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Unemployment in the Gulf: Time to Update the "Social Contract"

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The growing level of national unemployment in the Gulf Co-operation Council (GCC) countries remains one of the region's key domestic policy challenges. This is clear, even if one does not share the hyperbolic depiction of it as an "impending time bomb" that could culminate in "armed insurrection." In order to provide adequate (and productive) employment opportunities for all nationals, not only is a major overhaul of educational systems required; there also needs to be a renewed focus on policies designed to facilitate economic diversification that generates the sorts of jobs nationals consider appropriate. Moreover, the region's ruling elites need to modify and then recommunicate their respective social contracts ("ruling bargains"). These, in many senses, lie at the heart of the issue.

For it is the way in which oil wealth has been historically distributed that has led to a situation in which nationals choose to remain unemployed until they obtain a government job. It is the primary transmission mechanism of the social contract — the provision of well-remunerated public-sector jobs — that, albeit unwittingly, has caused GCC labor markets to become so highly segmented. The concomitant *laissez faire* approach to the private-sector labor market has further exacerbated distortions. From the 1960s onward, an influx of expatriate workers, while pivotal to the impressive and rapid transformation of the region's infrastructure, accepted wages at levels far below those being offered to nationals in the public sector.

There is, it seems now, a growing realization within the region that public-sector bureaucracies have reached the saturation point. They can no longer act as employer of first and last resort. It is therefore likely that, in the coming period, both perceptions of entitlement and the manner in which hydrocarbon wealth is distributed will need to be reconsidered, regardless of the predicted rebound in oil prices (see Chart 1). For Bahrain, Oman and Saudi Arabia, where per capita oil revenues are much lower, the imperative to address this issue is considerably greater (see Table 1). Nevertheless, many citizens, especially those who operate local businesses, have a vested interest in the status quo.

Indeed, opportunities for nationals to utilize expatriate labor without any form of taxation (by sponsoring an individual expatriate's work visa under the *kafala* system) is another of the social contract's transmission mechanisms that affect the labor market. Nationals have long benefited from expatriates' managing and staffing of their business and commercial interests and provision of domestic services (i.e., having cooks, drivers, gardeners and maids improves the average Gulf citizen's standard of living). With such an abundance of cheap and highly elastic labor, businesses owned by nationals, especially those catering to the domestic market, have little motive to invest in productive ("labor saving") technologies and little incentive to employ nationals, whose wage demands are considerably higher.

It appears hard to marry current levels of unemployment with the labor market in question (see Table 2). A third of all public-sector and two-thirds of all private-sector positions are staffed by expatriate workers. Far more positions are created (albeit predominantly in the "true" private sector) annually than there are nationals actively seeking employment. On closer examination, however, the market is a highly distorted one. In some respects it is rigid, with pronounced differences in the minimum wage expatriots or nationals would work for. In others, it is flexible: current laws make it very easy to hire (import) and fire (deport) expatriates. For all intents and purposes, "unemployment" is a national issue, for if and when an expatriate's work visa is terminated he/she is obliged to return to the home country.

Most of those who write on the subject of GCC labor markets point to the paucity of consistent and reliable data. We do not consider it likely, however, that such data is being purposely hidden from public scrutiny (i.e., collected but not disseminated). It is more likely that many of the respective government agencies do not themselves know exactly how many nationals of working age are unemployed or the precise sectors in which they work. Several factors lead to this assumption. First, none of the countries have a standardized job-seekers-allowance system such as the computerized mechanism by which most OECD countries collate their unemployment data. Second, in terms of public/private-sector employment ratios, the issue is one of definition. Many private-sector entities are partly, if not wholly, state-owned, including many of the largest companies listed on regional stock markets, such as the Emirates Bank Group, Qatar Telecom and SABIC.[1] In order to seriously address and mitigate growing levels of unemployment, however, regular and standardized collection of data will be a prerequisite, not least to gauge the effectiveness of educational reforms, economic-diversification strategies and labor-nationalization ("localization") policies.

