

THE GCC'S "DEMOGRAPHIC IMBALANCE": PERCEPTIONS, REALITIES AND POLICY OPTIONS

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Historically the bulk of political-economy discourse on the Arab Gulf focused on its geostrategic importance, the actors or factors that had the capacity to disrupt the outflow of oil, the extent to which respective governments were dependent upon the "rent" derived and, finally, the manner in which this was spent (consumption vs. investment). More recently, however, in light of the region's "national" demographic pyramid profile, a considerable amount of the focus has shifted to examining the idiosyncrasies of its labor markets: the "emerging strains"¹ and growing levels of "structural employment"² resulting from an over-dependence on an expatriate workforce and the government job-provision mechanism (for citizens) that lies at the heart of the social contract. Related works consider the relative educational levels and vocational aptitudes of the national versus non-national workforce,³ the influence of sociocultural

factors on occupational choices, and the merits of labor nationalization policies in principle⁴ and in practice.⁵

In this article, we will suggest that a new strand of the literature will coalesce around the theme of the region's "demographic imbalance,"⁶ the ratio of nationals (indigenous citizens) to non-nationals (expatriate workers and their dependents). Although the non-national component of the region's population has been subjected to analysis for several decades, what is new is the way in which this potentially value-laden frame of reference has (a) expanded to encompass not only labor-market efficiency issues and conventional political-security threats but also sociocultural threats, and (b) gained such popular currency.⁷ Rhetorically speaking, the debate on and around the subject has become highly charged. It is considered to constitute a potential "demographic time bomb"⁸ that is now the Gulf's most "dangerous addiction."⁹

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No other region in the world is so directly and continually reliant upon such high ratios of “temporary” non-national labor. While we will contend that this relationship has, for the most part, been mutually beneficial, it is currently, perhaps more than ever before, also giving rise to an array of genuinely felt concerns. Indeed, in terms of domestic challenges (Bahrain’s indigenous sectarian discord aside), the imbalance now arguably supersedes all other concerns for both governments and citizenries alike.¹⁰

As such, we consider it necessary to articulate our own perspective at the outset. First, as Table 1 shows, the ratio of non-nationals to nationals in numerical terms is pronounced. Second, in line with the received literature, the highly segmented and distorted labor markets, coupled with the relatively limited uptake of productive technologies and practices, is in no small part attributable to the presence of a large pool of cheap, highly elastic (state-subsidized) non-national labor. Third, while the demographic imbalance and the national demographic profile are sometimes portrayed to be separate issues, they are actually inextricably linked. Addressing either one would go quite some way to rectifying the other. Finally, we do not consider that the policy makers are trying to formulate policies to reduce the numbers of such cohorts or citizens expressing concern about “feeling like foreigners in their own country,”¹¹ to be xenophobic by default (though some of the commentary is¹²).

The subject is of particular contemporary relevance for another reason also, i.e., the ways in which the region’s ruling elites have thus far responded to the “Arab Spring.” To varying degrees, all states have responded in ways likely to worsen the

demographic imbalance; many have raised the salaries of incumbent government employees, in some instances by 100 percent, irrespective of competency or merit,¹³ and/or have “created” thousands more public-sector jobs.¹⁴ Even some of the beneficiaries have called such responses “crazy” and regressive in terms of labor-market liberalization.¹⁵ The unintended, but highly probable, consequence will be an even greater tendency for newly graduating nationals and those currently “unemployed” to hold out for public-sector employment, though a great many non-nationals will continue to be required to staff much of the private sector.

It is also noteworthy that protesters calling for reform in the GCC during the Arab Spring were nationals, and (Bahrain aside¹⁶) their primary motivator seemed to be a demand for more government jobs. One may infer from this that, while the demographic imbalance is clearly an emotional issue, the way in which it affects the employment of nationals is now the overriding concern.

The purpose of this article, therefore, is to offer an examination of the conceptual framework coalescing around the demographic imbalance, and to assess the disconnect between the perceptions and realities of the threat it actually poses. For instance, does the presence of so many non-nationals from diverse cultural backgrounds, more than the recent adoption of consumerism and materialism by a large fraction of nationals, constitute the greatest threat to the region’s sociocultural values and traditions? Does their presence *per se* cause pronounced labor-market distortions, or are these more a consequence of the job-provision mechanism of the social contract and the continuation of the “*khafael*” (non-national labor) sponsorship system?

This article also evaluates a series of policy options, many of which are now actively being considered by decision makers: labor-market reform, more efficient and equitable management of migrants, increased investment in employing national human capital, building of a stronger national identity, changes in key perceptions about economics, and ultimately deciding what stake to give non-nationals in society. However, we first offer a brief overview of the region's national/non-national demographic evolution and the demographic composition as it currently stands.

THE DEMOGRAPHIC IMBALANCE

To comprehend the sheer scale of demographic change in the Arab Gulf requires some imagination. The aggregate population has increased more than tenfold in little over half a century. The increase, from four million in 1950 to 40 million by 2005, is widely considered to be the most rapid population growth rate anywhere in the world during that period.¹⁷ Even during the past five years, the population of the UAE has more than

doubled (from approximately four million in 2005 to more than eight million by 2010¹⁸). It doubled in Qatar in the space of one year (between 2006 and 2007¹⁹). It is projected, moreover, that the aggregate population will grow another third by 2020²⁰ (to 53 million people). It is clear from the data presented in Table 1 that the national/non-national demographic imbalance is pronounced in all states, in particular with regard to the workforce ratios.

