‘Labour Market Reform in the GCC’

Background notes for a lecture by Dr Neil Partrick
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There are quite different labour market contexts in the different Gulf Arab states. While labour mobility between GCC states impacts on some individual labour markets, there are many country-specific issues even in an economy as globalised as that of the UAE. The common denominator is that these neighbouring countries are hydrocarbon rent-based economies with an overweening state role that is directly or indirectly overseen by hereditary ruling families sensitive to the demands of a burgeoning (youth) population. The other common denominator is they’re all seeking *new rent* as oil and gas demand is unpredictable, hydrocarbon resources are finite, and none of the rulers are prepared to become Queen Elizabeth II[1], so their (unwritten) social contract is rent-based wealth disbursement in exchange for political quiescence.

They all want to nationalise more of the jobs that are currently done by foreigners, both in the public and, more importantly, in the private sectors, and they all feel *varying degrees of need* to ‘energise’ that private sector (whatever this means *in practise*) as part of their preparation for an uncertain hydrocarbon future, including meeting the demands of the ever-expanding domestic national workforce. There perhaps the comparisons end.

There are, after all, *varying degrees of pressure and need*, and this explain a lot about their differences too: Saudi Arabia’s de facto ruler, MbS, assuming he’s in for the long haul, has to somehow get to grips with an annual growth in the population of Saudi under-25s that probably exceeds Qatar’s total national population of 300,000. This makes labour market reform (LMR) in Qatar, which like Abu Dhabi and Dubai have made good progress in finding new rent, a rather different problem for the Al-Thani whether they’re blockaded or not.

That said, even GCC states like Qatar and the leading UAE emirate, Abu Dhabi, with tiny national populations and well-endowed SWFs enjoying revenue from globally reinvested oil revenue, have to think about what to do with their youth, especially males. This is partly an archly political issue, but it’s also a matter of political economy. Government cuts in 2008/09, and again with the weakening of the oil price from 2014 (albeit that it began picking up from 2017), affected the state’s willingness in even the wealthiest per capita Gulf countries to keep on increasing expenditure, and this includes mopping up all of the latest recruits to the job market at relatively high salaries. When the oil price was high (and the ‘Arab Uprisings’ had just happened), Qatar increased salaries by over 60% in the public sector, creating a problem for the private sector – and emphasising the state’s role in distorting the market generally. When oil prices weaken then retrenchment occurs, albeit usually modest in the case of tiny energy-rich states. However the Saudis drew-down their foreign reserves by over 25% from late 2014 to end-February 2016 as they didn’t have the political confidence to cut services in proportion to the fall in oil revenue, and the sovereign wealth fund couldn’t be expanded as planned in any other way than by appropriating some of the foreign reserves. Falling oil revenues creates a nightmare in relatively resource-poor Oman and Bahrain where, neighbours’ handouts

[1] To paraphrase a comment attributed to the late Prince Naif bin Abdulaziz, the Saudi interior minister, when in conversation with Saudi political reformers.

aside, the need to absorb the otherwise jobless, amidst relative modesty of wealth and a populace willing to demonstrate, made, and continues to make, fiscal pressure acute.

So for Oman, it's bring on the Chinese, the Iranians and obviously Qatari business (in the wake of the blockade of the latter). The western consultants said to the Saudis liberalise the economy and be more transparent. The result, they claimed, was that FDI would flow and an entrepreneurial middle class will somehow be genuinely unleashed, employing in SMEs and larger enterprises the surfeit of nationals that very expensive middle class fun in movie houses, mixed football and concert stadia, and Disney World will not satisfy. But these consultants only understand how to screw money out of the Gulf states. What they *don't* understand are the peculiarities of the political economies that Gulf Arabs live in and how the free market - which is rarely free and rarely a proper market anywhere in the world - comes up against state capitalism where wealth is dispensed in a highly political fashion with government contracts with key merchants, 'commissions' for the political and allied elites, and quite good living standards for most if not pretty much all (nationals). In short, such consultants don't *get* the Gulf.

