian Arab Republic, Iraq, Yemen
Competitiveness of labour	None	None	All
Labour productivity amongst nationals	Lebanon, Jordan	Palestine, Syrian Arab Republic, Egypt	GCC, Iraq, Yemen
Wage flexibility	None	None	All
Flexible labour markets and skills	Lebanon, Jordan	Egypt	GCC, Syrian Arab Republic, Iraq, Yemen

Source: Based on chapter IV.

a/ While Lebanon is an exception in terms of the size of the State, its Government bureaucracy is an obstacle to globalization.

Lebanon possesses a skilled labour force, which includes a large number of university graduates with the skills required for a globally competitive labour force. However, the lack of a conducive macroeconomic environment and the necessary institutional reforms prevents this force from being productively employed. As a result, most new graduates are migrating abroad, and will contribute to the development of the globalized world while Lebanon continues to become more marginalized.

While the GCC region possesses investment capital, the failure to implement the institutional reforms required in order to attract such capital denies the region its benefits. The result is that an estimated US$ 700 billion is invested abroad, while the region as a whole is striving to attract FDI.

The countries that are least prepared will be most at risk of poverty and marginalization. Table 2 shows that the Syrian Arab Republic, Yemen and Iraq are vulnerable in this respect. If no proper measures are introduced to revitalize their economies, the impact of globalization will be the more intense and will be exacerbated over time. While globalization may not provide employment opportunities for all new entrants to the labour market, the process itself challenges the countries of the region to prepare their labour forces to face global competition. The following sections will discuss each required area in relation to the ESCWA region as a whole, while chapter IV examines each country individually.

1. *Macroeconomic conducive environment*

There is a need in the ESCWA member countries to create an investment-friendly macroeconomic environment that encourages competition, reduces market segmentation and oligopolistic structures and strengthens the agencies responsible for enforcing property rights. Because most regional exports are either oil or gas, the region is vulnerable to external fluctuations in price, exchange rates and market conditions. Furthermore, the fact that such exports are in the form of raw materials deprives the region of the benefits of value-added components.[53]

Economic liberalization is based on the premise that markets allocate resources better than Governments. Moreover, Governments make interventions and distort price through tariffs, subsidies and labour market regulations which result in inefficiency and poor competitiveness. With the exception of Lebanon, the public sector in the countries of the ESCWA region dominates the economy. All countries have an excessively large civil service, especially when compared to other developing countries, and the State also participates directly in economic activities through public enterprises.[54] This fact has direct fiscal implications in the form of a large wage bill, and indirect effects that include costs arising from unproductive public enterprises subsidized by soft budget constraints and segmentation of the labour force.

TABLE 3. PUBLIC SECTOR EMPLOYMENT IN NON-GCC COUNTRIES
(*Percentage of total employment*)

	General civilian Government employment					
	Government administration		Social sectors			
Country/area	General Government	Local government	Education	Health	Total	Armed forces
Egypt	7.2	11.1	3.8	3.0	25.8	3.1
Jordan	3.3	3.3	6.5	2.0	15.2	10.3
Lebanon	1.1	1.6	5.0	0.5	8.1	6.9
Syrian Arab Republic	4.2	1.2	7.1	1.1	13.7[a/]	..
West Bank and Gaza Strip	16.6	..	7.6	2.0	16.6	..
Yemen	14.5	4.4	1.9	1.3	22.1	1.9
Average	6.6	3.9	5.1	1.9	17.5	3.2

Source: Economic Research Forum for the Arab Countries, Iran and Turkey (ERF), op. cit., based on World Bank, *World Development Indicators, 1999*.

a/ According to the Ministry of Labour and Social Affairs, the public sector accounted for 26 per cent of employment in the Syrian Arab Republic in 1999.

Note: Two dots (..) indicate that data is not available.

The role of the State has been in transition since the 1990s between that of a State which provides all basic services and controls the private sector and that of a reformed State which allows private initiatives to take responsibility for economic activities. Despite reform and modernization through privatization, such measures have not, for the most part taken root. Government expenditure is much greater in the Arab region than in other developing countries: 35 per cent versus 22 per cent. Government employment, excluding public enterprise, exceeds 15 per cent of total employment, and is greater than 70 per cent for nationals in GCC countries as compared with between 10 and 15 per cent in developing countries and about one half of

[53] For more details refer to ESCWA, *Survey of Economic and Social Developments in the ESCWA Region 1999-2000*, United Nations publication, Sales No. E.00.II.L.7, Chapter II.

[54] Although the public sector in the ESCWA region is recognized to be inefficient and overstaffed, the degree to which this is true is difficult to quantify. Estimated redundancies (the percentage underutilized workers in total public employment) are 21 per cent in Egypt and even higher in the Gulf States. See Elizabeth Bulmer, "Rationalizing public sector employment in the MENA region: Issues and options", World Bank Discussion Papers, World Bank, Washington, D.C., 2000.

that in industrial countries. Such indicators demonstrate the challenge faced in accessing globalization. Reforms must address both the size and the role of the State in the economies of the region. The focus of reform must be to downsize operations and enhance efficiency, preferably through civil service reform; to reorient Governments to a more limited set of basic functions; to target subsidies; and to create an environment conducive to investment and growth.

As explained in chapter I, management of the social implications of globalization is the real challenge facing the Governments of the region. Managing transition and dealing with the distributional consequences of change, and, in particular, the fact that those who will bear the initial costs are ill-equipped to benefit should be given priority. This responsibility should replace the traditional tasks of building and maintaining the physical infrastructure, which should be taken on by the private sector. Governments should focus on creating and maintaining an environment that will enable the private sector to increase its efficiency and competitiveness in the new, open, global economy. They should also seek to promote investment and attract FDI by increasing the transparency of the domestic economy, by adopting investment codes that conform to international standards, and eliminating restrictions that inhibit the efficient allocation of resources between productive sectors. Lastly, Governments should act to minimize the social cost of the process of globalization by establishing well-targeted social safety nets and establishing appropriate mechanisms enhancing the human capital of the poor and unemployed. The Governments of this new era have responsibility for regulating markets, encouraging entrepreneurship and competition, eliminating bureaucracies and wage distortions and providing public services to the poor.

While privatization is recognized as a key reform issue in the region, it faces substantial obstacles. Full-scale privatization is proving to be a more complex, difficult and slower process than expected. This is because of the large number of low-profitability publicly-owned enterprises that emerged from the socialist and welfare policies pursued over the past 30 years. A further obstacle is the lack of involvement of the private sector in the infrastructure. With the exception of sub-Saharan Africa, the MENA region has the lowest share of private sector participation in infrastructure.[55] The private sector must emulate its foreign counterparts and embark on the standardization process in order to succeed. A norm for standardization, namely, ISO 9000, has already been established by the WTO. However, the only way to ensure productivity is to have highly flexible labour markets, in which the most productive elements are employed, while those who can no longer be efficient are dismissed. Because labour markets in the region are not flexible, privatization measures would translate in the short term into a substantial increase in unemployment. Many see the informal sector as a result of this process.

2. *Deficient physical infrastructure*

An important prerequisite for benefiting from IT is a low-cost, robust infrastructure. For most countries in the ESCWA region, the high cost of Internet access and inadequate technological infrastructure are major impediments to the use of IT. Together, these two factors reduce the competitiveness of the region and hamper its integration into the globalization process. As shown in table 4, there is a wide gap between GCC and non-GCC countries in accessing such technology, and the region has far to go before it reaches the required access rates.[56]

In order to create an enabling environment for the ICT sector, ESCWA member countries must upgrade their infrastructure and make it comparable to that of other developing regions. This is an area in which private sector participation can be effective. Priority areas include infrastructure building, human resource development in order to allow for extensive labour force participation and the strengthening of R and D activities.[57]

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[55] ERF, "Economic trends in the MENA region", *ERF Indicators*, ERF, Cairo, 2000, p. 37.

[56] Internet access in ESCWA member countries, the United Kingdom and the United States per 10,000 persons is 3. 321 and 1,940 respectively.

[57] Detailed research on this subject is contained in papers presented to the Expert Panel on Information Technology and Development Priorities: Competing in a Knowledge-based Global Economy, held in Beirut on 15 and 16 May 2000 (E/ESCWA/TECH/2000/1) and the Expert Group Meeting on Trade Facilitation and Electronic Commerce in the ESCWA Region held in Beirut from 8 to 10 November 2000 (E/ESCWA/ED/2000/WG.1/L.1).

TABLE 4. ACCESS TO INFORMATION AND COMMUNICATIONS IN ESCWA MEMBER COUNTRIES
(*Per 1,000 people*)

Country	Internet subscribers	Internet users	Hosts	Personal computers	Main telephone lines
	2000	2000	1998	1997	1997
Bahrain	24.7	61.8	0.62	66.8	245.7
Kuwait	21.1	52.7	3.98	82.9	231.2
Oman	8.1	20.3	0.3	15.1	85.6
Qatar	30.6	76.4	0.09	62.7	249.4
Saudi Arabia	4.8	14.4	0.01	43.6	117.2
United Arab Emirates	66.8	166.9	6.07	84	350.9
Aggregate for GCC countries	12.3	32.4	0.9	48.0	147.4
Egypt	0.8	6.5	0.05	7.3	54.6
Iraq	..	..	..	..	31.9
Jordan	3.9	13.5	0.1	8.7	72.1
Lebanon	20.1	70.3	0.46	31.8	178.6
Syrian Arab Republic	0.3	1.3	1.7	..	87.8
Yemen	0.2	0.7	1.2	..	13.4
Aggregate for non-GCC countries	1.4	7.1	6.4	0.1	53.3
ESCWA member countries	3.6	12.4	14.9	0.3	69.9
Arab countries	2.6	9.0	10.0	0.2	55.0
World	..	24	58.4	—	135.9

Source: *Survey of Economic and Social Developments in the ESCWA Region 1999-2000.*

Note: Two dots (..) indicate that data is not available.
A dash (—) indicates that the amount is nil.

3. *Institutional reform*

Private investment requires commercially oriented institutions where activities are transparent, predictable and protected from political upheaval. In Egypt, for example, the judicial system is unable to be fully supportive of the expanding private sector because delivery of justice is slow and judicial personnel lack awareness of new global laws and regulations. That system was set up to serve a centrally-planned socialist economy and is choked by backlogs that make it susceptible to corruption. This is the case in most ESCWA member countries. Many of the current regulations must be dismantled while, at the same time, systems that address the requirements of the global economy are built.[58]

Another condition for trade liberalization and WTO entry is complete transparency. Pressures are likely to build up on those countries where the system of governance, including management of public funds, is lacking in accountability. Greater openness on the part of Governments and wider public participation in the conduct of public policy is required.

A further problem is the economic ineffectiveness and inefficiency of the public sector, which in most countries suffers from corruption, nepotism, overemployment and an outdated structure. Corruption at decision-making level is rampant.[59] This factor has a negative impact on national savings and FDI inflows.

The role of civil society in effective monitoring of the functions of the private and public sectors in order to ensure transparency and curtail individual corruption in power is indispensable to globalization. The role of civil society organizations (CSOs) involves participation in national affairs, including the rational use

[58] For the Latin American experience of restructuring judicial systems, see "Beyond the Washington consensus: Institutions matter", World Bank Latin American and Caribbean Studies, Shahid Javed Burki and Guillermo E. Perry, World Bank, Washington, D.C., 1998, chapter 6.

[59] Lebanon has tried in vain to remedy the situation. Files have been opened and a few offenders exposed. However, pressure was brought to bear and public offenders who had been indicted or convicted were soon released.

of natural resources and the environment; the involvement of youth in municipal and civic activities; the empowerment of women, thereby improving and upgrading their participation in the national labour force; the provision of new opportunities for the informal sector to enhance its contribution to the national economy; and the creation of a new generation capable of assuming responsibility for the decision-making process. The Governments of the region should gradually encourage CSOs to support institutional mechanisms for combating corruption, enhancing transparency in decision-making, good governance and other human rights and democracy-related issues.

4. *Labour markets in the ESCWA region*

(a) *Major developments in the labour markets of the region*

The extensive investment in physical and human capital of the past three decades has had poor results. This may be because of the poor quality of investment in the education sector and the lack of incentives for private sector participation. Moreover, the institutional structure of the labour market has been such that, for many, "rent seeking" has yielded a higher return than more productive and growth-enhancing activities.[60] Developments have tended to encourage jobs for semi-skilled or unskilled labour that produced inferior products in a highly protective environment. Educated persons have preferred jobs in the public sector and education has been geared towards administrative and managerial jobs. As a result, workers have had few incentives to improve their skill levels and educational attainment has remained low. Furthermore, labour market rigidities and distortions did not reward appropriate human capital accumulation. Such distortions reduced the social returns of investment in education and reduced the incentive to accumulate skills.

TABLE 5. UNEMPLOYMENT RATES IN THE NON-GCC ESCWA MEMBERS, 2000

Country	Year	Unemployment rate (percentage)
Egypt	2000	8.0
Jordan	2000	14.4
Lebanon	1997	8.5
	2000[a/]	20.0
Syrian Arab Republic	2000	9.5
West Bank and Gaza Strip	2000	30
Yemen	2000	20.2

Source: Based on *Preliminary Overview of Economic Developments in the ESCWA Region in 2000* (E/ESCWA/ED/2000/5), pp. 11 and 12.

a/ Estimates.

The most recent analysis of the major features of the labour market in the region is provided by ERF in "Economic trends in the MENA region" (2000). Four major features are identified, namely, relatively high unemployment rates; declining productivity and, consequently, declining real wages; the predominant role of the public sector as employer; and, mainly in non-GCC countries, the increasing importance of the informal sector as a source of employment:

(i) High unemployment rates: current rates of unemployment range from 10 per cent to 19 per cent in Oman, Egypt, the Syrian Arab Republic, Jordan, Bahrain and Lebanon. It reaches between 20 and 30 per cent in Yemen and the West Bank. Unemployment increased or at best remained stagnant in the 1990s. The Arab Labour Organization (ALO) notes that at 15 per cent, unemployment in the Arab region was the highest in the world during the 1990s;

(ii) Declining productivity and real wages: the unemployment problem is compounded by decreasing productivity: during the first half of the 1990s, productivity declined in Kuwait and

[60] ERF, "The ABCDE of development", *Forum: The Newsletter of the ERF for the Arab Countries, Iran and Turkey*, vol. 7, No. 2, August 2000, p. 3.

Jordan, stagnated in Bahrain and Oman and increased only in Egypt. Fergany[61] states that productivity in Egypt and the Syrian Arab Republic is less than one sixth of that in Korea or Argentina, and less than one tenth in other, non-oil producing countries of the region. Real wages also substantially declined during the 1990s. Real wages in the manufacturing sector declined at an estimated annual average rate of 2 per cent in the period 1990-1996, with Egypt registering the highest decline. In that country, real Government wages in 1992 were equivalent to only 50 per cent of their 1982 value, while real wages in the manufacturing sector declined at an annual rate of 9.5 per cent during the period 1985-1992. This factor is contributing to inequitable income distribution and to poor performance of the labour markets as regards sustaining growth. Job-creation is therefore a major challenge for the future;

(iii) Government employment: With the exception of Lebanon, the public sector in the countries of the ESCWA region is the biggest employer. Worldwide, civilian Government employment accounts for about 11 per cent of total employment, whereas in non-GCC countries it averages about 17.5 per cent (see table 3), and may reach more than 90 per cent in the GCC region. This does not include public sector enterprises: if these are combined with Government employment, the figure increases to as much as 35 per cent in Egypt and 50 per cent for Jordan. This has serious implications for any globalization-related reform policies, in which large-scale lay-offs will naturally be the first step. In Egypt, for example, the initial estimate for redundancies in public enterprises was some 10 per cent; in practice the figure proved to be closer to 35 per cent;

(iv) The informal labour market: the informal sector has been a major employer in the region over the past two decades. While it is acknowledged that there are severe data limitations in this field, it is estimated that the size of the informal sector is between 30 and 35 per cent of the urban labour force in Egypt, 35 and 45 per cent in Yemen, 44 per cent in the Syrian Arab Republic and 33 per cent in Jordan.

These four characteristics of the labour market in ESCWA member countries must be taken into consideration when the labour policies required for globalization are explored.

Box 8. Growth of the Arab labour force

Annual population growth in the Arab region is estimated at 2.7 per cent, entailing an annual labour force growth rate of 3.3 per cent. By 2010, the 1995 population will have increased by 120 million and 47 million new jobs will be needed. The growth rate of the labour force will be even higher, given an inevitable increase in the female labour force. It will not be easy to create the necessary employment opportunities in an environment of fierce competition, in a globalized world where gains depend on productivity, and the countries of the region will be forced to make significant changes. Inaction will lead to further marginalization.

Source: Mohamed A. El-Erian, "Globalization and growth prospects in Arab countries", IMF Working Papers (IMF, 1997), p. 17.

(b) *Competitiveness of the labour force*

While employment growth in the region as a whole kept pace with labour force growth in the first half of the 1990s, its net contribution to economic growth was weak, given that most new jobs were created in the public sector, despite overstaffing, or in low-wage, low-productive sectors. The predominance and flexibility of the service sector may, to a large extent, explain the seemingly endless ability of the labour market to adjust to the succession of adverse shocks that have hit the economies of the ESCWA region since the early 1980s. Excessive Government presence in investment activities has created distortions, reduced competitiveness and hampered efficiency, while public sector employment, where productivity is not

[61] N. Fergany, "Two crucial challenges to human development in the Arab region: Governance reform and knowledge acquisition", paper presented to the Arab Planning Institute Conference on Arab Development Challenges of the New Millennium prepared by Ali A.G. Ali, "The labour market and poverty in the Arab world: Some preliminary results", for submission to ERF 7th annual conference, 2000.

correlated to income, has further reduced competitiveness. Over the past 20 years the distorted demand for labour has led many students to opt for such educational attainments as will guarantee them administrative jobs, while a large number of skilled persons have been forced into low-productive jobs. Workers have had few incentives to improve their skill levels and competitiveness. Inappropriate service delivery has been encouraged, while the social returns of education and incentives to accumulate skills have been reduced. Unemployment rates are far higher for university and secondary school graduates than for those with elementary education. Overall, there has been a gradual decrease in the competitiveness of the labour force, especially as compared with that of other developing regions.

