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 The bifurcation of GCC labor markets between nationals and non-nationals rests on an outdated social contract whereby the state distributes rents by guaranteeing jobs—often referred to as privileges or entitlements—for its citizens in the now-bloated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 millenial 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