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The Global Crisis and its Impact on Poverty in the ESCWA Region

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I. INTRODUCTION

It is too early to assess the full impact of the global financial crisis on poverty, employment and the livelihood of the poor in the ESCWA region, due to the lack of reliable data in such a short time (from October 2008 to September 2009).

Nonetheless, the underlying trends in the ESCWA region and the other regions across the world are unmistakable. In the recent "UNCTAD Deliberations on the Global Economic Crisis and Development" (9 June 2009), it was emphasized that the Financial Crisis had evolved into a "**job - crisis**" and now into a "social crisis". And this global social instability was compounded with anger and fear.

The UNCTAD deliberations also indicated that women's jobs in developing countries were particularly vulnerable in such sectors as apparel, agriculture, and tourism, where female labour is concentrated.

Recent research from OXFAM international indicated some revealing trends about the size of job losses occurring because of the crisis¹:

- 700,000 clothing and textile workers in India lost their jobs in 2008.
- More than half of the 40,000 jobs lost in the Philippines came from export processing zones, where 80 per cent of workers were women.
- Sri Lanka and Cambodia have each lost 30,000, mostly female, garment industry jobs. In both countries, the garment industry accounts for at least half of export earnings.
- Nicaragua's export processing zone, where female labour is prevalent, lost 16,000 jobs in 2008.

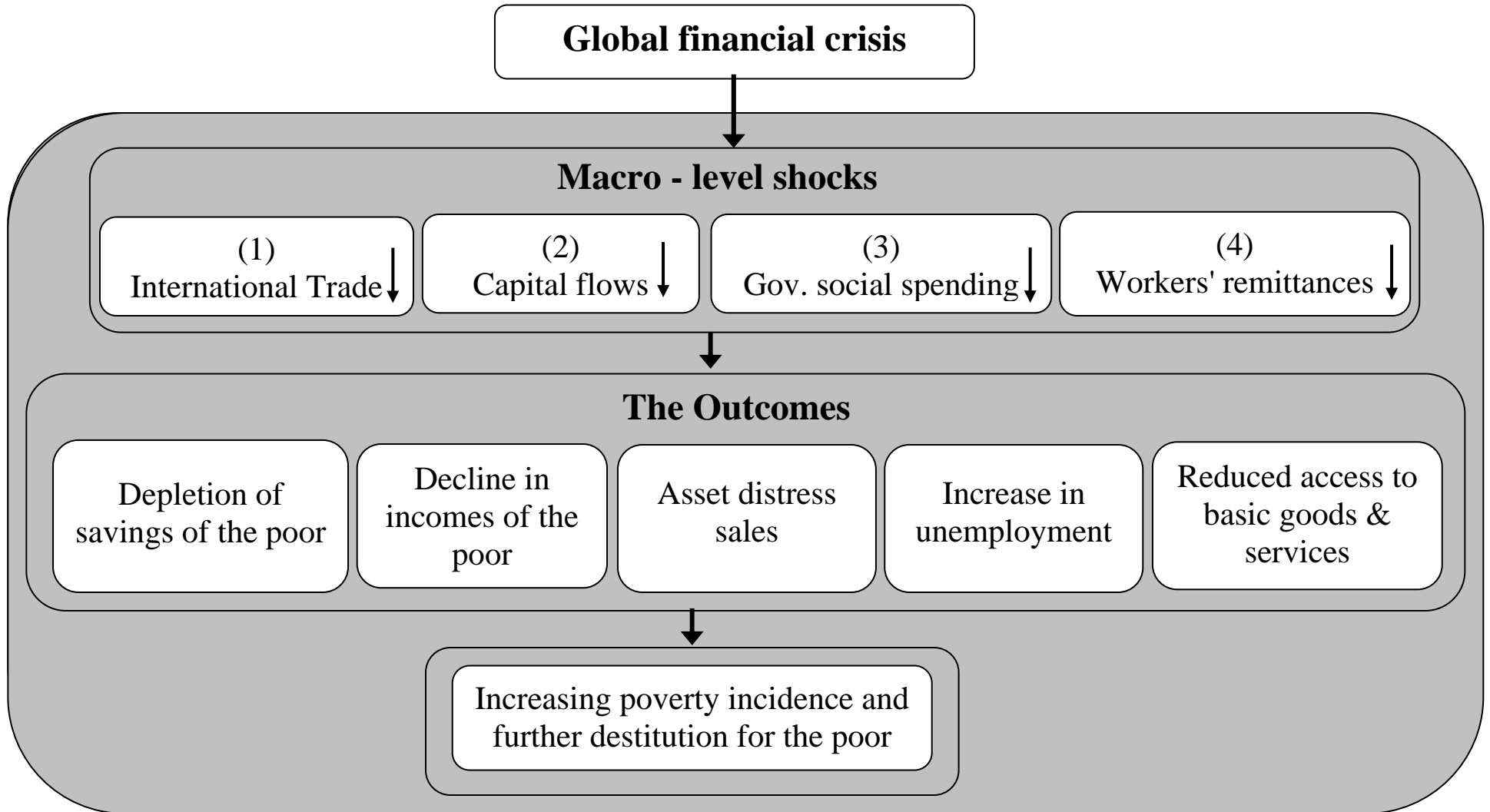
In ESCWA countries, the impact of the crisis was still unraveling, and it is too early to assess the full impact of the crisis and its likely duration.

