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Employment in the Gulf Cooperation Council (GCC) Countries – Current Issues and Future Trends

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Abstract—The aim of this paper is to examine the current issues facing employment and human resources in the GCC countries. Human capital plays an important role in their struggle to achieve economic development while moving away from the oil sector. The first section of the paper discusses the economic and demographic factors in the GCC countries. The second section discusses the contemporary issues in employment. Finally, future directions of the field are addressed.

Keywords—Employment, GCC, Nationalization, Saudi Arabia, United Arab Emirates.

I. INTRODUCTION

The Gulf Cooperation Council (GCC), is an organization of six Middle Eastern countries — The Kingdom of Saudi Arabia (KSA), Kuwait, the United Arab Emirates (UAE), Qatar, Bahrain, and Oman. The members created the council to foster economic and political cooperation, in May 1981. The GCC's headquarters is in Riyadh, the capital of KSA its largest member. The purpose of the GCC is to accomplish solidarity among its members based on their common goals and their similar political and cultural identities, as well as to promote trade between its members.

The GCC countries share similar demographic and labor force characteristics: fast growing population, heavy reliance on expatriates, low levels of private sector employment for nationals, low participation of women in the workforce and wide spreading unemployment among citizens. As the Gulf region continues to grow and businesses expand, HR practices need to go further toward developing talent, growth, and innovation.

Throughout the recent years, the GCC countries have made great strides in diversifying the economy, supporting the employment of nationals, encouraging women employment, and improving the labor system.

In addition to the above, the GCC states are taking steps to better align their education and training system with the requirements of the national development plans and the labor market.

II. GCC ECONOMY AND POPULATION

A. GCC Economy

During the last decade, two models of specialization seem to have emerged in the GCC region. The first is that of the UAE, Bahrain, Qatar, and Oman, which have followed the path of diversification of their economic structures; the second is that of KSA and Kuwait, who have focused on the mining and oil sectors [1].

In recent years, the economic impact of lower oil and gas revenues has helped to fuel a focused strategy toward diversification of the economy and government revenue generation in order to reduce the GCC countries' dependence on natural resources. The UAE is the most diversified economy in the region but similar structural changes are also now being adopted in all six GCC countries particularly KSA which has embarked on a significant economic and social reform program called 'Vision 2030' [2]. In spite of these efforts, the GCC countries are still dominated by their hydrocarbon sectors, particularly oil. On an aggregate basis, the hydrocarbon sector in the GCC still accounts for approximately 45 percent of real Gross Domestic Product (GDP), 79 percent of total exports and 77 percent of government budget revenues [3].

The GCC region witnessed another year of poor economic performance in 2017 as indicated by the World Bank's biannual Gulf Economic Monitor [4] the region recorded growth of 0.5% in 2017 – the weakest since 2009 and down from 2.5% in 2016. The GCC region's economies experienced flat or declining growth as lower oil production and tighter fiscal policy took a toll on activity in the non-oil sector and external debt issuance continued to rise to help finance large fiscal deficits.

In 2018, a 5 percent Value Added Tax (VAT) went into effect in both the UAE and KSA. Wherever applicable, VAT will be collected on taxable supplies of goods and services in those countries. The new GCC VAT is expected to increase the cost of living in impacted economies by approximately 2.5 percent in 2018 and 0.5 percent each year from 2019-2022, according to Institute of Chartered Accountants in England and Wales (ICAEW) [5], and will put pressure on the inflation rates in the GCC.

B. GCC Population

Most of the GCC countries (Bahrain, Kuwait, Qatar, and UAE) face a significant imbalance in the demographic composition to varying degrees. As is shown in "Fig. 1" this imbalance because expatriate labor has become a majority, in other words, citizens themselves are becoming a minority across the Gulf and that requires setting a social, and economic policy, based on a local collective vision to address this

imbalance, since it is difficult to overcome all its dimensions in the near and medium terms.

