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## 1. Human Capital and Investment: A dynamic relation

The quality of human capital, besides the role it plays in determining the key economic and social development, has positive effects on competitiveness. It is a source of productivity and innovation that fosters the improvement of competitive advantages and their regeneration in a dynamic way. It is also a determining factor in terms of quality investment decisions and a key product for the attractiveness of Foreign Direct Investment FDI.

If human capital influences the investment dynamics, it enable us on the other hand, through job creation and training opportunities within the company, to maintain and develop human capital. It is therefore a dynamic relationship where both components are mutually self-feeding.

The purpose of this paper is to examine the situation of human capital with relation to investment transactions in the South-East Mediterranean (SEM), to find out the blocking factors and suggest ideas that can strengthen the contribution of human capital in economic and social development in these countries, all while taking into account the issues and current and future challenges, some.

## 2. “Human capital and investment” relationship in the Mediterranean: Some background information

MENA countries have made significant progress in developing their human capital, though in unequal proportions from one country to another. Nevertheless, these improvements are still below those achieved by some emerging countries.

In these countries, the accumulation of human capital is not contributory to establishing a pool of talent to develop investment. A few quantitative and qualitative indicators of the education-teaching system used to highlight these shortcomings:

- Despite the significant weight of public expenditure on education (5% of GDP on average), literacy is not yet widespread, although performance of the SEMC are unequal in this respect (a rate of between 56% and 94%) against the rate of almost 100% in countries of the north bank of the Mediterranean (Source: UNESCO, 2008).
- The average of schooling years in the population aged 15 and more varies from one country to another. On average, it is around 7 years. That is, the population are of lower educational level in comparison to countries of the north shore of the Mediterranean (11 years Greece, 10 years in Spain and Portugal) (Source: International Database on education, Barro-Lee, 2010).
- An active labour force structure is characterized by a small number of secondary and higher education people. This number is respectively 28% and 10% in Morocco and 22%, 12% in Turkey, against 69% and 20% in Poland and 49% and 25% in Chile (Source: World Bank).
- In addition to the quantitative inadequacies, there are the human capital quality insufficiencies. It is that the number of students in engineering education, between 7% and 13% depending on the country, remains below the world average of 15% (19% in Bulgaria, 23% in Malaysia and 27% in South Korea) (Source: World Bank, 2007).

If the investment effort in the region has grown encouragingly, it should be noted that this investment is not accompanied by significant job creation:

- A limited offer of formal employment (70 million jobs offered in 2005 against 178 million potential employees) (Source: FEMISE, 2009).
- A persistent unemployment (9.3 million), representing an unemployment rate of 13% (Source: FEMISE, 2009). Unemployment affects particularly the young population of graduates. In 2009, the unemployment rate of higher education graduates was 17.8% in Morocco (21.8% in Tunisia), against an average of 9.5% for middle-income countries and 4.5% for high income countries (Source: International Labour Office). In some countries of the north bank of the Mediterranean, this rate is on average 11% (Spain: 11.8%, Greece 11.7%) (Source: OECD, 2009).

Moreover, the rare opportunities of job training does not upgrade the skills of employees or develop them:

- The proportion of firms offering training to their employees hardly exceed 30% (25% in Morocco, Turkey 27%, 15% in Egypt, etc.) against 85% in China, 70% in Brazil, 50% in Poland and 47% in Chile, etc. (Source: World Bank, ICA Survey 2008).
- The number of workers receiving training on the job remains relatively low. It is, on average, around 40% in the SEMC against nearly 54% in Asia and 60% Latin America (Source: World Bank, ICA Survey 2008).
- The training offer is almost nonexistent among small and medium enterprises which constitute the major productivity share in Southern Mediterranean countries. If this is due to the lack of resources within this category of business, the fact remains that the training offer in large companies is less developed compared to other emerging countries (85% in Chile and South Korea, 80% in Malaysia, 58% in Mexico against nearly 30% in Morocco, Egypt and Jordan) (Source: World Bank, ICA Survey 2008).
- The need for continuing education and training on the job are more important, in terms that the skills available in the labor market respond only weakly to business demands. The ICA Survey data (World Bank, 2008) show that the percentage of firms citing lack of skills as major constraint is around 39% in MENA countries against 6.8% in South Korea and 8.7% in South Africa.