The imbalance is the most pronounced in Qatar and the UAE. Not only are these two states the richest per capita across all natural-resource-wealth metrics, but both have embarked on huge economic-diversification projects with similar long-term strategic economic objectives:²¹ to transform the resource-dependent state structures into knowledge-based and innovative ones. Therefore, both economies will be very likely to continue to require disproportionately large numbers of externally sourced labor. The indigenous Qatari and Emirati workforces are very small and yet do not have adequate numbers of the full range of required skill sets. Such transfor-

TABLE 1. Demographic Imbalances & National Resource Wealth

Country	2010 Population (mn)		Workforce		National Resource Wealth ^a		
	National	Non-national	National	Non-national	Oil ^b	Gas ^c	SWF ^d
Bahrain	0.51	0.54	36.1%	63.9%00037	16,852
Kuwait	1.04	2.43	16.9%	83.1%	0.98	.00173	284,615
Oman	2.39	1.02	28.7%	71.3%	0.02	.00029	3,431
Qatar	0.22	1.46	5.7%	94.3%	1.18	.11500	386,364
Saudi Arabia	20.94	7.75	50.5%	49.5%	0.13	.00038	22,818
UAE	0.95	7.24	4.2%	95.8%	1.03	.00632	759,053
GCC	26.05	20.45	38.3%	61.7%	0.19	.00161	61,313

Notes: ^aThis is per national capita; ^bIn millions of barrels; ^cIn billion cubic metres; ^dIn USD per national capita.

Sources: for population: Al Khouri ²²; for the workforce: for Qatar the Qatar Statistics Authority; accessed 2011, for the year 2009, for the UAE authors' calculations based upon the UAE's National Bureau of Statistics labor force figures for 2005 and its most recent 2010 population projection, all others Rutledge (2009) aggregates compiled from official sources between the years 2002 and 2006; for energy reserves: BP Statistical Review (2011); and for estimated value of sovereign wealth under active management: SWF Institute (2011).

mations will not only require the continued presence of many highly skilled non-nationals (architects, engineers, scientists and university professors), but also a considerable number of less-skilled ones (manual construction workers).

Nevertheless, this is not to say that there is full employment in either of these states. Indeed, across the Gulf, unemployment is said to be most acute among the young national cohort and overall to be severely underreported and underestimated.²² The region's public sectors are no longer realistically able to absorb the majority of young national job seekers (increasing numbers of which are female²³). In September 2011, Saqr Ghobash, the UAE's minister of labor, stated that the integration of nationals into the private sector was a bigger challenge for the region than the ongoing repercussions of the global economic downturn, not least because "the public sector is approaching employment saturation."²⁴

Unemployment was a key issue in popular opinion and even in open protest in Oman and Saudi Arabia and was countered by the rather panicky announcement of 50,000 new jobs and unemployment benefits in Oman²⁵ and a wave of government handouts. In Saudi Arabia, for example, the government entrenched public-sector employees, raised public-sector wages and announced social benefits and cash handouts worth about \$130 billion in the few months following the Arab Spring.²⁶ None of these responses are particularly helpful in the long run, since they further distort labor markets and have a wide range of unintended consequences. Anecdotal evidence suggests, for instance, that in Oman many nationals have recently quit private-sector positions in order to benefit from the newly introduced unem-

ployment benefits, which are higher than the previous minimum wage for Omanis and only slightly lower than the new one.

It is noteworthy perhaps that the data in Table 1 show per capita resource wealth to be lowest in Bahrain, Oman and Saudi Arabia, the three GCC countries that have, to date, been most affected by the Arab Spring.²⁷ Indeed, it is likely to be the citizens in these countries that will end up taking many of the less prestigious jobs currently staffed by non-nationals. In fact, this had actually been taking place during the past decade with reasonable success (Omani shopkeepers, truck drivers and taxi drivers, Saudi supermarket checkout staff, or Bahraini tradesmen), but may now be put on hold as a result of the quick-fix response to the Arab Spring.

PERCEPTION VS. REALITY

Although the Arab Gulf's demographic imbalance may be an under-theorized concept open to criticism for its potential to stir up "anti-foreign sentiments,"²⁸ the term of reference nevertheless has become both a frequent topic of conversation and a serious concern among large parts of the citizenry. In a 2007 survey of 600 Emiratis, the UAE's demographic imbalance was ranked the top current and future "challenge," ahead of health-related, economic and traditional security challenges.²⁹ It is evident that the national/non-national demographic imbalance now tops the political agenda in most, if not all, states. Beyond public statements and media commentary, many government agencies have commissioned studies on ways in which it might be mitigated.