This paper will first outline some of the key idiosyncrasies of these labor markets: in essence, a public sector predominantly staffed with nationals and a private sector dominated by expatriates. Strains are indeed emerging, as high levels of unemployment, despite the recent economic boom, attest. Demographically, the GCC is experiencing a period of rapid growth in its youth population, and increasing levels of educational attainment — while acting to increase salary expectations — have not made pursuing a private-sector career any more desirable.

It will then look at what we term "first-generation" policy initiatives that were deployed from the mid-to-late 1990s, the tail end of a long period of low oil prices. It had, by then, become apparent that the provision of public-sector jobs to all nationals by default was rendering the sector increasingly unproductive and the recurrent wage bill prohibitively expensive. In response, considerable emphasis was placed on educational reform, and efforts were made in all countries to diversify their economies away from the hydrocarbons sector. A series of top-down labor nationalization policies was also enacted during this period. Bahrain sought to make nationals (relatively) less expensive for the private sector to employ by taxing expatriate labor. Oman was, and probably still is, the most dedicated to enforcing quotas and designating certain occupations to be staffed solely by nationals. Generally speaking, however, the results have been disappointing; in many instances, dependence on expatriate workers has continued to increase. For instance, during Saudi Arabia's five-year development plan spanning 1991–95, which set out to reduce the number of expatriates in the kingdom's workforce, they actually grew considerably.[2]

The paper then focuses on "second-generation" policy initiatives. While, in essence, these cover the same areas as earlier ones — education and economic diversification — they are better thought out and more systemic in nature. Qatar and the UAE are in the process of transforming their respective education sectors and both are placing far greater emphasis on English instruction and vocational subjects such as mathematics and the sciences. Such changes are not without controversy; they are, nonetheless, necessary. Contemporary economic-diversification strategies are laying the foundations for a high-skill, high-tech industrial transformation. For nationals to be competitive vis-à-vis expatriate workers in this future market place, a first-class education will be mandatory.

Finally, we consider the implications for investors, both local and international, and the ways in which the social contract will need to be reworked in order to mitigate its distorting effects on these labor markets. Governments and companies controlled by them are now, for instance, frequently requesting private-sector companies that are seeking contracts within the region to factor knowledge transfer and technical-training plans into their bids. GCC sovereign wealth funds (SWF) are increasingly basing some of their international investments on the extent to which a company can add value locally, such as by establishing regionally based joint ventures with a GCC government-backed company. We contend that an updated social contract that distributes hydrocarbon wealth via mechanisms other than the provision of public-sector jobs will need to be deployed and then be recommunicated to citizens. If this is not addressed, associated labor-market reforms will not achieve the aims of making the private sector more attractive and levels of nationals' unemployment less of an issue.

A SATURATED PUBLIC SECTOR

In the early stages of the region's economic development, governments accepted that their ability to efficiently extract hydrocarbons hinged on importing both foreign workers and knowledge. In the 1970s and early 1980s, most government expenditure was directed towards building domestic infrastructure; little effort was made to diversify away from oil. In lieu of active political participation, citizens were provided a range of generous social benefits and subsidies; there was, and still is, virtually no direct taxation. (Although not officially referred to as such or formalized in any way, this is what observers define as the "social contract.") The extent of the welfare system is often not fully appreciated by outside observers; it is one of the most generous anywhere in the world. In all GCC states, it is certain to include free education, health care and housing assistance, and either free or heavily discounted utilities and gasoline.

Generally speaking, however, a job in the public sector is the key component of this social contract. These jobs for life provide salaries several times higher than private-sector ones and in addition convey an array of benefits, such as shorter working hours and longer holidays. Pension packages are also generous. On average, after completing 20 years of service, nationals are entitled to retire on 80 percent of their final salary.[3] Such attractive employment propositions give context to what might otherwise have been misconstrued as a typo: UAE Minister of Labor Saqr Ghobash recently stated that 0.04 percent of the UAE's private-sector labor force were nationals[4] (somewhat lower than the figure — 1.3 percent — that we present in Table 2; however, our data is from the UAE's 2005 labor-force survey results. Since then, the UAE's expatriate population has grown).