The economic, social and political side of the scientific research does not favor the retention of skills which often leads to brain drain. This situation is amplified by a selective migration approach of the host countries, including Europe. This is not without prejudice to the southern Mediterranean countries.

To illustrate, nearly 70,000 graduates of Arab universities migrate each year to seek employment abroad. About 50% of physicians, 23% of engineers and 15% of scientists emigrate to Europe, USA and Canada (Source: Department of the Arab League Population and Migration Policy, 2008).

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Factors of low human capital accumulation in the southern Mediterranean countries could be exacerbated in the coming years if current trends continued. In addition to population dynamics and its consequences on employment needs, these countries are facing multiple challenges in terms of competitiveness:

We need significant job creation at the Southern Mediterranean (58 million jobs between 2005 and 2020, while in the mean time we should keep the inactive or unemployed people at the level reached in 2005). This relates in particular to the tensions generated by the large number of young people under 15 years (82 million people to 260 million of total population) (Source: FEMISE, 2009).

There is a persistent gap between the education system and the job market requirements that may continually feed the unemployment rate especially among graduate students. This is a significant constraint challenging social cohesion and migration toward northern Mediterranean.

There is low productivity and risk of confining the specialization profile of the region into the niches of world trade, which could maintain a slow process of catching economic and technological gap reduction.

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3. Some ideas for maintaining a real dynamic capital human with relation to investment, are likely to meet the challenges of competitiveness in the Mediterranean

The acceleration of structural changes in the economies of Southern Mediterranean countries depends, among other things, on strengthening the quality and performance of their human capital to make it a determinant key in terms of competitiveness. To achieve this, three major tracks are worth-investing:

Accelerate the pace of direct changes and strengthen their overall cohesion:

To work on increasing the accumulation of human capital, through vigorous policy for illiteracy fighting, particularly in countries that need to extend huge efforts if they want to keep up or catch up the world;

To Re-orient and adapt the curricula of education and training according to the needs of different economy sectors;

Develop centers of excellence in universities and engineering schools to promote the formation of pools of gray matter, capable to promote innovation, research and development.

- ❖ Use of public policies with global and integrated approaches:
  - Developing medium and long term visions so as to strengthen the economic choices on future sectors and to favorite positive expectations of domestic and foreign investors;
  - Conducting a comprehensive industrial policy, coupled with training incentives within the company. This policy would benefit from close links with the scientific research

policy to strengthen its coherence in matters of development goals. As an illustration, Morocco has chosen to integrate training in its plans (Vision 2010, Emergence plan, etc.) taking into consideration training which will breed skills useful for the country's global new businesses (automotive, ICT, off-shoring, etc.);

- Adopting a participatory approach involving the private sector in terms of design and implementation of national goals in education and training. As such, vocational training in Morocco, thanks to contracts programs between government and business associations, recorded a relatively higher external efficiency than other components of the education system: About two thirds of recipients have become active during the first nine months of their graduation;
- ❖ Maximizing the potential regional complementarities in the Mediterranean in terms of Investment and employment
- Encouraging European direct investment in southern Mediterranean to boost growth and contribute to the creation of jobs opportunities needed. These investments are all structured relying on knowledge transfer to generate a real improvement in the aspects that Southern Mediterranean countries are specialized at, like what happened in Asia (Role of Japan, Korea and then that of China's industrial relocation).
- Enforcing the support of Europe in terms of institutional and financial plan. This plan is related to the research and training structures in southeast Mediterranean countries, through the multiplication of institutional twinning operations and design of regional programs in the areas of education, vocational training, and higher education and scientific research.

Design a regional migration policy to constructively preserve the skilled human resources needed by the Southern Mediterranean country, or at least encourage return migration, and expand the European migration policy to less sharp aspects.

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In general, recent developments in the region campaign for the establishment of a policy specifically dedicated to young. Such policy will be able to meet the expectations of this segment of society in terms of education, health, political participation, etc.

In this policy, the integration of education, training and working life in a continuous basis is necessary to prepare for the transition from school to work by a better method - education-training/employment and linking it by motivation measures and support of young people (grants, benefits, awards). In this way, candidates will easily and smoothly move upwards from one phase to another.