So, is there a way to tackle this without affecting the unwritten social contract, without creating political upheaval in the more fiscally-challenged Gulf states and, at minimum, youth anomie in the wealthier per capita ones? Bored and relatively young nationals on comfortable salaries and eventually high pensions (depending on how far away their retirement is) still need stimulation.

In the UAE the political economy context is the same as in Qatar - and for that matter Kuwait, with its long standing state capitalism buffeted by a part-elected parliament, where there is only modest progress with Kuwaitisation in specific sectors and where ghost workers and underemployed nationals are still fairly typical. While a population of about 1m nationals, a usually strong surplus on the fiscal account, a well-endowed SWF, and only limited legislative insistence on nationalising jobs make Kuwait and the UAE (or at least Abu Dhabi) similar, the UAE is also very different. Dubai, and Abu Dhabi increasingly, are integrated into the global economy (apart from oil); much of the leading foreign-owned and locally-owned business in Dubai is actually conducted in light touch regulation Free Zones (FZ). In the FZs, Emiratisation doesn't figure, other than those firms actually *wanting* high-end Emiratis to work for them. This is partly because at that elite level they are useful in skills and connections and it frankly looks good to have some Emiratis on display, including some women, depending on the context.

In Saudi Arabia, where arguably the need for LMR is at its most urgent, there has been some progress, most evident in recent years under the Nitaqat scheme. While the author of that scheme, and its passionate defender, resided in the Ritz Carlton Hotel before being rehoused in some less salubrious form of incarceration, the need to nationalise as many public and private sector jobs as possible remains. In theory MbS is acutely attuned to this need. Saudi Vision 2030 (SV2030) talks of the need for LMR – in part though this will be box ticking from another overpriced piece of western consultation. There is very little in the SV2030V about how to get Saudis into the private sector at a time when MbS is preaching Thatcherism without a human face. SV2030 contains fantasy-like figures about what is going to be spent on what by 2020 and beyond, and there are specific targets for things that would affect LMR. For example the vocational training budget will be boosted as part of an apparent private sector drive that is actually a state-led project part-funded by the private sector. Confused? I certainly am. Many of the targets look arbitrary and some are even based on limited or no data.

A human resources specialist told me in January 2018 that the UAE's vocational training is more or less a matter of the extra year that locals have to spend improving their English and sometimes other skills to get into a university[2]. The latter, he said, then helps them get a good job in the public and sometimes, if they're so inclined, in the private sector. The specialist said that the UAE's vocation training is nothing like as developed as in KSA. The latter has been running technical and vocational training colleges (TVTCs) for nearly four decades. During the latter period of King Abdullah's reign the TVTCs' designated funding got a massive boost as new economic cities were being built (in some parts of the country); KAUST was built; and the hope at least was that these centres of excellence, like Aramco and to an extent SABIC, could be established with private (including foreign) money following Saudi public money.

However the TVTCs may have been ahead of their time in the 1980s but they are not able to address the needs of a country that, as shown above, has the lion's share of the 1.5m or more Gulf nationals entering the labour force every year. The Saudi state is seeking to save money and so cannot – outside of the political imperative to employ people in the military and security sectors – continue to offer a blank cheque to mop up unemployment. At one level the Saudi state is making it easier to tap the potential of Saudis and to reduce unnecessary foreigners by allowing women to drive from June 2018. But making employing women appealing to private employers, like some Saudi men are, might take more than opportunity and an ability to drive oneself to work. Cultural changes and economic necessity have already created Saudi popular pressure to allow women to work. Saudi women are more educated than Saudi men, but there are other factors to consider, for men and women. The work culture as in that understood by foreigners may be fairly alien, including for men. On the other hand some of the Gulf elites will, as stated, want stimulation at work as well as at home. But in Saudi and to an extent in poorer states Oman and Bahrain (the latter also for political reasons) they need to get their nationals doing NON-elite work in the private sect too (some of which may be boring). In Saudi they have penalised employers for bringing in foreigners into fields that the state judges locals can work in – a judgment part practical, part political. Tamkeen (a state employment promotion body) has been part of the state system for doing this in Bahrain too. The visa charges on employers who "unnecessarily" bring in foreigners are used by Tamkeen to train Bahrainis. The difficulty in the Saudi case is that, despite operating these 'traffic light' style charges[3] for several years, the foreign population keeps on rising; the latest population data shows little slowing down in the number of visas for foreign workers who are about half the working age population