Until the early 1990s, regional governments had the surplus revenues to disguise unemployment by providing jobs that in some instances were considered by outside observers to be little more than sinecures.[5] This is no longer tenable, especially in the three countries with relatively low per capita oil reserves and revenues: Bahrain, Oman and Saudi Arabia (see Table 1). Yet over the past four decades, many nationals have, in the words of Davidson, become "wholly accustomed to material benefits and no forms of extraction."[6] Consequently, due to a certain sense of entitlement,[7] at the present juncture, many nationals will wait for a government job (remaining unemployed) rather than take a private-sector one in the interim, even if they are aware that the wait may last several years.[8]

There is a certain amount of prestige and pride associated with having a government job, and in the cultural context of the Arab Gulf, such sentiments cannot not be understated. Nonetheless, it was inevitable that during the 1990s, when oil prices were protractedly low and the babies born during the oil-price boom of the 1970s began entering the labor market in significant numbers, the region had to start looking for alternatives. Meeting existing public-sector wage bills was difficult enough; to have simply absorbed all new entrants would have led to serious fiscal deficits in many countries.

Although in the GCC fertility rates have steadily declined since the 1980s, the wide-based age pyramid is resulting in substantial numbers of new labor-market entrants annually. For instance, a UN regional body, ESCWA (Economic and Social Commission for Western Asia), predicts that the GCC's 15–24 age group will grow from 11.9 percent of the population today to 13.3 in just five years.[9, 10] This does not bode well, as youth unemployment is already high by any measure (see Table 2). Yet, in the period 1985–99, the number of foreign workers coming into the region grew by almost two million.[11]

Since 2005 and the sharp upturn in oil prices, Kuwait, Saudi Arabia and the UAE, somewhat counterproductively, have all raised the pay of public-sector employees and, in all cases, given nationals proportionately larger increases than the expatriates. This was ill-conceived, primarily because it has further exacerbated the public/private-sector pay discrepancies. Such increases will make newly graduated nationals all the more determined to hold out for a government job. The findings of a recent survey corroborate this: a clear majority of this cohort desired, above all else, a career in the public sector, more so even than starting their own business. This is in spite of the pollsters' adding the caveat, "assuming pay and working conditions are similar" in both sectors.[11]

FIRST-GENERATION RESPONSES

Broadly speaking, there were three types of policy responses: enhancing educational attainment, diversifying the economy and intervening directly in the labor market (i.e., introducing quotas and designating certain occupations to be staffed solely by nationals). With varying degrees of commitment, all countries experimented with these policies from the mid-1990s onward.

With respect to educational reform, it has been stated that, while the new college and university campuses were architecturally impressive, the reform policies did little to engender critical thinking over learning by rote; neither did they impose some degree of minimum acceptable standards.[11] While the right sort of education will equip individuals with the skills needed for the private sector, obtaining more qualifications (especially tertiary-level ones) tends to increase salary expectations and does little *per se*, in the regional context, to change a given national's sectoral preferences. Indeed, the ability of the contemporary education system to produce nationals with the skills the private sector requires — post-first-generation reform — is doubtful. In a recent government-sponsored survey that sought the views of Arab executives across 12 industries, just half felt that nationals had the necessary competencies.[12]

Education at the secondary level is especially underperforming despite more than a decade's worth of substantial budgetary allocations. For example, as part of the UAE Ministry of Education's new reform agenda, "Strategy 2010–2020," it was reported that of all nationals entering one of the Emirate's three federal universities in 2009, just 6 percent were able to do so without first requiring a remedial foundation year (546 out of 9,208 applicants).[13] Indeed, the mismatch between the needs of the private sector and the skills of most graduates at both the secondary and tertiary levels is considered to be one of the principal obstacles to both economic development and diversification.[14] This may be so; however, the main reason nationals do not seek private-sector careers is that those in the public sector are so much more attractive — better paid and less onerous.

