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**The Politics of Employment Policy Reform  
in the Gulf State**

Laurence Louër



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## **The Politics of Employment Policy Reform in the Gulf States**

Abstract

During the first decade of the 21st century the Gulf States undertook reforms of their social policies based on the generous redistribution of hydrocarbon profits. One of the elements of the redistribution was to guarantee employment. Beginning in the 1990s rising unemployment indicated that the traditional employment policies were ineffective, generating social tensions as evidenced in the “Arab spring.” The goal of the reforms is to move nationals into salaried jobs in the private sector, currently held largely by foreign workers. The change is strongly opposed by business executives and local entrepreneurs. Having become accustomed to inexpensive foreign workers they object to the increased costs entailed by the reforms. The royal families are thus obliged to negotiate between the interests of the private sector, often aligned with their own, and the dissatisfaction of the young, the group most impacted by unemployment and the key players in the protests that erupted in 2011 in Bahrain, Saudi-Arabia and Oman.

## **Les enjeux des réformes des politiques de l'emploi dans les monarchies du Golfe**

Résumé

Dans les années 2000, les monarchies du Golfe ont entrepris de réformer leur modèle social, basé sur la redistribution très généreuse des dividendes des hydrocarbures. L'un des principaux dispositifs de cette politique de redistribution était l'emploi public garanti. Depuis les années 1990, l'apparition du chômage de masse indique que les politiques traditionnelles de l'emploi sont devenues dysfonctionnelles, générant des tensions sociales qui se sont notamment exprimées à la faveur du « printemps arabe ». L'enjeu des réformes en cours est d'aménager une transition des nationaux vers le salariat dans le secteur privé, largement dominé par les travailleurs expatriés. Cette perspective fait l'objet de fortes résistances de la part des hommes d'affaires et entrepreneurs locaux. Habités à une main-d'œuvre expatriée bon marché, ils refusent notamment l'augmentation du coût du travail qu'impliquent les réformes. Les dynasties royales sont dès lors confrontées à la nécessité de faire des arbitrages entre les intérêts du secteur privé, souvent étroitement imbriqués aux leurs, et le mécontentement de la jeunesse, principale catégorie touchée par le chômage et actrice des protestations qui, en 2011, ont touché le Bahreïn, l'Arabie saoudite et Oman.

## The Politics of Employment Policy reform in the Gulf State

Laurence Louër *Ceri-Sciences Po*

Stability in the monarchies that make up the Gulf Cooperation Council (GCC)<sup>1</sup> is generally analyzed using hydrocarbon prices as a benchmark. The higher the price of oil and natural gas, the more these countries are believed to be able to control opposition forces, virtual or patent, by buying the loyalty of their leaders and their social base. This analysis was particularly dominant in discussions of Saudi Arabia after September 11, 2001, when the kingdom was shaken by deteriorating relations with the United States and a rise in terrorist violence on its own territory. At the time, those who believed Saudi Arabia could easily overcome the crisis facing it pointed to peaking oil prices. Saudi Arabia's resistance to the wave of Arab uprisings that began in 2010, putting it in the lead of the counter-revolution in the opinion of many, demonstrates the country's ability to keep protest in check. It also confirms wealth distribution mechanisms as its preferred tactic: a few days after demonstrations began in neighboring Bahrain, King Abdallah announced an unprecedented string of social measures, promising the creation of tens of thousands of jobs and a minimum wage in the public sector, unemployment benefits and a boost in the construction of subsidized housing.

This "policy of largesse"<sup>2</sup> as it is sometimes called serves as an essential instrument in the system of social control characteristic of all of the Gulf monarchies. It forms the basis for a

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<sup>1</sup> Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman.