Labour market structural rigidity and segmentation and wage rigidity add to the difficulties of adjusting the labour force to globalization. Future labour market policies will therefore be crucial. With changing production structures, labour markets must be flexible if growth is not to be capital- and technology-intensive.

(i) *Labour productivity*

Studies by regional and international organizations including ERF, IMF, the World Bank, and ILO have found that labour productivity in most Arab countries has declined over the past 20 years. The only exceptions from 1971 to 1996 were Egypt, the Syrian Arab Republic and Oman. When compounded with the decline in investment since the late 1980s, this has resulted in low economic growth and declining employment prospects for new entrants to the labour force. Declines in labour productivity are expected to continue in the near future for reasons including the following:

a. The demographics of the different countries in the region, where the labour force is young, relatively inexperienced and less likely to be productive;

b. The lack of skills required by the market amongst school or college graduates;

c. The spread of ICTs and production modes that require specialized basic skills that are not provided by regional educational systems.

The growing informal sector in non-GCC countries is associated with the recent phenomena of increasing urban poverty and the emergence of slum areas in major urban centers.[62] The impact of globalization on the growing informal economy is best described by Rifkin: "The increasing number of unemployed and underemployment people ... will find themselves sinking ... into the permanent underclass. Desperately, many will turn to informal economy to survive. Some will barter occasional work for food and lodging. Others will engage in theft and petty crime. Drug dealing and prostitution will continue to increase as millions of ... human beings, stranded by a society that no longer needs or wants their labour, try to better their lot in life. Their cries for help will be largely ignored as Governments tighten their purse strings and shift spending priorities from welfare and job creation to beefed-up police security and the building of more prisons."[63]

(ii) *Wage flexibility*

Globalization dictates that wage differentials provide the incentives for workers to develop and maintain appropriate skill levels. In cases where the wage differential depends on factors other than education, including connections, race, family, rank or nepotism, there will be no incentive to attain higher education, productivity will be low and labour markets distorted. The correlation between educational attainment and earnings can be used as an indicator to measure labour market flexibility. In the Organization for Economic Cooperation and Development (OECD), that correlation is strong, and university graduates earn significantly more than upper secondary school graduates in all countries. Earning differentials between those two levels are generally more pronounced than those between upper secondary and lower levels. This

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[62] On the issue of the growing informal sector in the ESCWA region, refer to Mahmud Abdel Fadil, "Immigration, urbanization and poverty in the ESCWA region: The economic factors" (E/ESCWA/HS/2000/WG.1/8) (Arabic).

[63] Rifkin, op. cit, p. 239.

suggests that upper secondary education is a threshold after which additional education attracts a particularly high premium. This correlation does not exist in ESCWA member countries. Wages, especially in the public sector, are determined by rigid scales that are based on level of education upon entry and duration of service and are not in any way linked to productivity or efficiency. It is not easy to isolate wages from incomes arising from ownership in the informal sector, because most businesses are family-operated and many extended family members are not paid for their labour. Wage levels in the ESCWA region are inflexible and require the removal of labour market segmentations and introduction of links between wages rates and productivity in order to induce workers to upgrade their skill levels;

(iii) *Labour and skills flexibility*

In order to optimize employment in the global economy, it is vital that skills and labour are flexible, because this increases FDI and competitiveness. In the ESCWA region there are pronounced divisions in the labour market between the: formal and informal, public and private, rural and urban, and male and female.[64] The size of the public sector tends to discourage private initiatives and cause further distortions of the labour market. Education has been largely regarded as a tool for reducing illiteracy, and graduation from schools and colleges has been encouraged with little regard for skills acquisition. As a result, labour markets lack the accumulated skills and mobility that are currently considered essential in order to benefit from globalization.

Any developing region must have the competitive skills to attract FDI. The countries of the ESCWA region do not attract FDI because, in general, their graduates cannot compete with those from other developing regions. Most graduates in the region find it difficult to market their skills because the production sector cannot compete with imported products. There are no incentives for an individual to continue his education, because the level of unemployment in some countries of the region seems to rise with the level of education. Moreover, because of the cultural bias in favour of managerial posts, there is little enrolment in technical training. That does not mean that the ESCWA region does not have a good skilled labour force. However, the relatively high wages demanded by that force make it uncompetitive. Education in Lebanon, Yemen and Egypt has proved to be a mixed blessing, because too many graduates do not find jobs in the local markets and are forced to leave the country or become underemployed.[65] Lebanon, for example, is experiencing a massive brain drain.

The average number of years of schooling of the labour force in the region has increased in most countries over the past 20 years, yet the growth of per capita output and, in particular, real wages, has often been quite slow, and in many cases strongly negative. The slowdown in growth has occurred despite huge increases in education enrolment and expansions in human capital. At a time when it could have been expected that the massive investment in human capital of the 1970s and 1980s would be paying off in increases in the educational stock of the labour force, the economies of the region have become sluggish. Lant Pritchett[66] states that "the MENA region has an estimated coefficient on educational growth that is consistently lower than most other regions, and in fact is always negative for the non-oil MENA countries. The negative coefficient actually suggests that those countries that had more rapid educational expansion had slow growth". Distortions in the labour market and the growth of the informal sector have resulted in a low level of returns to schooling. In the public sector, there is a low correlation between productivity and/or education and secure employment and wages.

In such a situation, Governments are distorting the market for skilled labour by taking resources in the form of taxes or other revenues away from the economy, in order to pay surplus workers whose productivity is very low. This situation can be readily maintained when the Government has access to such untaxed

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[64] ESCWA, *Social Impact of Restructuring with Special Reference to Employment 1999*, table 8 (E/ESCWA/SD/1999/4).

[65] In Yemen 49 per cent of university graduates cannot find jobs in the local market, while 46 per cent of those employed work in fields other than their specialization. A similar pattern exists in Egypt, where unemployment among graduates is 18 per cent while it is zero for the uneducated.

[66] Lant Pritchett, "Has education had a growth payoff in the MENA region?", World Bank Discussion Paper, World Bank, December 1999, p. 7.

resources as oil revenue. With time, the dynamics of the labour market and, in particular, returns to education are completely changed. Wages may give no indication of the problem, because wage surveys measure the average return to education for workers of all ages, while what is relevant for the labour market entrant is the marginal return for his/her cohort of workers.[67] In this situation, new entrants to the labour market are those most affected. The high expenditure on education in the region, amounting to 5.1 per cent of gross national product (GNP) compared with 3.8 per cent in other developing countries and 5.2 per cent in developed countries,[68] has not proved efficient. Low quality education has prevented the rapidly-growing labour force from becoming internationally competitive and has placed a serious constraint on the adaptive capacity of the labour force to participate in the global economy. While primary and secondary enrolment rose during the 1970s and 1980s, progress since then has not been sustained, and rates of dropout from secondary school stand at some 25 per cent.[69]

The poor quality of primary education is reflected in the fact that no Grade 4 learners from ESCWA member countries reached an acceptable level of achievement, namely, 80 per cent in the joint United Nations Educational, Scientific and Cultural Organization and United Nations Children's Fund UNESCO/UNICEF *Monitoring Learning Achievement Survey*. The highest scores were achieved in Lebanon and Jordan, with 71 per cent and 63 per cent in Arabic language, 61 per cent and 51 per cent in mathematics and 63 per cent and 80 per cent in life skills respectively. In the 10 countries surveyed, only 12 per cent of students demonstrated a high level of skill in Arabic, while in mathematics and life skills, the figures were 10 and 25 per cent respectively. Almost half of Grade 4 learners demonstrated reasonable skill in these subjects, while between 20 and 30 per cent had below average skills.

TABLE 6. NUMBER OF UNIVERSITY STUDENTS BY FIELD OF STUDY, 1990/91 and 1998/99
(*Percentage*)

Field of study	ESCWA member countries		GCC States	
	1990/91	1998/99	1990/91	1998/99
Education	12.4	15.4	26.6	11.6
Arts	36.4	39.3	32.2	48.5
Business	19.9	18.0	12.9	5.1
Sciences	5.8	6.0	9.9	10.3
Medicine	7.1	7.4	7.0	4.2
Engineering	11.6	9.8	7.3	14.4
Agriculture	3.0	2.9	1.6	4.0
Other	0.5	1.1	2.4	0.9

Source: ESCWA, *Statistical Abstract of the ESCWA Region 2000* (E/ESCWA/STAT/2000/6).

The enrolment ratio in higher education ranges between 1 per cent in Yemen, 10 per cent in the Syrian Arab Republic and 27.1 per cent in Lebanon. According to UNESCO figures, in the Arab region, only 11 per cent of persons aged between 18 and 23 enrolled in universities, as against 76 per cent in the United States.[70] Table 6 shows that the majority of students study for degrees in the Arts, running the risk of future underemployment. The data shows that fewer than 5 per cent of secondary students enrol in technical education except in Lebanon, Egypt and Jordan, where the ratio is 14, 21 and 23 per cent respectively as against an average of 70 per cent in the Netherlands and 80 per cent in Germany.[71] Moreover, vocational and technical education both tend to cater to those who have dropped out of higher education for academic or financial reasons, who are often ill-equipped to meet the demands of the modern labour market and remain

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[67] Pritchett, loc. cit., p. 11.

[68] UNDP, *Human Development Report 2000* (New York, OUD/UNDP, 2000), p. 197.

[69] ESCWA, *Review of the Youth Situation in the ESCWA Region from the Perspective of Human Resources Development* (E/ESCWA/SD/2000/4).

[70] Quoted in El-Erian, loc. cit., p. 38.

[71] ESCWA, *Review of the Youth Situation*.

unemployed for a long time. In Egypt, for example, fewer than 10 per cent of the 53,000 students who graduated in 1996 were absorbed by the labour market. The rest are mostly engaged in poorly paid jobs in the informal sector or seek Government employment. That failure is because such training programmes are outdated, do not meet the demands of the labour market and are largely publicly funded, with little interaction with the private sector.

The poor return on investment in education in the region may be attributed to the historical widespread guarantee of public sector employment, poor quality of vocational and technical education and training that fails to produce the skills required in private production and service industries, and systems that emphasize rote learning over reasoning, adaptability and initiative. Production processes and economic competition in the twenty-first century demand learning achievements that go beyond simple memorization and repetition.[72] An indispensable starting point is solid achievement in the core competencies of literacy and numeracy. Beyond this, workers will have to respond to constantly changing tasks: problem solving will be the worker's most valuable capacity, in contrast to the assembly line workers ability to carry out manual tasks. Education must impart the skills that will enable workers to be flexible, analyse problems and synthesize information drawn from different contexts. All the indications are that education systems in the ESCWA region do not reward these skills, whereas countries that do will develop the national capacity to compete in international labour markets. While each country must determine its own particular needs, all must focus on academic standards that, once achieved, will enable workers to continue the learning process. Accurate measures of student and system performance can enable educators at all levels to identify changes that can eventually be used in order to modify education programmes and interventions.

D. RISKS AND OPPORTUNITIES FOR THE LABOUR MARKETS OF THE REGION

In the ESCWA region, the disadvantages of international competition are exacerbated by the fact that few businesses are sufficiently efficient, effective or technologically advanced to compete internationally. While those that are do hire employees, they can not absorb all the excess labour from inefficient industries that will be forced to close. Employees in the new era of globalization must be efficient, fast and technologically advanced in order to be able to benefit from a highly flexible labour market. The demand for skill is outpacing supply. Recent technological advances have been skills-biased, placing a premium on skilled labour. This fact sends an alarming message to ESCWA member countries, where the average level of schooling of the labour force is far lower than that of an "uneducated" worker in the United States or Europe, demand for whose services is falling.

The reality of the labour market is escalating rates of unemployment and underemployment. Given the relentless supply of new entrants to the labour market, the main concern must be the unemployed and underemployed rather than the total unemployment situation. New entrants to the labour force that do not possess the skills necessary in order to find productive and well-paid jobs are a threat to social stability. There is an urgent need to intensify vocational training, alter production modes from capital- to labour-intensive and make structural changes in the labour market in order to avoid the consequences of long-term youth unemployment and the increasing difficulty of integrating into globalized labour markets.

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[72] One of the main reasons for the increase in graduate unemployment is the fact that education systems in the Arab region are not keeping pace with global knowledge. Literacy no longer means merely the ability to read and write. It denotes other, more advanced skills, including, *inter alia*, knowledge of a foreign language and, in particular, of English, computer literacy and the ability to connect to the Internet.

IV. CASE STUDIES:* THE APPROACH TO GLOBALIZATION ADOPTED BY CERTAIN ESCWA MEMBER COUNTRIES

A. EGYPT

Despite significant progress over the past 20 years, Egypt still faces considerable challenges in completing the transition to an efficient, business-friendly and open economy. In order to create the required number of jobs, levels of personal income and services and improve the quality of life for Egyptians, rapid, sustainable and equitable private sector-led economic growth is required. Since 1991, when Egypt commenced implementation of a number of structural adjustment programmes, the economy has experienced a mixture of progress and inertia. The Government, anxious to avoid too abrupt disruption of the status quo, was slow to respond to World Bank and IMF advice to reform outdated and inefficient structures and practices. Living standards, of poor persons in particular, fell as subsidies were reduced and wages failed to keep pace with inflation. By the standards of other fast-developing low-income countries, current growth rates are too low: China, for example, has been recording growth of more than 10 per cent per annum. Growth rates are too low to raise living standards to acceptable levels. The World Bank estimates that a real GDP growth rate of between 4.4 and 4.6 per cent between mid-1996 and mid-2005 would result in unemployment rising from 10.3 per cent to 17 per cent of the labour force, while a gradual increase in growth from 5.7 per cent to 7.5 per cent during the same period would bring unemployment down to 6 per cent.[73]

1. *Youth unemployment*

Although the structural adjustment policies pursued since 1991 addressed most economic issues, they did not attempt to restructure labour markets. The overall result was an increase in unemployment. Some 250,000 jobs are needed annually over the forthcoming 10 years in order to absorb the current stock of unemployed persons, regardless of the more than 500,000 new entrants to the job market per annum. Youth (15-29 years of age) is a major problem in Egypt. This group is the most vulnerable to pressures arising from liberalization and globalization. The private sector has a limited absorptive capacity and cannot employ the public sector excess.[74] In the informal sector employment is characterized by a high level of illiteracy, low wages and unstable employment. The fact that Government laws, regulations and taxes do not regulate this sector has triggered an increase in demand and a consequent growth in the informal labour market. The sector cannot compete on a global level because of its low productivity and lack of technology. Child labour has increased in fields that do not require a high level of skills.

2. *The competitiveness of labour*

In order to compete in the global market, it is vital to have a labour force with high levels of education, skill and technological advancement. Countries including China and India are becoming more competitive with respect to unskilled labour, thereby putting pressure on Egypt, which has traditionally specialized in low-skill intensive manufacturing. Investment in human resource development is needed in order to improve the quality of the skills available. Despite a tremendous investment in education,[75] Egypt still rates poorly, having a literacy rate of 55.4 per cent and an average per person of fewer than five years of schooling. The poor quality of education is clear from the fact that the group most vulnerable to unemployment consists of those with a secondary or university education: such persons represent more than three quarters of those

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* The case studies in this chapter are preliminary and further in-depth studies are required. The cases of Iraq and Palestine were excluded as prevailing conditions in those areas overshadow the issues under discussion.

[73] Josept Licari, "Economic reform in Egypt in a changing global economy", *OECD Technical Papers*, No. 169, Organization for Economic Cooperation and Development (OECD), Paris 1997.

[74] Egyptian industries are becoming increasingly capital-intensive. It is estimated that during the period 1990-1995, 1 million Egyptian pounds (LE) of output growth resulted in only eight additional job opportunities (Nader Fergany, "Human development and acquisition of advanced knowledge in Arab countries", September 1999, unpublished).

[75] According to *Egypt Human Development Report 1997/98*, the proportion of Government expenditure allocated to education increased from 18 per cent in 1990/91 to 23 per cent in 1996/97 (Institute of National Planning, *Egypt Human Development Report 1997/98*, INP, Cairo, 1998), p. 25.

unemployed during the period 1990-1996. An average of 15 per cent of those with a university or postgraduate education were unemployed during the same period (see table 7). The World Bank believes the problem to be budget management and allocation, organizational efficiencies, human resource upgrading and restructuring of delivery systems[76] rather than merely budgeting.

TABLE 7. EGYPT: UNEMPLOYMENT BY LEVELS OF EDUCATION, 1991-1992 AND 1994-1995

(*Percentage*)

Year	Illiterate	Reads and writes	Less than mid-level certificate of education	Holds mid-level certificate of education	Holds upper mid-level certificate of education	Graduate of university or institute[a/]	Non-classified	Total
1991	3.7	1.7	3.5	66.8	8.2	16.0	0.1	100
1992	1.2	1.1	1.2	70.4	9.1	17.0	—	100
1994	1.0	0.7	1.4	74.7	8.1	14.1	—	100
1995	1.2	1.1	1.4	75.9	8.0	12.4	—	100

Source: Central Agency for Public Mobilization and Statistics, labour force surveys.