With respect to many of the first-generation economic-diversification strategies, it is the case, for logical comparative-advantage reasons, that much of the focus and success was in energy-intensive industries such as aluminium smelting and petrochemicals. Although they provide value, these types of industries are capital-intensive, requiring only a few highly skilled individuals to operate what are largely automated processes. To complicate matters, the conventional path many transitional economies take — labor-intensive manufacturing — was not a viable option. The GCC's domestic market is too small, its citizens are arguably too accustomed to European luxury goods, and most nationals are not going to be willing to accept the necessarily low wages and long hours.

In addition, a whole range of conventional private-sector job categories (hairdresser, waitress) are deemed inappropriate by nationals for a combination of cultural and social factors, while others are shunned for being associated with unskilled expatriate workers (checkout assistants and construction workers). While service-sector industries such as banking and finance are more attractive — indeed, in the UAE, this is the only industry where quota targets are remotely close to being met — other areas in which non-oil labor-intensive diversification has been successful, such as tourism, have thus far only attracted expatriate workers. Thus, if measured in terms of generating private-sector jobs for nationals, many modes of diversification, to date, have met with limited success.

Policies that sought to directly influence the private-sector market, such as quota systems (e.g., banks in Kuwait have been requested to work towards the goal of a workforce that is 50 percent nationals) and the designation of certain occupations for nationals only (e.g., procurement managers in Saudi Arabia), not only called into question the region's business-friendly persona; it presented GCC policy makers with a classic conjunctural dilemma: Obliging businesses in the "true" private sector to hire nationals alleviates unemployment but makes them less competitive. This, in turn, makes them more likely to relocate or reduce the size of their overall workforce.

These types of labor-nationalization policies also acted to generate resentment and distrust between employers and expatriate employees, on the one hand, and their national counterparts, on the other.[15] In the UAE, it was decided that certain companies with over 100 employees would be required to hire an Emirati human-resource manager. The government agencies responsible for this decision may have reasoned that an Emirati would be more likely to hire his compatriots. Recent research into stereotyping in the UAE, however, found the opposite to be the case.[16] The study reported that nationals not only shared negative perceptions of their fellow citizens' vocational competencies and commitment to hard work, but in many cases were less likely to recruit a national than an expatriate HR manager would have been.

Other labor-nationalization strategies that sought to incentivise nationals into the private sector in effect added further costs to their already high wage demands, thus making them even less attractive to businesses operating in this sector. For instance, draft labor regulations suggested that all new nationals employed in this sector would be entitled to work for shorter hours and, once hired, could not be fired. Such regulations were seen as a form of taxation — in what was marketed as a "tax-free haven." Well-connected citizens with significant domestic business interests often double up as policy makers and have a vested interest in continued unfettered access to expatriate labor. In the UAE, for instance, where fines were introduced for not meeting quota targets, they ended up being so negligible that it was far less costly to pay them than it would be to hire and train nationals. It is also no coincidence that since 2007, when oil prices began to rise sharply, some of the less popular policies have seemingly been put on the back burner, especially in the states with higher oil-per-capita revenues.

Only in Bahrain and Oman (and to a lesser extent in Saudi Arabia) are labor-nationalization policies that directly intervene in the "true" private sector likely to be rigorously enforced. Even here, there will be those among the leading local business families who petition against such policies, seeking to turn enforceable regulations into recommended practices. In Bahrain in 2008, for example, where the average national earned $15,000 per year compared to the average expatriate salary of $5,000,[17] a policy was devised to close this gap by way of imposing a monthly tax on companies that hired expatriates. Local business leaders campaigned, not for the abolition of the fine, but for a reduction in the amount, eventually getting it down to just over $25 a month.[18] The net result: expatriates were still far cheaper to employ, and the law was ineffectual in closing the remuneration discrepancies.

Oman, after Bahrain, has the lowest per capita oil reserves and revenues in the GCC (see Table 1) and is arguably unique in its commitment to such policies. It has been an independent country for considerably longer than most of its Arab Gulf neighbors and, with its history of seafaring trade, has been relatively less resource dependent. Consequently, national workforce participation was higher when Omanization policies were first introduced in 1995. At that time, 68 percent of public-sector employees were already nationals.[19] By 2007, this figure had risen to 80 percent. Without huge oil reserves, it is simply unable to absorb all nationals into the public sector and thus must rely more on the private sector.