The aggregate population in the GCC has increased more than thirteen times over the last 60 years, from four million in 1950 to 53 million by 2016. According to Kapiszewski, (2006) [6] the GCC population growth rate represents one of the highest rates of the population growth in the world.

KSA and the UAE are the two dominant countries in the region in terms of population and economy – the KSA accounts for 62% of the GCC population and 44% of the GCC economy while the share of the UAE is 18% and 25% respectively. The KSA is the largest country in the GCC region with an area of 2.3 million square kilometers and a population of approximately 28 million, over 30% of which are expatriates.

The UAE is a federation made up of seven Emirates: Abu Dhabi, Ajman, Al Fujayrah, Dubai, Ras al Khaymah, Sharjah, and Umm al Qaywayn. The total population of the country is 9.4 million (Word Bank, 2017) [7] more than 80% of which are expatriates. Whereas, expatriates account for approximately 70% of Kuwait's total population of 4.1 million. Similar to Kuwait the total population of Oman is approximately 4.6 million and expatriates account for approximately 46% of the total population. Furthermore, Qatar and Bahrain have a population of 2.6 million and 1.4 million respectively (World Bank, 2017).

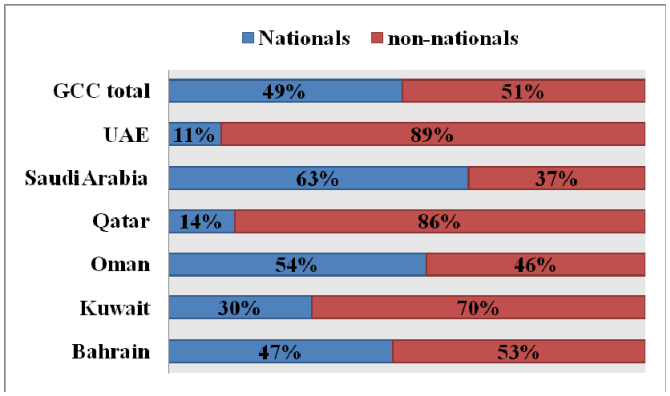

Fig. 1. Percentage of national and foreign nationals of the population in GCC countries.

[a.] Source: [8] Gulf Labor Markets and Migration (GLMM) program. Data available at gulfmigration.org.

III. Development of Human Capital and Employment

A. Employment

Unemployment rates for citizens have risen sharply in Oman and Saudi Arabia by 9% and 12% respectively due to the mismatch between the education system and the labor market needs. Moreover the recent oil price drop (-60% since 2013) has put pressure on the fiscal sustainability. However unemployment rates remain at low levels in Kuwait and Qatar, due to continued public sector absorption [9].

GCC citizens more generally, prefer working in the public sector as public sector employment incentives render private sector employment unattractive. As illustrated in the world economic forum report (2014) "The problem is that the public sector pays 30% more than the private sector and provides secure jobs. It would have the same effect on people's choices everywhere. It has negative implications for productivity of the economy at large and for entrepreneurship" [10].

Another important factor is that the foreign labor market in the GCC states is based on a sponsorship system, the kafala system. This means that each employee must have a sponsor or kafeel.

The kafala system was developed in the 1950s, the main idea behind this system is that the labor needs are determined on an individual sponsorship basis, by which the employer, or kafeel, recruits workers to serve their specific needs. A migrant worker's immigration status is thus tied to an individual sponsor for their contract period, This leaves workers more vulnerable because of the lack of autonomy in relation to their employers [11].

In general, labor market reform is needed to encourage private sector employment of nationals and to monitor foreign labor levels to avoid any negative effects on economic growth and stability.

B. Development of Human Capital

Education and employment in the GCC region are essential to determine the livelihood of the increasing population and drive growth and development for generations to come. As one of the youngest populations in the world, it is important that the region makes sufficient investments in education and development of human capital so that citizens hold value in the labor market and are prepared for the future.