It is to a large degree the phenomenal pace of development (contingent on non-national labor input) that helps explain the deep-seated concerns on the subject. In

Arab Gulf states, a transition took place within a few decades from close-knit, traditional tribal societies into cosmopolitan ones organized in nation states that are today best described as "*heterogeneous, multinational, multi-religious, and anonymous*."³⁰ Prior to the large-scale commercial extraction of hydrocarbons, the indigenous populations of the Arab Gulf were pretty much left alone. No colonial power had a significant interest in interfering much with the small, semi-nomadic tribal population structure.³¹ Though historically there were Portuguese, Dutch, Ottoman and British invasions, as well as military interventions such as the British breaking of the maritime rule of the Al Qassimi, these did not result in permanent changes to daily life or result in mass migration. The only inward migration was usually small-scale or invited by the rulers, such as traders from Persia and others who could easily acculturate and generally adapted quickly. No colonial administration was ever established, and life went on unchanged for centuries.

Then, after rapid development in the early seventies, the numbers of foreign residents rose exponentially. This is understandable not only from the demand side, but also from the supply side — people wanting to seek work. At a time when the EU can barely tolerate an average share of 6.5 percent foreigners plus 9.4 percent foreign-born new citizens,³² and as governments with xenophobic policies are becoming fashionable again, the GCC remains a comparably safe and welcoming destination from the migrants' point of view. In the GCC, very few regulations exist to regulate the inflow of migrants or even manage inward labor migration in any meaningful way. "Liberal immigration policies and lax enforcement of labor

regulation" remain key pillars of the social contract between Arab Gulf rulers and the national business elite.³³

One noteworthy peculiarity at this point is that foreigners, by design, will always be considered temporary migrants, not immigrants. While most countries in the world have some process or legal basis for naturalization, GCC countries generally do not provide one. This is not to say it does not occur, but it is an ad-hoc, case-by-case process. On a larger scale, apart from naturalization for sectarian reasons, such as in the case of Bahrain, mass naturalization was never considered a means to address the labor shortage, due to the possibly damaging impact on dominant power structures and tribal societies, as well as the expected resistance by local populations.³⁴ The Arab Gulf approach has created a transient workforce that, in practice, is not always that transient: migrants wish to be immigrants, which brings with it different demands and desires.

The ambitious development plans by Arab Gulf rulers at the time of independence from colonial powers and the emergence of new nation-states required manpower and skills unavailable in the necessary quantity and quality at the time.³⁵ This led to the mostly unregulated import of mostly unskilled labor. There was also a lack of institutional readiness and strategic planning for long-term aspects of regulating migration and an uncompromising focus on the development of basic infrastructure and services. This led to an economic development model emphasizing the massive deployment of foreign workers under "sponsorship," effectively creating a system in which income is derived from citizenship rather than merit. The financial ability of Arab Gulf countries to import labor as well as purchase technology and

knowledge also meant that human-capital development has not always been a key priority. It is still in a constant flux of trial and error. Educational systems across the region remain underdeveloped and underfunded,³⁶ and there is a disconnect between performance and reward, with citizenship remaining a key predictor of both higher wages and shorter working hours.³⁷

Unregulated migration has also helped create a very high standard of living; servant quarters are even standard issue in social housing projects for citizens. The often repeated stereotype is that there are many households in the Gulf with more domestic employees than family members. “The ruling bargain is that the state provides a leisure life in exchange for complete political control.”³⁸ Just as it is part of the deal with the business elite to allow the import of large numbers of foreign workers, it is part of the deal with individual citizens to allow them to import large numbers of domestic servants. In the UAE, it is suggested that 96 percent of Emirati families employ domestic help to raise their children,³⁹ and these workers perform 80 percent of parental tasks and responsibilities.⁴⁰ This is an indication not only of the total reliance on non-nationals, even in private space, but also of the very early and direct impact of non-nationals on the lives of citizens.

POLITICAL ASPECTS

The disconnect between the notion of migrants as “manpower requirements in a story of economic growth”⁴¹ and permanent migrants as acculturated subjects also has political implications that should not be overlooked. Historically, political ideas “imported” by migrants in the 1950s and 1960s posed challenges to the ruling families of the Gulf, as Arab migrants — espe-

cially Palestinians, Egyptians and Yemenis — helped spread ideas of pan-Arabism, Nasserism, communism or socialism.⁴²

It was only after 1970 that these challenges were defeated by new nation-states bringing not only development, but also charismatic leaders who gave rise to local conservative nationalism and neoliberalism. The new wealth also led to a perceived need to protect access to citizenship and its connected privileges. Between the 1970s and the 2000s, the political influence of foreigners slowly waned, migrants ultimately becoming an “adjunct rather than a challenge to monarchy”⁴³ across the Gulf. This development was part of the general strengthening of the political power base of Gulf monarchies, who today are seemingly more powerful than they were in all previous generations.⁴⁴ Such circumstances challenge the common belief that economic development promotes democratization. Beyond that, migrants today play a significant role, not only in the economy and the provision of government services, but in many aspects of the social contract between the rulers and their citizens, whether by allowing citizens to benefit from their mostly unregulated and cheap employment or as domestic staff. There is, however, another side to the ruling bargain when it comes to the reliance on non-nationals in top-level positions and professions crucial to key infrastructure. Relying on non-nationals has meant the ruling elites could afford not to promote citizens to staff key positions across the economy. This affords the benefit of having apolitical and easier-to-control non-nationals in key positions.