To no small degree this is aided by the fact that the issuance of expatriate work visas is controlled by the same government department — the Ministry of Manpower — whose *raison d'être* is to propagate the Omanization process.[19] Expatriate work visas are managed according to a system of job codes. In practice, this means that every time a private company wants to employ an expatriate, it needs to specify what role the individual will be fulfilling, effectively requiring it to negotiate for every new expatriate employee.[20] In addition to quotas, entire job categories (from truck drivers to shop assistants) have been set aside, by decree, for Omanis only. This phenomon has led to high turnover rates in sectors that were once very stable, as Omanis are not always willing to accept the conditions that their expatriate predecessors once did.[19]

The system of job codes, while efficient in limiting new expatriate visas, has two key problems, one at each end of the skills spectrum. At present, for instance, there is a shortage of trained Omanis with energy-related engineering qualifications; at times, this has reportedly hampered the sultanate's oil industry.[20] At the other end — the "unskilled" service sector — businesses have at times found it hard to maintain pre-1995 operations. For instance, as all home-delivery drivers must now be Omani, on Fridays and during nationals holidays (when most of this cohort expect to have time off, as indeed their public-sector counterparts do), fast-food delivery businesses have not been able to fully function and at times have come to a complete standstill. From an Omani employee's perspective at least, both of these problems have a positive side, for increased competition among businesses seeking to fulfill their Omani quotas has given rise to a certain level of headhunting and poaching. This, in turn, is leading to higher salary offers.

A crackdown in 2010 on illegally employed expatriates,[20] accompanied by large fines, sent a clear message to the sultanate's private-sector business community: in the long run employing Omanis will be less costly. Such actions indicate that for Oman, at least, direct labor-market intervention will proceed even if this erodes competitiveness compared to neighboring countries. For Qatar and Dubai, such adherence to "first generation" labor-nationalization policies is not likely to be feasible, for both are seeking to become, *inter alia*, regional "financial hubs." In an endeavor to achieve this mantle, to be seen as "business friendly" is paramount.

"SECOND GENERATION" RESPONSES

Policy initiatives formulated during the recent oil-price boom to upgrade educational sectors and facilitate more high-tech, high-skilled economic diversification, while essentially refinements of first-generation policy initiatives, are far more systematic and much better thought out, particularly in the cases of Qatar and Abu Dhabi. Nonetheless, while education can make nationals more employable, and diversification can provide a wider range of challenging and creative employment opportunities that are more likely to appeal to nationals, they will not be enough to endear young nationals to the private sector. Across the region, education sectors are now being overhauled, in some cases wholesale. Saudi Arabia has allocated \$36.7 billion of its 2010 budget, equal to a quarter of total planned expenditure, towards this sector; the UAE allocated \$2.7 billion (22.5 percent of its total budget); and Qatar allocated 20.5 percent of its 2008–09 budget to education.[21] The focus now is unambiguously the content of the curriculum, not the color scheme of the campus.

Qatar's "Education City" initiative has attracted six leading U.S. universities (including Carnegie Mellon, Georgetown and Texas A&M) to establish satellite campuses in Doha. Qatari authorities have achieved this by agreeing to meet all of their setup and operational costs for at least the next 10 years. The UAE has likewise attracted the Sorbonne and New York University to Abu Dhabi by again bankrolling all associated costs for these prestigious institutions. The opening of the \$2.6 billion graduate-level King Abdullah University of Science & Technology (KAUST) was billed as an "event of national significance" in Saudi Arabia.[21] The fact that King Abdullah provided KAUST with a \$10 billion endowment from his own personal fortune is a clear signal of what he sees as the necessary way forward.