Notes: A dash (—) indicates that the amount is nil.

a/ Includes postgraduates.

Other factors that limit the competitiveness of labour are its inflexibility, lack of mobility, wage inflexibility and the difficulty of breaking away from past dependency on the public sector to the more dynamic and demanding private sector (see ESCWA, *Survey of Economic and Social Developments in the ESCWA Region 1997-1998, Part II*).

3. *A new role for the Government*

As has already been stated, market competitiveness is highly dependent on the Government acting as a regulator and ensuring competition through free access to information and markets. On the competitiveness indicator, Egypt's rank fell from 28 in 1997 to 49 in 1999 because of the lack of efficient institutions to support the market.[77] Business transactions in Egypt also suffer from a high level of corruption.[78] Another major impediment to globalization is the historical ineffectiveness of institutions. The legal system, for example, was created to support a highly centralized socialist system and has difficulty in facing the reality of diminishing State sectors and increasing privatization.[79] Cumbersome regulations impede new entrants into certain industries in order to protect public utility monopolies and rules and practices favour public over private enterprises. Egypt also suffers from a lack of transparency in the conduct of business and its bureaucracy is not conducive to a free market environment.

It should be noted that the negative effects on Egypt of trade liberalization have yet to be felt, because the country is still relatively closed. While tariffs and non-tariff barriers were reduced substantially in the early 1990s, they are still high. Tariffs are set at about 32 per cent, while the average in many developing countries is some 15 per cent.[80] As a result, Egyptian products are not competitive with regard to price or

[76] United Nations Agency for International Development (USAID), "Advancing the partnership: USAID/Egypt strategic plan 2000-2009", USAID, Cairo, 1999.

[77] World Economic Forum (WEF), *The Global Competitiveness Report 1999*, Geneva, WEF, 1999.

[78] On the World Bank Group Corruption Index, where "0" refers to a country where business transactions are entirely penetrated by corruption, Egypt rates 2.9. See corruption index available at www.wbln0018.worldbank.org. This fact partially explains the huge capital flight, estimated at some US$ 60 billion (Licari, loc. cit., p. 34).

[79] Egypt has received aid from the United States in order to train judicial personnel in civil law, implement serial administrative procedures, install computerized legal information and improve the efficiency of two pilot courts. The Egyptian Government has also provided funds for training, technical assistance and commodities to complement USAID funding.

[80] Licari, loc. cit.

quality.[81] Trade liberalization will negatively affect the traditional local production and increase unemployment. Furthermore, the few enterprises that are efficient and sufficiently advanced technologically to compete internationally will be at a disadvantage, because of global changes with respect to labour skills and technical advances to which the local education system fails to respond.

While Egypt has succeeded in slightly increasing world demand for its products, the international competitiveness of such products remains doubtful because of high tariffs and non-tariff barriers to trade, institutional structures, corruption, and lack of skills and technological progress.

B. JORDAN[82]

While its position compares favourably with other ESCWA member countries (see table 2), Jordan is facing globalization as a poor and overpopulated country which has to cope with a variety of challenges. Its economy is artificial, precariously dependent on exogenous regional and international factors, and there is significant cultural and political resistance to globalization. Moreover, the effect of liberalization policies is diluted by the weakness of civil society, the media and other basic democratic parameters considered by foreign investors as key factors in secure investment.

1. *Obstacles to globalization*

The labour market in Jordan is weak, and will remain so over the next few years, in the absence of dramatic changes that will improve both the country's economy and the regional situation. While the Government remains the leading employer, its ability to provide employment will steadily decrease over the next few years. It is therefore imperative that measures to combat unemployment are taken, particularly in view of the economic recession and regional political problems. Low FDI and a weak peace dividend have not helped to reduce unemployment. The Partnership Agreement with the EU, which has yet to enter into force, might be problematic, as accession to WTO has, in some respects, been. However, it is too early to draw firm conclusions.

While there has been a slight decline in growth rates over the past few years, the Jordanian population remains young and is increasing rapidly, and the labour force will continue to grow strongly over the next five years. New entrants to the labour market may, however, have improved skills and education profiles, if current Ministry of Education programmes are successful. The job opportunities available to entrants in the next five years are heavily dependent on such programmes, which can be positively influenced by the Jordanian Government and by donors. If curriculums and other aspects of the education system in Jordan are more responsive to the needs of a modern economy, which is facing globalization, the employment situation in many fresh graduates of Jordanian schools and universities could improve.

Jordan is pursuing various structural adjustment policies as a prelude to entering the era of globalization. However, the quality of human resources required to attract FDI limits the opportunities for job creation, and has led the Government to curb privatization plans in order to prevent increases in unemployment that might provoke further social unrest. In order to ease the adjustment of the Jordanian labour market to globalization and create thousand of new job opportunities for young people and, in particular, women, the Government, supported by the United States and EU, has also created qualifying industrial zones (QIZ).

There is increasing recognition in Jordan that small enterprises (SE), or enterprises that employ fewer than 10 workers, which is the case for 95 per cent of all enterprises in the country, can be a powerful tool for economic growth, employment generation and technology acquisition. It is therefore vital that the capacities of SEs, to deal with global challenges and opportunities, including the use of IT, are enhanced. It is estimated

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[81] World Bank, "Arab Republic of Egypt: country economic memorandum March 15, 1997", World Bank, Washington, D.C., 1997.

[82] This section is based on a consultancy entitled "The role of globalization in labour market development: the case of Jordan", by Riad al Khouri.

that there are 25,000 businesses that employ 60 per cent of the industrial labour force, the majority of which use outdated equipment, have few proper management capabilities, and are largely unable to undertake regional marketing, let alone sustainable, profitable international activity. While institutions providing assistance for the development of SEs have been created, such exercises have often failed, and Jordan still lacks the infrastructure necessary for sustainable and balanced growth of SEs. Moreover, in a changing global economy, the technological advances made in other, similar economies, which are supported by organizational management, pose serious challenges to Jordanian SEs, where comparatively high wages and little investment in technical expertise and human resources will have a negative impact. Effective SE support institutions and infrastructure are needed in order to realize their potential and integrate SEs into holistic economic development. However, Jordan lacks a comprehensive SE development policy based upon a proper understanding by planners of the contribution which SEs can make to major national economic goals including employment creation and labour market development.

In order to counteract possible negative impact of privatization on employment in Jordan, facilitate the transformation process and contribute to sustainable growth, institutions must be supported. The development of SEs is imperative. While various institutions and programmes are exerting endeavours, they have been only partially successful and have not kept pace with the growth in SEs. As Jordan strives to overcome the effects of growing competition in traditional markets, it must also face the challenge posed by neighbouring countries where costs are lower and by other competitors worldwide. Family ownership of SEs and their local links must be supplemented by new management methods, improved skills and technology and international quality and marketing standards. Strengthening the export capacity of SEs is therefore crucial.

2. *New approaches to education and training*

While much must be done in these fields if Jordanian human resources are to be brought into line with global requirements, some considerable achievements should be noted. Jordan has succeeded in reducing illiteracy from 22.5 per cent in 1988 to 11 per cent in 1998. The demand for higher education has increased, and there are currently seven official universities, nine private universities, three university colleges, and several intermediate (public and private) colleges, in addition to colleges run by the armed forces. However, the higher education subsector suffers from lack of adequate evaluation mechanisms and a surplus of graduates.

The education sector will bear the brunt of coping with the development process and market requirements of globalization. Educational establishments in Jordan have, on the whole, yet to organize programmes that respond to new developments in the labour market or keep pace with the demand for the skills required in the global market.

Vocational training, in particular, faces a number of problems, including limited involvement on the part of the private sector, a low level of services, the need to update legislation and a lack of data on the labour market. A further problem is the failure to teach innovative or entrepreneurial attitudes. Entrepreneurial concepts and practices must be introduced at various educational levels, including secondary schools, vocational and technical centres, universities and other higher education institutions. Students must be helped to increase their motivation, self-confidence, risk-taking, initiative and creativity, if they are to be enabled to start businesses and generate innovative ideas. Jordan's current education system does little to encourage self-employment.

Box 9. The application of IT in education

A significant development in the Jordanian education sector has been the recent increase in the application of IT to learning. The Jordanian Ministry of Planning is involved in two major IT programmes that are part of a US$ 74 million project to improve higher education. Bids have been invited internationally for the supply of PCs and servers. The World Bank is supervising progress on this project, for which Jordan has been loaned US$ 35 million. A total of US$ 30 million has been allocated for the installation of infrastructure including hardware, software and applications. This will provide inter- and

Box 9 (*continued*)

intra-university connectivity and global connectivity via the Internet, and give students and faculty access to national and global research data and the ability to correspond electronically with educators on the national and global level. The scheme will finance computer equipment and training in modern management information systems for decision-making by the Council for Higher Education. It will also fund the development of an inter-university library system with the aim of increasing the overall efficiency of libraries in the Jordanian public education system and facilitating access and the exchange of information between public universities. Training for individuals who will be assigned as faculty developers in each institution will also be supported. Once the IT network has been established, the project will finance student and faculty computers and networks, professional and end-user training, educational technologies and human resources. These and similar projects will help Jordanian educational institutions to acquire the resources to enhance skills, and technologies appropriate to the global economy.

3. *The measures necessary in order to increase the benefits of globalization*

Privatization efforts in Jordan are still restricted by, *inter alia*, clever accounting practices in public sector entities. Resources spent unproductively in the public sector should be reallocated. However, if the economy is to be transformed, other changes must also be carried out, including commercialization and deregulation. The latter often have a positive impact on employment.

Strong commitment is needed in order to eliminate vested interests and end the inertia in the present Jordanian system. Because of its vulnerability to external factors, and in order to preserve stability it may be felt necessary to slow down the process of change in the economy, and in that case, privatization could be further delayed. Improved access to data and information, the simplification of the bureaucratic procedures governing businesses, and the dismantling of remaining public sector monopolies in product and service sectors should continue to be priorities.

The State has other roles to play in making the labour market more efficient. It can, for example, help jobseekers to find available work opportunities by expanding its existing placement service. According to the 1999 Ministry of Labour *Annual Report*, the size of the national workforce is 1.196 million, and there is an unemployment rate of 14.4 per cent, there being some 172,000 unemployed persons. The same source indicates that only 10,676 persons, namely, just over 6 per cent of the unemployed, registered with the Ministry as seeking work. Jobs were found for 7,563 such persons, a placement rate of almost 71 per cent. This service should be expanded.

The Jordanian public sector includes strong vested-interest groups whose income, status, and authority are closely linked to the continuation of the status quo. The leadership has emphasized that economic reform should proceed within a framework of social equity. However, there is a conflict between short-term expediency and long-term viability. Political constraints may militate against bold and wide-ranging reforms. However, the problems will only become more acute with time and the need for changes will be even greater.

A scenario may be envisaged in which globalization has few adverse employment consequences, because a favourable macroeconomic environment will prevail once FDI increases with the establishment of regional peace and structural adjustment funds, particularly from the EU, pour in, spurring strong economic performance and helping to cut unemployment. While, this would appear unduly optimistic, the nightmare of mass unemployment caused by globalization is probably equally unlikely. Much depends on Government management of the process.

The social implications of globalization, particularly with respect to unemployment, are beginning to be taken more seriously in Jordan. In general, the State will have to take a larger part in improving the labour market while, at the same time, its role as an employer diminishes. The Government must also help SMEs to function, improve the education sector and promote special zones and other schemes with a view to enhancing employment in the export sector.

C. Lebanon

Lebanon is faced with the challenge of entering the global age while trying to recover from two decades of social, human and material destruction. After a period of growth, the Lebanese economy has been in recession since 1998. Before the civil war, the country's ranking on the regional human development index was high. It has since deteriorated because of the dramatic decrease in per capita GDP.[83] While an increase of GDP might improve the overall economic situation, growth does not necessarily reach the whole population. Lebanon has experienced major development in some regions, principally Beirut and Mount Lebanon, yet most rural areas are being further marginalized.

1. *Main obstacles to globalization*

Lebanon is unique in the region and a globalization pioneer because of the openness of its economy. However, the free economic system has not evolved any further since the mid-1970s because of the civil war. The role previously played by Lebanon has been assumed by other regional centres including Amman, the United Arab Emirates, Bahrain and Cairo. Paradoxically, the Lebanese themselves have helped to make this possible, by moving the service sector abroad. The comparative advantage enjoyed by Lebanon was destroyed by the civil war and, because of deep structural problems, has never been recovered. By mid-2001, Lebanon was struggling to cope with an estimated deficit of US$ 25 billion. The legal framework for attracting funds from abroad exists, but the manner in which the law is applied prevents even Lebanese expatriates from investing in their own country. While Lebanon may exercise a number of options for re-entry to the globalization process, four main obstacles stand in its path.

(a) *The absence of an overall perspective*

The absence of an overall perspective prevents Lebanon from having a specific economic objective. Being small in area and population, and having few natural resources, Lebanon can have no comparative advantage in the industrial or agricultural sectors. In order to benefit from globalization, it must focus on the service sector and on its historical comparative advantage, namely, the dynamism of its people. Lebanon has the chance to become a major player in international networking by playing the role of intermediary between the global economy and the region. It can assess the current state of ICT and assist in the transfer of technology to the region because of its relative technological advancement and the superior skills of its labour force. It has by far the highest level of connectivity of the non-GCC Arab countries, with 70.3 users per 1,000 people, the average of aggregate non-GCC countries being 7.1 users per 1,000 people (see table 4). This could provide work opportunities for new graduates. Another option for Lebanon is to focus on tourism and adopt a tourism-oriented economy akin to that of Cyprus, which is internationally known for its nightlife. Certain areas of Beirut have public houses, night-clubs and seasonal festivals that have been tremendously developed over the past few years. The infrastructure serving entertainment, restaurants, hotels and shopping is modern and eclectic and provides a unique blend of western and Arab cultures.

(b) *Imbalances in investments across Lebanon*

A further problem is the unequal distribution of development funds. Some regions are favoured over others and clusters of extreme wealth have been created in a sea of poverty. It may be convincingly argued that such disparities created the tensions that caused the civil war. There is a need to develop productive sectors in rural areas and create a unified civil society.

(c) *Lack of reliable data*

A third problem is the lack of reliable date. With no proper evaluation of the needs of the population, an efficient economic and social strategy cannot be designed. Moreover, the lack of data also means that the population and its needs is not properly consulted, which has exacerbated political and social tensions.

[83] UNDP, "Sustainable human development in the Lebanese context", available at www.undp.org.lb/Reports/hdr97/chapter1.htm.

Mutual mistrust seriously compromises any chance of building genuine and fruitful interaction between the State and civil society.

(d) *The inefficient legislative infrastructure*

The final problem is corruption and the monopoly exercised by the Lebanese State in certain deficit-burdened enterprises, including Electricité du Liban and Middle East Airlines (MEA). Mechanisms are needed in order to monitor market imperfections including monopolies, trust and exclusivity contracts. Anti-trust regulations should be a priority, together with privatization, because potential investors are reluctant to venture into sectors that are heavily monopolized.

2. *The brain drain and foreign labour*

The labour force in Lebanon is overeducated for the needs of the market. Young people in Lebanon aim to gain university and other higher degrees, while the need of the market is for labour with vocational and technical training. This fact, combined with the economic recession, leads an estimated 5,000 to 10,000 young people each month to emigrate. While this is a temporary solution to the unemployment problem, the brain drain is depleting the country of skills and exacerbating the lack of competitiveness of the labour force. At the same time, the wage differentials between the Lebanese workforce and unskilled labour from neighbouring countries, encourage the inflow of cheap, unskilled manpower.[84] There are no official figures on the size of this inflow, however, unofficial sources estimate the number of foreigners to be in excess of 500,000, the majority being from the Syrian Arab Republic. This situation both exacerbates Lebanese unemployment figures and increases the amount of money leaving the country.[85]

There are no clear figures on unemployment. While the official rate ranges between 8.5 and 10 per cent, more realistic estimates place the figure at 20 per cent.[86]

3. *A new role for the Government*

Lebanon provides an excellent demonstration of the undesirability of public sector involvement with public utilities. These utilities are both inefficient and unable to meet demand. They are not controlled by profit-seeking private enterprise and have been led by political interests to expand inappropriately. The imposition of indirect taxes on electricity and water in order to provide Government revenue raises utility costs, and the lack of efficiency causes frequent power shortages. The Government has rightly recognized the need to shed responsibility for public utilities that have hitherto burdened the national economy, including MEA, Liban Post, public transport, electricity and water, all of which have been heavily overstaffed for the past 20 years.

Such privatization will not only reduce the budget deficit but will also end the drain on public resources and allow the Government to focus on its new role as regulator. It will also open the way for FDI. However, such economic liberalization must be supported by the updating of legislation, an adequate legal framework and other measures necessary in order to fight corruption and increase the transparency of the economy as a whole.

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[84] This informal flow of cheap labour contributes to the national economy by lowering production costs in manufacturing, construction and agriculture because the employer does not pay social security contributions or health insurance coverage for non-Lebanese workers.

[85] Kamal Hamdan, "Employment in Lebanon: an oveview", paper presented to the National Seminar on Employment in Lebanon, held in Beirut on 3 February 1999.

[86] ESCWA, *Survey of Economic and Social Developments in the ESCWA Region 1999-2000*, United Nations publication, Sales No. E.00.II.L.7.