The only large-scale re-composition of the migrant structure in the GCC for which considerable evidence is available in the public domain was the shift away from Arab to Asian labor following the Iraqi

invasion of Kuwait, which led to mass expulsions of, particularly, Palestinian and Yemeni labor from Kuwait and Saudi Arabia.⁴⁵ These groups' political leaders and the workers themselves were perceived as siding with the invaders. Their expulsion was the culmination of a shift away from Arab migrants towards those from Asia, a shift that had been observable since the 1970s.⁴⁶ This was due not only to the inability of Arab labor exporters to meet GCC labor requirements, but also to political advantages. Asians were less likely to claim citizenship, could more easily remain disenfranchised, and were seen as generally more likely to remain passive observers of political processes,⁴⁷ being in no danger of subscribing to Arab nationalism or Islamism.⁴⁸

Since governments across the GCC do not generally publish a breakdown of the foreign-resident population beyond the basic distinction of nationals and non-nationals, no figures are publicly available on its contemporary ethnic or national mix. It is safe to assume, however, that this population today is dominated by Asian migrants from the Indian subcontinent. In the future, this might have yet another unforeseen impact on both domestic and foreign policy as India's economic and military capabilities continue to grow. Currently, though, the plight of these mostly unskilled migrants does not appear to be on top of the agenda of Asian labor exporters. They rarely intervene except following high-profile cases, a situation that might change as influential Asian families become increasingly concerned about the second and third generations, often born and growing up in countries in whose future they have a limited stake and whose residential status depends on renewable visas.

COST OF MIGRATION

The direct economic cost of the large numbers of non-national workers and their dependents can be measured in terms of labor-market rigidities, low levels of productivity (the region's two largest economies, Saudi Arabia and the UAE, have less productive labor forces today than they did in 1990⁴⁹), infrastructure costs and remittance outflows.⁵⁰ However, the risk to society is more difficult to quantify but might include a loss of culture, values, Islamic norms and the Arabic language. Additional factors include increased crime, xenophobia and ethnic hatred, civil unrest and an impact on foreign policy.⁵¹ The biggest threat to traditional *Khaleeji* values, however, remains materialism and consumerism, which are hard to reconcile with the frugal desert and nomadic culture that was the norm a generation or two ago.

In reality, then, while it is clear that for the time being many non-nationals are still required, it would be prudent to "discourage" the tendency to rely upon them as a means of rent. In part, however, the demographic imbalance is both an economic necessity and a life-style choice. By "shunning" many private-sector positions, nationals stoke the need for non-nationals. National "jobseekers" expect government positions and do not yet feel comfortable economically or culturally with the idea of pursuing a raft of occupations that every modern economy requires, particularly unskilled, menial positions. Yet, if one accepts that a knowledge-based economy requires an unfettered and innovative private sector and genuine exposure to foreign competition and ideas, the policy challenge remains this: how can states attain this in the shorter term without continuing to rely upon non-nationals and,

in the longer-term, without more nationals being willing to work in the real private sector across all skill levels? The problem is far more acute in the three richer GCC countries. The young generation of national graduates — for a mixture of cultural and prestige factors⁵² and rational economic ones⁵³ — only seek government jobs. They tend not to want to pursue many of the occupations that a great many non-nationals undertake (menial services, domestic household duties, construction work). The prevailing perception of the desirability of the public sector (not to mention salaries and benefits) lies at the root of much regional unemployment and the continued over-dependence on non-nationals.

POLICY OPTIONS

The policy responses thus far deployed can be characterized as follows: (1) educational reform, (2) labor-market nationalization and (3) change in the incumbent sponsorship system (citizens and businesses they own can earn “rent” from the provision of work visas to non-nationals). Today, nationalization policies are mostly seen as having failed⁵⁴ and “should be considered, at best, incomplete successes and, at worst, absolute failures.”⁵⁵ To really address anxieties about the demographic imbalance requires significant reforms at both regulatory and societal levels.⁵⁶ None of these can be realized without major changes to both the economic model and the ruling bargain and an acceptance of far-reaching consequences affecting the lives and lifestyles of citizens and residents. No economic transition benefits everyone. Some, perhaps because of inadequate skill sets, may be left behind.

More optimistic commentators see a future involving integration instead of

social segregation between “nationals and those carefully selected non-nationals that are highly skilled and have the frame of mind to respect traditional Gulf Arab culture.”⁵⁷ However, the path to this envisaged future is neither the stated intention of governments, nor is it achievable without overcoming multiple challenges. In fact, there is no tangible demographic strategy at the GCC or individual-country level.⁵⁸

No real solutions have been put forward over this past decade. Those that were plausible met insurmountable resistance from the private sector (such as the attempt in Bahrain to close the salary gap between citizens and non-nationals by levying a fee on expatriate visas⁵⁹). One approach brought up many times would limit the total stay of non-nationals to six years.⁶⁰ Although this would only replace one set of non-nationals with another and would be more costly in administration and training acculturation, it remains an approach sold by consulting firms over and over again to government entities tasked with fixing the labor market.