To date, many of these new universities have admitted only limited numbers of nationals. For instance, just 15 percent of the 374 graduates who enrolled in KAUST's inaugural year were Saudis.[21] However, this could be construed as a measure of the integrity and uncompromising standards of these new institutions, demonstrating that minimum standards are now being enforced. It is in fact reflective of the aforementioned weaknesses still inherent in the GCC's secondary-education systems rather than a lack of any national interest in pursuing studies at such institutions. In acknowledgment of the deficit at the secondary level, Qatar is working with the Rand Corporation to bring in new curricula and teaching practices for its secondary schools, while the UAE has enlisted Singapore's National Institute of Education to provide teacher training in the Emirates.[22]

The traditional focus on humanities and religious studies is tacitly acknowledged as having failed to equip nationals for the (private sector) workplace,[23] which in the modern age requires vocational subjects at the expense of the arts. It is likely that for this reason, among others, second-generation reforms will have a profound social impact and may inspire some reactionary calls for their curtailment. GCC governments will need to mitigate the increased disenfranchisement arising from growing levels of national unemployment, against the more conservative elements of society that view such transformations as somehow harmful to society, posing another dilemma.

There has already been a degree of reactionary backlash in Saudi Arabia and, for observers of the kingdom, an interesting government response. Sheikh al-Shethri, a high-profile cleric, was dismissed from the Council of Senior Clerics by the Saudi government in 2009 after he criticized the "policy of mixed classes" and teaching subjects "such as evolution" at KAUST.[21] While GCC ruling elites are at pains to point out that educational reforms are not intended to bring about change to the Arab Gulf's "traditional values" and "cultural norms," but rather to help alleviate national unemployment, it remains to be seen whether one is entirely possible without some degree of the other.

The new wave of economic-diversification projects seems to have been devised to create the kinds of jobs nationals are more likely to view as desirable in terms of remuneration levels and prestige. It is noteworthy that many of the latest economic-diversification strategies are spearheaded by government-controlled investment bodies and SWFs. Strategic investments in industrialized-world multinational companies (MNCs) seem to be done with half an eye to potential synergies with local government-backed entities. For instance, Mubadala, a UAE government-owned investment vehicle, has stated that it intends to make investments in leading companies in order to leverage the required expertise to build businesses in the UAE that have a global reach.[21] A recent example is an aerospace subsidiary company, Strata. It focuses on "next-generation carbon-fibre materials" that are used in modern aircraft such as the Boeing 787 Dreamliner. Since 2008, it has won more than $2 billion in work packages from Airbus, among others. The UAE-based assembly plant will be in Abu Dhabi, and the project intends for half of the 1,000-strong workforce to be Emirati six years from now.[24]

It seems likely that SWFs are seeking to procure sought-after technologies and technological "know how." This is seemingly achieved by providing the given MNC financial incentives to locate production plants, add value locally and transfer technological capacities. However, the success of such projects — in labor-nationalization terms — depends upon having a qualified and willing body of workers in place to absorb and utilize this value-added knowledge when it arrives in the region. This, in turn, depends on providing nationals with the right sorts of educational opportunities from the earliest age possible and instilling in them the work attitude necessary to contribute to such projects in a meaningful way.

While the educational reforms now underway are promising in this regard, neither they nor the new economic diversification strategies will be fully successful unless the social contract's distortive labor-market transmission mechanism is addressed at the same time. An albeit isolated incidence of unemployment-related "civil unrest" in Saudi Arabia should serve as a reminder to regional elites that, along with second-generation reforms, the social contract itself needs to be revisited. In 2006, police needed to be called to disperse as many as 10,000 angry Saudi job seekers who had rushed in person to apply for one of 500 advertized administrative jobs at a government passport office.[21] The sheer number of applicants led to the doors of the offices being closed, and an impromptu demonstration "demanding jobs" broke out.

In fairness, some policy measures seek to rectify these distortions. In many instances, Kuwait is now officially subsidizing the employment of its citizens by direct transfer payments to private-sector employers. The UAE is doing so in more discrete ways, indirectly subsidizing state-owned entities (SOEs) and state-backed commercial ones. There is also talk of creating some form of jobseekers allowance and providing government pensions to nationals who work in the private sector.

IMPLICATIONS FOR INVESTORS

Thus far, the only indisputable benefit accruing to businesses operating in the region — both local and international — from proactively pursuing labor-nationalization agendas is as an endeavor to gain favor with the respective host government. In practice, this means that a business with a good track record for recruiting and training nationals, all other things being equal, is more likely to be fast-tracked through certain bureaucratic processes. Indeed, recent research[25] suggests a key driver of businesses nationalizing their workforce has been the desire to obtain goodwill from the host government, which could then be used to improve the chances of securing future contracts tendered by the public sector.

