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Correction 1

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Subject: Demographic Transition in the Middle East: Implications for Growth, Employment, and Housing

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

CORRIGENDUM

The following corrections have been made in WP/00/41 (March 2000):

Page 2, contents, Section V: for "Housing Construction on an Engine of Growth"
read "Housing Construction as an Engine of Growth"

Page 11, second full para., line 3: for "resource use, is there scope"
read "resource use, there is scope"

Corrected pages are attached.

Att: (2)

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Middle Eastern Department

**Demographic Transition in the Middle East: Implications for
Growth, Employment, and Housing**

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March 2000

Abstract

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The working age population is expected to grow faster in the Middle East than in any other region in the world between now and 2015—rising annually by 2.7 percent, or 10 million people. This demographic explosion presents the region with a major challenge in terms of providing jobs, incomes, and housing for the growing population, but the expanding labor force can also be seen as an opportunity to generate higher per capita income growth on a sustainable basis. The paper concludes by emphasizing the importance of market-friendly institutions in turning the challenge into opportunity.

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efficiency in the use of capital, rather than increased resource accumulation, is the key to achieving high and employment-intensive growth. A similar conclusion applies in the case of Iran. Here we set a target of reducing the unemployment rate from around 14 percent at present to 7 percent by 2015; this in turn requires an average annual growth in employment of 4.1 percent per annum. Even if gross investment rises from 19 percent to 28 percent of GDP and human capital continues to grow at the high historical rate of 1.1 percent per annum, the ICOR must fall from 57 to 5.0, and TFP growth must improve from an estimated -3.4 percent for the period 1973–1994 to -0.3 percent per annum.

The situation is rather different in Egypt, Morocco, Pakistan, and Tunisia where halving the unemployment rate by 2015 requires employment growth of 3.6–4.0 percent per annum. With human capital growing at its historical average, there is no pressing need for faster TFP growth or for a reduction in the ICOR, assuming however in the case of Egypt and Pakistan that the investment ratio rises to 28 percent, or that they sustain their apparent strong historical record of low ICOR and high TFP growth.

While individual country situations thus differ rather markedly, **the overall message is strikingly positive**: given a moderately high investment effort, and a “reasonable” level of efficiency in resource use, there is scope in all countries **for absorbing into employment the growing labor force and the overhang of unemployment**. Whatever the possible flaws in measurement of historical performance, what matters is that the “required” level of efficiency derived in this section, and the assumed investment ratio are both well within the range of international and historical experience.

I. HOUSING CONSTRUCTION AS AN ENGINE OF GROWTH

Where will the additional employment come from? Much attention has focused on the potential impact of trade liberalization and FDI on job creation in the region. We focus here on another channel, directly linked to the very demographic conditions that raise the issue in the first place: the demand for housing. As they have elsewhere, the new demographic conditions in the region are likely to spur a massive expansion in the housing construction sector.^{15 16} Because housing construction is predominately a labor-intensive activity, meeting

¹⁵ Mankiw and Weil (1989) have shown in the context of the U.S. baby boom generation that while an individual generates little demand for housing before the age of 20, housing demand rises sharply between ages 20 and 30 and remains flat thereafter. Accordingly, the rise in the demand for housing and real estate prices in the 1970s were a predictable consequence of the maturing of the baby boom generation who were born in the late 1940s and early 1950s. More recently, Lindh and Malmberg (1999) have established this link in the context of the whole OECD group.

¹⁶ Sternleib and Hughes (1983) have attributed the parallel cycles in labor force growth and housing expansion to the changing age structure of the U.S. population since the 1950s. Our

the demand for housing can go a long way in addressing the employment problem, providing a two-way improvement in welfare. Recent trends in the housing market in MED, especially on the supply side, are difficult to establish. On the basis of early surveys and qualitative evidence, however, there is little doubt that a substantial shortage of housing units has been building up since the late 1970s, with disproportionate effects on young adults and the poor.¹⁷

We provide a rough approximation of the need for new housing units to give an idea of the magnitudes involved, a necessary exercise given the limited attention devoted to the housing problems in policy discussions.¹⁸ The exercise concludes that, for a group of seven MED countries (Algeria, Egypt, Iran, Jordan, Morocco, Pakistan, and Tunisia) with a total working age population of 206 million in 2000, the need for new housing is in excess of 6 million units per year, whereas deliveries are about 1 million (Box 2 and Table 6). There would exist a large potential demand, which, if it could be made effective, would provide a major boost to domestic activity.

The massive gap between need as defined in Box 2 and effective demand for housing is a major opportunity for growth in MED countries. Since housing construction typically accounts for 3 percent of GDP and 5 percent of employment in MED countries, though with a rather wide dispersion, a many-fold increase in housing deliveries would provide a major boost to employment and activity. Moreover, because housing construction is largely self-financing, this boost would be sustainable.¹⁹

analysis follows this line of reasoning, namely that the rise in the working age population and the increase in the demand for housing are closely related.

¹⁷ For example, the accumulated deficit in housing in Egypt between 1960 and 1979 was estimated at 2 million units (Mohie el-Din (1982)). In Algeria, the construction of housing units fell from 90,000 units in 1986 to 30,000 in 1991, at a time when annual demand for housing was 200,000 units (World Bank (1994)).

¹⁸ We should note however that social scientists have devoted extensive attention to the political and social implications of housing shortages in MED. As Richards and Waterbury (1996) have rightly observed, the high unemployment rates and lack of affordable housing in MED in the 1990s are two intertwined problems facing young adults in the region; indeed, a healthy housing market is a reflection of well-functioning labor and credit markets.

¹⁹ Available estimates of output and employment in the construction sector generally do not provide a clear breakdown between residential construction, other construction, and infrastructure and for this reason need to be treated with caution.