POSSIBLE POINTS OF INTERVENTION

The demographic reality on the ground allows for limited points of intervention. Birth, death and migration are the only determinants of demographic change, and limited options exist to influence the first two. The sharp drop in birth rates might be slowed by pro-nationalist policies in some GCC countries⁶¹ or even accelerated, as in the case of Oman, where an aggressive campaign to promote birth spacing supported a steep fertility decline.⁶² But real progress in addressing the imbalance itself is more likely to be achieved by managing migration more closely or starting to strategically regulate

migration in one way or the other. This unique situation needs unique solutions. It is not always helpful to look to the usual group of countries for benchmarks since the GCC does not have much in common with Singapore, Australia, the United States or the European Union.

Beyond aiming to reduce the overall share or absolute numbers of foreign residents or slowing their growth, the demographic reality also necessitates ensuring that some of the risks to citizens and residents are being mitigated, their standard of living being the most basic one. It remains questionable whether developmental strategy based on ever-increasing numbers of foreign workers combined with an exclusionary citizenship regime remains sustainable in the long term. A highly divisive society is unlikely to be harmonious; crucial questions seemingly not asked thus far are these: How much of this development actually benefits the average citizen? And at what point do the growth models lose their positive impact on the citizenry as a whole?

LABOR-MARKET REFORM

The crux of the issue (as we have argued in a previous issue of this journal⁶³) is the structure of the labor market in which the demographic imbalance itself is deeply entrenched. The design of the labor market is not only a key transfer mechanism of the dominant ruling bargain, but also a reason the current national demographic profile represents more of a threat than an opportunity. Labor-market reform may, therefore, be the litmus test for the difference between addressing the imbalance rhetorically and doing it for real.

Generally speaking, GCC labor markets have loose immigration rules, but also have a complex and restrictive

bureaucracy with multiple tiers of worker standards and ample opportunities for legal and illegal arbitrage. Regulations such as the sponsorship system block labor mobility, impede productivity improvements and distort the market so as to enhance rent seeking. In theory, the solution would simply be to reverse these factors in favor of tighter immigration policies with a bias towards highly skilled expatriates and a more flexible and liquid internal market.

Scrapping the sponsorship system, however, is unlikely to be easy. When Kuwaiti labor minister Mohammad Al Afasi announced the cancellation of the sponsorship system in 2010 as a "gift" to expatriates on the occasion of the twentieth anniversary of the country's liberation from the 1991 Iraqi occupation, his own undersecretary announced a day later that this would only be an amendment, not a scrapping, of the system.⁶⁴ Beyond the restrictions that sponsorship brings to the labor market, it is also widely acknowledged to be rife with abuse, whether from visa sales or straightforward exploitation. With regard to the demographic imbalance, the issues are even more obvious. It keeps foreign labor in jobs they are either unwilling to do or not productive in doing, while at the same requiring further labor imports for jobs that could otherwise be filled from within the existing pool. Although reform of the system is considered a key priority even among GCC labor ministers⁶⁵ — not least due to the bad press it creates internationally⁶⁶ — it is unlikely to disappear anytime soon.

One way to soften the sponsorship system and begin phasing it out could be to select a number of Public-Private Partnerships (PPPs) to manage visas. Such new entities would centrally manage job

categories more efficiently and ensure the flow of human capital to internal labor markets. The benefits would include the improved statistical tracking of all non-nationals, ensuring that only suitably skilled and competent ones undertake the jobs they are qualified to do, and stopping the practice of households and businesses effectively hiring out such labor for “rent,” thereby dampening wages and keeping private employers from bothering to invest in labor-saving technologies. Such entities would constitute the actual employer for domestic servants, rather than the household, requiring transparent payment systems with the positive side-effect of improving the region’s image in the overly critical international press.

In addition, these entities could help ensure that only qualified child-care providers (perhaps fluent in English and/or Arabic) are recruited and could impose appropriate minimum wages in a wide range of sectors. Limits could be placed on the number of domestics per household or the cost of additional ones increased exponentially, while the cost of such non-national labor in infrastructural and service terms could be more easily recovered by the state. Such entities could further serve as case-by-case arbitrators in labor disputes (again, serving to improve international press coverage), and facilitate non-nationals’ moving from job to job. This would create incentives and enhance motivation, making the domestic market more elastic while increasing retention of talent. While this would certainly serve the lower ends of the skill ladder, there could be exemptions for degree-qualified expats so that commercially-run state-owned enterprises and real private-sector entities could continue to recruit the best globally.