Across the board, in fact, with respect to securing new contracts, it is becoming a prerequisite, for any bid or proposal, to factor in a plan for how nationals would either be employed or trained. For example, Saudi Arabia's state-owned oil company, Saudi Aramco, recently let it be known that all of its overseas partners would need to set up joint ventures with local firms if they wanted to compete for future contracts. Heeding such calls, Samsung Engineering of South Korea committed to build a training and technology center for its Saudi employees at Jubail, a large industrial and petrochemical complex.[26]

Furthermore, in the UAE, the recent successful bid of a South Korean consortium for what is far and away the biggest nuclear-power deal to date in the Middle East[27] provides some interesting insights. The South Korean consortium won, contrary to expectations and against stiff American and French competition. Among other reasons, its bid entailed a very well-developed plan for training and incorporating Emiratis into the project at all stages and levels. This deal, worth at least $20 billion, is the largest thus far in which an element of workforce nationalization was specifically mentioned as a criterion and seen to have had an influence on the outcome.

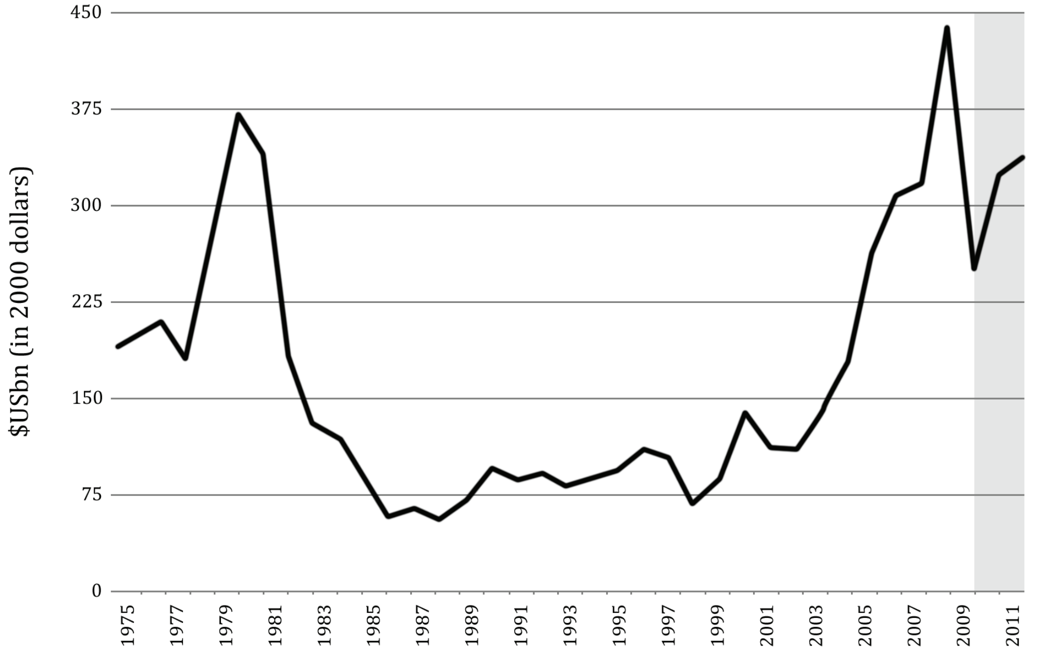
CONCLUSION

The above-mentioned schemes in Kuwait and the UAE — "subsidizing" nationals by topping up their private-sector salary or paying an above-market rate in a state-owned "private" company — are but one avenue. Such measures, taken at face value, may seem extreme, but they are a less unproductive allocation of state resources than would be the case if such a worker were to be absorbed into the archetypal public sector (automotive, bureaucratic, deskbound occupations). SOEs, in particular those of the new generation, have the potential to be growth-generating investments despite such subsidies. Pensions and benefits such as access to day care and maternity leave should be standardized across both sectors. If this were done in all GCC countries — they do, after all, now constitute a common market — it would prevent any national market from becoming more competitive in this regard than another.