Nonetheless, as we all know that the global crisis started first in the **financial sector**, then after a short lag period, the crisis shifted to the **real economy**, (i.e. productive, exporting, investment activities), and at a third stage the crisis spilled- over into the **social sector**. This led to high levels of unemployment, lower wages, depletion of previous savings of the poor, and cultural impoverishment. Such negative repercussions within the social sector lead to the impoverishment of middle and poor sections of the population, thus leading to high levels of **social instability**, as shall be examined in the rest of this paper.

The overall impact of the crisis on ESCWA region may be summarized in a comprehensive way as exhibited in figure (1).

¹ cf. **Paying the Price for the Economic Crisis**, Oxfam International Discussion Paper, (March 2009).

Figure (1)
Impact of global financial crisis on poverty in ESCWA region



Source: constructed by the author.

II. THE DIFFERENTIAL IMPACT OF THE RECESSIONARY CYCLE ON THE POOR IN VARIOUS ESCWA COUNTRIES

We can identify three depressors affecting incomes and livelihood of the poor in the ESCWA region in the post – crisis period:

- a) Falling oil prices and their derivatives; (i.e. workers' remittances, etc)
- b) Falling demand for goods & services (internationally and domestically);
- c) The negative wealth effect, due to losses resulting from falling asset prices (in stock exchanges and real estate markets).

The impact of the crisis on growth and income prospects in countries of the ESCWA region in 2009 (and beyond) varied according to the relative weight of each of these three depressors:

a) The oil income effect

The "income effect" of the decline in oil revenues exercised a depressing effect on GDP growth in ESCWA countries. Such impact varied across countries of the region, according to the degree of dependence on oil revenues. The impact was most felt in countries of the GCC, and to a lesser degree on other ESCWA countries more dependent on worker's remittances (i.e. Jordan, Egypt, Yemen, Syria, and Lebanon).

Further, such decline in oil revenues resulted in major delays in planned mega projects financed by public expenditure in Gulf countries, thus affecting employment and incomes of the middle and poor strata (whether native or migrant).

b) The Impact of falling demand for goods & services

Domestic consumer demand in ESCWA countries is highly segmented. we can identify three major segments: the poor, the middle strata and the affluent. The crisis affected mainly the poor and the lower middle strata in the following ways:

- (i) **The subsistence consumption** of the poorer strata, suffered a major decline due to higher rates of unemployment and the decline in informal income earning opportunities;
- (ii) **The middle class consumption** suffered a major squeeze due to the recession and the end of windfalls derived from the previous boom in real estate and financial markets,

c) The Dampening Impact of the Negative "Wealth Effect"

This effect was seriously felt on spending decisions in the post - crisis period. For the great decline in prices of financial assets and real estate in Gulf States affected spending decisions by the household and the corporate sectors, leading to the destruction of jobs and slashed earning opportunities of the poor through the working of the negative multiplier effects within Gulf States and across other ESCWA economies.

On the other hand, as a sequel of the international financial Crisis, non – oil ESCWA countries faced a decline in certain important lines of **export activities**, notable among them the exports of apparel products from Egypt, Jordan and Syria.

Table (1) shows the extent of decline in sectoral growth rates in Egypt in the post - crisis period.

Table 1:
Egypt: Post - Crisis Sectoral Real Growth Rates
(Q3 2007/ 2008 - Q3 2008/ 2009)

Sector	Growth rate %		Performance trend
	2007/ 2008	2008/ 2009	
Manufacturing	8.3	3.5	Strong decline
Wholesale and retail trade	9.4	7.8	Moderate decline
Tourism	23.3	- 6	Negative growth
Suez Canal	12.7	- 22.1	Negative growth

Source: Economic Policy Briefs, ECES, (August 2009).

