



OXFORD  
GULF & ARABIAN  
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# GULF AFFAIRS

Autumn 2015

A Publication based at St Antony's College



## LABOR MARKET DYNAMICS in the GCC States

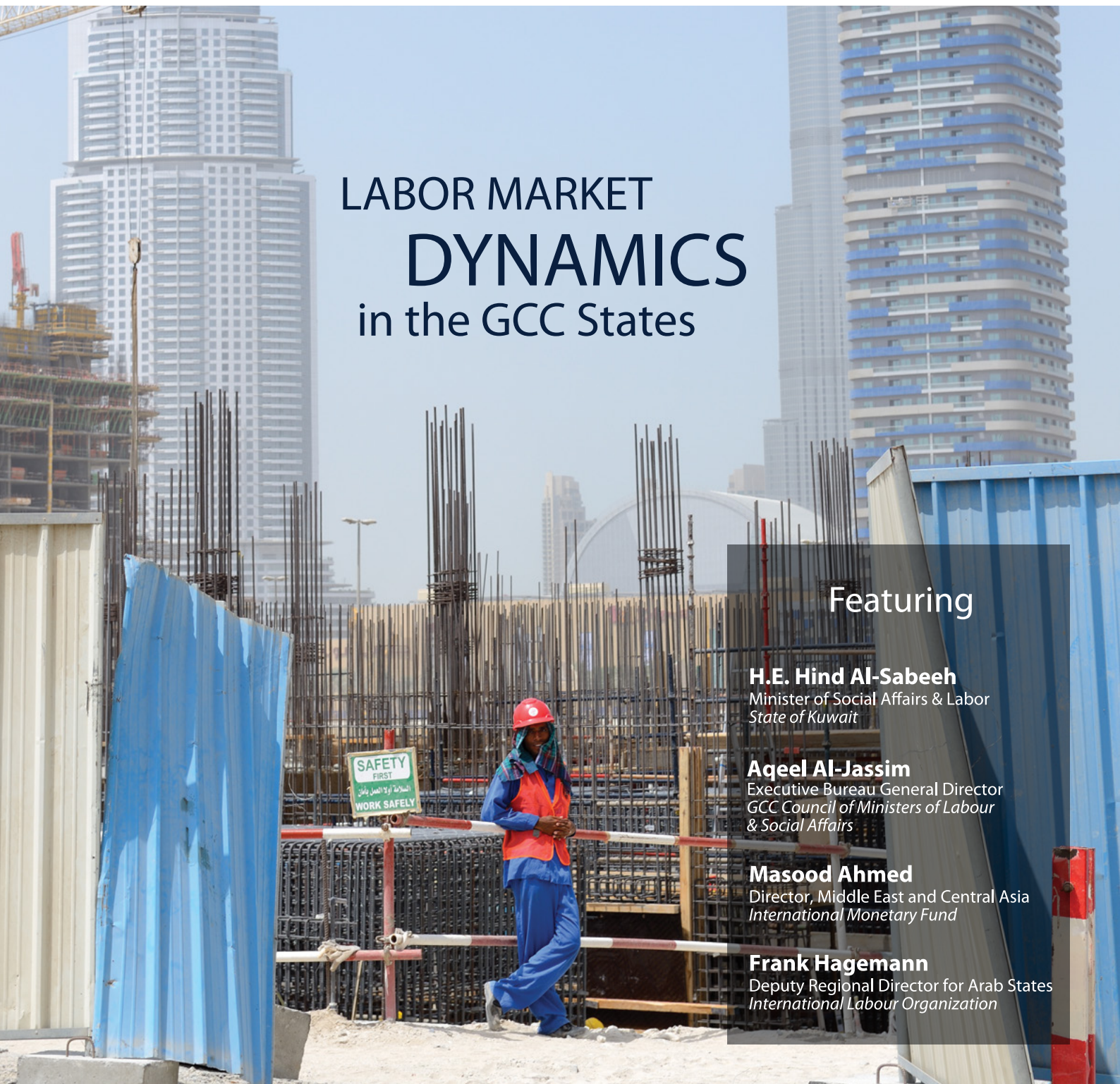
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Autumn 2015

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**The Issue ‘Labor Market Dynamics in the GCC States’ was supported by:**



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## **V. Timeline**

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# Foreword

The publication of the inaugural issue of *Gulf Affairs* marks a new departure for Arab Gulf studies in Oxford and Britain more generally. There has been a pressing need for an independent and non-partisan periodical to provide reliable research and analysis on this geostrategic region. Universities provide the neutral territory for free debate to flourish, and the Oxford Gulf and Arabian Peninsula Studies (OxGAPS) Forum provides the intellectual community to facilitate the discussion, bridging the UK and the member states of the Gulf Cooperation Council (GCC).

Starting with this first issue, the editors intend to preserve a thematic approach, to focus on issues of greatest concern to the Arab Gulf states. Contributors will address diverse subjects related to development, the economy, politics, security, as well as other fields. They will examine recent history and consider the future of the Arab Gulf states. Combining the latest research with the analysis of seasoned observers, the articles in *Gulf Affairs* tackle major subjects with clarity and concision.

We hope that *Gulf Affairs* will encourage new scholarship and debate on the GCC and its member states. As the political and economic center of gravity shifts from the Middle East and North Africa towards the Gulf region, the need for this forum is more apparent than ever. The issues confronting the region also require new thinking—whether it is the Iranian nuclear dossier, intergroup relations, labor concerns, or falling energy prices.

The editorial policy of the journal is to encourage a cross-disciplinary exchange in the pages of *Gulf Affairs*—bridging voices of experts from the region in question and those involved in it from the outside. Complex subjects are often best approached with diverse tools. It is difficult to isolate economic affairs without reference to underlying political realities, or politics without considering social constraints, or society without treating culture. Nor, in considering the art market in the Gulf or the explosion of iconic architectural projects burgeoning across the region, is it a difficult stretch to link culture and the economy. Scholarship is increasingly interdisciplinary and this trend is encouraged in *Gulf Affairs*.

Similarly, complex issues are best addressed by authors from a wide range of professional backgrounds. The advantages of academic research only go so far. We all gain perspective from colleagues in different fields: the businessman's distinct take, the diplomat's access to overt and covert information, the journalist's instant access to news at its source. *Gulf Affairs* draws on the perspectives of scholars, professionals, and policy-makers to view the key issues affecting the region from all angles. Through scholarly analysis, expert commentary and interviews with leading public figures, the journal allows academics and regional leaders to share their insights and points of view to provide the most authoritative account of the most pressing issues of our day.

New journals are fragile, and *Gulf Affairs* is no exception. For this initiative to succeed, it will require informed engagement and word-of-mouth advertising. The excellent editorial team, and the dynamic OxGAPS Forum have the talent and network to launch this initiative, but it will take the concerted action of scholars and policy makers across the GCC and the globe for it to thrive. Reading through the articles in this inaugural issue, I have every confidence in its success.

*Eugene Rogan*

*Senior Member of the OxGAPS Forum and Director of the Middle East Centre, St Antony's College, University of Oxford.*

# Labor Market Dynamics in the GCC States Overview

The member states of the Gulf Cooperation Council (GCC) represent distinctive labor markets, characterised by segmentation along several lines. These include obstinate divisions between: national-non-national; public sector-private sector; male-female; blue-collar-white-collar; generation X-generation Y; as well as along tribal and even (increasingly) sectarian lines.

During much of their state-formation, and largely hitherto, petrodollar monarchies in the Gulf have relied dually on both hydrocarbon revenues and migrant labor. The bifurcation of GCC labor markets between nationals and non-nationals rests on an outdated social contract whereby the state distributes rents by guaranteeing jobs—often referred to as privileges or entitlements—for its citizens in the now-bloated public sector.

Meanwhile, foreign labor is deployed to address demographic imbalances in the rigid labor market, working predominantly in the private sector and in positions considered culturally and financially undesirable for nationals. Depressed (non-taxable) wages are afforded to cheap labor—supporting construction, domestic work and services—mainly from South Asia, Philippines, Egypt and Indonesia, with most of these workers sending a significant proportion of their salaries ‘back home’ in the form of remittances. The Asianization of the GCC labor market in the late 1980s was preceded by a predominantly non-GCC Arab workforce.

Conversely, highly inflated reservation wages are synonymous with public sector employment. These government jobs—mostly reserved for nationals—not only pay significantly better than their equivalents in the private sector, but also offer various non-pecuniary benefits including shorter working hours, longer holidays, a ‘national’ environment, job security, as well as associated prestige.

As a result of the aforementioned social contract and the related incentive structure, nationals are often happy to forgo the going wage in the private sector to remain unemployed and queue for a well-paid and well-regarded public sector position. This public sector desirability also results in distorted educational outcomes, whereby students opt for credential-driven degrees—usually in the social sciences and humanities—that meet the requisites rather than the needs of the (public/private) labor market; skills mismatches are another fundamental feature of GCC labor markets. A symptom and corollary of this is the dearth of students in the GCC selecting science-based subjects, many of whom are needed in the more value-adding technical jobs in the private sector. GCC-wide educational reforms are being implemented, while observers recommend further investment into the content of the curriculum rather than the color schemes of the campuses.

At the heart of fortifying the ‘local’ workforce are the nationalization of workers’ initiatives which include Saudization, Emiratization and the like. These programs aim to gradually replace foreign workers with nationals.



As expected, the public sector has encountered successes, whilst private local labor force participation lags behind. Critics of nationalization have highlighted the interventionist anti-competitive sentiment, and cited the increase in transaction-costs associated with employing locals; examples include the call to subsidize private sector wages for nationals, and the fines awarded to private companies that fall short of 'national' quotas.

Moreover, the rentier states of the GCC face growing unemployment challenges, mostly among the millennial youth. The nationalization agenda seeks to address this, however in doing so, it also exacerbates the problem of underemployment, by way of overstaffing and the previously mentioned industry skills-mismatches. In line with long-held efforts to diversify away from hydrocarbons, the private sectors of the GCC are required to play a larger role in employing nationals, in order to alleviate the burden of job creation for the governments. Fiscal pressures vis-à-vis a lower oil price environment and the subsequent need to reduce the public sector wage bill, make this region-wide objective all the more pressing.

An additional disjuncture pertaining to gender exists, with wage gaps that disadvantage women, pervasive; this is further compounded by the little provision for child care support, and especially stronger cultural preferences for public sector employment among female nationals.

Segmentation lines have been central to much of the discourse on labor markets, but also, too, lies implicit/unarticulated stratifications among nationalities. Foreign workers, particularly Asian migrant laborers, have been described as being permanently in a state of impermanence, as their residency and status is contingent upon their employers who may or may not renew their employment contracts, and are able to cancel them at any time. The failure, in many instances, to protect migrant workers' rights, are outcomes of both *de jure* and *de facto* policies to restrict labor mobility.

Governments in the GCC must revisit their social compacts, focusing on developing national workforces that possess, not only the academic credentials, but the necessary technical and practical skills required for the labor market. Renegotiating the psychological contract with expatriates is also paramount to successful economic diversification, as foreign workers must be considered complementary to nationals, rather than substitutable like-for-like. Developing and retaining human capital, over the long-haul, will help usher in the gradual switch to a knowledge economy and in turn assist in realizing the visions of the leadership in the Gulf.

In this maiden issue of *Gulf Affairs*, a range of scholarly analysis, expert commentary and testimony of senior authorities shed light on some of the main challenges and prospects facing labor markets GCC-wide, as well as ongoing initiatives to help address them.

*Adel Hamaizia, Theme Editor and Vice Chairman of the OxGAPS Forum*



# II. Analysis



### **Renegotiating the Social Contract in the GCC: Lessons from the Rousseau Playbook** *by Zaid Belbagi*

**I**t is an academic rule of thumb that lower international oil prices prompt analyses into the long-term viability of the oil-exporting Gulf Cooperation Council (GCC) states. Such a rudimentary analysis fails to appreciate the complex nature of what is a multi-dimensional problem. Similar to any government, the leaderships of the GCC states have long-developed social contracts, outlining the relationship between the rulers and the ruled.

This contract, reviewed in close comparison with Rousseau's original 1762 treatise<sup>1</sup> should be closely analyzed at a time of falling energy prices. Leaner times provide the opportunity for governments to revisit inefficiencies in their systems and to develop a more sophisticated and effective political relationship with their citizens. Given the increasingly young and informed public, building and maintaining a strong national identity must be encouraged to create active citizens who produce more than they consume. The channeling of this popular will for the benefit of the whole, described by Rousseau as the "Volonté générale,"<sup>2</sup> should underscore government efforts.

### Changing social contracts

The most significant challenge shaping arguments for a review of how governments relate to the public are sharp demographic increases. Essentially, societies have expanded, making relationships between governments and society more diffuse. This is referred to as an “evolution in state-society relations.”<sup>3</sup> This affects the traditional premise that GCC governments share an intimate relationship with society and can count on support through “traditional patron–client”<sup>4</sup> networks.

The driver of this is what is often referred to as the *youth bulge*, “a demographically historic moment” characterized by one-third to one-half of the population being under the age of 25 across the GCC.<sup>5</sup> Though this is not news to policymakers, recent discussions framing it as a potentially destabilizing force have renewed arguments of its importance. The “productive participation” of these “untapped resources”<sup>6</sup> is a critical economic and political challenge. With Rousseau’s *Social Contract* in mind, it must be noted that major disturbances in history, the French Revolution and the Iranian Revolution were brought about, in part, by demographic increases. This enormous demographic bulge will continue to move into the workforce and thereby accelerate the need for governments to revisit policies to accommodate it.

### Nurturing ownership

Governments should manage these changes wisely, to avoid creating strains on the existing system. Traditional relationships will need to be replaced by newer relationships based on “education, occupation and professional interests.”<sup>7</sup> This highlights the issues of ownership in the region. Economic integration through ownership for ordinary people should be sought. People require a larger stake in society, making them wary of any potential upheaval that might affect their interests. Private ownership must be fostered throughout the GCC to complement the growth of the middle classes.<sup>8</sup> The benefits of this are outlined in *The Social Contract*: “to the possessors of property...their resources become guarantors of their fidelity.”<sup>9</sup>

The rocketing population growth highlights this concern, in countries where subjects “can no longer meet their rulers every Friday,”<sup>10</sup> they instead need to be active economic stakeholders in the success of society. Nurturing ownership will help offset the risk of potential political problems as a result of declining resources,<sup>11</sup> and is an important facet of redrawing existing social contracts.

In the rush to modernize, the growth of civic life has not kept up with economic development. The force holding the social contract together in Rousseau’s argument is the idea of the good citizen. Fundamentally, when “citizens love their duty” and difficulties in governing cease, “administration becomes so easy.”<sup>12</sup> This is often overlooked though it is a critical component of the social contract. Through encouraging public engagement and civic duty, GCC states can support the role of an overall society to which citizens may subscribe. This would encourage prosperity alongside increasing domestic cohesiveness. This is not an insurmountable challenge, the “broadly good” relationship between the authorities and citizens provides an opportunity to build a contract where “co-existence can flourish.”<sup>13</sup> Efforts to positively inculcate a responsible citizenry has the added effect of reducing the state’s burden of managing society. Put in the GCC context, integrating “youth into nation-building” has been considered an “immediate priority”<sup>14</sup> and central to building cohesive societies outlined by Rousseau.<sup>15</sup>



## II. Analysis

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### The private sector in the decision-making process

GCC economies have followed the “central political tenet of rentier state theory” in that the citizenry accept state authority, which in return provides security and distribution of rent (oil income).<sup>16</sup> To this end, governments have been conscious of preserving large public sectors to provide employment.

