NEOLIBERAL POLICIES AND INFORMAL LABOR IN THE ARAB REGION

INTRODUCTION:
According to the definition of the International Labor Organization (ILO), informal economy encompasses all workers’ economic activities, in addition to the economic units that are not covered by official requirements and measures and regulatory requirements, either because this category of workers is active in sectors that are not covered by laws, or because laws that are supposed to protect them are not applied. This definition means that the informal economy encompasses at the same time the informal sector and informal positions in formal or structured companies (1). Given the importance of the legal approach of this topic, we consider that “the informal or unstructured labor” is more appropriate because it focuses on “jobs and workers”, and focuses on the lack of workers’ rights. Furthermore, focusing on the jobs results in avoiding the complexities related to the enterprise-based concept, and allows controlling the progress of decent work (2). The gender approach as well as gender equality require taking into consideration unwaged care workers (cooking, children care, housekeeping, hosting visitors, organizing weddings and condolences, etc.).

It is worth noting that the informal economy is not anymore limited to the agricultural sector or Southern countries, but is more widespread in developed capitalist countries, and in many sectors like electronics, textile, apparel, construction, tourism, and domestic services (3). In the MENA region, %28 of the Gross Domestic Product (GDP) of a standard country comes from informal labor, which accounts for 16.5% of the country’s active population (4).

In addition, informal labor represents 45 to 55 percent of the labor outside the agricultural sector in Mediterranean Arab countries (5).

There are multiple reasons for the spread of informal labor in the Arab region, including demographic factors (particularly the significant increase in the percentage of active population who entered the region during the demographic transitional period), exodus to cities, incompetence between education results and labor market requirements, growing poverty, social exclusion, and administrative obstacles, in addition to social and cultural obstacles preventing women from accessing the labor market. Moreover, the economic policies adopted in the region since the 1980s have played a key role in the growing phenomenon of informal labor. Economic policies mean macroeconomic policies (financial policy, monetary policy, and fighting inflation), trade, investment, and financing policies, in addition to the policies of privatization and reorganizing State-owned enterprises (6). The neoliberal analysis is based on the restricted State’s development model that prevailed in the 1960s and 1970s, and which led, according to those who adopt this analysis, to the external debt crisis in many developing countries – to focus on the need to adopt alternative economic policies based on the efficiency of free markets in terms of the optimal allocation of resources, the importance of valuating the role of the private sector and individual ownership, in addition to the need for preserving macroeconomic balances. Enforcing these policies would accelerate growth, improve productivity and competitiveness, and encourage exportation to create new jobs and reduce unemployment (7).

The present paper aims at rejecting these assumptions by studying the effect of neoliberal policies on informal labor in the Arab region, showing its contribution to the chronic spread of informal economy. In order to prepare this paper, we counted on the available literature and studies, knowing that a key part was reserved to research about the phenomenon of informal labor in the Arab world. We will expose in the first part the content of these policies as implemented in many Arab countries, highlighting the role played by international institutions and its relation to the growing phenomenon of informal labor. The second and third parts will analyze the impact of the policy of liberalizing external trade, and then macroeconomic policies, on informal labor in the Arab world.

-1 Part one: The content of neoliberal policies in the Arab world and the influence of international institutions

1.1 Content of neoliberal policies in the Arab world
Internal and external factors have converged and made many Arab countries adopt neoliberal policies with a view to see their economies overcome the crisis in the 1970s and 1980s. In fact, the restricted performance of the State’s capitalist system, focusing on import substitution industries – in different degrees – by Arab countries (with the exception of GCC countries) (8), and the absence of people’s participation, are all factors that aggravated the economic and social situation in these countries. It should be emphasized here that the profound transformations at the global level (abandoning the Bretton Woods system, freeing capital from censorship, etc.), and economic tensions (Major shocks in the oil market, the high interest rate at the global level, the economic recession in rich capitalist countries, etc.) have worsened the sufferings of relevant Arab countries. These factors, in addition to internal factors, have aggravated external debt and the deterioration of macro-economic balances. To overcome this situation, relevant Arab countries resorted to international financial institutions – the International Monetary Fund and the World Bank – to obtain financial support and “technical consultation.” Therefore, many Arab countries (Egypt, Morocco, Tunisia, and Jordan for instance) applied the so-called “Washington Consensus” based on three pillars: liberating the economy, privatization, and financial austerity.