As for various lines of industrial activities, it was reported that the new contracts in the **textile industry** in Egypt were cut by 50%, thus threatening almost 300 exporting factories in the country². In addition, the production of **chemical industries** also declined, especially for Ammonia and Urea products due to the combined effect of declining dollar prices and the deterioration of export markets³. In the **furniture industry**, it is expected that the exports will decline by a further 30 percent in 2010⁴.

These trends are expected to translate into a rise in poverty rates and an increasing degree of social insecurity of vulnerable groups of the population.

III. THE DIFFERENTIAL IMPACT OF THE CRISIS ON UNEMPLOYMENT AND POVERTY

To understand the differential impact of the crisis on the employment situation and the associated poverty incidences, we have to introduce the concept of segmented labour markets in countries of the ESCWA region. The two basic segments are: (i) **The primary** labour market, where most of the regular workforce is better protected and immune from cyclical fluctuations, (ii) **The secondary** labour market segment where most of the workforce is unprotected, holding **casual** and **informal** jobs⁵. In the post - crisis situation the burden of the adjustment (due to the decline of economic activities) in the ESCWA region fell squarely on this second segment.

² Mohamed Khamis, **Impact of Global Crisis on Egyptian Industry and the way forward to develop Egyptian Industrial Ability**, (ECES, October 2009), (in Arabic).

³ Ibid.

⁴ Ibid.

⁵ The workforce in the informal sector in Egypt had increased to reach 7,9 million, according to the 2006 sample labourforce survey. cf. EL - Ehwany, **Economic Policy Briefs**, ECES, (August 2009).

On the other hand, the level of the decline in workers' remittances for non - oil ESCWA countries acted as an important dampening mechanism, through which the impacts of the global economic crisis were passed on to the poor in urban and rural areas.

Table (2) exhibits the most recent data on workers' remittances in ESCWA countries in the pre - crisis period. And, if we assume a decline of the order of 20% of the level of remittances in the pre - crisis period, the loss of remittances due to the crisis would amount to 4.2 billion dollars, which seem to be a conservative estimate.

Table (2):
Workers' remittances in ESCWA countries in the pre - crisis period
(US\$ million)

Country	2007	2008*	A decline of the order of 20%
Egypt	7656	9476	1895.2
Lebanon	5769	6000	1200
Jordan	3434	3434	686.8
Yemen	1283	1283	256.6
Syria	824	850	170
Oman	39	39	7.8
Total	19005	21082	4216.4

* Estimate

Source: Facing Challenges of Poverty, Unemployment, and Inequalities in the Arab Region, Arab NGO Network for Development, (June 2009).

In the case of Egypt, case the worker's remittances had **effectively** declined by 20% during the third quarter spanning the period January – March 2009, as compared with the same quarter last year.

On the other hand, the 2009 annual report by **Bank Audi** in Lebanon report a rather weak decline of remittances of the order of 2.5%⁶. Nonetheless, the full impact of the crisis will be seen much later, because during the initial the post - crisis period (2009), returning migrants normally repatriate stocks of their savings abroad.

This results into a mix - up of the of the **stocks** and **the flows** in the initial period. It is expected that the real impact on remittance's flows will be seen more severely in 2010.

⁶ **Lebanon Economic Report**, Bank Audi, 3rd Quarter 2009.

Based on ILO's Economic Models, the direct impact of the crisis on employment is expected to be relatively limited in the Arab region. This prediction is normally consistent with the weak estimated link between employment and growth in the region, as expressed by the **low employment elasticities with respect to GDP growth**, as shown in the table (3):

Table (3):
Employment Elasticities in Selected ESCWA Countries

Country	Annual Rate of Growth of Employment (%)	Real GDP Growth Rate (%)	Employment Elasticity
Egypt	1.87	6.05	0.45
Jordan	3.06	4.86	0.63
Syria	2.56	5.69	0.45
Average	2.06	4.91	0.42

Source: LAS - UNDP (2008), as reported in K. Abu-Ismaïl.

Nonetheless, this optimistic view needs to be qualified, as **the reported elasticities** relate only to employment in the formal sector, while employment elasticities in the informal sector are surely much higher, where one finds the bulk of the workforce affected by the crisis.

Furthermore, the problem of **the returning migrants** in labour - exporting countries such Egypt, Lebanon, Jordan and Yemen added to the socio - economic difficulties and pressures in labour and products markets, thus, leading to higher **rates of financial dependency**, as distinct from the traditional **demographic** dependency ratios.