According to CDS (the Saudi official data agency) in 2017 there were 20.4m Saudis in the population contrasted with 12.2m foreigners. If you exclude Saudis who are under 19, then there were 12.4m Saudis of 19+ years old c.f. 9.9m foreigners 19+ . If you strip out the retired (65+), there are 11.6m Saudis (aged between 20 and 64 inclusive) contrasted with 9.8m foreigners aged 20-64. In other words the Saudi workforce is over 21m; far exceeding the combined workforce of the rest of the Gulf states put together. It is nearly half made up of foreigners, many of whom are domestically employed supporting the comfort of middle class Saudi families. Many others are doing manual labour of a kind that's long been frowned on in Gulf society.

In the Bahraini case it's an economic and an archly political necessity to ensure that nationals are trained. Their population balance remains fairly stubbornly at 45% foreigners c.f. 55% Bahrainis i.e. it's long been a narrow majority who are Bahraini. When travelling around Bahrain you can see the socially-frowned upon jobs are being done *in some cases* by foreigners even when there are Bahrainis effectively without work who could do with the income. A Bahraini employment specialist

[2] Interview with a Gulf LMR expert, January 2018; 'AT', who is a non-Emirati who was born in and remains resident in the Emirates.

[3] Graduated penalty system depending on the size of company and its type of operation

told me[4] that there is a 'social volatility' in his country that needs addressing and this is about alienation.

However the Kuwaiti writer and analyst Khaled Al-Tarrah told me[5] that Bahrainis and Omanis are found in some skilled manual trades, which he said was a total contrast to Kuwait where you will never find a Kuwaiti plumber or a cook.

The official unemployment (u/e) rate in Bahrain is 4.3%, and rising. However it's way down from the spike that occurred over much of the Noughties and that continued until 2008/9, when it actually began to fall i.e. when the economic downturn happened (presumably out of political necessity unless it was politically-motivated data management). So it isn't helpful to Bahraini LMR or the country's stability for Saudi and other wealthy neighbours' funds to be focused on bailing out the Bahraini Royal Family. It's notable too that in 2009 what had been an ongoing rise in the number of foreign workers in Bahrain also eased off. Omani statistics show that there was an eventual easing off of the rise in foreign worker numbers after the downturn (although there was no actual decrease until 2011). *The* Omani u.e. rate is over 17% c.f. Kuwait where it is barely more than 2%

Does financial pressure have a role to play in getting Gulf nationals into the private sector? The Bahraini expert was adamant that the basic issue is about the (political) economy across the GCC, not ensuring higher visa charges or better training. Tamkeen is missing the point, he said. So they congratulate themselves because they can get Bahrainis to work in the mall, he said derisorily. In any case, not all Bahraini university grads want to work in shops, he said. (This is true, but in the UK most graduates will if they have to. That said, the locals' attitudinal factor encourages the employing of migrants in the UK too, and will continue to do so after Brexit).

Where is the proper follow up, data-based, scientifically rigorous analysis of what the benefits of state training are, asked the Bahraini expert[6]. And where are the feasible, economically viable (for employer and employees) jobs? 'We've had ten years of Tamkeen,' he said; so where are the new jobs opportunities? 'Training agencies cannot create jobs (anywhere in the world),' he stressed.

Employers need a stable environment for FDI. This is a problem in KSA, and is an irony of the Ritz detentions dual purpose and specifically a problem of tackling corruption in a way that creates fear) (It was a problem/is a problem in Bahrain still too, it seems.)