Ministries of the GCC governments are responsible for the government factor in Human Resource Development (HRD); these ministries allocate and govern the public expenditure on the training that is provided to the workforce. The GCC governments realized the importance of HRD as one of the key issues in the nationalization programs and that the education of the workforce should be fully aligned with the needs of the labor market. Therefore governments started to provide training that improved the competencies and skills of the national workforce, to create a better employability of the labor force in both the public as well as the private sector.

The GCC governments have been investing generously in education. Skills development as the development of human capabilities, especially in nationals, is recognized as a major strategic priority. The KSA's economic strategy, Bahrain's Vision 2030, Qatar's Vision 2030, Oman's five- year strategic plan, Kuwait's development plan and UAE's strategy 2011–21 share a common emphasis on human development [12].

In conclusion, the GCC states are taking steps to better align their education and training system with the requirements of the national development plans and the labor market.

IV. Localization

Labor nationalization or localization programs are designed to increase and support the employment of nationals in preference to expatriates within the private sectors. Each individual GCC government has launched their own nationalization initiatives; 'Emiratization' in the UAE,

'Saudization' in KSA 'Qatarization' in Qatar, 'Kuwaitization' in Kuwait, 'Bahrainization' in Bahrain, and 'Omanization' in Oman. [13].

KSA faces the most difficult challenge regarding creating jobs for its citizens. Al-Asfour and Khan (2014) illustrate that Saudization causes some negative effects on the economy as it has increased labor cost in some cases, and it has reduced the productivity of employees. The increase of labor costs resulted from replacing low wage laborers with Saudi nationals who would not accept the same pay. In addition, some Saudi nationals are not well-trained enough to replace foreign employees, thus they are less productive than their foreign counterparts [14]. However, KSA is continuing with this policy and just recently banned foreigners from certain jobs to give citizens more employment opportunities. In September 2018 jobs in 12 private sector areas were restricted to domestic applications only.

While in the UAE, expatriate workers are providing labor for the private sector and Emirati nationals prefer to work in the public sector. Moreover, Emiratization policies provide incentives to organizations and corporations that hire UAE nationals and administer penalties to those who avoid hiring UAE nationals [15]. Daleure (2017) illustrated that Emiratization practices where the UAE nationals are given salary stipends or other salary supplements have been criticized as an obstacle to economic growth by some economists [16]. On the other hand, hiring UAE nationals, in spite of high salaries, may be better for the overall economic stability of the country because Emirati citizens spend all or most of their salaries inside the country which may be contribute to the overall GDP.

Recently in Oman, the workforce development and the Omnaisation policy have been moving towards more comprehensive approaches by linking education, student preferences and industry requirements. This can be seen in the Omani government support for self-employment via entrepreneurship and the recent entrance of the private sector in workforce development. A growing number of private organizations in Oman have been introducing new training programs specially designed for Omani graduates and new employees. Organizations have been competing for local talent mainly due to workforce localisation quotas and the shortage of talent [12].

Kuwait established Manpower and Government Restructuring Program (MGRP) in July 2001 to train and employ Kuwaiti nationals in the private sector and replace foreign workers with Kuwaiti employees—in the public and private sectors. In spite of significant efforts the problem of the low percentage of nationals in the work-force in the private sector still exists. The majority of Kuwaiti nationals prefer working in the public sector for its attractive incentives and better working conditions [17].

With regard to the localization policy, Kuwait is set to make more than 3,100 foreign public sector staff redundant during the 2018 fiscal year, as the government wants most public sectors jobs to be occupied by Kuwaiti nationals by 2022.

V. Women Participation

One of the main labor characteristics that the six GCC countries share is a low female labor force participation rate of 25% which is approximately half of the world average of 48.6% (World Bank, 2017) even though women make up half the population of the region.