This has political implications as the integration of locals into the private sector will require a “negotiation of the social contract” that increases the private sector’s political power.

Supporting bloated public sector entities is inefficient and counters Rousseau’s political guidelines on the importance of government administering the economy responsibly, for the “good of the whole.”<sup>17</sup> There are increased calls for GCC governments to develop the relatively small private sector to provide jobs.<sup>18</sup>

This has political implications as the integration of locals into the private sector will require a “negotiation of the social contract” that increases the private sector’s political power.<sup>19</sup> Government performance on the economy will grow in importance as the onus will be to create the right “structural and policy”<sup>20</sup> conditions to create private sector jobs. As the private sector grows and generates more wealth and invests in national infrastructure, it will require a “greater role in the decision making process.”<sup>21</sup> Modern economies thrive on “highly skilled human capital” and GCC governments must ensure jobs which nourish such capital.<sup>22</sup> This “evolution”<sup>23</sup> requires governments to support economic reforms to maintain the political support of private sector entities and the increasing number of people employed in them. This development is crucial as the vulnerability of budgets to volatile energy prices has illustrated the need for long-term private sector involvement.

In the coming decade, social trends focused on demographic, economic and political issues have the potential to be destabilizing without adequate government efforts to seek a more engaging social contract. Falling energy prices affect the severity of these trends and the speed at which they may have an adverse impact on the viability of the GCC states in their current form. Given the challenges of youth and the need to create meaningful employment, the focus of governments must be the economic well-being of nationals.

*Zaid M. Belbagi is a commentator on GCC affairs and a member of the Young Arab Leaders (YAL) organization.*

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<sup>1</sup> Jean-Jacques Rousseau, introduction to *The Social Contract*, trans. Christopher Betts (Oxford World’s Classics, 2008).

<sup>2</sup> Rousseau, *The Social Contract*, XXII.

<sup>3</sup> Tarik Yousef, “Unlocking Labor Markets in the Gulf Cooperation Council,” in *Challenges of Economic Development for the GCC Countries*, eds. Mohammed Hajeer, Zafar Mahmood and Mohammed Ramadhan (Kuwait Institute for Scientific Research: 2005) 163.

<sup>4</sup> F. Gregory Gause III and Jill Crystal, “The Arab Gulf: Will Autocracy Define the Social Contract in 2015?,” in *The Middle East in 2015: The Impact of Regional Trends on U.S. Strategic Planning*, ed. Judith S. Yaphe (Institute for National Strategic Studies: 2002), 165.

<sup>5</sup> Mona Al Munajjed and Karim Sabbagh, *Youth in GCC Countries: Meeting the Challenge* (Booz & Company: 2011), 4

<sup>6</sup> *Ibid.*, 49.

- <sup>7</sup> J.E. Peterson, *The GCC States: Participation, Opposition, and the Fraying of the Social Contract* (Kuwait Programme on Development, Governance and Globalization in the Gulf States, LSE: 2013), 4.
- <sup>8</sup> Gareth Stansfield, *Arabian Gulf Security: Internal and External Challenges* (Emirates Center for Strategic Studies & Research: 2008), 202.
- <sup>9</sup> Rousseau, *The Social Contract*, 61.
- <sup>10</sup> Christopher Davidson, “After the Arab Spring: the Gulf monarchies in an age of uncertainty” (lecture, Kuwait Programme on Development, Governance and Globalisation in the Gulf States, LSE, London, October 24, 2012).
- <sup>11</sup> Martin Hvidt, *Economic Diversification in GCC Countries: Past Record and Future Trends* (Kuwait Programme on Development, Governance and Globalization in the Gulf States, LSE: 2013), 5.
- <sup>12</sup> Rousseau, *The Social Contract*, 16.
- <sup>13</sup> Abdellatif Al-Duaij, “Are we Different?,” *Kuwait Times*, March 17, 2015.
- <sup>14</sup> AlMunajjed and Sabbagh, *Youth in GCC Countries*, 64
- <sup>15</sup> Rousseau, *The Social Contract*, 17. Rousseau warned “it is not enough to say to the citizens: ‘Be good’. They must be taught.”
- <sup>16</sup> Peterson, *The GCC States*, 3.
- <sup>17</sup> Rousseau, *The Social Contract*, 3. Rousseau traces the origin of the word economy as coming from “the Greek *oikos*, ‘house’, and *nomos*, ‘law’, and originally meant only the wise and lawful government of a household for the common good of the whole family. The meaning of the term has since been extended to cover the government of the greater family, which is the state.” 3.
- <sup>18</sup> Hvidt, *Economic Diversification in GCC Countries*, 6.
- <sup>19</sup> Gause III and Crystal, “The Arab Gulf,” 165.
- <sup>20</sup> Yousef, “Unlocking Labor Markets in the Gulf Cooperation Council,” 162.
- <sup>21</sup> Gause III and Crystal, “The Arab Gulf,” 168.
- <sup>22</sup> Martin E. Spencer, “Weber on Legitimate Norms and Authority,” *The British Journal of Sociology* 21, no. 2 (1970): 124.
- <sup>23</sup> Yousef, “Unlocking Labor Markets in the Gulf Cooperation Council,” 163.



### **Kafala System Remains Resilient in the GCC** *by Kaltham Al-Ghanim*

**D**espite growing international scrutiny and pressure, the six governments of the Gulf Cooperation Council states—with the exception of recent overtures from Qatar—have been unable or unwilling to do away with the highly controversial *kafala* system. This is due to a combination of reasons—historical, economic and political—that will continue to impact these countries’ abilities to substantively change the *kafala* system in the short to medium term.

The *kafala* system first appeared in GCC countries with the advent of modernity in the 1960s and 1970s (Qatar in 1963; UAE in 1973). It was a legal policy aimed at controlling the presence of foreign workers, laborers and employees. Citizens and institutions were entrusted to sponsor foreign labor as a way of acting as a guarantor for them. The *kafala* system obliges the worker to only serve their designated sponsor.<sup>1</sup> This system allows the countries of the region to monitor who enters and leaves their lands. It also helps in securing an overflow of manpower into the community to work on large projects and in the domestic sphere.

Initially, foreigners worked for the government during the modernization phase from the early 1970s until the 1990s. But as property systems changed and projects were privatized, the role of the private sector became more vital at the start of the oil price boom in 2004. Private companies became the biggest importer of labor, with short-term contracts, which expire at the end of a project; especially in building and construction projects.<sup>2</sup>

### Weaknesses and benefits of the *kafala* system

The *kafala* system generates widespread criticism and is a major point of contention with international organizations. It has been and continues to be a point of weakness for GCC states when they try to assert their compliance with international standards in labor laws and human rights.<sup>3</sup> Organizations like the International Labour Organization, Amnesty International, Human Rights Watch and the International Organization for Migration among others have criticized GCC states for their use of the *kafala* system and aim that criticism at international bodies and foreign governments to put pressure on the GCC states. Qatar's hosting of the upcoming 2022 World Cup has opened the need to review the *kafala* system and address the issue of improving workers' welfare, for instance.

*Kafala* enables the owners of major projects and estate developers to bring large numbers of laborers with low wages and short-term contracts that at times end in six months. This minimizes the expenses for those owners, and also for individuals who bring household labor.

Despite this, the *kafala* system remains largely in effect. In fact these countries depend on the *kafala* system to organize the process of migrant workers' entry and exit (for example in Qatar, Law No. 4 of 2009 regulates the entry and exit for all workers and Law No. 14 of 2004 determines the terms of work).

The reasons for this are many and are mostly to do with the benefits employers (both public and private) derive from the *kafala* system. For example, *kafala* enables the owners of major projects and estate developers to bring large numbers of laborers with low wages and short-term contracts that at times end in six months. This minimizes the expenses for those owners, and also for individuals who bring household labor.<sup>4</sup> It also allows the sponsor to control the movements and life conditions of the employee. For instance, in some GCC states consent from the employer is required if the laborer wishes to take a loan, bring his family, go on Hajj (pilgrimage to Mecca), get married, or visit a relative in another region. The sponsor can also prevent the employee from quitting, from transferring to a competitor or even moving to another GCC state to work. A sponsor can also have an employee deported under certain conditions.

### Calls for change

There has been a growing chorus calling for change. Academics, labor activists, government officials and others have agreed that the current system does not work, is subject to too much corruption and abuse, and does not adequately protect foreign workers. Replacing the *kafala* however, is no mean feat and many in the region are skeptical of allowing foreign workers full freedom to work in the region on a level with nationals.

Much time is needed to replace it with another suitable system that ensures labor flows without incurring security risks which might have greater impacts on the demographics and the nature of hosting expats.

Rather than do away with *kafala* completely, some states are addressing the matter individually and piecemeal. In the United Arab Emirates, for instance, several resolutions have been issued to improve the conditions of laborers. For example, Ministerial Decree No. 467 was released in 2005, the First Article of which specified that the working hours in the morning under the heat of the sun in unroofed places should not exceed five hours, and should finish by 12:30pm—Qatar has taken a similar decision recently.

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The Third Article stated that in case the working hours went beyond eight hours in the day, any extra time should be considered as overtime with additional pay according to the provisions of the Labor Code.

The Fifth Article stated that every employer should provide appropriate safety measures to protect laborers from the dangers of injuries, occupational diseases that may occur during working hours, dangers of fire and other hazardous risks.

In Qatar, a law was issued in 2014 to transfer laborers' wages in the private sector to banks so as to ensure the delivery of their money every month. In the Kingdom of Saudi Arabia, a Wage Protection System has been effective since 2013, and penalties are imposed upon companies that delay payments. Kuwait and Qatar have also implemented similar pay guarantee efforts.

There remains, however, a gap between laws on the books and the reality for many laborers. While it is definite that labor laws in the countries of the region confirm their compliance with the international stipulations for work—setting certain rules on the type of accommodation and the facilities that must be available along with the continuous inspection campaigns—very frequently these rules are not abided by. In light of persistent abuse, corruption and continued violations, developing a foreign employment regulatory policy remains a priority to improving foreign workers' conditions.

*Dr. Kaltham Al-Ghanim is associate professor of Sociology and the Director of the Center for Humanities and Social Sciences at Qatar University.*

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<sup>1</sup> “Kafala: Dependency and Exclusion in the Gulf Arab Communities [translated from Arabic],” in *Al-Thabit wa al-Mutahawwil 2014: al-Khalij Bayn al-Shiqaq al-Mujtam'i wa Tarabut al-Mal wa al-Sulta* (Gulf Centre for Development Policies: 2014), 277.

<sup>2</sup> Steffen Hertog, *The Private Sector and Reform in the Gulf Cooperation Council* (Kuwait Programme on Development, Governance and Globalization in the Gulf States, LSE: 2013), 16-18.

<sup>3</sup> The analysis is based on data from a study by Kaltham Al-Ghanim et al., *The Conditions of Unskilled Laborers in Qatar* (unpublished study, 2010).

<sup>4</sup> Andrew Gardner et al., “A Portrait of Low-Income Migrants in Contemporary Qatar,” *Journal of Arabian Studies* 3, no. 1 (2013): 14.





## The Politics of Labor Policy Reform in Bahrain

*by Laurence Louër*

**I**n 2006, Bahrain launched an innovative and much debated labor market reform program. Debates about the reform, and in particular about its financing mechanism, shows how much labor policy is embedded into wider political developments and is affecting key legitimization processes in the Arab Gulf states.<sup>1</sup>

### Political debates about unemployment

In the course of the 1990s, the rise of mass unemployment among Bahraini nationals made employment a major bone of contention between the regime and its opposition. The Shia Islamic movements, the dominant force of the opposition since the 1980s, promoted a sectarian approach to unemployment, underlining that it affected mostly if not exclusively Shias. The movements portrayed Shias as victims of an overall policy of discrimination by the Sunni-controlled regime, which purposely deprived them of many opportunities in the public bureaucracy, the military, and in state-controlled companies.

But in the mid-2000s, that began to change. In a context of heated debates about the political and economic reforms promoted by King Hamad bin Isa Al Khalifa, the positioning of the Bahraini opposition on the unemployment issue underwent an important shift.

The reform emphasized the need to make Bahrainis more attractive for employers over expatriates, by improving professional training and increasing the cost of expatriate labor. It also created the Gulf Cooperation Council's (GCC) first unemployment insurance.

The main opposition movement, Al Wefaq, suffered a scission when one faction opposed the decision to participate in the 2006 Council of Representatives election. The Council of Representatives is the local parliament which is constitutionally deprived of effective powers to enact laws without the king's approval.

Al Wefaq then underwent a double process of institutionalization and gentrification.

By becoming an opposition bloc in a weak assembly, it became a co-opted opposition engaging in piecemeal politics rather than struggling for ambitious reforms that questioned the supremacy of the ruling dynasty. Because the debates at the parliament chiefly concerned complex economic reforms, technocrats trained in engineering and business administration were empowered, becoming the dominant component of the movement's parliamentary bloc, especially in the aftermath of the 2010 elections.

The transformation of Al Wefaq was fostered by the remaking of intra-dynastic power relations, which saw the rise of a faction headed by Crown Prince Salman bin Hamad Al Khalifa. Supported by his father the king, the young prince made economic reform his domain of expertise. He became a much appreciated figure among middle class educated Shias, reputed for his liberal and non-sectarian approach. Many Al Wefaq officials, including its general secretary Ali Salman, pushed to participate in the parliament as part of a strategy to consolidate Prince Salman's position.

The labor market reform plan which the Crown Prince launched in 2006 is probably the best example of the functioning of this alliance. The reform plan was shaped by Bahraini and foreign experts who articulated an essentially technical diagnosis of unemployment, far from the sectarian framework of analysis that Al Wefaq previously asserted. The reform emphasized the need to make Bahrainis more attractive for employers over expatriates, by improving professional training and increasing the cost of expatriate labor. It also created the Gulf Cooperation Council's (GCC) first unemployment insurance. The reform aroused intense debates, mostly concerning its financing mechanism, which consisted in levying fees and contributions on both employers and employees. Professional training was financed by fees paid by employers on each one of their expatriate employees, which also served as a way to reduce the labor cost differential between nationals and expatriates. As for the unemployment scheme, it was mostly financed by contributions paid by employees and employers (plus a 1 percent contribution by the state).

The business community en bloc rejected the financing mechanism, arguing that the rise of labor costs it entailed was economically unbearable. Many also argued that unemployed Bahrainis were actually unwilling to work, with some even contending that unemployment was an imaginary problem invented by the Shia opposition to pressure the government.

But dissent also came from within the opposition. Hence Isa Qasem, the most influential of the Shia clerics and a figure close to Al Wefaq, argued against the unemployment insurance scheme on the basis that Islam only permits taxation of wealth and not of wages.