4. *Conclusions*

Lebanon, having a liberal economy, a skilled workforce and a dynamic and trilingual population, was a pioneer in globalization. Table 2 sets forth the country's structural and social problems: it has a qualified workforce but cannot utilize it. There is no structure to absorb scientists, artists or economists. Other fields, such as medicine and engineering, are saturated, and there is a mismatch between skills and wages. Reforms are inequitable: not all the regions have good infrastructure and not all the social strata benefit from economic or political reforms. Globalization means that Lebanon must focus on its goals and act as an entity rather than as an economically, politically and socially fragmented group. Currently, Lebanon seems to be a land of missed opportunities.

D. GULF COOPERATION COUNCIL COUNTRIES

The GCC countries are currently considering the advisability of accelerating globalization-related procedures. Some view globalization as a threat, while others see it as an opportunity. All desire growth that will increase employment opportunities for nationals and decrease reliance on expatriate workers. There is a need to reduce the role of the State, increase private sector participation, open up to domestic and foreign capital, improve the regulatory environment, reduce bureaucratic procedures, put in place labour market reforms and increase transparency and the dissemination of information. While these are not totally new policy prescriptions, Governments having already implemented some of these reforms, the strategy must be both comprehensive and bold if it is to produce the desired outcome. FDI is required, not merely as capital, but also in order to facilitate the transfer of technology and expertise. The conflict is escalating between the desire for economic gain from globalization and the resistance arising from cultural sensitivities to the social liberalization associated with it.

Its advocates consider that, globalization will encourage the investment and business opportunities that are needed in order to generate new jobs. By becoming part of the global rules-based economy, the region can achieve higher, sustainable growth to match the rapid population growth. Those who resist change believe that focusing on the Gulf region alone should be sufficient to sustain growth and will not entail exposure to western life styles. There is a conflict between the younger generation, that is trying to be more pragmatic and flexible, and the older generation, that still holds to traditional concepts of economics, community and culture. With time, the balance between the two will change: 60 per cent of the population of the Gulf region is aged under 25, and some 40 per cent is aged under 15.

1. *Current stage of globalization*

In recent years, GCC States have taken specific measures to liberalize their economies, with a view either to reducing Government expenditure or increasing revenue at a time when oil prices were fluctuating. Since the collapse of oil revenues in 1986, such attempts at reform have been prompted by financial crisis, and have taken the form of a series of ad-hoc, ill-coordinated measures that resulted in economic recession rather than restructuring. Furthermore, as soon as oil revenues recovered, austerity measures were relaxed and the will to reform quickly faded. To date, all major economic changes have been initiated by Government rather than in response to market needs. The structural reforms necessary for globalization cannot be achieved without the active participation of the private sector and civil society.

It is increasingly recognized that in order to meet the challenges of globalization, GCC economies require technology and capital inflows from both foreign sources and national funds held abroad. Private capital invested by nationals abroad is estimated to be worth between US$ 720 billion and US$ 1.2 trillion, which represents the equivalent of 400 per cent of combined GDP for the GCC States.[87] The value of capital flight from Saudi Arabia, Qatar, Kuwait and the United Arab Emirates in 2000 alone is estimated at US$ 300 billion. One reason for this situation is the lack of security for investments. Albeit GCC States have high

[87] The Middle East, *Economic Report on the GCC*, January 2001, p. 27.

GDP, they rank average to below average on the index of economic security.[88] This may be due to the lack of transparency, clear regulations and contract laws that are crucial for attracting domestic savings and FDI.

Restructuring efforts and reform measures aimed at liberalizing the economies of GCC States continue to be sporadic, with the State remaining both the dominant agent in directing the economy and the principle source of employment and investment in both oil and non-oil sectors. Public sector reform, globalization, privatization, and the involvement of the private sector in public services are all challenges facing Governments.[89] However, there are two important employment-related issues, namely, the negative impact on employment of privatization and employment reform. The productivity of the labour force will only become a serious issue when Governments act in a purely regulatory capacity, while giving the executive power to the private sector.

The fragmentation of the private sector into small units makes it vulnerable to the new challenges arising from globalization. Such fragmentation contradicts the spirit of globalization.[90] Not only are such units in competition with TNCs that are armed with the latest managerial and organizational skills and supported by the latest IT, but TNCs prefer to deal with national counterparts with comparable managerial skills and the capacity to absorb new technologies and capital inflow in accordance with the new trade and finance rules outlined by the WTO. Furthermore, the economic reform policies embarked upon by all GCC States in their efforts to promote socio-economic restructuring will eventually deprive those small units of the preferential treatment they have hitherto enjoyed. Their only options in facing the challenges of the new economic realities will be to amalgamate with other units and streamline their business, or enlarge their shareholding basis by including other non-family members.

Table 2 makes it clear that GCC States lack the macroeconomic environment necessary for globalization. This is largely due to the heavy dependency on oil as the principal source of revenue. A diversification strategy is required in order to decrease reliance on the oil sector. Any such strategy must include: (a) the adoption of an export-led diversification strategy; (b) the development of small and medium enterprises (SMEs); (c) the promotion of technology transfer through the adoption of capital-intensive production methods, and use of highly advanced technology, scientific research and development; (d) the creation of a dynamic, efficient and competitive private sector; (e) the pursuit of privatization policies; (f) the upgrading of laws and systems; the simplification of procedures; (g) the promotion of investment; and (h) the proper and efficient development of human resources, enabling them to accommodate to rapid technological change.

In Oman the performance of economic diversification sectors in the fifth five-year plan has been modest. Non-oil sectors registered an annual growth rate of 3.5 per cent during the period from 1996 to 1999. The average annual growth rate in productive sectors was 1.8 per cent. Non-Government services sectors registered a growth rate of 4.1 per cent. In 1999, the non-oil sector share of GDP was 62.5 per cent. A major role in the diversification of the economy has been given to the tourism sector. The Government intention is to expand tourism as rapidly as possible, and make it a major factor in the economy of the country. However, progress has been slow, in part because of the reluctance of the Government to expose traditional Omanis to Western tourists. Furthermore, transportation and accommodation in Oman remains relatively expensive, making the development of a large-scale package-holiday industry difficult (see the Economist Intelligence Unit, *Country Report: Oman*, January 2001).

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[88] Defined as the institutional framework that inspires confidence of savers and investors and guarantees the physical security of individuals and the legal security of transactions.

[89] Oman has embarked on a relatively large-scale privatization programme as part of a broader effort to reverse domestic capital outflows and attract FDI. Two investment companies, the Oman and Emirates Investment Holding Company and the Trans Gulf Industrial Investment Company, with State and private share-holdings, were launched in 1993 and given mandates to invest the shares of privatized companies.

[90] Historically, small, family-owned business enterprises have dominated the private sector. In Saudi Arabia 450,000 such units in the commercial, industrial and service sectors are registered. In Bahrain there are some 30,000 units, and over 143,000 in the United Arab Emirates. In contrast, only 382 shareholding companies were registered in Saudi Arabia in 1997.

Tourism is expected to make a significant contribution to the economy, and the share of the sector in GDP is expected to reach some 18 per cent by 2020, and to have become the most important sector of the Omani economy. Moreover, it is expected that its value-added will increase by an annual average of 3.9 per cent.

Issues related to population, labour force and employment must be handled in a coordinated manner in order to strengthen society's adaptability to the new global challenges. ICTs are rapidly penetrating the region, introducing new concepts and imposing change on the social structure. Such change is difficult to reverse and is bound to penetrate deep into all sectors of society. Terms such as transparency, accountability and good governance are increasingly being used in the press and public communications. Shafeeq Ghabra, Director of Kuwait Information Office, states that the impact of the Bretton Woods institutions and WTO is much more serious today than it ever has been in the history of the region. The GCC region is facing issues of transparency, accountability, privatization, limiting the State, communications, open versus closed systems, participation, power-sharing and facing up to corruption. This is a decade of change in the Gulf region.[91]

Box 10. Globalization transforming Omani culture

In the era of globalization, it is important for culture to be preserved, especially in a conservative society like Oman. However, it is difficult to maintain a balance between tradition and modernity, given the fast pace of global change. We are witnessing the emergence of a new era: the age of the super information-highway and the Internet. The impact of satellite television and other media on conservative societies like Oman may accelerate the removal of barriers to the outside world and the adoption of westernized styles of living. Our national cultures, our societies, and even the privacy of our own homes is being invaded. The old concepts of sovereignty and the nation-state have completely changed. The world has shrunk: business transactions between continents can be instantly completed. The technological revolution and its tools bombard us daily with numerous cultural value systems and different views of the world. The major challenge of the globalization processing is how to preserve our cultural identity while joining the rest of the world in enjoying the fruits of technological progress. This is not easy, but we must not be isolated, because that could exacerbate the marginalization of Oman in world trade. We must preserve what is good and beneficial from our past, tap into what globalization has to offer and select what is appropriate for us.

Source: Based on an interim consultancy report on Oman and globalization.

2. *The national expatriate dilemma*

An estimated 7.5 million expatriates are currently working in GCC States, while unemployment figures for nationals range between 420,000 and 475,000, a bare 7 per cent of the total expatriate labour force.[92] However, the difficulty of substitution between the two categories is resulting in unemployment among nationals as being one of the basic socio-economic problems faced by the GCC region, and one that has been escalating over the past few years. According to a study on the future composition of the labour force which assumes that past trends will be maintained, the demand for expatriates is projected to increase from 6,143,000 in 1995 to 10,799,000 in 2010, while the demand for nationals in the labour force will increase from 2,857,000 in 1995 to 5,013,000 in 2010. Demographic increases will result in an estimated rise in unemployment amongst nationals from 4.4 per cent in 1995 to 13.7 per cent in 2010.[93]

[91] Transcript of twentieth in series of Capitol Hill conferences convened by the Middle East Policy Council and held on 1 February 2000. "Joining the global rules-based economy: challenges and opportunities for the GCC", available at http://www.mepc.organizations/forums/chcs/20.htm.

[92] Maurice Girgis, "National versus migrants workers in the GCC: coping with change", paper presented at the Third Mediterranean Development Forum in Cairo, March 2000.

[93] Mohammad Adnan Wadi, "Human development, human resource development and substitution in the Gulf countries", Arab Planning Institute, Kuwait, 2000.

TABLE 8. GCC NATIONAL AND EXPATRIATE MANPOWER GROWTH, 1985-1995
(*Thousands*)

Country	Nationals		Expatriates		Total		Percentage of nationals/total		Annual rates growth	
	1985	1995	1985	1995	1985	1995	1985	1995	National 1985	Expatriate 1995
Bahrain[a]	71.8	90.7	98.8	135.8	170.6	226.5	42.1	40.0	2.4	2.9
Kuwait	95.9	174.9	574.5	876.6	670.4	1 051.5	14.3	16.6	6.2	4.6
Oman	1 77.9	240.0	191.1	430.3	369.0	670.3	48.2	35.8	3.0	6.2
Qatar	23.5	39.0	76.7	179.0	100.2	218.0	23.5	17.9	5.2	8.1
Saudi Arabia	1 619.6	1 869.0	2 722.5	4 581.0	4 342.1	6 450.0	37.3	36.5	1.4	4.0
United Arab Emirates	65.1	111.2	460.2	843.9	525.3	955.1	12.4	11.6	5.5	6.2
Total	2 053.8	2 524.8	4 123.8	7 046.6	6 177.6	9 571.4	33.2	26.4	2.1	4.5

Source: Girgis, loc. cit.

a/ Data in the 1995 column are from 1991.

Because of the large number of expatriates in the Gulf region and the heavy dependency on them to perform a wide variety of jobs which nationals are reluctant to undertake, labour markets in GCC States suffer from a number of structural inflexibilities that vary in intensity from one country to another. Such problems include: (a) the difficulty of substituting nationals for expatriates; (b) labour markets which are made inflexible by labour law restrictions; (c) the high wage expectations of nationals; (d) the high social and economic costs of maintaining expatriates; and (e) concentration of nationals in public sector jobs and the increasing number of new entrants to the labour market caused by: (i) demographic factors; (ii) increases in the educational attainment of nationals; and (iii) the increasing participation of women in the labour force.

TABLE 9. OMAN: OCCUPATIONAL DISTRIBUTION

Occupation	New jobs	Supply of Omanis	Balance supply: demand	Expatriates December 1999
Professional	23 010	23 590	580	42 250
Technical	11 370	10 340	(1 030)	11 870
Skilled	15 740	58 490	42 750	55 550
Semi-skilled	105 210	21 780	(83 430)	343 210
Unskilled	11 930	19 500	757	21 837
Total	167 260	133 700	(33 560)	474 717

Source: Ministry of National Economy, 2000.

Note: ( ) indicates negative.

In addition to the problems set forth above, the ease with which skilled, qualified and experienced labour can be imported on demand, compared with the option of costly and time-consuming investment in developing national manpower, makes the recruitment of expatriates highly attractive to employers. While Governments have emphasized the importance of employing nationals, little action has been taken in the private sector. With the exception of certain managerial and clerical jobs, only a limited number of nationals are employed in the private sector. The common complaint of the private sector is that the wage differential and training costs of nationals is much higher than that of employing well-trained expatriates. Moreover, it is difficult to terminate the employment of underemployed nationals, and all too often, young trainees move to other jobs and the training investment is wasted.

Box 11. Omanization of the labour force

After more than a decade of very rapid expansion, the growth of public sector employment in Oman has slowed. The greatest opportunities for Omanization are affected by the private sector, where the capacity for growth and employment continues to increase. The Omani Government considers the Omanization process as a national priority, and its aim is to reduce the total number of expatriates in the country to a minimum. At present, the private sector in Oman is almost totally dependent on expatriates at all levels. The number of Omanis in the private sector increased from 76,500 in 1995 to 126,000 in 1999, an average annual growth rate of 13.3 per cent. However, they represented only 14.8 per cent and 28.6 per cent of employees in the private sector in 1995 and 1999 respectively. Most Omanis work in managerial and administrative positions, indicating that they lack other experience. The Government has therefore, for social and political reasons, had to intervene to rectify this imbalance.

The challenge facing the Government is to reduce the number of expatriates employed in Oman and minimize dependence on them, especially in the private sector. While the Omanization policy has been implemented relatively easily in the public sector it is difficult to impose a similar policy on the competitive private sector.

However, with the rapid increase in the number of Omani graduates from universities and other educational and training institutions, Oman's manpower situation suffers from disequilibrium, primarily in the public service, where supply sometimes outstrips demand. Nevertheless, it can be argued that the Government, despite the lack of a comprehensive manpower plan and job classification system or clearly defined localization policies, appears to be serious about changing this situation, by Omanizing the entire workforce of the country.[a/]

There is a continuing pressure for Omanization, in order to meet the needs of the growing number of unemployed Omanis. The unemployment situation worries many students, and could eventually lead to student dropout. In response to such pressure, Oman has introduced legislation to restrict the number of expatriates. Results have been achieved in this area, as evidenced by the negative rate of growth in expatriate employees, of -2.4 per cent per annum over the period 1995-1999.

Source: From an interim consultancy report on Oman and globalization.

a/ C. Morris, "Oman: a report", Morris International, 1991. Quoted in source consultancy report.

In their efforts to deal with national unemployment, GCC Governments have implemented various schemes aimed at nationalizing the labour force. Measures have included considerably reducing the number of foreign workers' permits available and the promulgation of laws to impose the hiring of nationals in all sectors. However, such measures have proved ineffective in dealing with national unemployment. At the 21st Summit of the GCC in December 2000, it was decided to gradually reduce the number of foreign workers, in order to achieve a demographic balance. While no quantitative targets were set, it was agreed to set quotas for foreign workers, increase taxes on their recruitment, discourage local employers from resorting to foreign labour and limit the number of unskilled foreigners. While such measures may temporarily improve employment opportunities for nationals, they will have a minimal effect on the competitiveness of labour. Mere replacement based on nationality and not skills, effectiveness and efficiency may reduce the overall competitiveness of the product or service offered. In a globalized economy where mobility and competitiveness are the key, such measures could even prove disadvantageous.

In Saudi Arabia unemployment among young Saudis is on the increase. In December 2000 the Deputy Chairman of the Manpower Council estimated unemployment among Saudis at some 14 per cent, while others cited figures of 20 per cent or higher. According to estimates by the Saudi American Bank, the national economy creates some 30,000 jobs each year for Saudi nationals. However, the number entering the job market annually is 100,000, 63 per cent of whom are secondary school graduates.

In Kuwait, the total number of students graduating annually from scientific institutions, colleges and schools and other potential job-seekers is some 10,000. In the past, most new graduates were absorbed by the public sector, however, it is currently saturated and downsizing through privatization is being discussed. The main potential for job creation lies in the private sector, where foreigners currently comprise more than 90 per cent of the workforce. Measures to nationalize private sector employment, encouraged by GCC

Governments, are being strongly resisted by the business community on the grounds that most graduates lack the skills needed to compete effectively with the highly-qualified and lower-paid foreign labour. Furthermore, nationals refuse a wide spectrum of available jobs on the grounds that they are not socially suitable and require harder work or provide lower pay and fewer fringe benefits than the public sector (see Girgis, loc. cit.).

TABLE 10. PRIVATE AND PUBLIC SECTOR EMPLOYMENT IN OMAN, 1995-1999

	Private sector (thousands)				Growth rate	
	1995	1996	1997	1998	1995-1999	
Omanis	76.5	86.5	98.5	112.7	126.0	13.3
Expatriates	441.8	483.8	492.5	501.5	474.7	1.8
Total	518.3	570.3	591	614.2	600.7	3.8
	Public sector (thousands)					
Omanis	75.8	68.6	70.5	72.3	76.7	0.3
Expatriates	34.8	33.5	33.1	76.7	31.6	(2.4)
Total	110.6	102.1	103.6	105.7	108.3	(0.5)
	Total employment (thousands)					
Omanis	152.3	155.1	169	185	202.7	7.4
Expatriates	476.6	517.3	525.6	534.9	506.3	1.6
Total	628.9	672.4	694.6	719.9	709.0	3.0

Source: Ministry of National Economy, 2000.