The key objective of this new economic trend was to integrate these economies in the globalized capitalist system, fulfill the expansion needs of major monopolies and multinationals, and achieve more capitalist accumulation and global dominance. Policies adopted through stabilization and structural adjustment programs focused on restoring macroeconomic balances (public finance and balance of payments), and the progressive liberalization of economic, commercial, and financial sectors, privatization, and lifting administrative and regulatory restrictions on private sector initiatives. Restoring macroeconomic balances requires implementing strict austerity policies such as reducing public spending, wages pressure, and stopping the subsidization of basic materials. As for liberating regional economies, Arab countries have particularly adopted more liberal commercial policies (reducing customs duties, alleviating non-customs obstacles, partial liberalization of the services sector) after joining GATT Agreement and the World Trade Organization (WTO), and signing a number of regional commercial agreements (9). Privatization was used as a main element in the policies of economic “reform” and restructuring, and as a key tool to shift to the so-called market economy and redistribute the roles between public and private sectors in the Arab world. Many Arab countries have also extended the participation of the private sector to the infrastructure sector through BOT, particularly in electricity projects and in building independent power generation stations. Privatization projects tried to take into consideration the social aspect; people working in the privatized corporations (Morocco and Jordan) were retained, or some privatization revenues were used to pay early retirement pensions and subsidies for laid-off workers (Egypt and Tunisia) (10).

As for settings and configuration, changes focused particularly on the “business environment,” i.e. the governmental measures regulating business activities (companies’ registration, issuing of construction licenses, cross-border trade measures, tax payment, economic activity liquidation, labor market flexibility, etc.). It is worth noting in terms of labor flexibility closely...
related to the phenomenon of informal labor as we will explain later, that the different non-oil Arab countries have changed their labor laws to make business relations flexible due to the pressure made by international organizations and the local private sector, whereas these relations were always flexible in terms of oil revenues (1).

1.2 The role of international institutions with the outbreak of the phenomenon of informal labor

We observe the effects of globalization on labor in the first decade of this century, ILO, the World Bank, and IMF played a key role in guiding the discussions and reforms according to the influence and promotion generated by the phenomenon of the informal sector and informal economy since the 1970s, and defending the need for respecting the rights of workers. These two institutions influenced the progress of the labor market and informal labor through the neoliberal policies imposed on debtor states, especially in the Arab region. This approach is a main tool to encourage the private sector to invest and therefore create new jobs.

We focused on the negative aspects of the informal economy which "can trap individuals and enterprises in a spiral of low productivity and poverty... From the perspective of the viewpoint of the informal economy, far outweigh its positive aspects. They are not recognized, registered, regulated or protected in national law; words, new forms not and are therefore not able to enjoy, exercise or defend their fundamental rights." (12) However, launching the discussion in 2002 about the informal sector, it was a shift in the way ILO approached the phenomenon: the term “informal sector” was replaced by a new term which is "informal economy." However, it is worth noting that "as long as it persists, the informal economy will remain the most serious obstacle to the goal of decent work for all", and confirmed the need for a comprehensive approach across the Decent Work Agenda to address its negative aspects through protection and incorporation into the mainstream economy, while preserving the "economic-generating potential" (13). In addition, ILO has set a number of policies to fight informal economy: quality employment generation and poverty reduction, social dialogue, organization and representation; promoting equality and addressing discrimination; measures to support businesses; and changing national regulatory and social protection to informal workers (14).

On the other hand, the two financial institutions added labor market flexibility to deal with the aforementioned "economic-generating potential" (13). In addition, ILO has set a number of policies to fight informal economy: quality employment generation and poverty reduction, social dialogue, organization and representation; promoting equality and addressing discrimination; measures to support businesses; and changing national regulatory and social protection to informal workers (14). In addition, ILO has set a number of policies to fight informal economy: quality employment generation and poverty reduction, social dialogue, organization and representation; promoting equality and addressing discrimination; measures to support businesses; and changing national regulatory and social protection to informal workers (14).