PROFESSIONALIZATION AND SKILL DEVELOPMENT

Another promising approach lies in labor-market policies geared towards professionalization and skill development in the workforce, combined with a decreased reliance on labor-intensive means of production and services. Such change can reasonably be expected to have positive effects not only on the reality on the ground, but also on the international standing of GCC countries (as such policies are likely to lead to higher salaries and better working conditions). Within a relatively short time frame, a systemic uptake of labor-saving technologies would (a) substantially reduce the need for unskilled manual labor and (b) enable the private sector to pay better wages (to fewer but more highly skilled employees), making it a more economically rational choice for national jobseekers. Indeed, any policies that result in productivity gains and a greater acceptance of the private sector as a viable career path for national jobseekers would result in a decrease in the overall number of non-nationals required. This would assuage the fears, voiced in some quarters, that such cohorts are now too high as a ratio of the total population. Many developed countries have “professionalized” blue-collar work through vocational training and the adoption of strict professional standards, thereby enhancing the prestige of trained craftsmen. Short-term certificate and diploma programs offer another important avenue.⁶⁷

One aim repeatedly mentioned in publicly available policy documents across the region — whether in Qatar’s⁶⁸ or Abu Dhabi’s 2030 vision⁶⁹ — is to raise workforce participation rates among citizens and to be more selective in the foreign workforce. Qatar’s 2030 vision calls for a suitable

size and quality of the foreign workforce, specifically mentioning the "right mix of expatriate labor" and the "retention of those most useful to the country."⁷⁰ The issue of qualifications remains crucial to the demographic imbalance; unskilled laborers make up the vast share of the foreign-resident population, while skilled expatriates remain hard to attract and retain.⁷¹ The introduction of a minimum wage, not only for nationals but for the entire labor market, may necessitate efficiency gains that would, in turn, translate into "better" jobs. However, the short-term transitional costs of such a shift are likely to hurt job creation. Even so, Bahrain and Oman have demonstrated that attitudes about employing locals can shift with the evolving facts on the ground, headed up by policy.⁷²

Reducing the dependence of businesses and households upon such large numbers of low-skilled non-national labor might also help address the demographic imbalance. If the majority of nationals perceive non-nationals to be a "threat" to cultural and social norms, traditions and language, they may be more willing to bear the opportunity cost of the transformation away from dependence on such labor. If business owners can be convinced of the concepts, they may be more willing to accept the up-front costs of moving to labor-saving technologies, while households could accept having fewer or part-time domestic helpers.

Such change is also needed with regard to expectations; the job-provision mechanism of the social contract needs to be renegotiated. While the national workforce — those currently employed and those seeking employment — will collectively have to accept the transition, only a new generation of workers will completely embrace the new paradigm (no *de facto*

public-sector job upon graduation). Governments must communicate the new model to the next generation of workers and create an incentive system that encourages them to accept the changed environment (for example, separating benefits from the public sector; legislating more benefits to all those working, irrespective of sector but not to be borne entirely by the real private sector). This can be supported by a clear message along the lines of "working in the private sector reduces our nation's need for non-nationals; therefore you are helping save our culture." It is likely that a message appealing to nationalism or national pride would fall on fertile ground.

Another path would be to renegotiate the aspect of the social contract of seeking "rent" from under-skilled non-national labor. This has resulted in many domestic and indeed foreign-owned companies opting to rely upon large numbers of relatively unskilled workers, rather than investing in labor-saving technologies and processes. The carrot could be soft loans and access to government-subsidized or even government-funded advanced technologies. The stick could be more fully opening up to foreign competition, which would force domestic businesses to invest in such technologies in order to stay afloat.

MANAGING NEEDED MIGRANTS BETTER

A labor reservoir often overlooked lies in the better use of non-nationals and their dependents, both spouses and working-age offspring. These residents, if employed in part-time or temporary capacities, would lessen the need for additional non-nationals from overseas. Non-nationals, if given more training and incentives (the option of changing companies, etc.), are more likely to stay longer and be more motivated to

invest in their countries of residence. In particular, the work-visa procedure should be radically overhauled (the processes and frequent repetition of them is inefficient and seems to be a way of providing government jobs). ID cards and residency visas could be issued together, valid for the GCC as a whole; it is, after all, a common market.

UNSKILLED AND SEMI-SKILLED FOREIGNERS

Unskilled or semi-skilled construction workers represent the majority of all non-nationals in the GCC. The annual growth in worker numbers in the UAE, for example, is five times greater than the annual GDP growth rate in the construction sector for the past 20 years.⁷³ This is, among other reasons, the result of an abundant supply of non-national workers willing to accept low wages, thereby making their recruitment significantly cheaper than capital investment in labor-saving technologies. For the period 1993–2004, a UAE government report⁷⁴ confirms this development across sectors, with labor-force growth exceeding economic growth rates in both nominal and real values, effectively leading to serious productivity declines. One possible solution to this would be to legislate a minimum wage across sectors, forcing employers to increase productivity by investing in technology and training. Such a major change might be difficult to realize, however, since policy makers themselves often are well-connected citizens with significant vested interests in the status quo,⁷⁵ or are at least highly influenced by their business clientele.