Moreover, the new Al Haqq movement—composed of Al Wefaq defectors—refused to embrace the technocratic diagnosis of unemployment implicit in the reform plan and instead stuck to the sectarian frame

work of analysis. It was supported by the Committee of the Unemployed and the Low Paid Citizens, an unlicensed association which specialized in organizing demonstrations that often degenerated into riots in front of the Ministry of Labor and the Civil Service Bureau, the institution that manages manpower in the public bureaucracy.

In this context, the support of Al Wefaq was essential for the reform. A sign that the alliance with the Crown Prince was a priority for the movement, it chose to endorse the reform, disregarding the opinion of Isa Qasem and of the radical wings of the opposition.

### **Labor, distribution, taxation: The rentier social pact in question**

Disputes about the labor market reform program reveal the extent to which this reform affects existing social and political compromises. The social pact on which much of the political equilibrium is based in Bahrain and other GCC countries rests on two main pillars. On the one hand, since the 1970s oil boom, states have engaged in a policy of guaranteed employment for nationals in the bureaucracy and public companies, in particular for graduates. On the other hand, the private sector was protected from international competition, was given access to government tenders and was guaranteed a very low level of regulation, in particular a minimal pro-employers labor code tailored for expatriates mostly coming from poorer countries.

This political economy equilibrium was not disturbed as long as workforce nationalization policies mainly targeted the public sector, as was the case in the 1990s. It is different now that the private sector is the target. Not only does it entail a departure from the policy of guaranteed public employment, it also has an impact on the rules and norms regulating the private sector. Because nationals generally reject the often unfair and lowly paid working conditions experienced by most expatriates, governments have undertaken to renovate labor legislation, making it more protective of workers' rights in order to attract nationals to the private sector. In Bahrain where trade-unions were legalized in 2002, employers have also to deal with organized labor, a significant break with established practices of labor resources management.

Moreover, the reform program disturbed the private sector's existing norms and expectations. Hence the fees levied on expatriate workers are considered by many as a form of taxation. This is clearly the perception of the Committee of the Employers, an unlicensed association gathering small entrepreneurs who oppose the fees. They not only criticize the rise of labor costs, but also the absence of transparency in the management of the fees by Tamkeen—a government agency established in 2006 as part of the reforms “to enhance the productivity and growth of enterprises and individuals.”<sup>2</sup> Managed by a tripartite board where government, employers and employees are represented, Tamkeen receives 80 percent of the fees, the remaining 20 percent being allotted to the state's general budget. Funds are spent for various types of professional training projects, to help entrepreneurs start a business and to help private companies facing difficulties.

Taxation in any form remains a widely controversial and opposed idea throughout the Gulf. In March 2012 in Bahrain, a dispute occurred which further confirmed the depth of opposition to the very principle of taxation. The Council of Representatives vetoed a bill by the king which changed the allotment of the fees on a 50 percent-50 percent basis between the state and Tamkeen.<sup>3</sup> Showing that on such matters as taxation, regime supporters can transform into opponents, the assembly which vetoed the bill was considered pro-regime, as Al Wefaq had left it to protest the repression of the 2011 uprising.

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Furthermore, in December 2013, the project was also rejected by the Consultative Council.<sup>4</sup> Mostly composed of liberal-minded businessmen and technocrats appointed by the king, this assembly was created to control the Council of Representatives, having the power to veto its bills. It was the first time that the Consultative Council opposed a bill issued by the king since its establishment in 2002. The argument put forward by the two assemblies, that the money paid by the private sector should return to the private sector, shows that the members were willing to accept the fees as a contributory redistributive mechanism but not as a direct tax to be managed by the state, an entity perceived as plagued by corruption and incompetence.

These developments show that the labor market reform tends to blur the classical political lines. Businessmen of all religious persuasions and Sunnis from different ethnic backgrounds, who dominate the two assemblies since the repression of the 2011 uprising and whom the regime tends to see as a reliable constituency in front of the Shia-dominated opposition, are emerging as a new type of opposition when economic reforms are at stake. In the domain of economic reform, this opposition may be more difficult to manage than the Shia Islamic opposition if one refers to the wide support Al Wefaq gave to the Crown Prince's economic reform plan prior to 2011.

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<sup>1</sup> Unless otherwise mentioned, the information provided in this article comes from several fieldworks I did in Bahrain between August 2002 and December 2013, which included interviews with various stakeholders of the reform process, including officials from various state institutions, businessmen, trade unionists and political activists of all persuasions.

<sup>2</sup> Tamkeen, <http://www.lf.bh/en/about/?p=Profile#.VW3kfkZSLQR> [accessed 2 June 2015].

<sup>3</sup> Ahmed al-Mulla and Sama Abd al-Jalil, "Al-Niyabi fi Jalsah Sakhinah Rafada Marsum Istiqta' 50% min 'al-Khass' ila Muwazanat al-Dawla," *Al Ayyam*, March 7, 2012.

<sup>4</sup> Hussein al-'Abid, "Al-Shura Yusajjil Sabiqā Barlamaniyya wa-Yardfud Taqlis Iradat Tamkin ila 50%," *Al Ayyam*, December 24, 2013.





### **Challenges to Employing Kuwaitis in the Private Sector** *by Osman Gulseven*

**O**il producing countries in the Gulf region witnessed a dramatic increase in oil wealth throughout the 1960s and 1970s which contributed to rapid urban development. As these countries had a very limited labor force due to sparse populations, they imported millions of guest workers from mostly low-income Asian and Arab countries.<sup>1</sup> Initially, expatriate workers were needed typically for infrastructure projects. Later on, ‘expats’ also dominated the service industry in the private sector because low wages and working hours were unappealing to citizens.

Today the immigration rate in the Gulf Cooperation Council (GCC) states has reached such levels that locals have become a minority in the private labor force in every Gulf Cooperation Council state except Saudi Arabia.<sup>2</sup> Even after the initiation of nationalization policies, this remains the case, and Kuwait is no exception.<sup>3</sup> According to the latest statistics from the Kuwait Public Authority for Civil Information, the population of Kuwait hosts about 2.8 million expatriates compared to a local population of about 1.3 million citizens. Kuwait’s dependence on guest workers has created both opportunities and challenges for the employment of Kuwaitis in the private sector.

#### **Kuwaiti population profile**

Thanks to favorable macroeconomic conditions, the Arab governments in the Gulf region have long pro-



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noted policies that encourage large families among their citizenry. In Kuwait, there are both financial and social rewards per child in the family. These policies have resulted in one of the highest fertility rates in the world, reaching as high as 6.5 to 7.2 children per female during the 1980s.<sup>4</sup> While population growth has since slowed down, it is still very common to see Kuwaiti families with a large number of children.<sup>5</sup>

**Table 1: Kuwaiti Youth Generation Profile**

AGE GROUP	GENDER	
	MALE	FEMALE
0 - 4	84,390	81,407
5 - 9	82,042	79,249
10 - 14	71,173	68,988
15 - 19	67,422	64,478
20 - 24	59,963	58,129

**Source: The Public Authority for Civil Information**

### Employment of Kuwaitis in the private sector

Similar to other GCC states, most Kuwaiti citizens seek and find employment in the public sector, whereas private businesses hire mostly imported labor. Only 90,000 Kuwaitis work in the private sector compared to 320,000 Kuwaitis working in the public sector. According to the Kuwait Public Authority for Civil Information about 1.3 million expats in Kuwait work for the private companies, 560,000 work as domestic servants, and 134,000 work in the public sector.<sup>6</sup>

As recent studies have suggested,<sup>7</sup> a major challenge for employing Kuwaitis in the private sector is the wage discrepancy between the public and private sectors.

There is also noteworthy employment segmentation along nationality lines in the public and private sectors. For Kuwaitis, salary, job security and working hours are important factors for choosing employment in the public sector.<sup>8</sup> Besides higher salaries, employment in public institutions has many perks such as reduced working hours, longer holidays and permanent job security.

A large wage discrepancy along with the cost of additional perks has motivated the private sector to employ a large number of expatriates. As a result, not only are Kuwaitis reluctant to work in private companies, but private companies are also reluctant to employ Kuwaiti nationals due to their higher expectations.

Employment of Kuwaitis in the private sector is unique in the GCC. The Kuwait government has one of the most extensive private sector employment support programs in the region.

In order to close the gap between private and public sector wages, the Kuwaiti government provides substantial financial incentives to nationals working in the private sector.

This welfare scheme goes back to Law 19 of 2000. Known as *da'm al-'amala*,<sup>9</sup> this allowance is based on a specific formula for each sector, aimed at equalizing the wages for Kuwaitis working in the private sector to those of public sector workers.<sup>10</sup>

Another challenge in private sector employment is the mismatch between necessary job skills and the needs of businesses. There is a need for vocational-ly-skilled labor to be employed for jobs that require special training. A significant majority of Kuwaitis majored in less technical fields that are not in high demand in a competitive labor market.

There is noteworthy employment segmentation along nationality lines in the public and private sectors.

### Government policies

GCC countries have very similar population dynamics and so tend to apply similar labor policies, albeit despite a lack of coordination. Current labor policies across the GCC favors the employment of nationals, which is particularly prevalent in state institutions. While this is a very logical policy, already employed in almost all Western countries, the application of this policy needs to be applied through a market-based system.

All of the current GCC labor policies tend to favor nationals. In Kuwait, this has been extended to the private sector in the form of what is called Kuwaitization. Quotas aimed at forcing private sector firms to hire more locals, Kuwaitization has had adverse impacts on companies' employment policies. Firstly, it has in many cases led to abuse or corruption, with companies using a variety of creative measures to circumvent the regulations. Secondly, it can over time impact productivity and competitiveness of Kuwaiti companies.

### Conclusion

As one of the wealthiest states in the GCC, Kuwait is known for its extensive distributive system providing free or highly subsidized services for its citizens.<sup>11</sup> Employment in the public sector has been the easiest and the most feasible employment option for Kuwaiti citizens. However, with oil prices hovering around \$60 per barrel, absorbing all jobs in the public sector for the new generation is unfeasible and likely impossible.

It is also time for Kuwait to invest in its own country to create more economic activities. Large-scale regional projects such as a new railroad system or a new airport could help create many jobs for Kuwaitis. However, without productivity growth, these stimulus packages would only be temporary solutions with limited long-term effects. Therefore, investing in human capital and promoting private sector employment remains the key to sustained economic growth and employment in the region.

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- <sup>11</sup> Laure El-Katiri, Bassam Fattouh, and Paul Segal, *Anatomy of an Oil-Based Welfare State: Rent Distribution in Kuwait* (Kuwait Programme on Development, Governance and Globalization in the Gulf States, LSE: 2013), 15.



## Battle against the Thawb Syndrome: Labor Nationalization, Industrial Diversification, and Education Reform in Saudi Arabia

*by Makio Yamada*

**T**he attitude of Saudi nationals towards private sector jobs was once termed the *Mudir Syndrome*. Coined by Daryl Champion in his paper “The Kingdom in Saudi Arabia: Elements of Instability in Stability” (1999), the term referred to Saudi nationals’ propensity to want only managerial positions in private firms—the Arabic word *mudir* means a “manager.” Saudi nationals considered that only managerial positions offered the authority, status, and respect equivalent to what they could gain from public sector employment.<sup>1</sup>

Now 16 years have passed since Champion’s paper, and the *Mudir Syndrome* has become an outdated concept. As a result of Saudi authorities’ continuous efforts to “Saudize” private sector jobs, especially through the *Nitaqat* policy introduced in 2011 which legally required private firms to employ national workers, around 1.5 million Saudi nationals work in the private sector today. This accounts for 15 percent of all private sector workers, many of whom hold non-managerial positions.<sup>2</sup>

Labor nationalization (called “Saudization,” or *sa’wada* in the Arabic language) in the Saudi private sector has witnessed a gradual but certain increase. However, what is salient today is the *unevenness* of the increase across types of jobs. For instance, no less than 97 percent of administrative jobs have already been filled by Saudi nationals.



While a handful of qualified national industrial workers find jobs at prestigious, well-paying, state-owned enterprises such as Saudi Aramco and SABIC, private industrial firms have had a hard time securing local human talent.

But the proportion of national workers among engineers is less than 10 percent.<sup>3</sup> For technical operations, Saudi private firms remain highly reliant on expatriate workers, and many of them are reportedly working under *tasattur*, or cover-up businesses (i.e. businesses which are registered with the names of Saudi nationals but in fact employ foreign workers).

According to one Saudi journalist: “more Saudis accept private sector jobs today, but they prefer jobs in which they wear *thawb* (a traditional Arab garment; called *dishdasha*, *kandura*, or *jalabiya* in other countries) and eschew those in which they have to wear uniforms—except for jobs in the security apparatus.”<sup>4</sup> Although the *Mudir Syndrome* is a thing of the past, the *Thawb Syndrome* continues to pose a challenge to the Saudi economy today, constraining its sustainable and inclusive development.

### Industrialization without industrial workers?

The *Thawb Syndrome* is especially problematic for industrial diversification, which Saudi authorities promote today to create job opportunities for young nationals. Based on the kingdom’s success in the development of the petrochemical industry in the past decades, the National Industrial Clusters Development Program (NICDP) is currently attempting to extend the production chain further downstream to labor-intensive manufacturing industries. The NICDP targets four sectors in particular: (1) automotive, (2) minerals and metals processing, (3) solar energy, and (4) plastics and packaging. The program aims to establish factories in these sectors by 2020 through attracting foreign investments.<sup>5</sup> Saudi authorities expect that private firms, especially small and medium-sized enterprises, will be the engines of this upcoming development.

Saudi Arabia today enjoys a demographic advantage for the development of these labor-intensive industries. The majority of the country’s 20.7 million national citizens (Central Department of Statistics and Information, 2013) are under the age of 30. However, the kingdom has so far failed in transforming this youth bulge into a pool of qualified industrial workers.

According to the World Bank, the kingdom has already achieved a 94 percent literacy rate.<sup>6</sup> It has also achieved an exceptionally high university enrolment rate—no less than 86 percent of high school graduates were enrolled in universities in 2013.<sup>7</sup> Nevertheless, the employability of young Saudi nationals for private sector jobs, especially technical and industrial ones, remains significantly compromised. As a result, over 35 percent of young nationals are reportedly unemployed, and the jobless rate among university graduates stands at 48 percent.<sup>8</sup>

While a handful of qualified national industrial workers find jobs at prestigious, well-paying, state-owned enterprises such as Saudi Aramco and SABIC, private industrial firms have had a hard time securing local human talent. For instance, one foreign-invested truck assembly plant in the kingdom has already achieved 30 percent Saudization, thus meeting the quota set by the *Nitaqat* labor nationalization policy. However, most national workers at the plant work in administration, leaving the production line largely to expatriate technicians from the Philippines.<sup>9</sup> Given that private firms are obliged by the *Nitaqat* policy to

meet certain Saudization quotas, the scarcity of qualified national industrial workers creates a structural constraint on increases in production.

This conundrum poses a barrier for the NICDP to attracting value-added foreign investment in the kingdom's emerging labor-intensive industries.