IV. The Differential Impact of the Crisis on Socio - Economic Groups

The most recent data available about poverty in ESCWA countries is summarized in table (4):

Table (4)
Recent Poverty Indicators for ESCWA Countries

Country	Survey year	Poverty Incidence (%)	Average population (2000 - 2005) (million)	Estimated number of poor (million)
Lebanon	2005	7.97	3.9	0.3
Egypt	2005	19.6	69.7	13.7
Jordan	2002	14.2	5.2	0.7
Syria	2004	11.4	17.7	2.1
Yemen	2006	34.8	19.6	6.8

Source: UNDP/ AHDR calculations.

From a methodological viewpoint, the income and social transitions in the post - crisis period are better captured through changes in incomes across various **quintiles**, and their **social class counterpart**, as exhibited in the following scheme:

Income Quintiles	Social Counterpart
Top (Quintile I) 20%	The richest 20 percent of the population
(Quintile II)	Upper middle class strata
(Quintile III)	Lower middle class strata
(Quintile IV)	The poor
(Quintile V)	The Ultra - poor

Source: Constructed by the author.

In most countries of the ESCWA region, the probability of falling - out from "middle" income to "lower" income brackets increased with the unfolding impact of the global crisis.

If we think in terms of a "**Markov Chain**" process, with proper "transition probabilities", assigned for various income groups (Quintiles), the decline of the "income" and in "social" status, since the advent of the crisis in Sept. 2008, would become more transparent. In the absence of such "transition probabilities", we can predict a squeeze of the **lower middle class strata** (Quintile III), during the post - crisis period, as illustrated in table (5):

Table (5)
The dynamics of Socio-Economic Transition in the Post-Crisis Period in the non-oil ESCWA countries

Before the crisis situation	Post - Crisis situation
Top 20%	Top 20% Undergoing a process of re composition according to the degree of "wealth losses"
Middle 40% (Quintile II & III)	Thinning - out of the ranks of the upper middle strata (Quintile II)
Bottom 40%	Most members of the Quintile III suffering a major decline in incomes, and falling to widen the size and ranks of low - income and poor strata(Bottom 60%)

Source: Designed by the author.

This process leads to a **thinning - out** of the ranks of "middle class" in non - oil ESCWA, as those who belong to quintile III are falling out to swell of the ranks of poor and vulnerable groups (bottom 60%).

Thus, there is a real risk that large numbers of vulnerable people who had managed to escape absolute poverty in recent years in the ESCWA region, will be unable to cope with the shock of the recent financial crisis and will be caught again into the "poverty trap".

In this context, three types of exclusion may be identified in the post - crisis period⁷: (a) exclusion from the labour market, reflected in rising numbers of long - term unemployed; (b) exclusion from **regular and protected work**, through the growth of precarious and part - time employment; and (c) exclusion from **decent housing** and **community services**, reflected in "impoverished" social defense system.

In sum, the post - Crisis situation leads to increased **insecurity** and a higher degree of the **informalisation** of a substantial portion of the workforce in the ESCWA region throughout 2009 and 2010.

V. Weather the Storm

Given this dramatic situation, there is a need to construct **stabilizers** into the socio - economic system. We outline here the most important elements of such a system of stabilizers:

First, the role of the public sector needs to be enhanced in order to assist in dealing with problems of global recession in ESCWA region.

The role of the fiscal stimulus packages becomes of outmost importance in this respect, and Keynesian - type policies need to be pursued in order to break the current recessionary cycle. Such types of policies would lead to a **crowding - in** of more private investment and reduce the level of **aggregate uncertainty** in the system;

Second, despite limited maneuvering in the fiscal space, social spending on infrastructure, and basic social services: education, and basic health care need to be expanded in order to stimulate demand for goods and services and mitigate problems of increasing unemployment and rising poverty;

Third, there is room for greater rationalization of investment policies by the private and corporate sectors in the ESCWA region, by shifting away from reliance on "speculative funds" and "speculative venues", and focusing more on channeling "investible funds" to expand the productive base of ESCWA economies, thus helping to expand sustainable employment opportunities.

Fourth, greater coordination and cooperation among ESCWA countries (oil and non- oil) is badly needed in order to survive the crisis. New regional policies in trade and finance need to be tailored to intensify inter - Arab (and **intra - ESCWA countries**) exchanges to compensate for the loss of export markets and financial investment outlets in Europe and USA.

Fifth, monetary and fiscal policies need to be more closely coordinated among ESCWA countries, in order to increase their efficiency at the country level to counter the negative impacts of the crisis and stop the slippage from recession to a generalized and lengthy depression.

⁷ Cf. Gerry Rodgers, Charles Gore and Jose B. Figueiredo. **Social Exclusion: Rhetoric - Reality - Responses**.

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