In the UK in the 1970s the state used to give a big focus on training Brits as apprentices and providing a means to plug the labour gaps in the market – a watered-down version of that now gives tax incentives for taking on apprentices. Controversial, and there is a welfare-related pressure in the UK on young people to do jobs that suggest training will be offered but sometimes they're just being exploited as cheap labour. How do you incentivise companies in the Gulf to take on and train young people if we are talking about high-end, very specialised, jobs only, and when the only economic pressure on these companies is higher visa charges? Perhaps utilise the tax system? Foreign companies are taxed, but the tax system is often rudimentary.

The Bahraini LMR expert said that for two years Bahrain has been getting rid of (foreign) guys from construction (he was almost apoplectic about this) when Bahrainis aren't going to work in this field (poor Shia included, it seems). AND, he said, the number of expats has been rising in this period!

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[4] Interview with a Bahraini academic, 'Dr N', who is a specialist in employment matters.
[5] Interview with Dr Khaled Al-Tarrah, December 2017.
[6] Bahraini labour expert. Op.Cit.

Maybe the private sector isn't being listened to.

One solution might be for GCC states to punish employers in sectors where it's possible that locals can genuinely add value, and Gulf governments should combine such measures with private-sector friendly training and development programmes (as opposed to the usual practise of designing them in isolation or for very narrow foci)[7].

The Kuwaiti Chamber of Commerce & Industry (KCCI) have been arguing the point about what they really need, says Khaled Al-Tarrah, but they're not listened to. Al-Tarrah thinks there is an employee attitudinal problem in Kuwait; so vocational training and re-education has to play a part too. He says that current, highly expensive plans are just rhetoric. The real problem – overlapping with some other Gulf countries – is ensuring a proper understanding of what business is interested in from locals. Ultimately though, he thinks that the vision in any GCC country has to be driven from the top with energy and commitment (This was an understandable take-away I got from talking to many other local experts too).

However, the SV2030 and the drive of its champion isn't enough either in my opinion. MbS is focused on too many things at once. MbS also once said that foreign workers are our competitive advantage[8]. Has he really come round to seeing that they're a problem?

Work shy, even if they want stimulating work?

The Emirati LMR expert resents the caricature of locals as work-shy; he says he has seen no validation of this. Others would disagree.

Said the Bahraini expert, the allegation of economic links to social unrest in Bahrain can be addressed by changing the Government's economic management. He thinks that there is social volatility (boredom and frustration; this links to the anomie factor noted above), not just Shia disaffection). Companies, foreign and local, need to invest in production (post-oil), in manufacturing as well as expanding services that aren't just 'rent'. This isn't going to be Silicon Valley, he joked; we just need to think of work and business that it's realistic to expect Bahrainis to do (and with pay that they will expect) and where Bahrainis (and other Gulfies) can have added value (as opposed to just costing more and possibly being less attractive as employees than foreigners).

Discipline factor? There is conscription in the UAE; and this has been proposed in Qatar. Does this make any difference to attitudes to work? AT was sceptical regarding its impact on LMR in the UAE.

Nobody thinks that Gulfies can be re-educated to do more for less it seems

Said the Bahraini (Dr N), the only approach that will resolve the Bahraini and wider Gulf unemployment problem is ensuring there are real jobs in the private sector; all else is tinkering.

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[7] As I argued in my chapter 'Regional Investment in Human Resources in the Gulf', contained in *Human Resources & Development in the Arabian Gulf*, published by the Emirates Centre for Strategic Studies & Research (ECSSR), July 2010.

[8] A comment relayed to me in 2017 by the Saudi journalist Jamal Khashoggi who was present during a visit that the then deputy crown prince made to a construction site.

Education should play a part, he says (NOT training adults for specific, possibly unwanted, jobs, but to change attitudes). It will take several generations, he and many other local experts often say.

However, education is currently part of the problem preventing locals from taking private sector jobs – they're now more qualified (including Saudi women) and, as Dr N says, they expect status and good salaries – things traditionally harder to come by in the private sector (even if they can of course be found).

A former planning official in Kuwait said that we need to crack down on all foreign labour (tax it via the companies they work for, hike-up visa charges to their employers etc., right across the board, he said). And we *do* need proper training. There is, he said, a woeful inadequacy in skills and specialisations that are business-friendly, he argued.