Why do Saudis avoid uniform-wearing technical jobs? There are competing hypotheses about the historical development of the attitude. Some assume that the attitude originates in the Bedouin culture in which manual labor was seen as *'aib*, or dishonorable.<sup>10</sup> Others testify to the fact that Saudis had in fact been happy to take up manual labor before the oil boom in the 1970s.<sup>11</sup> Such differences in views perhaps reflect the country's regional diversity. Regardless of the differences in the past, national technical workers were widely replaced by lower wage foreign workers throughout the kingdom after the oil boom. Technical workers came to be seen as having lower social status in association with their foreign nationality. Today, Saudi nationals fear falling into disadvantaged positions in their social relations by taking up technical jobs.<sup>12</sup>

### **Reforming the rentier society through education**

In addition to oil, another factor responsible for the persistence of the *Thawb Syndrome* is a delay in education reform which has resulted in a large number of young nationals neither prepared for, nor willing to take up private technical jobs. The mismatch between the skills taught in schools and those required in industry remains significant. For instance, while 19 percent of university graduates in 2011 studied humanities, and 17 percent Islamic Studies, only 5 percent studied engineering, and 4 percent mathematics.<sup>13</sup>

In recent years Saudi education authorities have attempted to empower industry-related studies by investing in infrastructure. For instance, modeled after Silicon Valley, several major Saudi universities are currently developing "techno-valleys" to which private firms, both foreign and domestic, are invited for strategic collaborative partnerships in education, research and development, and entrepreneurship. Likewise, the Ministry of Labor has attempted to revamp the kingdom's technical training programs, to which currently only 9 percent of high school graduates are absorbed (the OECD average is 41 percent in comparison).<sup>14</sup> A new type of technical college called "Colleges of Excellence" was launched in 2013. These colleges are run by foreign operators and their classes are all conducted in English. By emphasizing their international character, and the (hopefully) high employability of their graduates, they attempt to improve the image of technical studies among young nationals.<sup>15</sup>

However, the low popularity of industry-related studies at the tertiary level suggests that primary and secondary education must be targeted in reforms too. For universities and technical colleges to carry out advanced education conducive to industry, more students must be prepared and willing to take it up at the time of graduation from high school. The Ministry of Education is attempting to improve the quality of mathematics and science education in primary and secondary schools through large-scale teacher training programs.<sup>16</sup> Nevertheless, those schools should offer some form of basic technical education as well. What students at early stages are in need of are opportunities to use their hands and engage themselves in the act of engineering, through which they discover the joy of production and ways to apply their mathematical and scientific knowledge for practical use. Such experience then prepares them for more advanced



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technical learning at the tertiary level. In order to make labor nationalization and industrial diversification compatible in the coming decades, the kingdom has to create a pool of “little engineers” today that nurtures from childhood a love of knowledge, skills, and *ziy muwahhad* (uniform).

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### **Rent Distribution and Labor Market Reforms in the UAE** *by Steffen Hertog*

**P**ublic sector employment is the centrepiece of the GCC distributional bargain. Together with Qatar, the United Arab Emirates (UAE) provides the most extensive guarantee of public employment in the GCC, and within the UAE, Abu Dhabi constitutes the most extreme example of government as employer of first and last resort. The UAE in general, and Abu Dhabi in particular, therefore make for an instructive case study of a) the economic outcomes and distortions that rent distribution through public employment generates and b) the political economy constraints that GCC governments need to consider if they want to move towards employing nationals in the private sector.

The UAE labor markets are deeply segmented; low-wage expatriates dominate private employment, while most nationals are employed in the public sector. The main factors that create this segmentation and prevent productive private employment of nationals are the much higher wages and better working conditions available in government jobs, combined with the easy availability of cheap foreign labor with limited labor rights in the private market. Unless the differentials in wages and labor rights between public and private employment as well as Emiratis and expatriates are overcome, private job creation will remain deficient.

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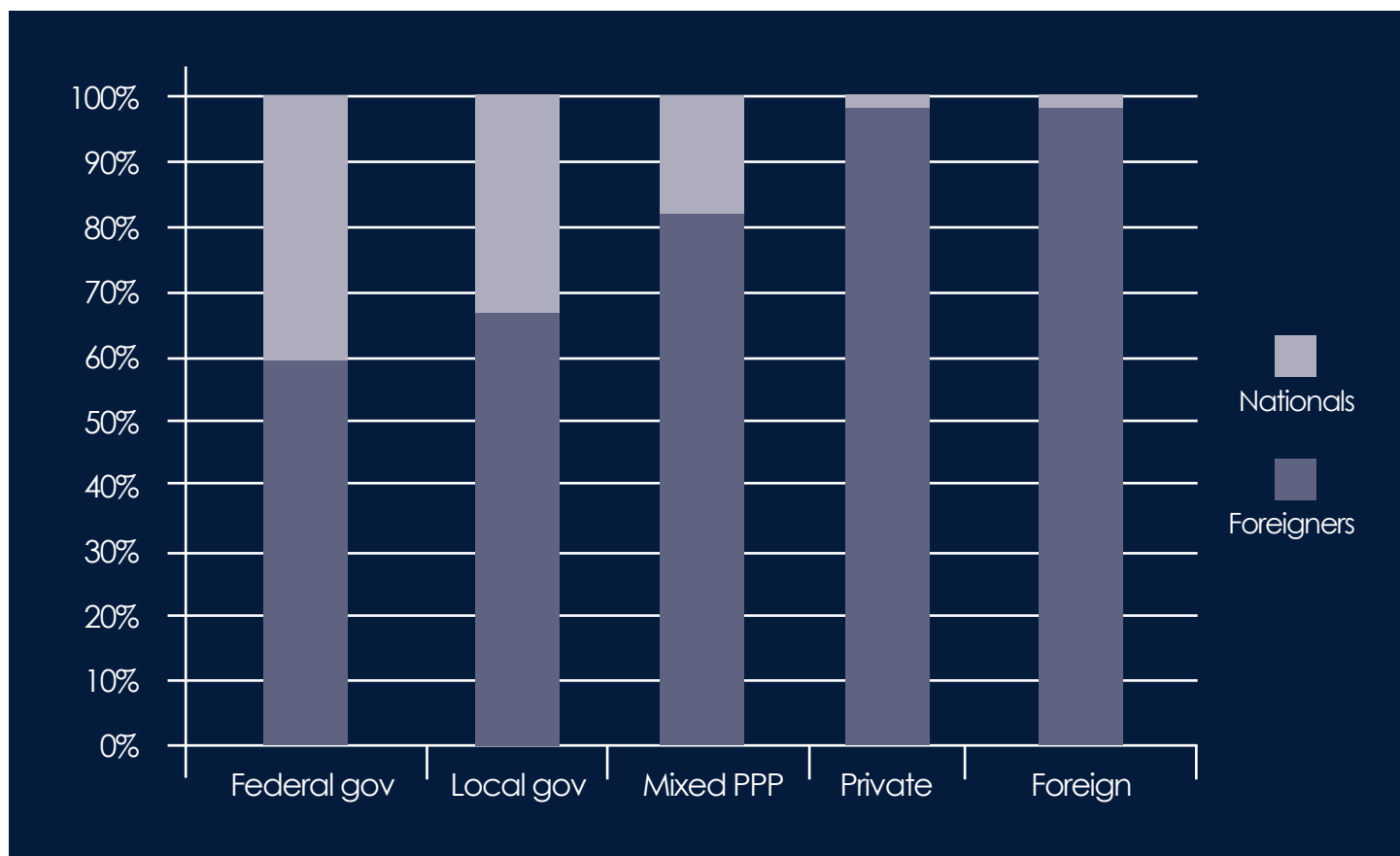
Closing these gaps will, however, require a rethinking of the distributional bargain on which GCC political economies are based.

Some mid-range policy options to address existing labor costs and labor rights gaps, such as a reform of the sponsorship system and a potential fee or subsidy system to narrow the private wage gap between locals and foreigners could be implemented at limited political cost. Politically more difficult policy options required to make nationals genuinely interested in private employment, such as long-term reforms of public employment, would however require large-scale compensatory policies like an unconditional ‘citizens’ income’ paid out to all nationals.

### Segmentation

Figure 1 illustrates Abu Dhabi’s extremely biased employment patterns. Emiratis are driven away from the private labor market due to the easy availability of public sector jobs with higher wages and non-wage benefits. These benefits include higher job security, lower work effort, shorter working hours, all-round flexibility, and what many nationals perceive as a more congenial cultural environment—a recent national survey shows that only 2 percent of unemployed Emiratis list the private sector as preferred employer.<sup>1</sup>

**Figure 1: Sectoral employment structure in Abu Dhabi by nationality**



Source: Based on Employment, Wages and Hours of Work Survey 2008, UAE National Bureau of Statistics

### **The public sector**

This imposes a huge cost on the Emirati economy. Guaranteed public sector employment has reduced the efficiency of the country's bureaucracy and, perhaps more significantly, means that a large share of potentially productive national employees is “parked” in unproductive government jobs. Their potential remains underused, and consequently UAE nationals play a marginal role in their own economy. In the face of continuing population growth and a decline in oil prices, public employment guarantees for nationals appear fiscally unsustainable in the long run. Moreover, while the dominant role of cheap foreign labor in the private sector has helped to keep costs down in the UAE economy, it has put the country on a low-productivity path in which companies invest little in training, technology upgrades or research. UAE total factor productivity has stagnated or fallen during most years since the 1980s.

### **The private sector**

In the long run, most national employment will need to be generated in the private sector as in other advanced economies. Currently, however, forces of supply and demand are stacked against UAE nationals: Private sector demand for Emiratis is very weak at wage levels demanded by nationals, as employers can hire more experienced, much cheaper, and more easily exploited foreigners thanks to migration and sponsorship systems that allow large-scale importation and easy control of labor from other developing countries—a process which in turn creates additional low-effort rent-seeking opportunities for nationals as brokers on the labor market.

### **Wage and benefits gaps**

There are critical gaps between average monthly earnings for privately employed foreigners, privately employed Emiratis and publicly employed Emiratis, with the latter earning by far the most.<sup>2</sup>

For sustainable Emiratization, the double segmentation within the Emirati labor market by wages as well as labor rights and conditions needs to be overcome. Past policies have not dealt with these structural challenges directly, but instead have attempted to directly impose Emirati employment on private business through quota rules and prohibitions. Like in the rest of the GCC, such policies have led to widespread evasion and ‘phantom’ employment.

There are a variety of options to close the gaps in wages and labor rights between the public sector and private sector, and between Emirati and expatriate employment.

### **Narrowing the private sector labor cost gap**

The relatively easiest challenge is to narrow the cost gap between nationals and foreigners on the private market. One option would be a tax on foreign labor that could finance some benefits or subsidies for national employees. The sheer size of the migrant workforce means that even a modest lump sum tariff of \$11 (Dh 40) per month per foreign employee could finance subsidies of some \$2,200 (Dh 8,000) for all Emiratis currently working in the private sector which would close the wage gap in the semi-skilled and high semi-skilled categories.

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Subsidies would be less fiscally expensive in the long run than creating surplus public jobs, which has been the favored solution of GCC governments to date, and would help push national talent towards productive employment.

There is one GCC country that has experimented with wage subsidies: Kuwait with its “*da’m al-‘amala*” system, introduced in 2000. Although the system has been subject to some abuse, its overall results have been encouraging, resulting in private employment levels for nationals that are about three times higher than in the UAE, despite a comparably sized national population.

In addition to addressing the wage gap, labor policy should work towards closing the labor rights gap between nationals and foreigners in the private market. Partial reforms of the sponsorship system since 2011 have already somewhat improved foreigners’ labor mobility.<sup>3</sup> Protection against dismissal as well as domestic labor mobility however remain much better for Emiratis, de-incentivizing employers against hiring them.

### **More selective public sector employment**

Narrowing the cost and rights gaps will not be enough to attract many Emiratis into the private sector as long as a low-effort and secure government employment option is easily available, and the minority of nationals joining the private sector will arrive with unrealistic expectations about wages and work conditions. A more difficult but necessary long-term change will hence be reform to public sector employment.

To some extent, the gap in salaries and working conditions between the public and private sectors will have to be closed from the side of the public sector. In the long run, public sector hiring should be much more selective, and pay and promotions more performance-based.

It is clear that such tightening is politically sensitive; nationals will need to be compensated for relatively less secure and easily available public employment. As a first step, there should be a more decisive move towards modern social security arrangements, such as unemployment benefits, unemployment insurance and more comprehensive active labor market policies for nationals (including training subsidies, match-making and temporary job placements). Such mechanisms would make reduced job security less painful and daunting.

### **A new distributional bargain?**

This would still mean giving a bit while taking away a lot more and might not be politically feasible. This is why GCC governments should consider a more fundamental reform of rent distribution: moving away from public sector employment as a distributional tool and instead providing comprehensive schemes of income support for nationals that are more fiscally sustainable, incentive-neutral and fairer than government employment.

One such policy would be an unconditional cash grant or ‘citizens’ income’ provided to all nationals who are not public sector employees—who are, in other words, currently excluded from a key provision of the distributional bargain. Such a citizens’ income would provide basic income security in case of unemployment, but would also decrease national reservation wages on the private labor market, as national employees



could top up their private sector wages with the cash grants, which would not be means-tested.

It would therefore boost private sector nationalization outcomes without having to force employers to recruit nationals they are not interested in employing.

While “basic income” plans for tax-based economies have met scepticism as they require higher taxes and can create work disincentives, these arguments do not apply in the GCC context, where basic income is superior to the status quo both in fiscal and efficiency terms.

A citizens’ income of perhaps \$1,200 to \$2,500 per month could make other, more restrictive policies, such as a reduction in public sector recruitment, more politically acceptable. Simulations show that in the long run, such a scheme would be less expensive than the current practice of public sector over-employment. It would contribute to a leaner and better-functioning bureaucracy, give stronger work incentives to nationals, and would be transparent, fair, and easier to predict and plan than the current ad hoc regime of rent circulation. It would also make for a powerful political gesture of inclusion towards the citizenry, which is entitled to a share of the country’s wealth.

Even if labor market segmentation is particularly pronounced in the UAE, the country arguably has the best fundamentals in the region for reshaping its rent distribution system: Not only is it one of the systems with the largest fiscal resources relative to its population; it also has a more dynamic track record on labor reform than its affluent neighbors Qatar and Kuwait. It could become the region’s bellwether in developing a fairer and more inclusive wealth sharing and labor market regime.

*Dr. Steffen Hertog is associate professor in the Department of Government at the London School of Economics and the author of *Princes, Brokers and Bureaucrats: Oil and the State in Saudi Arabia* (Cornell University Press).*

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<sup>1</sup> Labor Force 2009, UAE National Bureau of Statistics.

<sup>2</sup> For more details refer to Employment, Wages and Hours of Work Survey 2008, UAE National Bureau of Statistics.

<sup>3</sup> For more on the impact of these reforms, see Suresh Naidu, Yaw Nyarko and Shing-Yi Wang, *Worker Mobility in a Global Labor Market: Evidence from the United Arab Emirates* (The National Bureau of Economic Research: 2014).