<sup>2</sup> D. Champion, *The Paradoxical Kingdom. Saudi Arabia and the Momentum of Reform*, London, Hurst, 2003.

citizenship defined primarily in social terms:<sup>3</sup> in such authoritarian political regimes, being a citizen means above all to be entitled to social rights. There is a dearth of knowledge, however, regarding just how distribution takes place.<sup>4</sup> No study has for instance analyzed the workings of institutions in charge of it or the policies that they are supposed to implement. Yet distribution has a highly institutionalized and formalized aspect that defines eligible applicants on the basis of universal categories.<sup>5</sup> That does not mean that systems of patronage do not come into play in distribution policies, but these pertain less to relations between the state and its citizens as individuals than to those between the ruling dynasties and certain social groups or bodies whose allegiance is a priority. This is the case in particular for merchant oligarchies, which regimes have always sought to co-opt. Nor does institutionalized and formalized distribution of wealth preclude the persistence, even the growth, of the charity sector, usually controlled by the ruling dynasties, which has a major role alongside state institutions in tackling poverty.<sup>6</sup>

As in the West, where it was first developed, the welfare state in the Gulf monarchies rests on a set of social policies. These can take the form of insurance, as in the case of social security, which provides workers with retirement and health insurance. However, they are more often based on policies of free access to services such as education and health, as well as of subsidies for housing and for basic products and services such as dairy products, bread, poultry, gas, electricity, water and telephone service. One significant difference is the essential role of labor policy. In the Gulf welfare states, it is in fact the main instrument toward achieving the goal of “decommodification” that Gosta Esping-Andersen places at the heart of his definition of the welfare state, in other words the emancipation of individuals from market dependence.<sup>7</sup> To protect nationals from labor market practices that place them at a disadvantage with respect to migrant workers, the state has gradually become the national population’s principal employer – sometimes almost the only one. GCC Constitutions and basic texts all mention the state’s obligation to provide a sufficient job supply for its citizens.

These employment policies functioned optimally during the period known as the oil boom, which from the Western perspective corresponds to the oil crises of 1973 and 1979, when the Organization of Petroleum Exporting Countries (OPEC) sharply raised prices, making unemployment insurance unnecessary. Beginning in the 1990s, however, the advent of mass unemployment among nationals pointed up the ineffectiveness of these policies. The consequences were soon felt in Bahrain, where a long uprising (1994-1999) propelled the jobless into a central role in the protest. The first unemployment insurance schemes came

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<sup>3</sup> A. N. Longva, “Citizenship in the Gulf States: Conceptualization and Practice,” in N. Butenshon, U. Davis and M. Hassassian (eds), *Citizenship and the State in the Middle East: Approaches and Applications*, Syracuse (NY), Syracuse University Press, 2000.

<sup>4</sup> An exception is Nathan Hodson’s study, *Distributional Structures in the Arab Gulf: Public Employment, Subsidies, and Potential Reform*, Kuwait Program, Sciences Po, May 7, 2011: <http://kuwaitprogram.sciences-po.fr/research-program/publications.html>

<sup>5</sup> See K. A. Chaudhry, *The Price of Wealth. Economies and Institutions in the Middle East*, Ithaca and London, Cornell University Press, 1997, p. 155.

<sup>6</sup> See A. Le Renard, “Pauvreté et charité en Arabie saoudite: la famille royale, le secteur privé et l’État providence,” *Critique internationale*, 41, October-December 2008.

<sup>7</sup> G. Esping-Andersen, *The Three Worlds of Welfare Capitalism*, Cambridge, Polity Press, 1990, p. 22.

about in the 2000s: in Bahrain in 2006, in Saudi Arabia and in Oman in 2011, in the wake of the “Arab Spring” protests.<sup>8</sup> Unemployment insurance is currently under discussion in the other countries, while unemployment now significantly affects the three wealthiest countries, Kuwait, Qatar and the United Arab Emirates.<sup>9</sup>

During the oil boom of the 2000s when oil prices hit record heights, unemployment continued to grow in most GCC countries despite the considerable increase in job creation fuelled by strong growth. This phenomenon indicates that in the Gulf monarchies unemployment is out of step with a state’s budgetary capacity and growth rate. In other words, traditional employment policies encounter obstacles other than a mere problem of accounting. This is unlike the situation experienced in other Middle East countries that adopted similar policies (Egypt in particular) which were hit by a debt crisis in the 1980s and 1990s that did not affect the GCC. To understand this, analysis needs to shift its focus away from the level of wealth to grasp how employment policies, like many other public policies, have had unforeseen pernicious effects that have distorted the initial intentions of those who designed them.