Training might be to make up for inadequacies from schooling, I have previously argued[9]. The language environment at work might be English or Hinglish; the culture may be 'foreign'. Locals might be less acculturated in ways apart from their work attitude. A PAAET official told me nine years ago that local employees were often 'lousy'[10]; some employers might still say the same throughout the Gulf (or one would *assume* so).

Identity, *education* and employment:

A decade ago marketisation was happening in the government schools sector in Qatar, and radical reform of content was being considered in Abu Dhabi (albeit that only a small minority of locals went, or still go, to such schools), while Oman was offering the majority who in the Sultanate do go to government schools a change in the 'basic' education. A decade on, national identity (*hawiya al watani*) sensitivity has trumped the more abstract argument that, if you're skilling-up the local nationals, then they're somehow going to replace (some) foreigners. The 'Arab Uprisings' from 2011 made downgrading Arabic, which was a common denominator in these changes, *haram*. In fact in general promoting Arabic – called '*bilArabi*' in UAE – is on the up.

In Saudi, religious instruction's monopoly on content is being challenged, but, so far at least, it's slow going. Over a decade ago it was estimated that over 40% of grads at Saudi universities had degrees in either Islamic studies or social sciences. This was not necessarily in *Shariah*, but not practical or scientific either i.e. at best humanities.

Higher Education: Qatar University has reversed course on Arabic tuition, and conservative verities are more in vogue[11]. Contrast this with Doha's Education City, which itself fitted with a fairly wide practise in the Gulf of drawing-in foreign universities to supposedly raise standards and to meet growing demand (in proportional and absolute terms). Such approaches though are often – in Qatar, UAE and maybe in Kuwait too – aimed at rent flows and status, or simply to satisfy the high-end elite. (So in Qatar the high elite go to Education City and (necessarily) speak English, while the large minority of local undergrads go to QU for an Arabic-only education)

Hawiya al Watani – national identity pressure overlaps with education and migration and other hot issues throughout the world. The hostility to immigrants is growing globally, including in Kuwait, but this fractures society (including in the UK) and doesn't address real economic and social needs.

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[9] Partrick, Op.Cit.
[10] Ibid.
[11] Interview with a staff member, January 2018

The political economy has to change?

High added-value is the strategy in the wealthier per capita Gulf states. However without ensuring that the locals can add value, and that the number and sustainability of jobs that are being created aren't simply bounced by movements in the oil price, then this won't be reliable. For lower income per capita Gulf states, it's no answer at all (and this seems to have been recognised at least in Oman and to an extent in Bahrain)

So is there a Gulf political economy that recognises that the party is over in the state sector? That's starting to happen in Saudi Arabia, but in a very flawed way and very late, while state subsidies to cushion the blows (e.g. SAR1K bonus announced for all state employees) hardly sends the right message when almost every Saudi family gets the money. It's a quite different policy to the Saudi Citizens' Fund or Iran's attempted smart card at the gas pump etc.

The collapse of GDP per capita across much of the Gulf since the early '80s exemplifies the structural economic problem they face. In populous states (KSA) but also poorer Gulf states (Bahrain and Oman) the bulge in the job market will not get smaller on present trends (and present cushioning), and it needs to be tackled by getting nationals into lower and middle-ranking private sector jobs. Saudi labour minister Ghasi Gosaibi saw this 20 years ago. He wasn't expecting Saudis to do the so-called dirty jobs, but he thought that they could flip burgers.

It's not about quotas that can be manipulated or that produce ghost workers; it's about substantive reform of the political economy and ultimately, therefore, of the political compact. Saudi women will be able to drive to a job that they will hopefully be able to win and sustain on merit – which will mean less foreign drivers but probably more foreign female nannies and maids.

However in Gulf countries with smaller national populations and where the state is well-resourced via non-oil income don't have to risk re-educating their nationals (and breaking the unwritten social contract). The ex-UAE higher education minister who told me in Dubai in 2008 that we need to train Emiratis for top management may have had it about right. However the Dubai model is based on low levels of regulation; so there's a contradiction.