Note: ( ) indicates negative.

Therefore, the dominant work ethic, the lack of individual dedication to hard work and competitiveness, which is encouraged by the social welfare system, and an educational system employing outdated curriculums, will continue to be the main obstacles to replacing expatriates with national labour. The rigid and inflexible attitude of nationals to work is a function of the social environment. Because the national labour force grew up within a rentier State, citizens feel a sense of entitlement to the social welfare with which they have hitherto been provided, including generous remuneration irrespective of productivity. Such work attitudes may continue for another generation and will continue to cause labour market distortions until such time as nationals acquire the required skills, change their attitudes to work and adjust their wage expectations to market realities.

The issue of women's employment illustrates the importance of work attitudes in adjusting labour markets imbalances. In GCC countries, women are underutilized. If properly integrated into the labour market, the female labour force would not only reduce dependence on expatriate labour, but also save the social services cost incurred by expatriate labour. The numbers of young women currently being educated will swell the female labour force, in occupations like teaching, nursing and other public services in particular. According to the *1996 Oman Manpower Survey*, fewer than 4 per cent of women with primary school education as against over 90 per cent of women with an intermediate level education or higher are in the work force. As ever-increasing numbers of Omani females are educated to the intermediate level and beyond, female rates of participation in the labour force will increase substantially. This will be an important development for Oman, in its search for ways to replace expatriate with national workers. Women are also expected to become major contributors in sectors where a single-sex environment is possible, including banking, health, education and social and community work. The more flexible the attitude to work is, the more productive and diversified female labour force participation will become.

3. *A new role for Governments*

In GCC States the public sector remains the primary source of employment for nationals. While unemployment and other benefits and substantial rates of pay were introduced for social protection purposes, with globalization these are exacerbating the problems that they are supposed to attenuate, especially unemployment. It is vital to change the attitude of nationals towards employment in the private sector and the relevance of productivity to remuneration must be made clear, especially to young people, who must adopt work ethics based on productivity rather than social status. Governments must reduce the benefits gap between the private and public sectors. This will not only reduce Government costs but also have direct implications for labour mobility. The number of nationals in the private sector can also be increased by subsidizing training and internship, in order to render nationals more productive and efficient. Such schemes will encourage new entrants and young people in particular to learn new skills and join the private sector.

A related issue is the ability of the public sector to continue investing in infrastructure and such public utilities as electricity, transportation and telecommunications. Government ownership of infrastructural facilities ranges from 45 per cent in the United Arab Emirates to 70 per cent in Kuwait. As GCC Governments increase the involvement of the private sector in infrastructure, they will have to create an enabling environment and, in particular, develop more systematic approaches to regulation by defining sectors in which competition can ensure the efficient delivery of services and updated technologies; creating regulatory bodies to monitor sectors where competition is insufficient; and deciding on a consistent targeting policy to provide support to certain projects, on the basis of national priorities. Furthermore, they will have to extend their reforms of the legal and judicial framework, including the resolution of disputes mechanism and property rights protection, in order to enable the private sector to finance infrastructural projects. Without such reforms private investors will require higher returns in order to compensate for higher risks, which will be translated into higher prices for consumers.

Last but not least, transparency and accountability are essential for globalization and have a tremendous influence on attracting FDI. The absence of a clear commitment to reform means that investors will continue to face an uncertain environment. Governments should not send mixed signals about their commitment to trade liberalization, to privatization, to stemming corruption, and to the development of their legal and financial systems. Half-hearted liberalization policies, or stop and go approaches to reform are a sure way to lose credibility. Now is the time to signal serious policy commitments and structural adjustment to the private sector.[94]

Since globalization dramatically transforms the international labour situation, and continuously changes job requirements, a labour force with flexible skills is required. Reforms must be comprehensive and cover all stages of formal education. Basic sciences, computer literacy and foreign languages must be introduced at elementary educational level. Governments must introduce vocational and informal education in courses tailored for practical, market-oriented needs and with field training that emphasizes productivity.

Box 12. Successful globalization-related efforts in the United Arab Emirates

In response to diminishing oil revenues in the 1980s, United Arab Emirates started diversifying its economy in order to achieve a viable and diversified economic base. There is a broad concensus that domestic reforms, physical adjustments, privatization and private investment are essential to this end.

The United Arab Emirates is well prepared for globalization: the communications infrastructure is excellent, utilities are efficient and the private sector is encouraged to assume a leading role. Over the past few years, Dubai has implemented several projects with a view to diversifying the economy. By 2001, the non-oil sector will account for over three-quarters of GDP with tourism accounting for 20 per cent. One ongoing project is the e-commerce initiative that includes the Dubai Technology, Electronic Commerce and Media Free Zone Authority, a university and a research centre. Dubai Internet City (DIC) was inaugurated in October 2000 and Government initiatives aim to utilize the most modern ICT for daily management by giving citizens Internet access to all Government offices. This project obliges all citizens, even those who have never used computers, to use the Internet in order to carry out Government procedures. With respect to future competencies, the Government has plans to build an Internet university that will offer courses in e-commerce, multimedia operations and other relevant areas.

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[94] Henry T. Azzam, "Economic priorities for the GCC countries in the next decade (2000-2009)", paper presented to the Expert Group Meeting on Assessment of Economic Development in the Last 25 Years in the Region and Priorities for the Next Decade, Beirut, 4-6 May 1999.

Box 12 (*continued*)

The Government has strengthened its efforts to increase the number of nationals in the labour force, through measures aimed at improving the efficiency and effectiveness of the educational and training systems, enforcing measures aimed at nationalizing certain sectors. It has also adopted policies intended to reduce labour-intensive activities by employing capital-intensive technologies. The one challenge that remains is to change national work ethics and raise awareness of the concepts of productivity and global competition.

4. *Measures aimed at improving the employability of the national labour force*

The countries of the GCC are currently in transition from a period in which plentiful oil revenue was used to build infrastructure to the new global era based on competitiveness. In labour markets, such transition involves changing types of jobs, levels of skills and the role of the public and private sectors in economic activity. It is not clear what impact such changes will have on the employment of nationals in the medium term. In order to enable their nationals to assume the required roles, Governments must consider the following:

(a) *Improving the educational profile of nationals*

The improvement of the educational system must be given high priority. While GCC Governments provide free education for all, the system does not meet the demands of the market or of globalization. Quality, not accessibility, is the problem. Omani graduates, for example, are facing rising unemployment and there is an increase in unproductive titular posts in both the private and public sectors. Higher education has created expectations and hopes that the labour market has not fulfilled. There is a need to encourage vocational and technical training and improve language skills. In universities, more emphasis must be placed on the basic sciences and less on social studies. In 1998/99, 60 per cent of GCC university graduates majored in education and arts fields including Islamic studies and social sciences, while only 14.4 per cent majored in engineering and 10.3 per cent in sciences. Such a bias towards arts is not in line with market demands. The educational system must emphasize creative thinking, teamwork and the acquisition of modern skills.

There is also a pressing need to promote vocational education and job training for young nationals. The positive impact of developing educational and training systems may not be felt in the short term, but will have a profound impact on future employment prospects for nationals.

TABLE 11. NUMBER OF UNIVERSITY STUDENTS IN THE GCC REGION BY FIELD OF STUDY
(*Percentage*)

Field of specialization	1990/91	1998/99
Education	26.6	11.6
Arts	32.2	48.5
Business	12.9	5.1
Science	9.9	10.3
Medicine	7.0	4.2
Engineering	7.3	14.4
Agriculture	1.6	4.0
Other	2.5	0.9

Source: ESCWA, *Statistical Abstract of the ESCWA Region 2000*.

(b) *Changing work ethics and attitudes*

With globalization, GCC nationals will be required to adapt to the changing nature of the jobs demanded by the new economy and the removal of all the labour mobility distortions created by generous Government employment schemes. Perceptions of technical work and the work of the female labour force must be changed, particularly among the young nationals who comprise the bulk of new entrants to the labour market, who will be required to join the private sector and compete with skilled expatriates. Unless distortions created by job preferences are eliminated and replaced by incentives to increase productivity, efforts to decrease dependency on expatriates will be futile. Labour laws must also become more flexible with respect to the employment and dismissal of nationals, and pay must be directly related to productivity.

(c) *Creation of a national labour database*

A detailed database for each GCC State should indicate current and projected employment in each sector and wage structures. Such databases would facilitate the study and assessment of market requirements, and make it possible to follow up developments in national labour markets and adopt policies based on accurate information. They would also contribute to the development of labour regulations, appropriate educational policies, residency systems, social insurance and appropriate recruitment rules. There is an especially urgent need for such databases given the huge influx of youth to the labour market and the expected increase in the female labour force. Box 13 describes the Canadian Human Resources Development "job bank".

Box 13. Online job search in Canada

Human Resources Development Canada (HRDC) provides a good example of how the Internet can be used in order to help relieve unemployment. Its database is open to both job-seekers and employers seeking to recruit. It publishes a survey of all jobs that will become available in the public sector in the forthcoming five years as a result of retirement. Job Bank is an electronic listing of job opportunities provided by employers from all over Canada. More than 46,000 jobs are advertised on the Internet at any one time and the site is visited by over 28 million users every year. Employers can post job advertisements on the Job Bank site free of charge. The service matches work to people. Using a checklist, employers create a profile of the position they seek to fill, identifying the skills, education and experiences required. Those seeking employment create similar profiles, using a skills checklist to describe their level of skills, education and experience. The Electronic Labour Exchange uses this information to make an exact match.

Past experience shows that some 80 per cent of employers find a suitable candidate from their first posting, without advertising the position. The best way for unemployed persons to find appropriate employment is to post their profile. The site also helps new entrants to the labour market to bridge the gap between education and employment.

HRDC also manages the Job Futures site, which offers reliable and detailed information about emerging occupations in Canadian labour markets and sectors that are growing as a result of market expansion, including multimedia, the environment and aerospace. It also details the technical training and educational requirements for the different jobs in each sector. The site is designed to alert youth to existing and emerging sectors and occupations that will be providing job opportunities in the near future, in order to enable them to take these into consideration when making decisions on educational paths and career choices.

A related service is Statistics Canada, an online statistical database that offers up-to-date information on the labour force, participation rates by age group and sex, unemployment, employment by industry, employment by occupation, average earnings and related data by region. Labour force characteristics, including unemployment rates by region, are continuously updated on a monthly basis.

Source: HRDC web sites.

5. *Conclusions*

The GCC region is facing tremendous economic pressure from other competing regions, and unless further measures are taken to liberate the economy, together with increased transparency, bureaucratic reform and judicial and legislative updating, the region may not benefit from globalization. The Governments of the GCC must therefore adopt reformist attitudes in order to develop their national economies and enable them to compete in the new era. They must expedite the privatization of public sectors and services and promulgate legislation to encourage the inflow of national capital deposited abroad, thereby encouraging the partnership of FDI in introducing new technologies. Tax and income policies must be reviewed in order to ensure a more equitable distribution of income in line with the proud heritage of the region. This will enable the region to face regional and global variables and challenges and preserve its comparative advantages.

E. THE SYRIAN ARAB REPUBLIC[95]

The Syrian Arab Republic is one of the ESCWA member countries least ready to face globalization. Since the 1960s, its economy has been centrally planned; the public sector has been monopolistic with respect to both manufacturing and services; a restrictive trade regime has been in place, consisting of a combination of high tariffs and quantitative prohibitions; there has been a multiple exchange rate regime, and cumbersome bureaucratic procedures are the norm. This has limited competitiveness, created inefficiency and raised costs. Any exposure to external competition will represent a major threat.

In the late 1980s, the Syrian Arab Republic began introducing selected reforms. However, the reform process has been both slow and inadequate. Rigid institutional structures, complex regulatory system and outdated production techniques are still in place. The labour market continues to suffer from inflexibility and the incompatibility of the supply of and demand for skills. In particular, the present labour market suffers from low educational standards and labour skills that do not meet even current market requirements, let alone those of a fully open economy. There is a lack of computer engineers and scientists and computer communication engineers are virtually unknown. Rigid and restrictive rules and regulations govern employment and dismissal; and wages are low, a factor that has prompted Syrian labour, both unskilled and highly skilled, to emigrate in search of better returns.

1. *Profile of the labour force*

The Ministry of Labour and Social Affairs states that in 1999, an estimated 4,598,000 persons were in employment. Of that number, 82 per cent (4,041,000) were male and 18 per cent (917,000) were female. The average number of new entrants to the labour market each year was estimated to be 180,000 during the 1980s and 260,000 during the 1990s. The greater percentage of both male and female labour, namely, 69.2 per cent and 59.6 per cent respectively, has an educational standard that does not exceed preparatory school level. The public sector provides 26 per cent of all employment; the private organized sector 30.1 per cent; the private, non-organized sector 43.3 per cent; and the joint and cooperative sector 0.6 per cent.

The focus of the education sector was to prepare students for public sector jobs, where there is known to be a large pool of unproductive labour, while the private sector role in the economy was restricted. Employment in the private formal sector has been expanding since the early 1990s, with skilled, trained public sector labour moving to that sector in search of higher wages. There are 2,145,000 employees in the informal private sector, namely, 43.3 per cent of the employed labour force.

According to the *2000 Labour Market Survey*, 65 per cent of the employed labour force works in the field of its specialization. Among university and high school graduates 35 per cent and 25 per cent respectively do not work in a field related to their studies.

2. *Profile of the unemployed*

Official data put unemployment in 1999 at 9.5 per cent, namely, 432,000 persons. The percentage of the female labour force that was unemployed was 18.7 per cent, and of the male labour force, 7.4 per cent. Unemployment has been rising because of the continuous increase in the labour force; the increased willingness of women to join the labour market; the imbalance between labour supply and demand and the qualitative gap between the new skills that are required and the specialties of new graduates.

Unemployment is most severe in the 15-29 age groups, most of whom are first-time job seekers. The percentage of unemployed persons in this group increased from 57 per cent in 1981 to 86.1 per cent in 1995, decreasing slightly to 85.4 per cent in 1999. In this age group, unemployment is highest among those with a preparatory school education. There is also large-scale seasonal and disguised unemployment, particularly in the agricultural sector. Some 74 per cent of all cultivated land in the Syrian Arab Republic is not irrigated,

[95] Based on "The role of globalization in labour market development: the case of the Syrian Arab Republic", prepared for ESCWA by the Syrian Consulting Bureau for Development and Investment.

and work in such areas is available for no more than four months each year. Disguised unemployment is mainly concentrated in the public sector.

3. *Assessment*

The Syrian Arab Republic labour force profile reflects a number of weaknesses that make workers vulnerable to reform or liberalization processes. Such weaknesses include the following:

(a) Almost one third of the Syrian Arab Republic labour force is aged 10-24, and has minimal accumulated work experience;

(b) More than two-thirds have a low educational standard, namely, preparatory school or less, and have difficulty coping with IT;

(c) Some three out of every seven employed persons, or 43.3 per cent, work in the informal sector and are therefore not protected by labour laws. In addition, more than half of those working in that sector, namely, 54.6 per cent, have reached a minimal educational level;

(d) The public sector is the major employer, absorbing the largest share of graduates of secondary schools (48.1 per cent), intermediate institutions (79.1 per cent) and universities (62.2 per cent). However, the skills of public sector employees are limited to their basic education and years of experience; their applied knowledge is concentrated in traditional skills, and the ability to handle modern production techniques is rare and, in some technical fields, completely absent;

(e) Unemployment is high, particularly among first time job seekers. This reflects rapid rise in the supply of labour and the inability of the economy to generate sufficient job opportunities;

(f) There is a complete absence of local computer communication engineering graduates; the first groups of computer scientists and computer engineers will graduate from Damascus University in 2002 and 2004 respectively;

(g) Graduates of secondary schools and universities have a poor command of foreign languages;

(h) Universities in the Syrian Arab Republic do not offer training or applied courses in their faculties and are not tailoring their programmes to meet the needs of the technology-driven global economy.

As a result of the foregoing, the globalization process, including the modernization of production techniques and introduction of new technologies, will lead to increasing unemployment. It is estimated that 75 per cent of those working in metal manufacturing will be made redundant, along with 36.8 per cent of those working in the food and beverage industry, 18.1 per cent in the retail trade and 17.2 per cent of those working in textiles.

The decrease will be a reduction in wages for unskilled labour because supply, which will include labour dismissed from other sectors will exceed demand and annual new labour inflows will continue. At the same time, there will be increasing demand for highly skilled labour in certain specialties such as computer science, engineering, marketing, administration and management.

4. *Obstacles to globalization*

The restructuring of the Syrian Arab Republic economy will require major adjustments in the labour market, the education system and curriculum. Intensive training efforts to meet new business concerns and techniques will also be needed.

(a) *Need for institutional reform*

In the Syrian Arab Republic, it is very difficult to dismiss personnel. This will have a considerable effect on adjustment, particularly when domestic companies are faced with foreign competition. Regulations which make it expensive to dismiss employees may reduce demand for labour and obstruct the expansion of potentially beneficial activities. Major amendments to labour laws are required in order to increase labour flexibility during the transition period.

(b) *Need to upgrade skills*

The education sector is not sufficiently responsive to restructuring-related change in the Syrian Arab Republic economy and is doing little to meet the demands of the industrial and services sectors. There is no coordination between educational institutions and the various economic sectors all of which are encountering problems as a result of the low level of skills available in the labour market.