# III. Commentary



## Maximising GCC Human Capital: Leadership, Identity and the New Psychological Contract

by *William Scott-Jackson*

*Fast tracked leadership development key to labor dynamics and growth in Qatar*

**T**he countries of the Gulf Cooperation Council (GCC) appear, superficially, to share a common economic model, based on government-controlled exploitation of oil and gas reserves, and to face a shared range of socio-economic issues, including those associated with the development of human capital and the labor market. However, there are great differences between, for example, Qatar, with a very high expatriate labor force and high GDP per capita, and Oman which has much lower expatriate numbers and lower GDP per capita.

There are several key issues which, to a greater or lesser extent, effect most of the GCC countries.

These include high levels of youth underemployment, growing numbers of qualified but unemployed women, the impact of high numbers of expatriate workers and a reliance on oil and gas-related employment.

One of the major driving factors in these different labor markets is the demographic proportion of expatriates to nationals. This proportion is largely determined by the rate of growth resulting from politico-economic strategies. For example, Dubai (an emirate within the United Arab Emirates) has adopted a very fast growth strategy, despite, or perhaps because of, low oil/gas resources. Oman, meanwhile, has taken a more cautious approach, heavily reliant on oil and gas revenues.

The proportions of expats to nationals vary greatly. Expatriates in Qatar and the UAE account for more than 80 percent of the labor force. Meanwhile, Saudi Arabia and Oman have fewer than 50 percent expats in the workforce and Kuwait and Bahrain around 50 percent. These differences create distinct labor market issues. For example, youth unemployment of nationals in Saudi Arabia is around 41 percent, whereas in the UAE it is only around 10 percent. There are not enough Emiratis to even fill the quotas set for semi-government entities. So to oversimplify, Saudi Arabia has unemployment issues whereas the UAE has scarcity issues (such as retention). Qatar is the most extreme demographic example with expats accounting for more than 90 percent of its workforce and is worthy of more detailed consideration.

### **The Qatari case**

In 1965, Qatar had a population of around 65,000 including perhaps 2,000 expats working in the oil business. The GDP per person was relatively low at ~\$5,000 and most Qataris worked in family busi-

nesses (fishing, pearling and trading), with government having an insignificant commercial role.

By 2014, Qatar had a population of over 2 million, of whom 1.7 million were expats. The country's GDP had skyrocketed to around \$214 billion. Some of the family businesses had diversified into oil and gas-related industries and grown spectacularly but most Qataris are now employed in government or semi-government entities. In this way, the government can redistribute the nation's wealth, reinforcing the social contract whereby Doha ensures that all citizens benefit from living in the country with the world's highest GDP per capita.

Labor market issues include the very low numbers of Qataris joining the private sector, over-reliance on oil/gas-related employment, retention of national identity, a growing entitlement culture, how to develop young Qataris and how to build national capabilities to ensure a strong diverse economy for the future.

Given the very unusual make-up of the population and assuming that Qataris wish to lead the country, a major capability required in Qatar's national population is leadership. In developed economies, on average, around 8 percent of a country's workforce are leaders (above supervisor) which equates to around 120,000 leaders required in Qatar. There are only around 150,000 employable Qataris. So over 80 percent of Qataris would need to be leaders if most public and private sector senior roles were to be filled by nationals.

A similar logic might suggest that it is actually fortunate that most Qataris prefer to work in the public sector. In the UK, for example, over 20 percent of the population work for various government entities so, demographically, there are not enough Qataris to run the government, never mind worrying about the private sector!

It is probably impossible for 80 percent of a population to develop world-class leadership capabilities.

It is probably impossible for 80 percent of a population to develop world-class leadership capabilities.

But is it possible to at least develop more leaders than the norm?

In most countries, given that only around 8 percent of the population need to be leaders, a method that relies on slowly acquired experiences together with a competitive framework, is adequate—the best may rise to the top.

But there are also many 'fast track' leadership schemes including the UK civil service, officer training, graduate schemes and so on. Indeed, in the GCC itself it could be argued that family businesses and the royal families adopt a fast track process to ensure capable successors.

We suggest therefore that Qatar could indeed develop a greater proportion of leaders from its national population but not by adopting the *laissez faire* approach to leadership development deployed elsewhere. There would need to be a specific, carefully designed, 'fast-track' program starting from an early age.

For Qatar and the UAE in particular, the time is now!

*Prof. William Scott-Jackson is the Chairman of Oxford Strategic Consulting, Visiting Professor at Cass Business School and a Visiting Academic at the University of Oxford.*





*Andras Bodor*



*Robert Holzmann*

## **GCC Labor Markets: Challenges and Policy Options**

*by Andras Bodor  
& Robert Holzmann<sup>1</sup>*

*Overcoming underlying distortions  
key to effective change*

**C**ountries of the Gulf Cooperation Council (GCC) exhibit notable differences but also key similarities. Among the most critical common features of their economic and political landscape are the labor market challenges that have given rise to many reform engagements reflecting three policy objectives: (1) providing jobs for young nationals in the private sector; (2) moving towards a diversified, high-skilled, and knowledge-based economy that pays high productivity based wages; and (3) rebalancing the demographic structure.

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<sup>1</sup>The authors thank Dalia Al Kadi for the valuable comments provided. The current article represents the views of the authors; it should not be considered as an official World Bank position.

There are several underlying economic and demographic changes driving the above objectives. Most importantly:

(a) the rising number of national entrants to the labor market that can no longer be employed by the government for fiscal and other reasons giving rise to unemployment, in particular among youth and females; (b) the finite hydrocarbon resources whose contribution to economic growth needs to be replaced over the medium- and long-term by growth which is knowledge and skills-driven, autonomous, and led by an innovative private sector; and (c) a demographic environment in which the national population makes up a decreasing share in total population and a small share in the private sector labor force.

Against this background all GCC countries are engaged in various policy reforms to nationalize the labor market while striving for a diversified economy. Perhaps best known in the region are the labor market policies initiated in the Kingdom of Saudi Arabia such as *Nitaqat* (with dynamic economic sector-specific and firm size-specific Saudi labor quotas in the private sector), *Hafiz* (a support-turned-activation program for unemployed Saudi youth), and *Taqat* Job Placement Centers (a public-private partnership to place Saudi job-seekers in private sector jobs). Policy measures to make expatriate workers more expensive (through fees and quotas) and national workers cheaper (through subsidies and better training) have been almost universal in the region.

### **Underlying distortions**

These labor market policies often show quite limited labor market effects and broader economic effects. This is due to several key underlying distortions in the labor market and the economy. The two basic and most common distortions in GCC economies are namely the way hydrocarbon wealth is distributed and spent and the way foreign labor is admitted and managed.

Since the discovery of hydrocarbon resources, this wealth has been distributed to the population broadly through public sector employment, educational subsidies, and energy subsidies. These all create significant distortions in the labor market, skills acquisition market, and product markets, respectively. Public sector employment for nationals with compensation above productivity levels has solidified in these countries as a status quo ‘social contract.’ This generous provision of government jobs has resulted in bloated public sector employment with high salaries, generous perks, low work effort and high job security. These conditions make the public sector the benchmark for the private sector instead of the other way around. Consequently, private sector job creation and the hiring of nationals is rendered difficult, while queuing-up for public sector jobs becomes attractive. Second, the laudable focus on education for development is undermined by taking out any market-oriented steering mechanism for educational choices. Free education at all levels and no market sanction for wrong choices—also as skills retrofitting is free and government job queuing is prevalent—leads to educational selections and outcomes mismatched with market needs and diversification goals. Last but not least, energy in all its forms is provided to the population well below world market prices and untaxed leading to the highest subsidy levels in the world. The outcomes are huge distortions across all product markets with ramification for firms and jobs creation.

#### **Overreliance on foreign labor**

The reliance on foreign workers to kick start economic development with modern infrastructure, housing and critical services has served the GCC countries well in the past. However, the way expatriate workers are admitted and managed is increasingly an obstacle for economic development and national job creation, with three elements standing out: first, the hiring of labor at below market prices leads to major economic rents that are inverse to skill levels.

These labor market policies often show quite limited labor market effects and broader economic effects.

As a result employers have incentives to maximize admission at lowest skill levels with negative consequences for the choice of production technologies. Second, the binding of the migrant to employers through visa and work permits limits labor mobility, and in turn competition between workers thereby dampening the incentives for skills development and productivity enhancement. Last but not least, the labor market distortions for expats carry over in reduced competitiveness and reduced private sector job opportunities for national workers.

The channels through which these distortions operate have been brought to light by (a) analytical studies that document firm dynamics (creation and destruction) that are significantly weaker than those of peer countries in America, Europe and Asia; (b) evidence of low labor mobility for nationals, for expats, and the jobs between them; but also by (c) specialized labor market surveys that signal a distance/disengagement of nationals from the labor market not seen elsewhere in the world.

To overcome the challenges, major changes in the way hydrocarbon wealth is distributed and foreign labor is admitted and managed is necessary. Such policy proposals exist in the form of replacing existing subsidies with a universal payment to all nationals (citizen income) and employer-initiated but government-led admission of foreign labor (quantities and skills) coupled with full mobility and equal treatment once in the country. It is against these benchmarks that new policy approaches need to be designed and evaluated.

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## Keeping Gulf Capital at Home: Economic vs Lifestyle Expats

by *Abbas Al Lawati*

*How Dubai has successfully attracted expatriates who spend rather than remit their incomes in the UAE*

**W**orld Bank figures show that a whopping \$60 billion in Arab Gulf states' resources leave the region in the form of expatriate remittances on an annual basis, accounting for almost 12 percent of global remittance flows.

### The remittance quandary

The strain of remittances on Gulf states' economies is in fact so significant that four of the six states—Oman, Kuwait, Bahrain and Saudi Arabia—rank among the world's top 10 countries with the largest proportion of their GDP in remittances.

The migrant-remittance relationship with India is particularly strong. Almost half of the remittances from Gulf states goes to India, and Gulf states are the source of almost half of the remittances coming into the vast country, accounting for just under 2 percent of India's GDP. This can be attributed to the fact that Gulf states, particularly the UAE and Saudi Arabia, are the first and third most popular destinations, respectively, for Indian migrants.

Indians are, however, not the only large expatriate groups in the Gulf. Bangladesh, Pakistan and Egypt also rely heavily on Gulf states as a source of remittance funds as well as employment for their citizens.

Expatriate populations today constitute a solid majority in four of the six member states, and a large proportion of the population in the remaining two—Oman and Saudi Arabia.

Saudi Arabia is among the top five destinations for migrants globally, and the second largest source of remittances following the United States. Kuwait, Qatar, and the UAE meanwhile top the list of countries whose populations are eclipsed by expatriate majorities.

This phenomenon has its roots in the start of the oil boom in each of the six countries. Millions of foreign guest workers were brought in to fill a skills vacuum, promised by lucrative tax-free jobs, strong currencies and a relatively low cost of living. The mutual dependence relationship grew stronger with time and the more the population of these economic migrants grew, the more Gulf states' economies bled liquidity.

### Lifestyle migrants

One place that has, however, slowed the flight of capital is the Emirate of Dubai. A regional maverick, the city is often seen as a testing ground for socioeconomic policies that are often replicated in neighbouring states.



Dubai was the first emirate to attract a different kind of migrant: one that is likely to move to the city to spend rather than to save or transfer money home. The emirate introduced freehold property ownership for foreigners, giving long term expats an opportunity to finally put down roots in the city, and pump their income back into it. That was complemented with the building of world class infrastructure, a service industry that can compete with those of developed countries, and monuments that serve as icons of the city's prestige. This new type of migrant, the lifestyle migrant, takes pride in spending a large proportion of his or her income to pay for an apartment with a view of the tallest tower in the world, a manmade island, or a hotel that floats on a reclaimed island.

Statistics from the Dubai government show that the "Western" resident of the city is likely to spend the biggest portion of his or her income on rent. The 2009 census, the latest one conducted, showed that the average household income for Westerners is the highest among all expatriate groups, and more than double that of Asian expats. Almost half of a Western households' annual expenditure goes into the rent, fuel and energy category, more than any other group, including the citizen population. Westerners are also the group that spends the largest proportion of its income on domestic consumption.

But while Westerners may be the ideal lifestyle migrants, statistics show that a number of wealthy Arabs and South Asians are also choosing to make the city home for reasons of lifestyle. Along with Britons, Pakistanis and Indians remain the top expatriate property buyers in Dubai. Together, these three communities invested almost \$9.5 billion (Dh35 billion) in 2014. Dubai's impressive achievements in keeping its capital at home may make economic sense and be envied by neighboring states. But it also presents a sociopolitical dilemma that will eventually need addressing.

Saudi Arabia is among the top five destinations for migrants globally, and the second largest source of remittances following the United States.

Lost in this process of balancing one set of expats with another is the ever-shrinking citizen community. Dubai's unofficial motto of 'build it and they will come' refers specifically to expatriates, particularly those who are becoming increasingly comfortable with long term residence in the emirate. To these lifestyle expatriates, the concept of guest worker is all but alien. Issues of permanent residency, inheritance rights and possibly those of naturalization are therefore almost guaranteed to arise in the coming years. It is such considerations that neighboring states may need to ponder before embarking on such an economically sound, but politically and socially risky endeavor.

*Abbas Al Lawati is a journalist based in Dubai specializing in GCC Affairs.*



## Improving the Bahrain Labor Environment *by Steven Brown*

***Wage protections, proactive enforcement key to pushing reforms forward***

**T**he Kingdom of Bahrain stands at the forefront of labor regulations in the Middle East. The worker protections built into the 2012 Bahrain Labor Law,<sup>1</sup> reflect a dedicated effort to balance public and private interests in the employment relationship while reflecting the varied societal requirements associated with labor regulations. Bahrain has substantially furthered worker rights, including protection from arbitrary dismissal, assurances of medical and retirement protection, and the right to unionize and strike. Moreover, the success of the Labor Law evidences that worker protective regulations can succeed in the Gulf Cooperation Council States.

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<sup>1</sup>Bahrain Labour Law for the Private Sector, Legislative Decree No. 26 of 2012

Under the labor law, governmental bodies responsible for enforcing labor regulations in Bahrain, namely the Bahrain Ministry of Labor (MoL) and Labor Market Regulatory Authority (LMRA), have enhanced their enforcement mechanisms to protect lawful workers and law abiding employers. The LMRA ensures application of a worker nationalization scheme, commonly referred to as Bahrainization, through a sophisticated work permitting system designed to block expatriate work permits from being issued to non-compliant employers. The LMRA also undertakes unscheduled inspections to confirm that an employer is employing workers within the limits of the law. Coordination between the LMRA and the Bahrain Social Insurance Organization also ensures that social insurance, workplace injury and unemployment protection contributions are paid on time.

Proactive enforcement by the MoL and LMRA has proven successful. Moreover, a dispute resolution mechanism set out in the labor law endeavors to resolve disputes within five months from filing of a complaint (compared with disputes persisting for many years previously).

The law, and particularly labor regulations, is constantly evolving. The balance between employer and worker interests must both protect workers' contractual rights as well as spurring economic growth. The interests of freedom to contract and protection of parties in unbalanced economic relationships are often at odds. From this perspective, we believe there are three suggested changes which could enhance the employment and economic environment in Bahrain: (1) improved legislative clarity; (2) exempt worker status; and (3) greater at-risk worker protection.