## **THE GENESIS OF EMPLOYMENT POLICIES**

Although a history of employment policies in the Gulf monarchies remains to be written, the current state of knowledge makes it possible to formulate a number of hypotheses regarding their origin, which should help to better understand the mechanisms behind the segmentation between nationals and expatriate workers.

### **Early labor conflicts in the petroleum industry**

Labor conflicts in British and American oil companies in the early days of hydrocarbon exploitation in the 1930s offer the first examples, documented by a few historians, of conflicts involving employment policies. The policies in question at the time were not designed by the state but instead by the companies themselves. They display a number of similarities with state policies conducted through today, as if the solutions conceived by the oil companies to offset the local labor shortage had set an example and became institutionalized in public policies set up in the 1970s.

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<sup>8</sup> In Saudi Arabia and in Oman, unemployment insurance has yet to be implemented concretely at the time of this writing.

<sup>9</sup> Per capita wealth is generally measured in terms of per capita GDP as determined by the International Monetary Fund (IMF) and the World Bank. But it can also be measured in terms of per capita oil and gas production (see K. De Boer and J. M. Turner, “Beyond Oil: Reappraising the Gulf States,” *The McKinsey Quarterly*, special edition 2007, p. 10).

As soon as the oil companies came in, they were subject to considerable political pressure from the emirs and their British protectors.<sup>10</sup> The emirs wanted the companies to give priority to hiring local manpower, which had been hard hit by the crisis in the pearl trade, the region's main economic activity, foundering since the introduction of cultured pearls from Japan in the late 1920s. As for the British, wary of American as well as Iranian maneuvers in the area,<sup>11</sup> they were afraid that recruitment of expatriate workers would foster the penetration of foreign interests. For all these reasons, concession agreements concluded with oil companies included clauses regarding the nationality of their personnel, which to the extent possible were to be local or British subjects.

Since the region had not yet experienced industrial development, the companies were immediately faced with a labor shortage: few in the local workforce were qualified to fill the positions offered. Despite the nationality clauses, companies thus recruited expatriate workers, who for a long time remained a majority in the upper and middle echelons. Many Iranians and Iraqis who had been employed in their own country's oil industry, where it had developed in the early 1900s, thus came to work on the Arabian shore of the Gulf. A particularly large number of Iranians came to work for the Bahrain Petroleum Company (BAPCO), where they received higher salaries than in Iran and benefited from family and patronage networks with the Iranian merchant diaspora established since the late 19th century in the archipelago. Under pressure from the British, who feared that the inflow of Iranian immigrants would fuel Iran's irredentist sights on Bahrain, BAPCO was obliged to recruit Indians, deemed politically acceptable since they were British subjects. After the Second World War, the geopolitical reconfigurations of the British Empire altered the makeup of the expatriate workforce, in particular due to the mass arrival of Palestinians after the state of Israel was founded in 1948. Independence and the Partition of India in 1947 also contributed to stemming the flow of manpower from the subcontinent.

Recruitment of Indians, however, in no way solved the problem of recruiting local labor. Nor did it assuage what would rapidly become a source of tension: the ethnonational stratification of oil company employees, which, contrary to the current situation, put nationals in a clearly inferior position. Thus, in the 1950s, at BAPCO, Westerners (British and Americans for the most part) dominated the upper echelons, Indians and Pakistanis came just below and nationals occupied the least skilled positions.<sup>12</sup> Ian Seccombe and Richard Lawless report that in 1948 the average salary of Indian employees at the company was twice as high as that of Bahrainis.<sup>13</sup>

For all blue-collar workers, both expatriates and nationals, work and living conditions were particularly poor, prompting workers to strike a number of times. National workers, sometimes

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<sup>10</sup> With the exception of Saudi Arabia, all the Gulf monarchies were British protectorates at the time. Kuwait became independent in 1961, the others in 1971.