HIGHLY SKILLED FOREIGNERS

The future development of the GCC into diversified, knowledge-based economies will depend to a great extent on the

ability to attract and retain “the creative class,”⁷⁶ highly educated and globally mobile professionals. As nations increasingly view technology transfer as primarily a people-oriented phenomenon in a global competition for certain skills,⁷⁷ even highly populated, labor-surplus countries such as China⁷⁸ and Russia⁷⁹ increasingly compete for professionals. Skilled migration is thus becoming an inseparable segment of national technology policies, putting governments under increasing pressure.⁸⁰ Government strategists across the GCC⁸¹ acknowledge the envisaged contribution of the highly skilled, but little research is available with regard to the drivers of attraction and retention. High turnover rates and low durations of stay raise questions regarding these professionals’ long-term contribution and perceived motivation to look beyond short-term goals. It becomes even more crucial in sectors with a generational timeframe, such as education, to retain those most useful to the country, as defined in Qatar’s 2030 vision.⁸² Frequent changes at the strategic level mean constant shifts in direction that are not conducive to improving educational outputs. Enhancing research and education is also highly relevant with regard to significant technology transfer from overseas, the advantages of which can only be fully realized when domestic labor is sufficiently capable of utilizing it.⁸³ Simple policy changes such as exponential gratuity — as opposed to the current one-salary, final-payment per year worked — might go a long way in incentivizing the highly skilled to stay longer. This system is commonplace on the organizational level in developed countries.

PART-TIME WORK

One opportunity to decrease the need for labor imports would be more flexible

employment policies with regard to part-time work and youth employment. Currently, most GCC countries do not allow foreign students (many of whom are the sons and daughters of foreign residents and obtain renewed visas by studying in the host country) to work while in the country on a student visa. This not only represents an issue with regard to their own human-capital development; it also means that a lot of potential part-time employees are not available to employers. If they could work, it might also significantly decrease the need for more labor imports. Further, under the sponsorship system and the resulting tight control over employees, it remains illegal to work, even short periods of time, for anyone but the sponsor.

INVESTING IN "NATIONAL" HUMAN CAPITAL

The educational system is not only inadequate from entry level onward; it also continues to be remedial in nature and weak across all levels.⁸⁴ While nationals are often prohibitively expensive to employ in lower-level positions, 91 percent of CEOs in the GCC also rely on expatriates to fill key positions at the upper end.⁸⁵ This is a result of educational systems not being matched to the modern economy, and performance not matched to rewards. It starts very early, as not all of the GCC have implemented compulsory kindergarten or made it state-funded for all nationals, nor are service providers yet quality controlled. The debate over the loss of Arabic as a primary language has thus far overshadowed many discussions on progress. The benefits of bilingualism are ignored, though it would put the next generation ahead of a great many others in the envisaged knowledge economy. Arabic mastery is currently threatened only by an

inadequate educational system and, where relevant, an over-reliance on maids in the upbringing of children. Much of the discussion has thus far ignored these aspects, however, and focused on the dangers of educating at international standards.

Further, though initiatives are taking place across the GCC to focus on vocational training, these systems remain in a flux of trial and error.⁸⁶ With regard to higher education and research, fundamentals are being ignored. An efficient and innovative knowledge economy rests on academic freedom, which is, however, still framed within a context of what is appropriate to both the culture and society. This not only affects what can be investigated, but also the way institutions are run, since "the broader social and political culture seems to have pervaded the university space and affected administrative and governance styles."⁸⁷ It may be something of a truism to state that "economic development is always the result of sensible and sustained investment in human capital,"⁸⁸ but there simply has not yet been sufficient sustainability in the educational systems thus far. Fostering a skilled national workforce is going to be one of the most critical challenges facing the region in terms of both future economic prosperity and social cohesiveness.

The debate on academic freedom also has to be seen within the "cultural costs" of a transition to Western-style educational systems. This, in itself, may have more impact on sociocultural norms and values than the presence of non-national workers. This is most evident in Saudi Arabia, where concerns about upgrading education are not only about language, but also religion, with some clerics accusing reformers of corrupting female students and promoting mingling of the sexes.⁸⁹

SOCIETAL CHANGES AND THE LABOR MARKET

Increasing educational attainment and subsequent labor-force participation of female citizens has not gone hand in hand with the adoption of policies to support working or studying mothers such as child support or maternity-leave subsidies. Today, GCC countries are no exception to the global trend of declining Total Fertility Rates (TFR), not least due to the impact of education. While aiming to maintain or even increase fertility rates from the current all-time low hovering around replacement levels⁹⁰ is not without risk or criticism with regard to the expected strain on resources and the resulting need to increase the capacity of public services, TFR has to be seen in the context of the alternative of relying on ever-larger numbers of labor imports. Since females across the region — also due to their higher educational attainment compared to men⁹¹ — play a key role in localizing the work-force, pro-natalist policies need to start with easing the burden of child rearing for women in education and the workplace. Recognizing women's active part in the emerging knowledge economy should result in selected pro-natalist policies and gender-aware regulatory reforms. These would include improved maternity leave and the large-scale deployment of on-site nurseries, kindergartens and feeding rooms, as well as generous transfer payments similar to those in some pro-natalist European countries, housing prioritization, and improved prenatal healthcare.⁹² Another major social change not yet tackled is the often very early retirement of nationals, which not only depletes expertise, but also creates the need for more foreign labor, particularly at the senior levels of organizations.