### **Improved legislative clarity**

The labor law was developed over a multi-year period drawing from best practices in the Middle East, Europe, North America and globally.

The rights set out in the law reflect tested practices and balanced concepts between employer needs and worker rights. There are, however, certain aspects of the law which could be drafted more clearly to ensure employers and workers enter into—or exit from—an employment relationship fully aware of their respective rights and obligations.



Interpretation issues surrounding leave entitlements, end of service entitlement calculation, discipline and summary dismissal remain.

It is notable, however, that the labor law is particularly transparent in outlining the calculation of rights; particularly wrongful termination benefits applicable at the time of employment termination. It should be emphasized that while suggested clarifications are relatively minor, by implementing them, substantial costs of litigating claims could be avoided.

#### Exempt worker status

Benefits like overtime wage entitlement, statutory transportation entitlement and guarantees against wage reduction are crucial to protect low wage workers. Nevertheless such benefits are arguably outdated in some respects in relation to high wage professionals. A concept similar to exempt status under US overtime regulations may be appropriate in Bahrain to protect employers' reasonable expectations of professional employees. Whether this would involve qualifications on minimum salary,<sup>2</sup> a job title or a combination of both, this could alleviate a major source of employment litigation.

If it is accepted that high wage professional workers are in a position to fairly negotiate their wage and benefits,<sup>3</sup> other typical labor benefits which could be excluded or varied for high wage professionals may include: a longer maximum resignation notice period,<sup>4</sup> permitted termination for convenience and simplified settlement arrangements.

#### Greater at-risk worker protections

The large number of expatriate workers in Bahrain<sup>5</sup> with median monthly income of \$580 (~BD219)<sup>6</sup> and a median monthly income for private sector Bahraini employees of \$986 (~BD372)<sup>7</sup> evidences the large portion of workers in need of labor protection. The enforcement efforts of the LMRA focus on eliminating illegal employment. Accordingly, the primary mechanism for protection against non-payment of wages is the Bahrain court process.

In practice, access to court protection generally involves appointment of a lawyer at a substantial cost vis-à-vis a low earner's wages.

**Benefits like overtime wage entitlement, statutory transportation entitlement and guarantees against wage reduction are crucial to protect low wage workers.**

The hurdles to court protection and limited enforcement to ensure entitlement payments together create an environment that can be potentially exploited by employers who do not comply with the law.

The most practical protection may be a wage protection program similar to the system in place in the United Arab Emirates and Saudi Arabia. Such a program could alleviate costs and reliability concerns associated with onsite inspections. A system could be designed ensuring that wage deductions comply with the law and require an employer to adequately document wage deductions. It could also ensure compliant payment of end of service entitlements.

The Bahrain labor law is a positive example of legislating appropriate protections in a diverse and healthy economic environment. The regulatory regime has been highly successful in reducing illegal employment and creating avenues for workers to protect their rights. With appropriate subtle improvements, Bahrain could further reduce costs associated with employment regulation while improving the conditions of workers and employers.

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- <sup>2</sup> Bahrain has no statutory minimum wage.
- <sup>3</sup> Exclusions in the Labor Union regulations would suggest a legislative view that this is the case.
- <sup>4</sup> The maximum resignation notice period for employees is 30 days.
- <sup>5</sup> Over 530,000 expatriate workers (423,000 excluding domestic workers) and representing 77% (73% excluding domestic workers) of the workforce according to 2014 LMRA numbers.
- <sup>6</sup> According to 2014 LMRA numbers for select industries, specifically: Construction, Trade, Hotels and Restaurants and small-scale Manufacturing.
- <sup>7</sup> Equating to \$11,800 annually based 2014 LMRA numbers.



## The Sponsorship System in Qatar: Challenges and Implications

by *Jamal Abdullah*

*Small steps amid international scrutiny set Qatar up for true labor regulation and reform*

**I**n May 2014, Qatar officially announced its intention to replace the long-established sponsorship system. A new system will presumably give expatriate workers more flexibility when it comes to changing jobs, as well as moving in and out of Qatar with fewer constraints.

The announcement was made during a press conference which included Qatar's Ministry of Interior and Ministry of Labor and Social Affairs on 14 May 2014.

Mohammed Ahmed Al-Ateeq, Assistant Director

of the General Directorate of Borders Passports and Expatriates Affairs, announced that the cabinet gave preliminary approval to the newly proposed law, annulling the current system and replacing it with a modified version. The new version includes additional core reforms to the labor law, all of which are aimed especially at protecting the rights of foreign workers.

Al-Ateeq noted that the amendments were sent to the Qatar Chamber of Commerce and the Consultative Assembly of Qatar for deliberations, before being decreed in its final form by the cabinet. According to the new amendments, expatriate workers will no longer need to directly ask their sponsor for an exit permit. The new simplified system requires the worker to apply through a designated online portal set up by the Ministry of Interior. The worker will then be granted automatic permission to leave the country after a 72-hour grace period.

Currently, workers are prohibited from returning to Qatar for two years after their contracts end. The new system eliminates this clause, and additionally holds the employee solely responsible for his financial obligations—with no responsibilities for the sponsor to bear.

Another advantage in the new law is the flexibility afforded to employees to move between jobs upon the end of their contract. Employees are no longer required to obtain a 'No Objection Certificate' from their sponsor, and can move to another job once their fixed-term employment contract ends. If their employment term has no fixed duration, employees can move to another job after five years have passed since the start of their employment contract.

The new labor law places a strict fine against employers who withhold employees' passports.

The fine can reach up to ~\$14,000 (QR 50,000) per passport.

Moreover, the government is in the process of establishing a new system for protecting laborers' income. The Ministry of Labor and Social Affairs, in association with the Bank of Qatar and the Ministry of Finance were instructed by the Qatari cabinet to establish a comprehensive portal handled by the Bank of Qatar, in association with the ministries, which will liaise with local banks and companies.

With the new income protection system, all salaries of laborers must be transferred into their bank accounts via the new portal. This way, any violations can be monitored and measures can be taken against violators.

This system includes all expatriate labor, including domestic workers. Once the new law is decreed by the cabinet, employers will be given a grace period to resolve any violations before fines become applicable.

#### **Core reforms**

These are core reform measures to the labor law in one of the Gulf Cooperation Council states, all of which still utilize the sponsorship system which continues to receive criticism globally, whether from governments or non-governmental organizations concerned with human and labor rights.

These reform measures announced in May 2014 aim to enhance living conditions of expat labor in Qatar, most of whom are employed in construction and infrastructure projects in order to achieve the vision of Qatar 2030; and to complete the necessary construction for hosting the World Cup 2022.

The government also announced plans to provide hired labor with adequate housing, in accordance with international living standards.

To ensure the success of these plans, Qatar intends to recruit 300 inspectors to monitor employers and report any violations. This serious step is taken to further ensure that the plans are actualized within the timeframe set by the cabinet,

A new system will presumably give expatriate workers more flexibility when it comes to changing jobs, as well as moving in and out of Qatar with fewer constraints.

since the lenience in monitoring and enforcing the law could have been the reason for violations from employers against some expat laborers.

These measures are setting Qatar on the right track for true reform, especially amid foreign media campaigns condemning living conditions of laborers in Qatar, namely in French, British and American media outlets.

The aforementioned measures are, in fact, a victory to the genuine reform agenda which Qatar has been working on for the past two decades. It is also a victory for human rights organizations working across the world to improve the living conditions of laborers and to safeguard their rights.

*Dr. Jamal Abdullah is the Head of the Gulf Studies Unit at the Aljazeera Centre for Studies.*



# **IV. Interviews**





**H.E. Hind Al-Sabeeh  
Minister of Social Affairs and Labor  
Minister for Planning and Development  
State of Kuwait<sup>1</sup>**

**Gulf Affairs: What is the role of the Ministry of Social Affairs and Labor in enriching the role of manpower in Kuwait?**

**Hind Al-Sabeeh:** The role of the Public Authority for Manpower, via the Kuwait Occupational Standards, Assessment & Certification Center, is to set a national strategy and a cohesive structure for all jobs in the Kuwaiti market by doing the following:

- a. Cooperating with educational institutes and occupational training organizations to further enhance their programs, in addition to preparing them for exams before they receive their work permits.
- b. Creating a database of available skill sets to locate where they are needed in the job market.

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<sup>1</sup> The interview was translated from Arabic

c. Preparing marketing campaigns to raise awareness about the importance of skills, in addition to distributing educational pamphlets about the importance of skills.

d. Setting tests for foreign labor before they enroll in their jobs to ensure their awareness of job requirements, via specialized centers inside and outside of Kuwait.

**Gulf Affairs: The majority of Kuwaiti workers choose the government sector, which is a very saturated market. What is the ministry's plan to solve this problem?**

**Al-Sabeeh:** The ministry set up a number of strategies to solve this problem. One of these is letting employees who move to those saturated sectors rescind the specialization increment (a generous addition to the basic salary) which decreased the number of employees in these sectors successfully. The ministry has also set up a strategy to reshuffle employees in saturated departments across all government entities, placing them in jobs in which they are needed to successfully employ their talent where it is needed.

**Gulf Affairs: The private sector is still significantly limited in terms of number of employees and opportunities for investment. How does the ministry intend to revive this sector in order to make it attractive to more Kuwaitis?**

**Al-Sabeeh:** The government has successfully ordered several laws that have actively increased the number of Kuwaiti employees in the private sector, such as article 19/2000 with regards to national labor in the private sector, as well as the cabinet's article 1104/2008, and the amendment 1028/2014.

We see that encouraging national labor towards the private sector through SMEs is indeed beneficial. The Public Authority for Manpower had a designated division which helps entrepreneurs, and is working on establishing a specialized committee with the help of prominent and successful entrepreneurs to set strategies that enhance the workflow of SME owners.

**Gulf Affairs: What is the role of the ministry in encouraging Small and Medium Enterprises?**

**Al-Sabeeh:** We place great importance on Small and Medium Enterprises (SMEs), and we organized a number of exhibitions to shed light on their work and achievements and reinforce their role in society. We have a dedicated department that handles SME proposals and helps them turn their ideas into profitable projects. We strongly believe that SMEs will be the future of national labor in the non-government sector. The government, via the Industrial Bank and the National Fund of Small and Medium Enterprises, is proving its strong belief in the abilities of local entrepreneurship.

**Gulf Affairs: How does the ministry aim to encourage women to participate in the economy?**

**Al-Sabeeh:** We worked with the Supreme Council for Development and Planning, jointly with the UNDP, on an entrepreneurship incubator which targeted women. They were given full training on marketing and advertising the products they offer. Women are also actively participating in the exhibitions we organize, which successfully underscore the role of women and their participation in the economy.

## IV. Interviews

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### **Gulf Affairs: Are there any hurdles facing women in reaching leadership positions? How are these addressed?**

**Al-Sabeeh:** Under Kuwait's constitution, women and men are equal. Kuwaiti women have held many leading positions and have participated greatly in the development of the country. Many were appointed ministers and have proved their great success in any field they work in. They face no constitutional or legal hurdles, neither on the career nor on the political fronts.

### **Gulf Affairs: What are the measures taken by the government to deal with foreign labor?**

**Al-Sabeeh:** The private sector law number 6/2010 gives complete protection to foreign labor, via the initiation of a special committee of arbitration between employees and employers. Additionally, working with domestic labor necessitates full awareness of their rights and obligations towards employers, as well as the true demand for jobs in order to prevent ghost employment. To achieve that, the Public Authority for Manpower issued a number of laws, including the following:

- Codifying the issuance of work permits for foreign labor.
- Reassessing the needs of employers.
- Imposing a financial guarantee paid by the employer.
- Forming a committee between concerned government entities to assess and evaluate the market demand for foreign labor in coordination with the Public Authority for Manpower



**Aqeel Al-Jassim**  
**Executive Bureau General Director**  
**Council of Ministers of Labor and Council of Ministers of Social**  
**Affairs in GCC States<sup>1</sup>**

**Gulf Affairs: What is the role of the Council of Ministers of Labor and Council of Ministers of Social Affairs in the Gulf Cooperation Council (GCC) States?**

**Al-Jassim:** Like all other cooperative GCC entities, the inauguration of the Council of Ministers of Labor and Council of Ministers of Social Affairs stems from the GCC states' shared history, values, and belonging. Moreover, the similarity of living conditions, economy and culture necessitated that these states establish joint operations.

The decision to inaugurate this council was made in 1978, during a convention for ministers of labor and of social affairs. This council expresses these states' awareness of all the details of that critical period, in which all the GCC states were facing challenges especially related to labor and social affairs. Tackling these challenges effectively has a significant impact on the advancement of these states and the improvement of life conditions.

<sup>1</sup> The interview was translated from Arabic



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The founding statute declared the cooperation between member states in the following:

1. Setting labor policies to ensure effective use of manpower.
2. Fostering an environment of equality and encouraging career mobility among citizens of member states.
3. Creating an atmosphere that is attractive to Arab labor, and securing the necessary assurances for its stability.
4. Setting labor education and training programs.
5. Unifying as much as possible all policies pertaining to labor laws, social security, and industrial relations between member states.
6. Unifying as much as possible the basic principles for social and labor laws.
7. Protecting human resources and taking necessary health and safety precautions.

The council's executive bureau translates the aforementioned points into the following action points:

1. Setting unified work policies to ensure unity in principles.
2. Setting model frameworks to ensure unity in goals and standards.
3. Adapting and implementing cooperative projects related to labor and social affairs.
4. Conducting studies and research in all member states to monitor any pressing issues and trends.
5. Holding regular workshops and training programs across member states to develop solutions for relevant challenges.

### **Gulf Affairs: What are the biggest challenges that face the council in the field of labor?**

#### **Al-Jassim:**

1. One of the main concerns is the issue of temporary expat labor, which includes domestic help. All GCC states are an attractive destination for expatriate labor, which certainly increased the population number. This increase has, without a doubt, its political and socio-economic implications.
2. Labor nationalization and finding appropriate jobs that can provide suitable income to the member states' citizens. This issue is of high importance to the council and all labor ministers of member states.
3. Awareness of the nature of GCC labor markets. Many researchers in the field of labor affairs, especially foreign researchers, are unaware of the GCC states' labor ministries efforts when it comes to the subject of labor.

The environment in these states is very unique, and labor-exporting countries are aware of this—GCC states contribute greatly to the economy of these countries. The biggest challenge, therefore, is to explain to foreign researchers how unique the environment is in member states, and to show that the problems that face expatriate labor are a small fraction when compared to the numerous success stories of positive cooperation between expatriate laborers and the local employers (in both the private and public sectors).

### **What are your plans to address these challenges?**

#### **Al-Jassim:**

1. The council's executive bureau liaises between the ministries of labor in all member states. The council



proposes joint programs in the annual and regular meetings between ministers and officials, and highlights successful examples in any of the member states to inspire the other members.

2. The council tasks the executive bureau with identifying current or upcoming challenges and proposing solutions and ways of cooperation between the GCC states. The bureau, among other things, works on the following:
  - a. Conducting research on labor issues.
  - b. Organizing workshops and training courses to raise awareness about labor affairs.
  - c. Liaising between member states on regional and international issues.