Most of the GCC states have experienced significant achievements in women's participation in the labor force since 2000. In particular Qatar and the UAE have grown from 38 percent to 51 percent and 34 percent to 46 percent respectively (2000-2014) [18].

Among the GCC states, Qatar, UAE and Kuwait have the highest labor participation of women. In Kuwait the percentage is 44% percent and there are also higher rates of educational attainment for women. Women make up 67 percent of university graduates and at least 51 percent of graduates go on to find work. Regarding the public sector, Kuwaiti women make up 55.5 percent of the national public sector workforce [19].

In KSA females' participation in the workforce is very low and the jobs available for Saudi women are restricted. Women predominantly work in teaching, nursing, and some jobs in the private sector that are subject to strict government control [20].

The reasons for low participation of women in the workforce can be attributed to the social and cultural factors which characterize the GCC countries in general and Saudi Arabia in particular. Recently the Saudi government is trying to improve the employment of women by creating thousands of new jobs and ensuring that these jobs are suitable for women, particularly in the education sector.

The UAE has many achievements in decreasing the gender gap in education, and increasing the number of women entering the work force either for work or as entrepreneurs. This is assisted by the fact that Emirati women are significantly encouraged by their family and as a result possess the self-motivation to be an entrepreneur [21]. In the UAE the recent increase in women's workforce participation has been accompanied by a rising female unemployment rate. According to BCG's report [22] the drop in employment is driven by higher education attainment in the UAE that was not matched by an increase in relevant opportunities in the labor market.

In Oman, as indicated by Al hasani (2016) [23], recently there have been improvements in the government policies to employ more women—for instance, the labor law and policies under the Public Authority for Social Insurance—that intend to ensure that private sector employers provide a better working environment and conditions for women.

VI. Future Trends of Employment in the GCC Countries

Over the past decade, the GCC economies have made great efforts to diversify into new, advanced, value-adding industries in order to create knowledge-based economies. That requires moving away from low-cost, labor-intensive industries to high-skilled labor in dynamic, capital-intensive industries. Therefore, the Kafala system is becoming a burden and the GCC economies have to go toward freer business environments and

allow more mobility for expatriate workers to move between jobs. This can be achieved by setting new employment policy, focusing on talent management, technology, and monitor foreign labor. Initially, the GCC governments must take a strategic approach to HRM and recruitment. This approach involves increasing the competitiveness of national workers in order to make them more appealing to private firms through a high level of education and skills training to provide workers with the skills that are in demand by the private sector. On the other hand, the local labor force is not matching growth in the private sector due to the lack of initiatives by the companies, therefore, the private sector companies have to offer more attractive working conditions. Private companies can enjoy many government benefits and subsidies when they comply with the nationalization policies. Furthermore Artificial Intelligence (AI) is going to change the global economy, and moreover it will affect the employment in the GCC region by creating challenges and opportunities for workers in this field. According to Price water house Coopers (PwC) Middle East report (2018) [24] AI could contribute US$320 billion to the Middle East economy by 2030, equivalent to 11% of GDP. The greatest gains from AI are likely to be in the UAE (contribution of up to 13.6% GDP in 2030) and KSA (12.4%), and the biggest sector gains could be in retail, and the public sector including healthcare and education.

Finally, the GCC government work policies must not just concentrate on the national full employment but rather should also concentrate on correcting the unsustainable demographic imbalance, and reform the economy, culture, and tradition.

VII. Conclusions

This paper aims to examine the current issues facing employment and human resources in the GCC region and to address the future trends of the field. Human capital plays an important role in the GCC countries' struggle to achieve economic development while moving away from the oil sector. Labor market reform is needed to encourage private sector employment of nationals and to monitor foreign labor levels to avoid any negative effects on economic growth and stability. However, the GCC countries have made great strides in diversifying the economy, supporting the employment of nationals, encouraging women employment, and improving the labor system. Furthermore, the GCC states are taking steps to better align their education and training system with the requirements of the national development plans and the labor market.

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