Some two thirds of the labour force, in both the private and public sectors had no experience or any kind of training before starting work. Skills are acquired with experience. Remedial training provided by the private sector is limited, being confined to current job performance rather than future skills-building. Human resources departments in the private sector are very rare, and are responsible for administration rather than the development of skills: the issue of employee training is not a priority. When modern production is introduced, most Syrian manufacturers will need to train 50-57 per cent of their labour force. Without training, the low level of skills will be a major factor in labour market inflexibility.

5. *Recommended changes*

The eventual ability of the Syrian economy to cope with globalization depends on the country's readiness to respond flexibly to changing external condition and competition in the international market. In order to achieve the desired labour market flexibility and efficiency, basic modifications to the labour market should be made, while avoiding undue social strains caused by unemployment insurance and severance pay mechanisms. Such modifications include the following:

(a) The learning achievements demanded by globalization go well beyond simple memorization and repetition. The ability to respond to ever-changing tasks must be created. Education will need to impart the skills that enable workers to be flexible, analyse problems and synthesize information gained in different contexts. This will require the thinking of the whole education system and the creation of high-quality higher education institutions. Public schools will have to be built or rehabilitated, provided with adequate resources and upgraded teaching skills, teaching methods will have to be reviewed and educational institutions at all levels of education encouraged;

(b) Reliance on new investment techniques, new terms of trade and financial flows, new manufacturing, administration, marketing and financial techniques and analysis will require improved effectiveness in building human capital. Students specializing in such subjects will need an advanced level of skill and efficiency;

(c) The training and development of human resources must be improved in order to meet the industrial and technological development needs of the Syrian Arab Republic. Local training and the development of managerial skills and knowledge can be achieved using in-house training and private profit or non-profit institutions other than universities;

(d) Institutions and universities must evolve in order to meet the immediate and future needs of the country by providing an increased number of private training and development institutions; expanding management and engineering programmes in universities and introducing continuous education for managers and professionals; cooperation between training and development institutions, the scientific research community, business and industry; and ensuring that studies offered by technical, intermediate and technical institutions meet new market demands for skills.

F. YEMEN

Yemen is another country which is at risk of further marginalization as a result of globalization. After five years of structural adjustments, Yemen still has a low standard of living, a high level of illiteracy and widespread poverty. If economic and social reforms are not carried out in tandem, liberalization may only benefit the few elite and thus contribute to inequality.

Box 14. A Yemeni view of globalization

Many of us understand that globalization is the theoretical economic option of free trade and liberalization following the collapse of the socialist economies and the end of the cold war in the twilight of this century. Some of us understand that globalization is a new tool to control the division of labour in the world and to maintain the status quo of the poor and consumers without ideological or political slogans. Each of us can interpret globalization however it may serve national and regional economies. That is because, to date, no one can claim that globalization is a theory or philosophy conducive to international cooperation and humanity's happiness.

We ought all to share an equal understanding of the matter at hand. We, the group of least developed countries, view globalization with terror, because isolation and marginalization will threaten our countries if we do not help one another. We have seen these active patterns in Asia, whose economies were until recently described as miraculous. Today, we are witnessing violent fluctuations there. If globalization is a comprehensive concept, it ought to help us understand and solve crises. The approach of globalization should include constant, permanent and stable guidelines, including ethics and sound initiatives and transactions in the areas of financial markets, investment and monetary policy.

The questions of developing and least developed countries remain unanswered because the responses entail obscure possibilities and visions. To simple people who are looking for a way out of their indigence and poverty in countries such as ours, talking about globalization appears to be an intellectual and theoretical luxury. Globalization currently does not present any tangible picture of equality. What is even more dangerous is that we are talking about globalization as if it were a future, providential destiny and a single option. Such logic hampers dialogue and may even block all opportunities for free thinking. It makes it appear as if we were engaging in contracts of submission.

The least developed countries, including Yemen, need to undergo an immense rehabilitation process in order to lay the necessary developmental and economic groundwork with a view to contributing to international integration and to playing a role in international partnership.

Statement by Mr. Abdul-Qader Ba-Jammal, Deputy Prime Minister and Minister for Foreign Affairs of Yemen, to the 6th plenary meeting of the fifty-third session of the General Assembly of the United Nations on 18 September 1998.

Yemen relies increasingly on oil exports and has failed to increase exports of or demand for other manufactured products that would employ more labour than energy exports. In fact, the quantity of manufactured exports decreased by an alarming 92.2 per cent between 1980 and 1993. In a survey of 106 countries with manufactured exports, Yemen has the lowest quantity of manufactured exports, namely, a mere 1 per cent.[96] Moreover, it has still not attracted sufficient FDI to deal with the lack of adequate infrastructure, including ports, telecommunications and proper institutions. While in theory improvements have been made to the judicial sector in accordance with World Bank recommendations, results have yet to be seen.

1. *The competitiveness of labour*

One of the major problems in Yemen is the low level of productivity of the labour force, which lacks basic education or the skills necessary in order to adapt to change. According to the 1994 census, more than 53 per cent of the labour force was illiterate and only 3.1 per cent were university graduates.[97] Yemenis are less competitive than foreigners residing in Yemen. The majority of the Yemeni labour force comes from rural areas, where basic education and social traditions, including the chewing of *qat*, are impediments to employment. Restructuring will increase unemployment among nationals and job opportunities for more highly skilled expatriates from other Arab countries. While arrangements have been made with the World Bank to increase enrolment in primary and secondary schools and improve technical and vocational training,

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[96] World Bank, "Global Competitiveness Indicators", available at http://wbln0018.worldbank.org/psd/compete.nsf.

[97] ESCWA, *Survey of Economic and Social Developments in the ESCWA Region 1997-1998. Part II: Unemployment in the ESCWA Region: Selected Case Studies* (United Nations publication, Sales No. E.99.II.L.18), p. 69.

much remains to be done. One of the Government's targets for 2001 is to increase the proportion of the total budget allocated to education to 8.3 per cent. In 1996 and 1997 the proportion was 3.6 per cent and 5.3 respectively.[98]

While there was an acceleration in economic growth in 1999, most of the jobs created were absorbed by non-Yemeni skilled labour. Privatization may not absorb excess labour, because a private investor seeking efficiency and effectiveness will prefer to employ foreigners with more skills than Yemenis possess. Even university graduates have difficulty in finding appropriate work opportunities, because their degrees do not meet market requirements: only 29 per cent found suitable employment after graduation in 2000, while 49 per cent remained unemployed. The basic challenges to education are to increase enrolment at all levels and improve curriculums to meet market demands. Both measures are mutually dependent.

2. *The need for civil service reform*

Another challenge for Yemen is reform of the civil service. The public sector suffers from corruption and lack of proper management. Oxford Analytica states that corruption is widely perceived as the root of many of Yemen's current problems.[99] Because of the inflationary policies adopted by the authorities, salaries are so low that employees are forced to supplement them: many civil servants have three different jobs. Notwithstanding policies and plans to reform the civil service, little has been done. The World Bank believes that the public sector labour force should be halved from 400,000 (early 2000) to 200,000 by 2003. However, the Government has been slow to reduce public employment, anxious to avoid direct responsibility for increasing unemployment, and has, furthermore, increased the salaries of public employees in order to compensate for the withdrawal of consumer subsidies. However, in an effort to improve public sector productivity, the Government has instituted a public campaign to prohibit the chewing of *qat* at work and establish regular attendance at work.[100]

The reform programme initiated in 1995 has not yet attracted sufficient investment to create the conducive environment required for private sector expansion. The lack of FDI in the non-oil sector is mainly a result of Yemen's political instability, lack of effective legal institutions and lack of sufficient infrastructure. Private investors continue to perceive Yemen as too great a risk.

3. *Conclusion*

Yemen is one of the countries least prepared to face globalization. It lacks the macroeconomic environment conducive to attracting FDI, is heavily dependent on oil exports, which constituted more than 90 per cent of export revenues during the 1990s, and lacks the basic legal and physical infrastructure that would permit the private sector to assume a leading role. Moreover, the labour force suffers from high rates of illiteracy and the quality of the educational system is poor. Yemen will have to work hard to catch up with globalization or face the risk of becoming yet more marginalized.

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[98] IMF, "Republic of Yemen. Enhanced structural adjustment facility. Medium-term economic and financial policy. Framework paper 1999-2001", 5 March 1999. Available at http://www.imf.org/external/NP/PFP/1999/Yemen.

[99] Oxford Analytica Daily Brief, 12 July 2001.

[100] Oxford Analytica Daily Brief, 24 November 2001.

V. CONCLUSIONS AND RECOMMENDATIONS

Unless the countries of the ESCWA region succeeded in becoming integrated into the world economy, they face the risk of becoming further marginalized. Globalization and integration into the world economy is essential for their economic and social growth, because the labour force is growing fast, as are the unemployment and underemployment rates. Globalization will inevitably affect their economies and societies, and if proper measures to liberalize the economies are not implemented, large parts of their populations will be socially excluded. Unemployment, particularly long-term unemployment, is generally seen as the major cause of social exclusion; the key factor is the increasing inequality between unskilled and skilled workers in terms of income and employment opportunities. Globalization is bound to cause a substantial fall in the demand for unskilled workers and thus will prevent a significant part of population from being able to participate in the basic social structures and activities. Furthermore, technological progress will lead to the automation of many of the tasks previously undertaken by unskilled workers and cause further social exclusion.

This study has focused on the prerequisites for national economies to benefit from globalization, which is imposed on all developing countries. It is the responsibility of the countries of the region to serve their own interests by adopting initiatives designed to prepare the economy in general and the labour force in particular to respond positively to the opportunities offered. An attempt has been made to identify the positive and negative qualities of each economy, with a view to underlining the importance of regional integration in dealing with the various stages of globalization. While the issue of regional economic integration, a possible positive outcome of globalization, was not fully explored, it should be emphasized that it is one of the main tools for identifying regional comparative advantages in dealing with economic blocs including the European Communities, the Association of South-East Asian Nations (ASEAN) and NAFTA.

At conceptual level, the issue of globalization should provoke a discussion by the Government, public, civil society organizations and media in each country of national readiness to face the challenges involved. Regional cooperation is vital in order to integrate national single export economies. A conducive macro-economic environment based on the regulatory powers of the public sector, the role of the private sector and reduced dependency on volatile sources of income should be re-emphasized. Institutional reforms of fiscal, legal and labour legislation must be intensified, with particular emphasis on the role of skilled labour and knowledge-intensive industries. The readiness of any country to face globalization depends on its economic maturity, past experience and willingness to seriously consider the advantages of globalization.

It must be recognized that globalization will not resolve the current imbalances of regional labour markets. It is to be expected that in the forthcoming decade, the labour market will be further negatively affected during the period of transition from a horizontal growth pattern of production to sustainable development influenced by globalization. Globalization and the inflow of FDI seeks environmentally friendly regions, in which the skills of the labour force, underpinned by a supportive educational system capable of generating a flexible labour force, are decisive.

During the 1990s, the main causes of unemployment and underemployment were the low productivity of all sectors, low investment, cuts in public sector employment and inadequate education, which limited the opportunities for graduates to engage in productive employment. Such factors will only be exacerbated by globalization, and unless appropriate action is taken to improve the skills and adaptability to change labour, the unemployment situation will deteriorate further, as has been illustrated in the brief profile prepared for the countries of the region in chapter IV. ESCWA member countries must appreciate the importance of regional integration, which would give them greater bargaining power with WTO and other economic blocs than as individual national economies.

In future, education and training will have greater economic significance than in the past, and their roles will therefore have to be reconsidered if young people are to be properly prepared to enter the labour force. The quality of regional education systems is declining as a result of inadequate investment, which is not commensurate with demand and is unable to meet new requirements. This situation, combined with the lack of appropriate training programmes, has increased unemployment among young graduates. When graduates remain unemployed, the economy looses a great deal of investment. Similarly, higher education curriculums have not been updated or amended in order to meet new skill requirements. In order to be successful, such institutions must produce open minded, creative, imaginative individuals who favour group approaches and are tolerant of ambiguity, novelty and initiative. However, school leavers, who represent the majority of youth in the region, namely, some 85 per cent of the population aged 18-21, are currently ill-equipped to join the labour force. The subsidized, rigid education system in ESCWA member countries is responsible for the two major labour market-related problems, namely, the high rates of unemployment among school graduates and the shortage of the skilled manpower required for economic growth. The main issues that must be addressed in order to upgrade the labour markets of the region include a reconsideration of education, with the focus on flexible skills and labour market requirements; the promotion of vocational training; removal of labour market distortions; and sharing of responsibility by the Government and the private sector, with the former assuming responsibility for regulation and the latter dealing with production.

Such reforms, while necessary, are not in themselves sufficient to ensure the benefits of globalization. They must be matched by an increased demand for labour generated by economics activated by the attraction of FDI and domestic savings.

Another important determinant of the benefits, which countries with a large stock of unskilled labour can reap from globalization is their ability to simultaneously increase technology imports and the skill levels of the domestic labour force. Government policies aimed at sustaining incentives for human capital formation and reducing in the cost of technology adoption are vital. Coordinated efforts are also vital, because investment in human capital alone will give skills accumulation returns, while increased technology transfer alone is unlikely to be enduring, and could have a negative effect on development by exacerbating income inequalities. This lesson can be drawn from the East Asian development experience, where rapid industrialization and skills accumulation were achieved by expanding the education system in tandem with the upgrading of skills. This approach not only reduced the technology gap and increased the demand for educated labour, but also provided the training and experience needed in order to realize the economic potential of educated labour. In ESCWA member countries this upward spiral does not need to occur in skill-intensive manufacturing activities, but, depending on the specific sectors in which a given country has a comparative edge, could be based in primary or services sectors.

Another important dimension of human capital accumulation is linked to training programmes. The competitiveness and rapid technological innovation of the global economy requires significant, rapid changes in labour training. Wide-scale efforts must be exerted in order to provide individuals with updated knowledge and skills and permit them to compete successfully in the labour market. Such efforts must exceed the exploitation of productive niches that appear in a context where innovation is the main driving force for growth. In a globalized economy, sectoral growth is uneven, and sectors which are unable to increase productivity suffer. When skills are specific to declining sectors, human capital depreciates. There is therefore an urgent need for retraining programmes. Well-designed programmes which are adopted in a timely fashion may help to introduce a large degree of labour flexibility at minimum cost.

The lack of information on labour markets with respect to employment, job vacancies and training requirements, has further contributed to the chaos of the current situation and the discrepancy between the demand for and supply of labour. In other parts of the world, unemployed persons have access to assistance from specialized offices which match jobs to education and skills and offer retraining in order to facilitate entry to labour markets. They also enjoy benefits that cover subsistence living costs and prevent them from falling further into the poverty trap. In order to provide such services, comprehensive data on the labour market must be available. In times of reform, the availability of such services is particularly valuable. While the issue has been recognized as an urgent priority to be addressed by ALO, ESCWA and other regional organizations, few efforts have been made.

In conclusion, the study reiterates the importance of assessing the social implications of the globalization process on the countries of the ESCWA region. Further, in-depth national and regional studies must be jointly undertaken by NGOs, chambers of industry and commerce, academic communities, trade unions and labour organizations, with a view to addressing the negative impact of globalization and making it possible to seize the opportunities offered by the global economy.

Annex I

THE DIGITAL DIVIDE

The digital divide is the division between those who have access to digital technology and the Internet and those who do not. In simpler terms the digital divide is a division between those who are connected and those who are not. This gap, like that between rich and poor, has undoubtedly been exacerbated by globalization. The benefits of digital technology are restricted to a few countries, and to a few communities or members of a community within those countries. The divide is not simply between the developed and the developing world, but exists within each country: many individuals in the United States have no access, while others, in rural areas of India, do. People with access to and knowledge of technological progress will prosper, while the remainder will be excluded and will have lower incomes, less education and reduced access to job opportunities.

Closing the digital divide can bring the so-called digital dividends, namely, improved standards of living and increased social benefits. Digital technology can empower the poor. Many talented artisans live in developing communities and lack market access. Most, in order to improve their standard of living or income, would have to move to a bigger city, necessarily at the expense of their craft and culture. Without reliable communication, access to materials credit, an understanding of the business process, or an understanding of the trends and lifestyles in the markets the goods are bound for, artisans cannot create marketable goods at competitive prices.[1] Internet sites could provide market access to small producers and connect them to retail outlets, while computer software would allow them to respond to the specific needs of their customers, organize their business and become more productive.[2] By means of digital technology, developing regions could leapfrog ahead and follow an alternative development path.[3]

Digital dividends offer opportunities not only to small businesses but also to transnational corporations, which should therefore perceive the poor peoples of the world as potential customers rather than as a social problem to be dealt with by Government.[4] This untapped market of some 5 billion people has huge potential purchasing power. Using such simple Internet access tools as a touch screen offering different languages options, anyone, anywhere in the world, can become a potential customer. Another opportunity lies in employment creation. Currently, many developed countries are in need of digital technology graduates in order to sustain the rapidly-growing information age. As many as 500,000 jobs for web site designers and programmers remain unfilled in the United States[5] while, between 1994 and 1998, IT occupations grew more than five times faster than all other jobs.[6]

In 1994, only 3 million people were using the Internet. By the end of 2000, 304 million are expected to be using the Internet and global computer network.[7] The digital divide cannot be closed without Government, NGOs and private sector efforts to provide distance learning, donate software and low-cost computers for villages, and train people in their use. It is in the interest of the private sector to bridge the digital divide in order to sustain their market share and increase the number of customers, thereby increasing profits. Large companies, including Ford, have in fact provided employees throughout the world with home

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[1] "Internet commerce for development", available at www.digitaldividend.org.