BUILDING A MORE CONFIDENT NATIONAL IDENTITY

Though there is much debate about how to protect national identity, there has been little debate or clear understanding of what it actually means to be a citizen. This means that nationhood does not help Gulf societies overcome friction across historical, religious or ethnic divides. The result is a “civic ethnocracy”⁹³ in which the perceived purity of individuals determines many relevant outcomes in their lives. Existing national-identity initiatives also lean towards a somewhat selective reimagining of the past that often excludes “publicly embracing internal aspects of a country's past that do not fit with the preferred national identity projected by its leadership.”⁹⁴ An opportunity in this context is the strengthening of a positive and more inclusive national identity, emphasizing shared values and background over differences. Such a positive understanding as the foundation of a strong culture can also reasonably be expected to somewhat alleviate fears of being culturally overrun by foreigners.

CHANGING PERCEPTIONS

Many of the underlying reasons for the demographic imbalance are linked to the perception that growth equals progress and prosperity,⁹⁵ regardless of whether it yields returns for the national population. While foreign direct investment and labor imports may bring knowledge transfer and sustainable business, a lot of the marginal activities only serve the increasing foreign population and have no tangible positive impact on the national cohort. Though no numbers exist on the increase of administrative jobs during the height of labor imports, it is reasonable to assume that if a country doubles in population in a short timeframe, a lot of manpower is needed

simply to staff the basic public-service infrastructure required to deal with such an influx. This creates more positions in the public sector, which has not always been the most productive employer of nationals. The common notion of equating population growth with economic success, therefore, needs to be questioned by those in power and the citizen alike. The direct costs of subsidized power and water, but also administrative costs and productivity losses stemming from managing these permanent migration flows have to be considered.

GIVING NON-NATIONALS A STAKE IN SOCIETY

One final question in urgent need of discussion is the extent to which GCC countries want to incorporate their foreign populations into the wider society. One evident risk stemming from having such significant numbers of transient residents remains that there are no shared aspirations by this group for the future of the society.⁹⁶

Though politically unlikely for the time being, a formal path to citizenship would be to address not only the demographic imbalance, but also concerns about the transient nature of the highly skilled foreign workforce and give non-nationals a stake in the future of the Arab Gulf States. Such a formal path to citizenship could be limited to a maximum proportional threshold (3 or 5 percent) of the current national population and only given selectively. It could be offered, for example, to highly skilled executives/doctors/professors from a culturally similar background and to business people who have invested in the country or are sustainably employing a given number of nationals. This would provide incentive to certain non-national cohorts to invest all of their resources — intellectual and physical capital — into this

country and to be more concerned about its long-term future, as opposed to their own bank accounts. It would also create a formal process that would be preferable to current case-by-case practices, which lack both transparency and accountability.

OUTLOOK

It is highly likely that, for several generations to come, the need for considerable numbers of non-national workers will continue. However, their presence need not disincentivize young national graduates from taking up productive roles in the private sector or cause some quarters of the indigenous population to fear that their culture, heritage and traditions are being jeopardized.

The Arab Gulf's "demographic imbalance" is likely to constitute an inextricable part of the analytical framework through which the region is studied, and indeed, in light of which future policies will be formulated. The growing discontent and disenfranchisement of young unemployed nationals will need to be viewed in tandem with the ways in which non-national labor impacts the former's career choices and prospects. As for economic development — progress towards the strategic goal of transitioning to a knowledge-based economy — the numbers and composition (with regard to skills) of non-national labor and the way in which they are managed will be pivotal factors. Yet ultimately, for such an economic structure to be sustainable in the long-term, a far greater number of nationals will need to become active participants.

No economic transformation is cost-free; there will be various opportunity costs, temporary and permanent. It follows, therefore, that in the coming period, considerable debate will be centered on the advantages and disadvantages of such

trade-offs. However, we contend that the Arab Gulf states cannot realistically become innovative and competitive knowledge-based economies while operating third-world labor markets; nor can they be considered developed societies as long as only a fraction of the populace has a vested interest in the long term.

Labor-market policies geared towards the professionalization and development of the workforce, combined with a decreased reliance on labor-intensive means of production and service, can reasonably be expected to have positive effects, not only on the ground, but also on the international standing of GCC countries. There has arguably been significant progress on these issues, though there remains much room for improvement. All except one of the Arab Gulf states have improved their standing on the U.S. Trafficking in Persons Index over the past five years. In 2007, five of the six were classified as Tier 3; in 2011, only Saudi Arabia remained in this bottom quartile.⁹⁷

Many social and political outcomes remain closely tied to the way in which

GCC governments decide to address the demographic imbalance. A lot of political will and power will be needed to question and ultimately change the social contract, both with regard to the provision of public-sector jobs and the ability of households and business owners to profit from labor imports. This will not be an easy exercise, particularly since quick-fix responses to the Arab Spring effectively meant reversing some of the progress made towards slowing down population growth. In an irony of history, the global economic downturn was a missed chance to question the economic model and ask whether the current growth model really benefits the citizenry.

A decrease in the overall number of non-national workers at all skill levels would also address the anxieties voiced by many nationals. Addressing the demographic imbalance should not be seen as a zero-sum game. To a very large extent, a move away from the status quo would benefit both nationals and non-nationals in equal measure.

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