### **Gulf Affairs: What are the main initiatives and projects conducted by the council?**

**Al-Jassim:** Firstly, there are initiatives that each member state launched independently. These initiatives are numerous—each GCC state launched several successful programs and awareness campaigns related to nationalizing the labor force. Member states have also successfully (and independently) established entities to mediate and resolve issues between laborers and employers. Member states have also established campaigns and entities to resolve issues between domestic workers and their employers.

Secondly, all member states regularly participate in meetings and conventions to discuss the most pressing issues of labor affairs. Through the council, all GCC states have specific teams tasked with conducting research and proposing solutions for issues of domestic labor, nationalizing the labor force, tackling unemployment, and monitoring the labor market. Reports from each independent team are submitted annually to the council.

### **Gulf Affairs: How do you evaluate the success of the council in the projects it conducted?**

**Al-Jassim:** More than 35 years have passed since the establishment of the council, and we take pride in this fruitful journey. Despite the many challenges, we succeeded in establishing a unified framework for our labor and social legislations and laws. We also succeeded in exchanging expertise and rotating leadership among member states. We certainly have more upcoming projects and cooperation opportunities, which further strengthen our bond and help us achieve our joint goals and ambitions in serving our citizens and actualizing our development plans. However, we still have a long way to go. Priorities, globally, are always in flux, which requires continuous hard work.

### **Gulf Affairs: How would you evaluate the success of each GCC state in the field of nationalizing labor force?**

**Al-Jassim:** The success of any GCC state is the success of all GCC states, since we continuously exchange experiences. All GCC states have successful examples in nationalizing campaigns. For example, the UAE launched the initiative: *Ibshir, Na'am, Ebda', Rashih Nafsik, Ein al-Mustaqbal*, and others. The Kingdom of Bahrain established the Labor Market Regulatory Authority, launched the campaign *Tamkeen*, and established the National Authority for Qualifications and Quality Assurance of Education and Training. The Kingdom of Saudi Arabia launched the initiatives *Nitaqat, Taqat*, and *Hafiz*. It also established the Technical and Vocational Training Corporation. Qatar announced its labor market strategy 2011-2016 which still reaps the fruits of its success in enabling Qatari nationals and raising their skills.

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The Sultanate of Oman launched a nationalization campaign titled *Sanad*, which was a big success. It also established the Oman Academic Accreditation Authority. Kuwait established the Kuwait Occupational Standards, Assessment and Certification program, as well as the Manpower and Government Restructuring Program, and is soon launching the Public Authority for Manpower. All these programs and initiatives aim to increase the number of national labor in both the public and private sectors.

### **Gulf Affairs: What are the obstacles that you face in your efforts to nationalize the workforce in GCC states?**

**Al-Jassim:** The most pressing obstacle is the lack of independent work in the culture of the GCC citizen. GCC citizens still favor working in the government sector because of the job security and the social security benefits. GCC states are working on bridging the gap between the benefits of public vs private employees, and its efforts so far have been successful to a large extent.

Countering the negative culture of dependence on the government necessitates turning to other sources of innovation, like small and medium enterprises. Indeed, many GCC states have established programs and initiatives to help citizens start their own businesses. A good example of that is the initiative *Tamkeen* in Bahrain, as well as the funds that many GCC states have started to support SMEs. The goal of these establishments is to decrease the rate of unemployment and encourage independence. The council also has a special team tasked with monitoring the labor market for any obstacles that face SME owners and entrepreneurs and proposing solutions. The council also gives an annual award to the best SME in the GCC states.

### **Gulf Affairs: How does the head of the executive bureau see the future of national workforce in the GCC?**

**Al-Jassim:** There certainly are challenges and obstacles. One of these challenges is the expatriate labor and their impact on population density, demographics, and the *Khaleeji* identity, as well as the socio-economic and labor structure in the GCC.

The second challenge is finding suitable positions for GCC citizens, especially university graduates. These two challenges require diligence from the ministers of labor in all GCC states. Currently, GCC citizens are facing many challenges when it comes to finding suitable jobs, while on the other hand the dependence on foreign labor is increasing significantly. Overcoming this relies mostly on changing the culture of *Khaleeji* citizens and their concept of suitable work that provides decent income.



**Masood Ahmed**  
**Director, Middle East and Central Asia Department**  
**International Monetary Fund**

**Gulf Affairs: What is the role of the IMF and how does it work with and support governments in the GCC?**

**Masood Ahmed:** the IMF is actively engaged with the GCC countries. This engagement takes place in a number of ways. First, as with all our member countries, we travel to each of the GCC countries at least once a year to discuss the economic situation and the government's policies. This is the so-called Article IV consultation. Second, we engage with the GCC as a group. Last year, the IMF's Managing Director Christine Lagarde attended the annual meeting of the GCC Finance Ministers and Central Bank Governors in Kuwait City. IMF staff prepared a number of papers for this meeting which were published on the IMF's website. Third, we provide technical assistance to the GCC countries on topics that are at the top of the policy agenda in the region. Recent technical assistance has focused on economic statistics, macroprudential policies and financial stability, and fiscal reforms. Fourth, we provide training on economic and financial issues to government officials from the region. This mainly takes place through the IMF's regional training center for member countries of the Arab League, the Middle East Center for Economics and Finance, based in Kuwait. Finally, we organize conferences on important policy issues in collaboration with GCC

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countries. Recent conferences have been on developing domestic debt markets in the GCC, private sector growth, and the challenges of economic diversification.

### **Gulf Affairs: What are the three main challenges facing labor markets in the GCC states?**

**Ahmed:** To me, there is one overarching challenge in the GCC labor markets. This challenge is to create enough well-paying and productive jobs for the young and growing population. The current favorable demographic profile of the GCC countries means there is an opportunity to boost growth and living standards if these jobs are created, but there is also the risk that unemployment will increase if they are not. The GCC countries have traditionally employed most of their nationals in the public sector, but with employment in the government already at a high level, going forward the jobs will need to be created in the private sector. Creating jobs in the private sector has not been a problem in the past, but most of these jobs have been filled by expatriates rather than nationals.

This leads me to three issues that will need to be addressed if the challenge of increasing the employment of nationals in the private sector is to be met. First, nationals will need to acquire the education and skills that are in demand in the private sector. Substantial investments are being made in education and skills development, but further efforts are needed to raise the quality of education outcomes. Second, incentives will need to change so that people opt for entrepreneurship and private sector employment over jobs in the public sector. This could be facilitated by a clear message from governments that future public sector employment opportunities will be extremely limited. Third, the wage gap between national and expatriate workers with similar skills and experience will need to be bridged to make it attractive for employers to hire nationals.

### **Gulf Affairs: All the Gulf states have implemented labor nationalization initiatives: Emiratization, Saudization, Kuwaitization, etc. How successful have they been in your opinion?**

**Ahmed:** Let me focus on Saudi Arabia. The *Nitaqat* program is part of a broad labor market reform program that the government is implementing. Under the program, firms are required to employ a certain quota of Saudi nationals depending on the size of the company and the sector it is working in. In addition, wage subsidies and payroll rebates are available to companies who hire Saudis, steps have been taken to support job search activities through the *Hafiz* program and the expansion of job placement companies, efforts are underway to reduce the length of the private sector work week, and an unemployment insurance system has been introduced. These programs are all designed to encourage companies to hire more Saudis and to increase the attractiveness of private sector employment for Saudi nationals.

The employment of nationals in the private sector has certainly increased in recent years. During 2012-2014, an additional 315,000 nationals took jobs in the private sector, representing a 7.3 percent annual increase. However, over this period, the employment of nationals in the public sector has also increased by 467,000 or about 5.2 percent annually.

### **Gulf Affairs: How critical is economic diversification for non-oil growth and job creation for GCC nationals in the private sector? Can the growth of public sector employment for 'nationals' be contained?**

**Ahmed:** Economic diversification is very important for the GCC countries to achieve sustainable non-oil growth and create high-paying private sector jobs for nationals.

A number of policies have been adopted to diversify the GCC economies and reduce their reliance on oil. A stable, low inflation economic environment has been achieved, the business climate has been strengthened, education has been expanded, trade and FDI liberalized, and the financial sector deepened. National development plans are being implemented with a view to boosting the human capital of nationals, and developing new industries and services that can employ high-skilled labor. GCC countries are also developing the small and medium-enterprises segment to promote entrepreneurship.

Nevertheless, to date these diversification strategies have yielded mixed results. International experience shows that, in addition to creating a stable economic environment and a favorable climate for doing business, countries that have diversified successfully focused on putting in place the incentives to encourage firms to develop export markets and to support workers in acquiring the skills and education to get jobs in these new expanding areas. Drawing on their experience suggests that GCC countries need to do much more to realign incentives for firms and workers. These steps would require a shift in the growth model, away from government expenditure as the main driver, and towards rising private sector investment and productivity.

To be sure, accomplishing this shift in the growth model and containing the growth of public sector employment will require strong political will. But, it is a key change that is needed if nationals are to be encouraged to work in the private sector and if needed fiscal adjustment is to take place.

**Gulf Affairs: Labor market skills-mismatches are often highlighted as a barrier to private sector employment for nationals. Can you comment on the role of GCC education systems in preparing nationals for the job market?**

**Ahmed:** GCC governments have appropriately increased their investment in education and skills development in recent years. Empirical research clearly shows the importance of education and skills in improving growth and productivity outcomes. Nevertheless, while the payoffs from these investments are clear in terms of the number of years of schooling children in the GCC receive, the results from internationally standardized tests in mathematics and science suggest that the quality of education is lagging behind that in many other countries. Improving educational outcomes now needs to be the focus of reforms.

**Gulf Affairs: What are the implications of a protracted period of 'lower' oil prices on GCC labor markets?**

**Ahmed:** I expect that lower oil prices will result in somewhat slower growth in the non-oil sector in the GCC as governments act to slow their spending growth. This may slow overall growth of employment in the private sector. Public employment has also reached its limits and the wage bills are already high by international standards. The task is to ensure that an increasing share of the jobs created in the private sector are filled by nationals in order to prevent an increase in unemployment among nationals.



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**Gulf Affairs:** According to an IMF study, “a gradual reduction in the reliance on foreign labor will also require enhancements to the macroeconomic policy toolkit.” What do you mean by this?

**Ahmed:** What we mean is that over many years the ready availability of expatriate labor has acted as a safety valve for the economy.

When growth is strong and the demand for labor is high, companies have been able to bring in more labor from overseas to help them increase production. This has meant that wage pressures have been contained. Our analysis shows that the availability of expatriate labor has been one factor along with the credible monetary policy that comes from the pegged exchange rates in the region that has helped the GCC countries achieve relatively low inflation. Going forward, if policies are successful in reducing the reliance of the economies on foreign labor, wages and prices may respond more to conditions in the domestic economy than they have done in the past. In turn, this may mean that monetary and exchange rate policy may also need to evolve in the future to manage demand and inflation pressures.

**Gulf Affairs:** How do you view current female labor force participation in the Gulf states, and how can it improve?

**Ahmed:** In most GCC countries, female participation rates are still too low despite some increase in recent years. Women in the GCC are well-educated and will make a significant contribution to growth and productivity in the region if they enter the workforce. Therefore, while local customs and norms need to be respected, policies that open up more sectors of the economy to female employment and support women through the provision of childcare facilities and flexible work arrangements can have high payoffs for both them and for the economies as a whole.



ILO Acting Regional Director for Arab States Frank Hagemann (right), ILO Director-General Guy Ryder (centre), and Kuwaiti Ambassador to the UN Jamal Al-Ghunaim (left) at a signing ceremony in Geneva in which Kuwait pledged new funding for ILO projects in the occupied Palestinian territory.

## Frank Hagemann Deputy Regional Director for Arab States International Labour Organization

### **Gulf Affairs: What is the role of the ILO and how is it working with and supporting governments in the Gulf?**

**Frank Hagemann:** The International Labour Organization (ILO) works around the world on policy and a practical level with governments, workers and employers towards what we call “Decent Work” for all. In short, Decent Work sums up the aspirations of people in their working lives—for opportunity and income; rights, voice and recognition, professional development, and gender equality. How do we achieve this? Through innovative programs to create jobs and develop enterprises, through promoting social protection as well as standards and rights at work, and by strengthening social dialogue. Our fundamental, overarching objective is to make social justice a reality.

This is our global mandate. But in the Gulf Cooperation Council (GCC), there are a number of unique circumstances that come into play. For example, the Gulf countries form the largest migrant-receiving region in the world. In 2013, migrant workers accounted for 45 percent of the region’s overall population.

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This cannot but have a profound impact on the social fabric of societies and local labor markets. Also, the way labor migration is being governed has unfortunately resulted in widespread abuse of foreign workers, including situations akin to forced labor.

### A fair share

To address this issue in the GCC and indeed in other regions around the world, the ILO has developed a Fair Migration Agenda through which we join forces with all players in the world of work to give migrant workers decent working conditions and a fair share of the prosperity they help create.

This is a very exciting time for the ILO regional office in the Arab states, because we have just signed an important agreement with the United Arab Emirates, which serves as a good example of how we support GCC governments. The agreement initiates a two-year ILO project to build the capacity of the UAE's Ministry of Labor to manage and monitor its labor market for the benefit of all workers, including migrant workers. It's an ambitious UAE-funded project that we have great hopes for, as it will provide policy makers with the tools and information to better govern the labor market and monitor progress. It will enhance labor inspection capacity to monitor working conditions, develop dispute prevention and resolution mechanisms, and improve access to justice for migrant workers. The project will see the ILO and UAE working together to also develop a national occupational safety and health policy.

In addition to numerous such projects in the region, we also support Gulf countries with training programs on a number of issues, including on how to develop and implement national employment policies. For example, we are currently conducting a series of training sessions for GCC policy makers on developing a comprehensive, unified and systematic approach to collecting and analysing market data based on international standards.

I would also like to take the opportunity here to refer to the generous support of GCC countries for our projects elsewhere in the Arab world. The Kuwaiti government recently pledged new funds to support the ILO's Decent Work Agenda in the occupied Palestinian territory, bringing its total contributions to this important program to US\$3.5 million since 2009.

### **Gulf Affairs: What are the main challenges facing labor markets in the GCC states?**

**Hagemann:** The GCC is a dynamic region undergoing a vital process of rapid economic growth and diversification into new sectors. Yet significant challenges persist in the labor market. We were just discussing over-dependence on cheap migrant labor; this has come at the heavy expense of GCC nationals. It has resulted in rising unemployment amongst them and little national employment in the private sector.

### **Two labor markets**

There are, in fact, effectively two labor markets, segmented by nationality. The first is the public sector market which remains the most promising employer for nationals, offering higher wages, better benefits, shorter working hours and more job security.

Public employment is perceived as an entitlement for GCC nationals, and a reason behind their relatively

high unemployment rate given their unwillingness to settle for what is perceived as inferior conditions in the private sector. The welfare system is also encouraging workers to line up for public sector jobs at the expense of private sector employment.

The second is the private sector, dominated by migrant workers, many of whom are low-skilled and accept low wages.