[2] www.viatru.com is one site that specializes in linking artisans and large retailers.

[3] "WRI welcomes G8 summit's calls for action to bridge global digital divide", available at www.digitaldividend.org/press_exp_tem.asp.

[4] C.K. Prahalad, quoted in "A new business frontier: Highlights of the creating digital dividends conference", *Businessweek*, 18 December 2000.

[5] "Closing the Internet skills gap", *Businessweek*, 18 December 2000.

[6] Digital Divide Network, "Digital beat", 12 July 2000, available at www.digitaldividenetwork.org/workdemands.adp.

[7] Ibid.

computers and Internet access, in order for them to increase their knowledge of customer needs and improve communication between various departments.[8]

Furthermore, many companies, including, *inter alia*, Microsoft, IBM, Hewlett-Packard, Ericsson and Cisco, have spent millions of dollars on establishing schools and training centres, donations of hardware and software, developing lesson plans and running competition in the aim of increasing connectivity and serving social purposes throughout the world. The underlying aim is to improve income and productivity by creating new customers. These efforts are matched and often supported by international organizations and small local organizations in remote areas of the developing world.

A. THE DIGITAL DIVIDE IN THE ESCWA REGION

After a slow start, Internet use is growing rapidly in the region. In the rest of the world, Internet use developed through universities; in the ESCWA region, however, commerce has been the decisive actor. While a wide variety of services is available, some major obstacles continue to prevent or retard the closing of the digital divide. These include the following:

1. *Infrastructure*

Internet access in the Middle East is closely tied to the telecommunications infrastructure, or so-called infostructure. In the Gulf region the infostructure is favourable to Internet access. In other areas, Governments have made agreements with international companies including Global One and Alcatel to allow individuals access. However, the result is often less than optimal connections in nonstandard environments.[9] In some regions the appropriate infostructure simply does not exist. While computer and Internet access are the basic essentials for closing the divide in many regions, the problem in many non-GCC countries in the region remains connectivity to any kind of telecommunications rather than connectivity to digital technology.

2. *Education and skills*

Another obstacle to closure of the digital divide in the region is the dominance of the English language. While the number of Arabic websites and amount of online data is increasing significantly, individuals who do not know English remain at a disadvantage. The region must therefore improve language skills. That being said, technological innovations may resolve this problem: IBM has recently introduced software to translate web content in real-time[10] widely accessible in the region.

Closure of the digital divide will require input from Governments, NGOs and the private sector, in order to provide skills, training, hardware, software and digital technology. Lebanon has proved highly successful in using digital technology: cellular technology is fairly widespread, computer literacy is high and sophisticated technology including the Wireless Application Protocol is being rapidly adopted.

Internet use continues to be restricted by censorship. Some countries in the region, in all of which the Government controls and monopolizes telecommunications, use proxy server filters and block specified contents. Jordan is an exception, having "gone farthest in separating policy-making in a ministry from an independent regulator with statutory authority, and in converting its PTT into a corporation to be sold to the private sector, which is the alternative favored by international telecommunications companies".[11] Internet use may also be restricted by making access prohibitively expensive.

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[8] "Taking action", *Businessweek*, 18 December 2000.

[9] Jon Anderson, "The Internet and the Middle East: Commerce brings region on-line", Middle East Executive Reports, vol. 20, No. 12, December 1997.

[10] IBM press release, "IBM removes language barriers to global communications", 8 January 2001, available at http://www.ibm.com/Press/prnews.nsf/jan.

[11] Jon Anderson, loc. cit.

3. *Digital dividends*

In the ESCWA region, there is a broad range of small artisans and craftsmen, in the informal sector in particular. Their products could be successfully marketed online, given the authenticity and scarcity of such products and the large number of Arab nationals abroad who are actively seeking traditional goods. The Internet could provide a market for producers of clothing, food and art and employment opportunities for poor persons. Where local job creation may appear impossible, the Internet could provide virtual employment. Governments in the region fear that the Internet will destroy the traditional culture of the population and propagate revolutionary or anti-State sentiments. On the contrary, however, if used properly, the Internet could enhance the image of Arabic culture and dispel erroneous impressions of Arab traditions. As Anderson says, "Middle East Countries have at home or overseas the talent to move into an information economy. There is a strong, widespread feeling in the Internet community in the region that this is not only the future, but it is also a future in which Middle Eastern people and companies can be competitive regarding quality, price and access".[12]

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[12] Jon Anderson, loc. cit.

Annex II

COUNTRY RISK RATING

In the context of globalization, the international risk rating of a country is vital in order to establish international trade and economic relations and attract FDI. Any potential investor studies the advantages and disadvantages before venturing into a country, including the political risks, economic policy and the economic structure. The main issues of concern are deregulation, transparency and simplicity. Any investor prefers a business environment which is unencumbered by heavy regulations, bribes and time-consuming legal obligations. The liquidity risk is also taken into consideration. The overall rating determines the country's overall competitiveness and potential success under globalization.

In the ESCWA region, the political risk often lowers the overall rating of a country. This is particularly true in Yemen, Lebanon, the Syrian Arab Republic and Kuwait. In general, GCC States have the highest ranking, while Jordan is foremost among the more diversified economies.

Country	Overall rating (A = least risky)	Overall score (out of 100)	Political risk	Economic policy risk	Economic structure risk	Liquidity risk	Business environment rating (out of 10)	E-Business readiness (out of 60)	Rank (out of 60)
United Arab Emirates	B	27	C	B	B	A			
Qatar	B	30	B	B	B	B			
Oman	B	32	B	B	B	B			
Kuwait	B	33	C	B	B	B			
Bahrain	B	35	C	B	B	B			
Jordan	B	38	C	C	B	A			
Saudi Arabia	B	39	C	B	B	B	6.02	5.5	40
Egypt	C	41	C	C	C	B	6.1	4.6	49
Yemen	C	46	E	B	B	B			
Lebanon	C	57	D	D	D	B			
Syrian Arab Republic	D	65	D	C	D	D			

Annex III

WOMEN AND GLOBALIZATION

Analyses of the consequences and effects of globalization on women vary widely. While some writers believe that globalization will benefit women in general, most believe that women are the ultimate victims of this new era. Increased competition and decreased social benefits and welfare are likely to have a negative impact on women and, in particular, mothers. Globalization entails increased competition coupled with increased pressure on basic living standards. Women are likely to have to work in order to provide their families with basic needs. With separation and divorce on the increase throughout the world, many women are the sole breadwinner and face increased pressure. They must not only manage as mothers and workers, but also succeed in an increasingly hostile environment. Even when companies employ women, they are likely to pay them less than men for doing the same job, particularly in the developing world.

The decrease in social benefits and welfare provision upon globalization has more direct implications for women, who need such social benefits as maternity leave and time to spend with their children. Some analysts believe that globalization will benefit women, increasing opportunities for part-time and temporary work. However, given that globalization will also reduce wages, it is unlikely that women would be able to maintain a reasonable standard of living with only a temporary or part-time job. Therefore, while female employment may increase in general in response to employer obligations, the nature of the work done by women and the time they spend doing it may well place further burden on them.

One of the benefits of the new era is the globalization of social issues through communications, the Internet and the media. It is becoming increasingly difficult to block awareness of social issues including human rights, labour rights and women's rights. While this may not increase employment opportunities for women, it may improve their living conditions.

In ESCWA member countries the participation of women in the labour force is still minimal. Given the effects of globalization and new labour trends, including downsizing and decreasing wages, it could be argued that a larger female component in the workforce will only increase unemployment. However, women's involvement in the labour market is vital to the social and economic development of any society. When women are educated with a view to entering the labour force, fertility rates have, in general, fallen. This could be crucial in ESCWA member countries, many of which have high population growth rates and, consequently, a growing number of youth entering the labour force every year. Other economic returns on women's education include improved nutritional and hygienic practices, increased emphasis on child education, and increased participation in public and political life. Women's education therefore has specific benefits.

The rise in women's participation rate was the result of two basically contradictory trends. The increase in school and university enrolment of women tended to both reduce and raise the activity rates of young women. In the region as a whole, women's activity rates rose from 28 per cent in 1980 to 31 per cent in 1995, regardless of the huge increase in the enrolment of women in schools and universities throughout the region. Unemployment is in general higher among women than among men, and female unemployment rates, among young women in particular, sometimes reach extremely high levels. In the Syrian Arab Republic, for example, 1999 data showed that unemployment females constituted 95.4 per cent of all unemployed labour.

In the very few countries for which data exist, women's wages are typically lower than those of men. But this does not necessarily indicate a systematic bias against women. The occupational structure of men and women's work may be different, and women may occupy positions where remuneration is lower. Being more recent entrants into the labour force, women have less seniority in given occupations than men and, as a result, lower average pay. In Lebanon, for example, where this matter was recently investigated, both factors were found to exist and it was concluded that "the occupational structure of the labour force and work seniority that are both in favour of male workers do not permit to conclude that the difference in average salaries in favour of males is the result of a systematic gender bias in remuneration".[13]

ANNEX TABLE 1. WOMEN'S WAGES AS A PERCENTAGE OF MEN'S

Country	Source	Year	Women's non-agricultural wage as percentage of men's
Bahrain	1	1995	86.0
Jordan	2	1980	83.0
	2	1990	78.0
	1	1994	83.5
	1	1995	83.5
	2	1997	87.0
Syrian Arab Republic	1	1995	60
Lebanon	3	1996	78.9

Sources: 1. United Nations, *Women's Indicators and Statistics* (WISTAT), New York, 1994;
2. United Nations, *Women's Indicators and Statistics* (WISTAT), New York, 1998;
3. Lebanon National Employment Agency, ILO and UNDP, "The study of the labour market, results of statistical research among organizations", Beirut, 1997 (in Arabic).

Women's economic activity rates have been rising steadily in the Arab region in common with all other regions of the world. The largest such increase during this period took place in Gulf States, where women's participation had been relatively low in 1980. The increase has been approximately twofold in all these States, with the exception of Qatar, where it was almost threefold (see annex table 9). While the statistics show a rise in women's education, their productive capacity has not yet been exploited. However, the data in this regard may be misleading, because many women seek work in the informal sector. Women in the ESCWA region tend to prefer Government jobs despite the fact that salaries are often lower than in the private sector.

ANNEX TABLE 2. GOVERNMENT EMPLOYMENT, EARLY 1990S

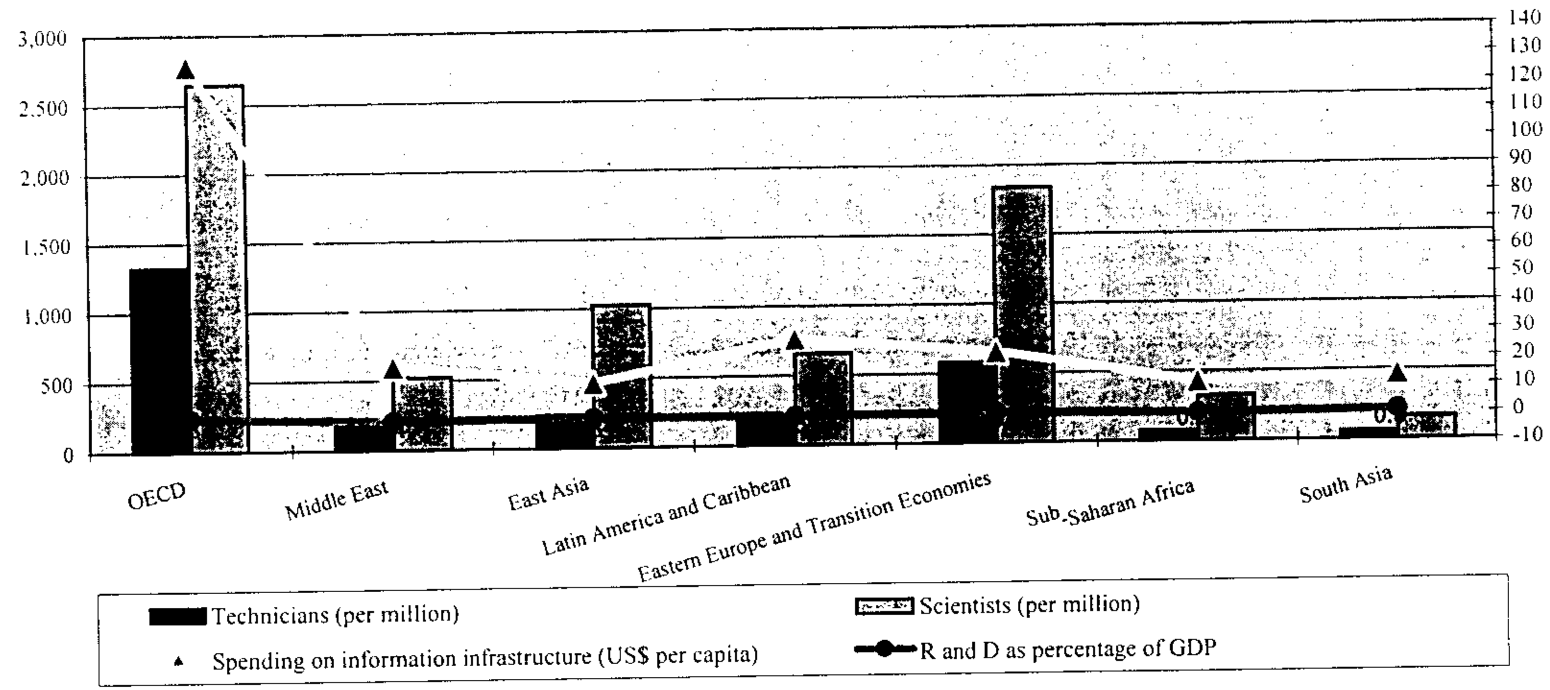
Region	GCGE as percentage of population	GCGE as per cent of total employment	Wages as percentage of GDP	Wages as percentage of Government spending	Average Government wage to GDP per capita
Sub-Saharan Africa	2.0	6.6	6.7	35.3	5.7
Asia	2.6	6.3	4.7	22.4	3.0
Eastern Europe and former USSR	6.9	16.0	3.8	15.1	1.3
Latin America and Caribbean	3.0	8.9	4.9	27.1	2.5
Middle East and North Africa	3.9	17.5	9.8	34.8	3.4
OECD	7.7	17.2	4.5	12.2	1.6

Source: S. Schiavo-Campo, G. de Tommaso, and A. Mukherjee, "An international statistical survey of Government employment and wages", World Bank Policy Research Working Paper No. 1806, 1997; J. Modi, "A decade of civil service reform in Sub-Saharan Africa", IMF working paper, 1997, cited in Willy McCourt, "Pay and employment reform in developing and transition societies".

Notes: General civilian Government employment (GCGE) includes all public employees except the employees of State-owned enterprises and the armed forces. Country groupings are those used by the World Bank. OECD countries are generally excluded, with these exceptions: Mexico is included in Latin America and the Caribbean; South Korea is included in Asia. Asia comprises the Indian subcontinent, South-East Asia and the Pacific. Middle East and North Africa are selected countries where the World Bank is active. All averages are unweighted.

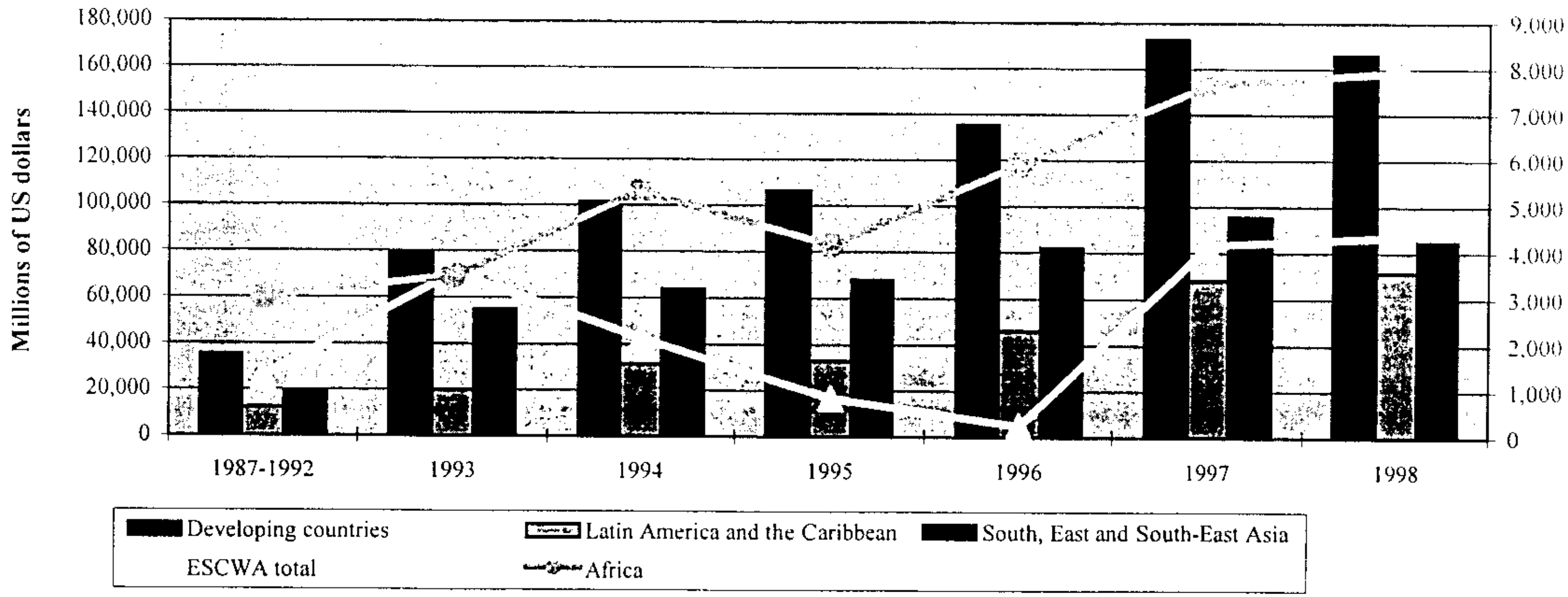
[13] UNDP, *The National Human Development Report, Lebanon* (Beirut, UNDP and the Council for Development and Reconstruction, 1998), p. 75.