Neoliberal globalization means in general reducing the obstacles while preserving the economic-generating potential (13). It also reflected in the internationalization of production by creating global value chains (or global production networks) (for the formalization of these chains, please refer to figures 1 and 2 in the annex) that leverage the reduced transportation and transaction costs, and the fact that a company has the possibility to exchange to nationalize parts of these chains in the different countries to benefit from competitiveness (cheap labor, proximity, etc.). This sector slingshot into new regions (regionally, developed technological structures, etc.). The result is subcontracting on the global level in sectors which were in the past too specialized and have reduced the companies’ competitiveness and impeding their owners’ adaptation.”

Male and female workers are also able to resist overtime work by favoring low wages, and child labor. Furthermore, the issue of vulnerability and informality is mainly due to the pressure made by American companies – especially in the textile and apparel sectors – on its importers in Jordan in order to quickly meet market needs and fluctuations with the lowest costs, in addition to gaining a significant added value in production (27).

The relationship between foreign labor and informal labor in the Arab region, especially in Jordan, is complex. In fact, there is a significant increase in the percentage of temporary workers (20), which is a fixed-term contract, especially after reviewing the Labor Law of 1996, in addition to low wages and insignificant social protection. Thus, the percentage of workers with temporary contracts in the textile sector amounted to 26% according to the International Labor Office (24). The situation deteriorated after the Arab Spring when most of apparel companies started counting on temporary workers (25) due to the pressure of the European fashion sector. This resulted in higher marginalization and vulnerability of temporary workers, with an increasing pressure to deal with low wages, loans, training, technology, and information about the markets prevents them from leveraging the opportunities resulting from the new situation. The formal sector is eagerly competition from informal imports. Informal workers remain the category that is most exploited and marginalized due to instability and unemployment. Thanks to free movement on the global level to accommodate labor, capital is unable to make progress to get the resources of the informal sector due to the unstable conditions. The pressure made by the private sector to achieve labor market flexibility under the cover of competitiveness and productivity contributes to this new situation. The situation of informal workers is thus affected by the short-term consequences (transformational industry such as exporting cloths or non-traditional agricultural export activities (20). In the Arab region, retailing by directing economic activities towards exportation did not bring its expected results yet. The exportation of labor intensive and cheap labor industries has been a tool for the private sector to invest and therefore create new jobs, especially through their focus on labor flexibility as a main tool to encourage the private sector to invest and therefore create new jobs. This "narrowing" of capital freedom to deal with structural adaptation programs in the first phase, and then by proposing incentives to the units working in the informal sector (simplifying administrative procedures and laws, improving public services, etc.) to shift to the formal economy, because going into the formal business environment is to create social safety nets and limited contributions to guarantee the social protection of informal workers (16). However, focus on the quality of these financial institutions, in dealing with debtor countries, focus on labor flexibility according to a number of conditions to obtain the required loans (17).

Labor market flexibility is also a key factor to measure the ease of doing business and is essential for the World Bank and ILO to order labor-intensive sectors by bringing about a change, particularly in terms of recruiting and laying off workers due to "excessive employment, lay-off cost, and working hours." This depicts the demand of South-South countries for the countries allowing the adoption of fixed-term employment contracts – i.e. temporary. It is known that such contracts are widely used in the EU and in the Far East; they are also relevant workers in social security and thus depriving them of other social services (18).

The linkage between external trade policies and investment on informal labor

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The situation is different in Egypt where laws do not allow more than 1/10 of foreign labor, although there are cases of foreign workers doing some work in the private sector – on its importers in Jordan in order to quickly meet market needs and fluctuations with the lowest costs, in addition to gaining a significant added value in production (27).

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The spread of informal labor in the Arab region through global production networks included the agricultural sector. In the second part of the study, we only highlight the Moroccan experience. In fact, export agriculture evolved significantly through agricultural agreements with the European Union and Arab countries, and the establishment of investment networks in Arab countries. Moroccan exports are organized within global production networks dominated by large transnational corporations (TNCs). This trend is characterized by the concentration of agriculture in certain regions of Morocco and the exploitation of cheap labor. The consequence of this trend is the increasing vulnerability and exploitation of workers, as well as the increasing informalization of labor. The agricultural sector is characterized by the presence of large landowners and small farmers, and the labor force is composed of a large number of women, especially in rural areas. The informal sector is characterized by the lack of employment contracts, low wages, and insufficient social protection. The spread of informal labor in the agricultural sector is characterized by the presence of large landowners and small farmers, and the labor force is composed of a large number of women, especially in rural areas. The informal sector is characterized by the lack of employment contracts, low wages, and insufficient social protection.