A line should be drawn between classic public-sector and highly skilled public- and quasi-private-sector jobs, especially those in the emerging high-skilled and high-tech industries. Over a gradual period, the benefits and incentives should become significantly larger for the more productive and growth-generating parts of the public sector (i.e., SOEs). On one side of the line, pay freezes could be enacted (cuts and redundancies are untenable, politically speaking), and future entrants to this sector could be obliged to serve for a 30–35-year period and accept fixed salaries. On the other side, salaries should start at a higher rate and afford more opportunities for performance-linked salary increases.

As long as salaries offered by the "classic" public sector are several factors higher than those elsewhere, it will be such jobs that continue to attract nationals and have the most pride and prestige attached to them. Oil wealth can be distributed in non-distortive ways, Norway being a case in point. If the social contract is not updated to reflect contemporary demographic and labor-market realities, increasing numbers of unemployed nationals — those without sufficient w*asta* (connections) to secure one of these classic positions — will become ever more likely to voice their discontent and ask exactly what is in the "ruling bargain" for them.

Chart 1: GCC OPEC Members' Net Oil-Export Revenues in Real Terms



Source: Authors' calculations based on EIA (2010)[28] data.
Notes: Estimates for 2010 and 2011 are the authors' calculations based on EIA (2010)[29] forecasts.

Table 1: Resource Reserves and Remuneration

	Per Capita Oil Reserves *End of 2007, barrels per capita*		**Per Capita Gas Reserves** *End of 2007, TCM* per capita*		**Per Capita Oil-Export Revenues** *$US, 2009*		**Per Capita SWF / Oil-Stabilization Assets** *$US, 2009*	
	Total pop.	Nationals	Total Pop.	Nationals	Total Pop.	Nationals	Total Pop.	Nationals
GCC	**13,150**	**19,624**	**1.02**	**1.67**	**13,395**	**57,610**	**37,160**	**55,454**
Bahrain	171	229	0.12	0.17	—	—	17,972	25,740
Kuwait	37,697	47,173	0.66	0.83	18,996	23,767	58,902	94,253
Oman	1,638	2,555	0.29	0.45	4,500	7,019	2,961	3,741
Qatar	27,943	212,273	26.06	197.97	24,490	184,615	59,199	505,412
Saudi Arabia	9,206	13,669	0.26	0.39	6,344	9,420	17,311	22,307
UAE	20,381	101,907	1.34	6.70	12,646	63,229	142,003	704,909
Norway	**1,567**	—	**0.60**	—	**8,894**	—	**92,960**	—

Sources: BP Statistical Review (2009),[30] CIA World Factbook (2010),[31] EIA (2010),[32] SWF Institute (2010).[33]
Notes: *Trillion cubic meters

Table 2: Labor-Market Figures

	Public Sector Labor Force (%)		"Private Sector" Labor Force (%)		Unemployment Among Nationals		Public Sector Preferences
	Nationals	Expatriates	Nationals	Expatriates	All Nationals (%)	Aged 15–29 (%)	Aged 15–29 (%)
GCC	**72.3**	**27.7**	**31.7**	**68.3**	**9.2**	**17.2**	**66.6**
Bahrain	90.8	9.2	28.6	72.4	18.4	27.0	73.0
Kuwait	74.6	25.4	2.7	97.3	3.7	8.0	71.0
Oman	80.5	19.5	15.5	84.5	6.3	—	—
Qatar	52.8	47.2	17.0	83.0	3.2	11.0	63.0
Saudi Arabia	91.3	8.7	45.3	54.7	9.8	28.0	60.0
UAE	27.4	72.6	1.3	98.7	13.8	12.0	66.0

Sources: Gallup (2009),[34] Rutledge (2009),[35] CIA World Factbook (2010).[36]

Notes: Labor market data cover the period 2004–2007. Figures for unemployment figures for the 15–29 age bracket are for those "neither in education nor in work." As noted in the text, the private sector in the GCC tends to include entities that are partially state-owned.

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