Annex figure I. Spending on information infrastructure and technological inputs by region



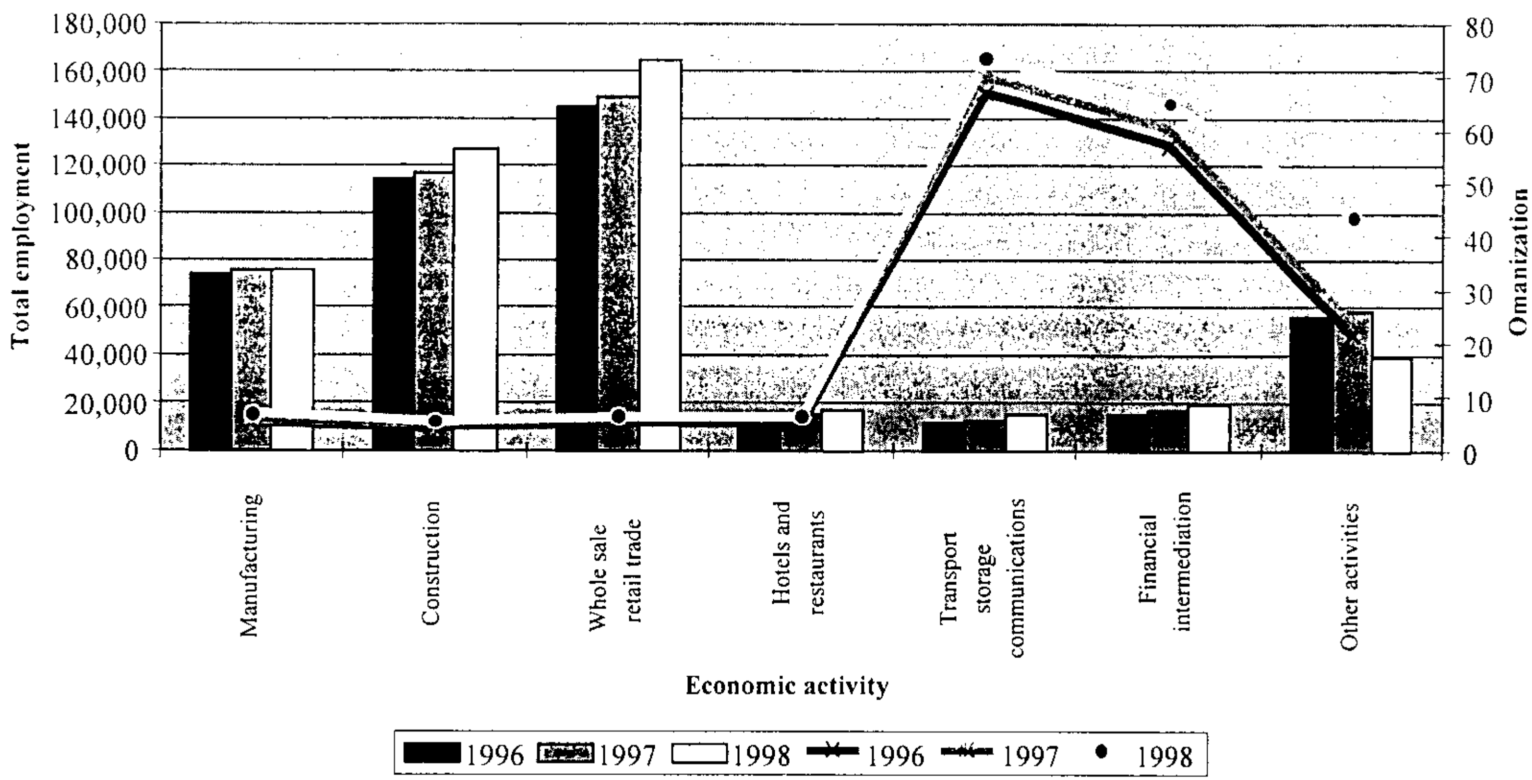
Source: World Bank, The Networking Revolution, June 2000. Table 4-2, p. 16, from Pyramid Research, 2000.

Annex figure II. Annual average regional and global FDI inflows to developing countries, 1987-1992 and 1993-1998



Source: UNCTAD, *World Investment Report: Foreign Direct Investment and the Challenge of Development* (Geneva, UNCTAD, 1999).

Annex figure III. Progress in Omanization



Source: Oman, Ministry of National Economy, 2000.

ANNEX TABLE 3. POPULATION ESTIMATES BY SIZE AND AGE GROUP

Country	All age groups		By age group							
			0-14		15-24		25-44		45+	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Bahrain	617	713	182	160	98	124	215	201	121	227
Egypt	68 469	80 063	24 195	23 611	13 858	15 943	18 441	23 531	11 975	16 978
Iraq	23 115	30 338	9 556	11 742	4 631	5 969	5 753	7 954	3 174	4 673
Jordan	5 039		1 996		1 058		1 376		610	
Kuwait	1 971	2 420	665	640	400	469	591	705	316	605
Lebanon	3 282	3 723	1 073	996	601	707	1 008	1 189	600	832
Oman	2 541	3 518	1 121	1 457	491	715	562	813	368	532
Palestine	3 150	4 938	1 475	2 149	604	1 005	714	1 171	357	463
Qatar	599	693	156	166	81	105	192	147	170	273
Saudi Arabia	21 607	28 779	8 758	11 006	4 134	5 480	5 320	6 989	3 395	5 303
Syrian Arab Republic	16 125	20 464	6 578	7 198	3 586	4 326	4 043	5 938	1 917	3 002
United Arab Emirates	2 441	2 851	684	681	373	476	755	678	630	1 016
Yemen	18 112	25 366	8 748	11 744	3 450	5 068	4 105	5 812	1 810	2 741
ESCWA countries	167 068	203 866	65 187	71 550	33 365	40 387	43 075	55 128	25 443	36 795

Source: *Statistical Abstract of the ESCWA Region 2000.*

ANNEX TABLE 4. UNIVERSITY STUDENTS BY FIELD OF STUDY

Country	Education		Arts		Business		Sciences		Medicine		Engineering		Agriculture		Other		Total number of students	
	1990/91	1998/99	1990/91	1998/99	1990/91	1998/99	1990/91	1998/99	1990/91	1998/99	1990/91	1998/99	1990/91	1998/99	1990/91	1998/99	1990/91	1998/99
Bahrain	12.3	8.4	10.7	19.8	17.5	29.4	8.8	12.7	27.6	11.9	21.2	15.9			1.8	1.7	7 916	9 201
Egypt	12.3	16.0	33.4	36.6	27.1	25.2	2.7	2.3	7.1	8.7	13.4	8.2	3.4	2.9			654 341	1 030 930
Jordan	7.0	12.0	40.4	29.3	19.6	20.6	11.8	15.2	9.1	9.0	9.8	12.2	2.3	3.2			80 145	96 944
Kuwait	41.6	41.5	4.0	7.0	24.3	22.5	9.4	8.0	11.3	5.6	9.4	15.2	—				22 387	32 253
Lebanon a/	1.6	1.9	67.8	68.3	3.3	5.1	16.6	16.2	6.4	4.7	3.6	3.4	0.6	0.4			74 830	51 660
Oman b/			54.6	49.2		15.8	11.9	9.7	10.2	8.5	14.1	11.0	9.1	5.7			3 021	6 432
Palestine	14.0	20.5	45.9	24.0	16.6	25.7	17.5	15.7	1.7	4.0	3.9	6.0	0.2	1.0	0.2	2.9	16 412	60 846
Qatar	32.3	27.3	20.0	18.4	5.7	13.4	8.8	13.4			3.3	6.7			28.5	15.7	6 143	8 476
Saudi Arabia	25.0	8.4	39.0	54.2	11.1	2.4	10.1	10.2	5.6	4.9	6.3	14.8	1.8	4.6	1.0	0.5	132 827	371 522
Syrian Arab Republic	2.4	4.4	48.7	46.9	9.2	7.1	9.6	8.5	9.8	11.5	16.8	16.7	2.7	3.8	0.7	1.0	169 913	166 820
The United Arab Emirates	30.7	25.4	20.5	31.1	15.2	9.7	9.0	16.1	1.8	1.8	4.3	8.3	2.4	2.8	16.0	4.7	8 496	14 104
Yemen	40.0	38.8	29.0	25.0	16.9	18.4	2.3	2.6	5.1	2.5	4.6	2.4	2.0	0.6		9.7	42 175	155 537
ESCWA countries	12.5	15.4	36.4	39.3	19.9	18.0	5.8	6.0	7.1	7.4	11.6	9.8	3.0		0.5	1.1	1 196 219	2 004 725

Source: *Statistical Abstract of the ESCWA Region 2000* (United Nations publication, Sales No. A/E.00.II.L.12).

a/ Lebanese University students only.
b/ Sultan Qaboos University students only.

Note: A dash (—) indicates that the amount is nil.

ANNEX TABLE 5. PROPORTION OF FIRST TIME JOB SEEKERS TO TOTAL UNEMPLOYMENT

Country	Year	First-time job seekers percentage of total unemployed	Female first-time job seekers percentage of total female unemployed	Male first-time job seekers percentage of total male unemployed
Bahrain	1991	71.94	98.09	65.37
Egypt	1998	93.87	97.11	90.43
Egypt	1994	95.00	98.00	93.00
Iraq	1987	96.00	98.00	95.00
Jordan	1993	53.00	78.00	44.00
Kuwait	1999	79.52	90.03	74.33
Lebanon	2000	43.00	..	..
Lebanon	1997	58.96	64.53	57.73
Oman	1993	64.17	87.96	59.62
Palestine	1997	45.21	69.64	42.15
Qatar	1997	80.47	90.76	75.71
Jordan	1994	58.62	86.28	47.73
United Arab Emirates				
Saudi Arabia				
Syrian Arab Republic	1999	85.4	95.4	
Yemen				

Sources: For all countries except the Syrian Arab Republic, ESCWA Statistics Division; for the Syrian Arab Republic, Ministry of Planning.

Note: Two dots (..) indicate that data is not available.

ANNEX TABLE 6. ENROLMENT IN TERTIARY EDUCATION (UNIVERSITITES) BY GENDER

Country	Year	Age	Enrolment ratio			Student: professor ratio
			Men	Women	Total	
Bahrain	1993	18-20	16	24	20	12.6
Egypt	1995	17-20	24	16	20	..
Iraq	1995	18-20	..	..	..	..
Jordan	1996	18-20	..	..	..	22.4
Kuwait	1996	18-20	15	24	20	16.1
Lebanon	1995	19-20	27	27	27	7.8
Oman	1997	18-20	9	7	8	9.8
Palestine[a/]	1998	..	..	..	..	33.9
Qatar	1996	14	14	41	27	13.2
Saudi Arabia	1996	18-20	17	15	16	18.0
Syrian Arab Republic	1994	18-20	18	13	16	35.3
United Arab Emirates	1996	18-20	5	21	11	..
Yemen	1996	18-20	7	1	4	..
Subtotal			19	13	17	13.4

Source: UNESCO, *1999 Statistical Yearbook.*

Note: Two dots (..) indicate that data is not available.

a/ Palestinian Central Bureau of Statistics, 1999 and Population census, 1997.

ANNEX TABLE 7. ENROLMENT IN PRIMARY AND BASIC EDUCATION BY GENDER

Country	Year	Age	Enrolment ratio			Student: teacher ratio
			Boys	Girls	Total	
Bahrain	1996	6-11	105	106	105	..
Egypt	1997	6-10	108	94	101	24.2
Iraq	1995	6-11	92	78	85	20.0
Jordan	1997	6-15	..	..	..	24.7
Kuwait	1997	6-9	78	77	78	13.2
Lebanon	1996	6-11	113	108	111	..
Oman	1997	6-11	78	74	76	26.0
Palestine[a/]	1998	6-16	..	..	..	27.2
Qatar	1995	6-11	87	86	87	9.1
Saudi Arabia	1996	6-11	79	76	78	12.9
Syrian Arab Republic	1996	6-11	106	96	101	23.5
United Arab Emirates	1996	6-11	91	87	89	16.1
Yemen	1996	6-15	100	40	70	
Subtotal	1995-98	..	99	80	89	22.3

Source: UNESCO, *1999 Statistical Yearbook*.

Notes: Two dots (..) indicate that data is not available.

a/ Palestinian Central Bureau of Statistics, 1999 and Population census, 1997.

ANNEX TABLE 8. ENROLMENT IN SECONDARY EDUCATION BY GENDER

Country	Year	Age	Enrolment ratio			Student: teacher ratio
			Boys	Girls	Total	
Bahrain	1994	15-17	91	98	95	21.2
Egypt	1997	14-16	83	73	78	18.6
Iraq	1995	15-17	51	32	41	19.8
Jordan	1997	16-17	..	..		12.4
Kuwait	1997	14-17	64	66	65	10.6
Lebanon	1996	16-18	78	84	81	
Oman	1997	15-17	68	66	67	17.6
Palestine[a/]	1998	17-18	..	..		
Qatar	1995	15-17	80	79	80	9.6
Saudi Arabia	1996	15-17	65	57	61	12.9
Syrian Arab Republic	1996	15-17	45	40	43	16.6
United Arab Emirates	1996	15-17	77	82	79	
Yemen	1996	16-17	53	14	33	
Subtotal	1994-1998	..	67	56	62	18.0

Source: UNESCO, *1999 Statistical Yearbook*.

Note: Two dots (..) indicate that data is not available.

a/ Palestinian Central Bureau of Statistics, 1999 and Population census, 1997.

ANNEX TABLE 9. EMPLOYMENT TRENDS, 1980, 1990, 1995 AND 1997
(Percentage)

ESCWA member countries		Adult economic activity rate[a] (aged 15 and above)									Women's share percentage in the labour force[b] (aged 15 and above)		Labour force participation rate[c] (aged 10 and above)					
		1980			1990			1995-1997			1980	1995-1997	1980			1997		
		W	M	Gap	W	M	Gap	W	M	Gap	W	W	W	M	Gap	W	M	Gap
GCC countries	Bahrain	18	86	68	29	88	59	31	87	56	11	19	10	60	50	21	62	41
	Kuwait	20	86	66	38	85	47	39	79	40	13	31	11	55	44	25	49	24
	Oman	7	86	79	13	82	69	16	79	63	7	14	4	52	48	9	43	34
	Qatar	14	94	80	34	94	60	35	92	57	6	13	8	67	59	22	72	50
	Saudi Arabia	7	85	78	15	85	70	18	82	64	6	13	5	50	46	10	50	40
	United Arab Emirates	16	94	78	29	91	62	31	89	58	5	13	9	74	65	19	67	48
Mashreq countries	Egypt	7	80	73	27	73	46	22	73	51	8	22	19	51	32	22	51	29
	Iraq	17	79	62	15	75	60	17	75	58	18	18	10	44	34	10	43	33
	Jordan	7	76	69	17	76	59	22	76	54	8	21	7	39	32	13	44	31
	Lebanon	20	73	53	24	74	50	27	76	49	23	28	13	44	31	19	50	31
	West Bank and Gaza Strip	..	..	..	6	66	60	8	68	60	..	10	..	..	..	..	..	..
	Syrian Arab Republic	12	78	66	24	78	54	26	78	52	13	25	14	43	29	16	44	28
Developing countries	Yemen	8	84	76	28	81	53	29	82	53	11	27	18	41	23	18	46	28

Sources: International Labour Office. *World Employment Report 1998-99: Employability in the Global Economy - How Training Matters* (Geneva, ILO, 1998); United Nations. *The World's Women 2000: Trends and Statistics* (Sales No. E.00.XVII.14); and United Nations. *The World's Women: Trends and Statistics* (Sales No. E.95.XVII.2).

Notes: Two dots (..) indicate that data is not available; W = women; M = men; Gap = Gender gap (M - W).

a/ The economic activity rate is defined as the proportion of the population aged 15 and above who furnish, or are available to furnish, the supply of labour for the production of goods and services in accordance with the System of National Accounts. The definition of the economically active population provided by ILO comprises all employed and unemployed persons, including those seeking work for the first time, employers operating unincorporated enterprises, persons working on their own account, employees, contributing family workers, members of producers' cooperatives and members of the armed forces. In principle, a person who performs such work for as little as one hour per week is considered economically active. ILO's recommended definition also accounts for production of primary products, including foodstuffs, the transportation of water and collection of firewood for one's own consumption. Certain other non-monetary activities, including construction and major repairs or renovation of owner-occupied dwellings, are considered economic activity, and persons so engaged are regarded as economically active (see *The World's Women 2000: Trends and Statistics*).

b/ Women as percentage of adults aged 15 and above labour force: the percentage of women among the total labour force (see *The World's Women 2000: Trends and Statistics*).

c/ The labour force participation rate is defined as the ratio of the economically active population aged 10 years and above to the population of all ages (ILO, *World Employment Report 1998-99*).

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