This segmentation means that government budgets are shouldering the increasing costs of nationals entering the public sector. Oman, for example has already started running a budget deficit due to the increase in government salaries and subsidies, and Saudi Arabia is expected to do so within two years.<sup>1</sup>

It has also led to uncompetitive education systems and low levels of skills, together with a mismatch between supply and demand for skills. Although education is free for nationals at all levels, there are few incentives to choose one major over another, as many nationals seek a degree—any degree, regardless of the subject—simply to guarantee a job in the public sector.

Related challenges are the high unemployment rates of women, especially amongst the most educated, and *underemployment*—many nationals are at work, but mask cases of being underemployed because of overstaffing, skills mismatch and underutilization.

### Public sector dependence

So what can be done in the face of challenges so deeply entrenched in the very fabric of society and economy? Well there are no easy answers, but, in the first instance, GCC countries must work on changing the prevailing culture in which citizens rely on the public sector and expect it to continue to act as a guaranteed employer. Further development of the private sector and increased efforts towards higher productivity are clearly needed. Indeed, a key challenge is finding more ways to diversify the economy and develop non-oil tradable sectors, which in turn would generate sustainable private sector employment. Job opportunities must be created for women, given the increase in their labor force participation rates. Developing the education system, including technical and vocational education and training, is crucial for improving employment prospects for nationals.

### Gulf Affairs: Where in terms of labor standards are the Gulf states falling behind? In which areas do you see progress?

**Hagemann:** It is encouraging to see that some progress has been made in improving the working and living conditions of the mostly migrant labor force. But there are still significant challenges, for instance regarding the regular and full payment of wages, minimum standards of occupational safety and health, and access to justice in cases of abuse. Some of the issues appear to be related to the visa sponsorship system by which workers are closely tied to their employers. In some instances this leaves them little choice but to accept the unacceptable, due to their inability to change employers. Some Gulf states appear to be

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<sup>1</sup> Booz Allen Hamilton. *Building a Diversified Economy: How Gulf Cooperation Council (GCC) Nations Can Stimulate Private-Sector Innovation and Sustain Long-Term Growth*. 2014.

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rethinking the utility of the current shape of this system, both to avoid the potential for abuse inherent in an unbalanced employment relationship, and to achieve more flexibility in the labor market.

Progress has also been made in overcoming some of the limitations on women's ability to participate in the labor market under equal conditions, although more needs to be done to counter gender-based discrimination.

With regards to trade union rights, freedom of association is severely restricted in most countries of the Gulf, at least for migrant workers, who make up the majority of the labor force—with the exception of one country, Kuwait, none of the Gulf states have ratified the fundamental ILO conventions in this area: Convention 87 and Convention 98.

However, Gulf states have made certain legislative efforts to enhance the protection of workers through better labor laws, as well as the enforcement of existing legislation through better labor inspection systems. The political will to improve labor inspection systems is also reflected by the fact that almost all Gulf states have ratified the main international convention in this area: Convention 81. In particular, efforts have been made in some countries to enforce limitations of working hours, regular payment of wages and minimum standards for workers' accommodation.

**Gulf Affairs: All the Gulf states have implemented labor nationalization initiatives: Emiratization, Saudization, Kuwaitization, etc. What are your insights on this and what can be done to promote the participation of nationals in the private labor force?**

**Hagemann:** Each of the GCC countries has set out national development strategies to diversify the economy and reduce dependence on the hydrocarbon sector, and to create jobs for nationals. But there has not been a significant improvement in the rate of national and youth employment in the Gulf region. It has become clear in recent years that the shortage of jobs for nationals is not due to inadequate job creation, but to the *types* of jobs created, and to underinvesting in education and skills.

Of the millions of jobs created in GCC countries over the past decade, most were low-paid construction jobs, filled by low-skilled expatriate workers. But many also went to highly educated expatriates because of a lack of nationals with the necessary skills.

### **Job diversification**

One effective way to achieve diversified job-rich growth for GCC nationals is through an integrated approach to develop socially responsible and sustainable enterprises in these countries. The ILO stresses that enterprise development can be fostered in the region through the creation of favorable policies and regulations, the delivery of supportive services to existing and potential entrepreneurs, and promotion of an entrepreneurship culture through formal and vocational education institutions. For the GCC region, these strategies can contribute to the decrease of nationals' dependency on the public sector for employment and encourage their active participation in the labor force, including private sector employment.

Enterprise development can contribute to more diverse economic opportunities and empowerment of citizens. Many governments in the region recognize this, and are trying to encourage the development of



the small and medium-sized enterprise (SME) sector within their economy through a combination of the above-mentioned approaches.

For example, Oman and Saudi Arabia have established several governmental projects to promote an entrepreneurial culture amongst youth and increase their skills and knowledge of enterprise development. The establishment of the *Public Authority for Small and Medium Enterprises Development* (PASMED) in Oman and the governmental entity *Riyadah* in Saudi Arabia are prominent examples of GCC governments committing to foster SME-sector growth by providing entrepreneurship education and supporting start-ups with the financial and non-financial resources needed. The ILO is supporting these initiatives in order to promote more active participation of nationals in the labor force.

### **Gulf Affairs: Are Gulf countries prepared with training and education avenues and employment policies to replace foreign labor or at least reduce dependence on them?**

**Hagemann:** I mentioned previously that one of the usual explanations for the low share of nationals in the Gulf labor markets is the skills mismatch and the lack of capacity of education and skills development systems to produce new entrants to the labor market that meet employers' expectations.

It is true that the performance of Gulf students in international tests is often unimpressive. In Qatar, for instance, the mean score in mathematics, reading and science performances are one of the lowest among OECD PISA-participating countries and economies (they rank respectively 62nd, 63rd and 62nd out of 64 countries).

But one should place education and skills development systems in their national contexts.

First, resource rich countries with comprehensive redistribution and welfare programs are unfortunately linked to low performance in education. So irrespective of the progress made in the education service supply, the *demand for education* is reduced when there are limited incentives for learning and for finding a job in the private sector.

Second, demand for nationals is also low in the labor market because of the wage difference that gives an incentive for employers to hire migrant workers. Many companies are also owned jointly by national "partners" and by managing foreigners who prefer to recruit among nationals of their own countries. Working conditions are also such in many of these jobs that nationals would not accept them.

Therefore, in order to have an impact on the labor market, skills development strategies in the sub-region should go beyond quality improvements of the national education and skills systems, but also address issues related to the education demand, and to the demand for nationals in the labor market.

### **Gulf Affairs: How do you view women's current participation in the labor force of Gulf states, and how can it be enhanced?**

**Hagemann:** Over the last two decades, Arab countries have witnessed improvements in terms of women's labor force participation rates (LFPRs) within the Arab region, women's LFPRs are highest in

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the GCC countries (especially in the UAE, Oman and Bahrain) with an average of around 38 percent (the global rate is around 50 per cent).

Most of the increase comes from younger women joining the labor force as a result of significant investments in education and health in recent years. Changes in societal attitudes (which have led to such outcomes as reduced fertility rates) and policy-related factors have also contributed to an increased participation of women in paid work. It must also be recognised that for many Arab women in the Gulf, hiring domestic workers has freed up time previously allocated to family responsibilities, thus allowing more women to enter the labor market.

While progress on promoting women's participation in the labor force is evident in GCC countries, it is important to note that these countries achieve lower scores on the efficient use of talent, partly because of cultural factors that affect the employment of educated women. Female labor force participation rates are low compared to other emerging market countries and from a global perspective.

In order to continue promoting women's participation in the labor force, GCC countries need to strengthen their legal frameworks on non-discrimination in line with ILO Convention 111 on Discrimination (Employment and Occupation,) and Convention 100 on Equal Remuneration. This would ensure that women and men have equal opportunities to enter the labor market and remain productive during the course of their lives.

In this context, it is also necessary to improve legal frameworks regulating the work of almost two million women migrant domestic workers in GCC countries, as their contribution is valuable to society and important in increasing labor force participation of women nationals in the Gulf region.



## V. Timeline

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### Select Developments in the Labor Market Across the GCC: 2000-2015

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#### 2000

May 28 – Kuwait passes the National Labor Support Act specifying national labor quotas and extending social allowances to privately employed Kuwaitis. A 2.5 percent tax is mandated on the net profits of Kuwaiti companies listed on the Kuwaiti Stock Exchange to fund the cost of training Kuwaitis in the private sector.

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#### 2002

September – The Workers Trade Union Law (Law 33/2002) permits private sector workers to form and join unions and establishes the General Federation of Bahrain Trade Unions.

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#### 2003

Female labor participation rate in Kuwait reaches 45 percent, the highest participation rate to date and a 12 percent increase from 1990.

April 26 – Oman promulgates Royal Decree No. 35 which covers leave entitlements available to employees working in the country, but exempts civil servants, military, security or police personnel, or domestic service/household employees.

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#### 2004

December 21 – The GCC passes The Unified Law of Insurance Protection law, extending the coverage of insurance protection in each GCC state for its citizens working in any GCC state other than their home state.

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#### 2006

May 31 – Bahrain establishes the Labor Market Regulatory Authority which assumes responsibility of visa and foreign work regulations from the Ministry of Labor. In addition, the LMRA assumes responsibility for introducing labor market reforms and drafting policy on national and expatriate workers.

November 2 – Oman issues Ministerial Decision 294/2006 which authorizes workers to form unions independent of the government and permits collective bargaining.

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#### 2007

The participation of the Qatari female labor force rises to 35 percent compared to 27 percent in 2001, with the growth highest in the health and social sectors. Additionally, the unemployment rate amongst Qatari women decreased from 22 percent to 6 percent between 2001 and 2007.

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#### 2009

May 4 – Bahrain's vow to scrap the required sponsorship system of foreign workers by August 1, 2009, is met with mixed reviews by business and trade unions. The initiative was modified and foreign workers are currently sponsored by the Labor Market Regulation Authority. The new law would have permitted foreign workers to change employers or terminate their obligations.

July 20 – The UAE enacts the Wage Protection System routing all payments through monitored financial institutions. The system claims to safeguard labor interests by improving worker-employer relationships, improving transparency, and limiting disputes related to wages.

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### 2011

January 1 – The UAE loosens conditions in which foreign workers will have the authority to take up new jobs without the consent of former employers or the no-objection certificate upon the completion or legal termination of a labor contract. Workers previously were required to complete three years and obtain a no-objection letter to avoid a six month work ban.

June 11 – Saudi Arabia introduces *Nitaqat* Law, favoring the employment of national citizens over expatriate workers. The initiative establishes quotas across 41 labor sectors and sets penalties for non-compliant companies, including the non-renewal of expatriate worker visas.

March 18 – Saudi Arabian King Abdullah seeks to appease dissatisfied Saudis through a package of reforms and wage raises, as well as an allocation of 300,000 public sector jobs.

June 16 – The International Labor Organization ratifies a convention on domestic work which guarantees daily and weekly rest hours, entitlement to minimum wage, and a place where they may live and spend their leave. All GCC member-states vote in support, but have yet to ratify and implement the conventions key articles.

October 9 – King Hamad of Bahrain issues a decree amending Law 33/2002 to allow the establishment of more than one trade union in a company and more than one trade union federation in Bahrain.

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### 2012

August 2 – Bahrain partially extends its labor law (Law No.36) to domestic workers under terms in line with private sector employees.

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### 2013

March 25 – GCC draft law on domestic workers ready. The GCC countries hope to have a common law regulating domestic work, including a unified work contract.

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### 2014

April 23 – Despite efforts on behalf of the kingdom to encourage the employment of women in the private sector, unemployment of Saudi women increased to 34 percent, the highest in the GCC.

May 14 – Qatar officially announces proposed changes to its *kafala* system which would make it easier for expats to exit the country or change jobs.

October 20 – GCC reconsiders plan to reduce the number of expat workers in region.

November 26 – GCC labor ministers agree on unified contract defining rights of maids. The contract includes a weekly day off, the right to live outside their employer's home, a six-hour working day with paid overtime and the right to travel at any time.



## V. Timeline

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November 27 – Kuwait hosts the Third Ministerial Meeting of the Abu Dhabi Dialogue where participants agree to adopt the “Pilot Project on Skill Development, Documentation and Recognition” initiative. The GCC motion aims to improve training, certification, and documentation to empower workers and serve the countries of origin in expanding their qualified labor pools.

July 1 – New law goes into effect in Oman that no longer permits expatriates to freely move between employers without two year absence.

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### 2015

January 14 – The UAE national labor law undergoes revision in applying work standards to employees in special economic zones and extending leave benefits to private sector employees as well as subsidizing private sector wages.

June 24 – The Kuwaiti parliament adopts a landmark law for domestic workers. Seen as a major breakthrough in the GCC by human rights organizations, the law provides enforceable rights to this category including a weekly day-off, 30 days annual paid leave, a 12-hour working day with rest, and an end-of-service benefit.



## Call for Articles

### **“GCC Security Amid Regional Crises”**

**Submission due date: Friday, October 30, 2015**

**Word limit: 800 – 1,300 words**

**Gulf Affairs invites scholars to submit original analytical articles for its upcoming issue entitled “GCC Security Amid Regional Crises.”**

Gulf Affairs is a journal founded by OxGAPS | Oxford Gulf & Arabian Peninsula Studies Forum, a University of Oxford-based platform. The journal is exclusively dedicated to furthering knowledge and dialogue on the pressing issues and challenges facing the six member states of the Gulf Cooperation Council—Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates. Each issue is dedicated to a particular theme, allowing for a comprehensive coverage from various analytical perspectives and fields of study. Accepted articles are submitted to reviewers for comment prior to publication.

To capture the complexity of the various issues and challenges around GCC Security, articles are encouraged from a wide range of disciplinary lenses including Economics, Politics/Political Economy, International Relations, Law, Psychology, Sociology, Anthropology, Area Studies, and History. Balanced articles supported by sufficient and credible sources which offer a unique perspective on the theme will likely be accepted for publication.<sup>1</sup>

Gulf Affairs welcomes analytical articles shedding light on one or more (though not limited to) of the following areas:

- How has the Arab uprisings that erupted in 2011 impacted security in the GCC states?
- How has domestic unrest (or lack thereof) in the GCC at the height of the Arab uprisings to be understood?
- How is the Iranian-US rapprochement affecting the security architecture in the Gulf?
- With ongoing crises in Yemen, Iraq, Syria, Libya, and Egypt, how is the Gulf Cooperation Council reacting to regional threats?
- What are the lessons of Operation Decisive Storm?
- What role should the GCC states be taking in confronting threats from non-state actors?
- What strides need to be made in the fields of cybersecurity, counterterrorism, and arms trafficking?
- With recent announcements of a coordination center for maritime security and a joint police force, how is the GCC, as an organization, evolving to bolster the security needs of its member states and the region?
- How are growing military and/or defense ties between the GCC states and any of Russia, France, Turkey and the Asia-Pacific region impacting the geopolitical balance in the Gulf?

**Submission Guidelines:** Please send articles to [gulfaffairs@oxgaps.org](mailto:gulfaffairs@oxgaps.org) by Friday, October 30, 2015. Though not required, the editorial committee accepts to comment on abstracts or outlines received by Friday, October 9 the latest. Comments made to an abstract do not guarantee acceptance of the article upon submission. Authors whose articles have been accepted for review will be notified within two weeks after the submission deadline.

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<sup>1</sup> For citing and referencing, use Chicago Manual of Style endnotes.

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