Our analysis focused so far on the impact of the involvement of informal labor on the economic performance and its policy environment. The impact of informal labor on the economic performance of Arab countries is also reflected by the fact that the informal sector is the main source of employment and income, especially in rural areas. The informal sector is characterized by the lack of employment contracts, low wages, and insufficient social protection. The spread of informal labor in the agricultural sector is characterized by the presence of large landowners and small farmers, and the labor force is composed of a large number of women, especially in rural areas. The informal sector is characterized by the lack of employment contracts, low wages, and insufficient social protection.

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adopt a labor market flexibility policy, which has contributed to the deterioration of working conditions and the growing vulnerability of labor and informal labor. In this paper, we have focused on the contribution of trade and investment liberalization and macroeconomic policies, in addition to the privatization of the public sector and the restructuring of state-owned enterprises, to the outbreak of informal labor, both in the informal sector and in the formal economy. We have counted on the analysis of specific cases of Arab economies for which studies and research papers are available, or have provided relevant data and statistics.

The impact of trade and investment liberalization can be detected by at least two channels: the first channel goes through gloom chains and global production networks that are subjected to multinationals. Arab countries are considered among the weakest rings, i.e. low value added and unskilled labor, both in the informal sector and in the formal economy.

The decline in public investment also adversely affects young people and learners, at a time when the market, in addition to gender-based discrimination have led to growing demands on the market, vulnerability and informal labor, especially for women’s employment. On the other hand, if the impact of external competition on domestic enterprises is complex and not determined on the theoretical and empirical levels, this effect was negative in Egypt’s case. Trade and investment liberalization contributed to the growth of informal labor, with worse effects on women’s employment. At the macroeconomic level, austerity financial policies implemented in the framework of stabilization and structural adjustment programs for employment, particularly informal labor. The decline in public spending prevented jobseekers from joining the public service, especially young people and learners, at a time when the private sector compensated the State to push the economy forward. The decline in public investment also adversely affected growth and employment. In these circumstances, the unemployment rate has risen and the unemployed have been forced to find a foothold in the informal sector. The decline in the State’s economic role has also slowed the pace of growth and contributed to the spread of unemployment, especially among young people, forcing many unemployed to resort to informal labor in the hope of earning a living that preserves their dignity.

Last but not least, privatizations resulted in laying off large numbers of workers in Egypt, Sudan and Jordan, with worse consequences for women who used to work in better conditions in the public sector in Egypt, with at least part of them being part of the informal labor, as a way to compensate, even partially, their involuntary exit from the public sector.

Footnotes
(1) BIT, 2002. Conclusions concerning the work decent and the economic informal.
(2) Flows of Produce in African FV Chain
(3) economy: How Global Trade and Investment Impact on the Employment
(4) Globalization and the informal economy: How global trade and investment impact on the working poor, WIEGO.
(7) (EWS 2014:4.48
(8) (Sarangi N, 2015, Economic growth, Employment and Poverty in Developing Economies: A Focus on Arab region, Business International Review.
(9) (EWS 2014:4.48
(10) (EBRD 2014:4.48
(13) ibid, p. 11
(14) ibid, p. 11
(15) Stalling B, 2010 Globalization and Labor in Four Developing Regions: An Institutional Approach, St Comp Int Dev, 45
(20) (Bernhardt T, 2010, Economic and social upgrading dynamics in global manufacturing value chains: A comparative analysis, Environment and Planning, 48,7
(21) ibid.
(22) ibid.
(25) (Azemeh S, 2014, Labour in global production networks: workers in the Qualifying Industrial zones (Qiz) of Egypt and Jordan, Global Networks, 4-14
(26) (Hilal, 2013, Employment, poverty and development: The case of Egypt, World Bank, 2013:
(27) ibid
(28) (Hilal, 2013, Employment, poverty and development: The case of Egypt, World Bank, 2013:
(29) (Hilal, 2013, Employment, poverty and development: The case of Egypt, World Bank, 2013:
(30) (Hilal, 2013, Employment, poverty and development: The case of Egypt, World Bank, 2013:


Figure 1. Fashion-Oriented Chain

Figure 3. Unemployment rate (%) across regions, 1992-2013

Figure 4. Youth female and male unemployment rate (%) across regions, 2013-1992

Figure 5. Annual Growth rates of Informality