In general though, incentivising, training, and energising the SMEs, including those that might actually make things, is needed. I'm not sure that a (new) massive Saudi state fund to give grants or cheap loans to budding SMEs is the answer; it may though be less corrupt than the King Abdullah version (the Ritz Carlton deterrence effect perhaps). In fact there's a lot of state-reliance in a SV2030 that's supposed to be the break with the past and to be a recognition of how much things have to change.

Omanis are prepared to work in lower-grade fields – foreign taxi drivers were banned years ago. But the Omani social contract still needs to take account of potential political disquiet (as seen in 2011) – downturns are the worst time to make drastic changes. Omani wages and foreign numbers were reportedly on the up at the time of the downturn a decade ago. At this time in the UAE there was state pressure on private firms that were letting nationals go[12].

Visa business: Should GCC states charge a lot more for *all* visas? This is already happening in KSA and people are leaving *en masse*, including from jobs that the locals aren't equipped to do.

Taxation policy could be utilised, carefully; at present it seems to be as much for fiscal gain as punishing the employment of foreign workers. However, how can the Kuwaiti ex-planning official say

[12] Partrick. Op.Cit.

tax the companies when this is big business in Kuwait? The political compact in Kuwait includes cheap maids and gardeners and drivers etc. and for some this includes being a *kafeel* (sponsor). Is some of this also absurd? Construction or jewellers have been hit hard in Bahrain and Saudi as in these sectors foreign employment has been heavily targeted. Cut the number of domestic helps perhaps? 'What goes on in the home should stay in the home,' said one Saudi interlocutor – 'You cannot expect Saudis to be the maids,' he said. But there is a huge education level disparity among Saudi nationals – so shouldn't labour market attitudes and expectations reflect this?

Reforming the *kafeel* system is a political problem because it involves trying to stop something that some locals earn a lot of money from, but the big business of foreign labour sponsorship obviously discourages the hiring of locals. Qatar hasn't scrapped it; it's just made it possible to change your *kafeel* (under fairly tight restrictions). So perhaps the former Kuwaiti planning official is unrealistic, but hiking up charges in realistic fields *does* makes sense. The UAE-based LMR expert, 'AT', said we can have locals in what he called the 'middling (job status) areas' of service provision.

If the wage differential can be partly tackled by steep visa fees, perhaps job satisfaction can be increased in the private sector too? A report written in 2014 on the UAE labour market suggested that there should be one salary scale for all (state-enforced?), and that locals should be given added private sector employment attractions such as compelling their employers to provide extensive training[13]. However, again this sounds like unrealistic tinkering. More training and less money? Hmmm. Gulf firms often give foreigners on the job training i.e. do it and then you will be trained. This may not be the best (or the safest) method. Penalising companies too much and they're even more likely to find their competitive advantage in a neighbouring country. Like in many parts of the world, including the EU, if there isn't a comprehensive way to avoid labour or capital dumping then employers get cheaper workers from other countries (in the UK it was from eastern Europe) or set up in a cheaper country. Capital isn't loyal and nor, in some instances, are Gulf workers. There are many Saudis working in banks and other relatively skilled jobs in Dubai (free zones don't have employment quotas). This plainly isn't happening on a reciprocal basis.

Other thoughts (needing further development):

Iraq and Iran have large national populations like Saudi and less FDI, but they have a work ethic and a working class and a private sector (of sorts). Does Saudi want to skip the normal economic development phase of having a local working class? Presumably this part of economic self-reliance and of escaping 'rent' hasn't really sunk in or is simply resisted? GCC needs to plan for a post rentier economy, not just a post-hydrocarbons economy. Iraq and Iran could survive such a situation perhaps. Politics allowing, Iraq and even Iran could offer a more attractive place to do (non-oil and gas) business.

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[13] The Jordanian economists, the Yaghli brothers, looked at 'Quality of Work Life' issues in 'The Postnationalisation of Human Resources: Empirical Examination of Workforce Emiratization in the United Arab Emirates' (February 2014).