<sup>11</sup> See I. J. Seccombe and R. I. Lawless, "Foreign Worker Dependence in the Gulf, and the International Oil Companies, 1910-1950," *International Migration Review*, 20 (3), 1986, pp. 549-565.

<sup>12</sup> See W. A. Beling, "Recent developments in labor relations in Bahrain," *The Middle East Journal*, 13 (2), 1959, p. 159.

<sup>13</sup> I. J. Seccombe and R. I. Lawless, "Foreign Worker Dependence in the Gulf," *op. cit.*, p. 568.

organized into underground trade unions, formulated specific demands regarding recruitment policy: they wanted greater compliance with nationality clauses and that priority be truly given to the emir's subjects. These demands were soon associated with more specifically political demands such as the creation of participatory institutions and independence from British rule.

### **Labor market segmentation**

Although these strikes were harshly repressed, they nevertheless contributed to significant changes in corporate policies. Training the national workforce for highly skilled technical positions thus took hold as a strong tendency of their strategy, an integral part of a broader approach that aimed to establish a paternalist type of employer-employee relation that would quell protest and build employee loyalty. Training centers were set up, and hundreds of young men were sent to the United States and Great Britain, from which they returned with engineering degrees and fluent in English, and thus ready to take over for the expatriate workers. Nationalization of the petroleum industry, achieved in the 1980s, completed this process. The oil companies became models for wage policy and working conditions, always offering more benefits to their national employees (housing, health care, education, leisure pursuits, etc.) who were in the vanguard of the expansion of wage labor, forming a separate and envied social category that exists still today. The personnel management policies practiced by oil companies were later copied by other flagship industries (petrochemical, aluminium, telecommunications, etc.).

The change in situation of national oil company employees has been correlated with a more general evolution in the status of national workers who, during this pivotal period in the development of wage labor, attained the upper echelons of the ethnonational stratification of the labor market. Although gradual, this change was particularly obvious starting with the 1973 oil boom. An unprecedented flow of money into the Gulf monarchies filled state coffers, and governments undertook ambitious development policies to give their countries modern infrastructure. The private sector also developed, but with strong dependence on the state: shielded from international competition by trade laws restricting the activity of foreign companies and investors, it was largely sustained by public spending. The oil boom thus spurred overall growth, generating a large number of jobs in both the public and private sectors. Worker migration intensified, mainly because the local population was not large enough to meet the huge labor demand spawned by the boom. In 1975, the share of expatriate workers in the overall population of the GCC thus doubled.<sup>14</sup> Expatriate workers occupied most of the private sector jobs, while nationals, especially those who had a secondary or higher education, were recruited in large numbers in the public sector. It was during this period that a salient characteristic of labor markets in the Gulf monarchies took shape:<sup>15</sup>

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<sup>14</sup> See O. Winckler, *Arab Political Demography*, Brighton, Sussex Academic Press, 2009, p. 135.

<sup>15</sup> The proportion of public sector employment is much higher in the GCC than elsewhere in the Middle East, where public employment is already particularly high. See *Unlocking the Employment Potential in the Middle East and North Africa. Toward a New Social Contract*, World Bank, MENA Development Report, Washington, 2004, p. 96.



strong segmentation between national and expatriate workers, which largely corresponds to segmentation between public and private sectors.

Public sector employees are not only usually better paid. They also enjoy better social benefits (work-related accident insurance, retirement, housing) than those in the private sector, including nationals. Their working conditions are also far better, particularly in terms of hours and hardship. As a result, public sector jobs logically enjoy greater social prestige, to the extent that private sector jobs are sometimes viewed by nationals as a disgrace unless they are in management positions in a large corporation. This is particularly true in the three wealthiest countries which, having a low population density but with considerable hydrocarbon resources, have the highest degree of labor market segmentation. Since Saudi Arabia, Bahrain and Oman have never been able to absorb their entire active population into the public sector, they have maintained traditions of private unskilled or low-skilled employment that lessen such stigmatization. Private sector employees,<sup>16</sup> on the other hand, are subject to labor laws that are very favorable to employers, and hence their working conditions are not as decent as in the public sector. They are even especially poor for less skilled jobs: short-term contracts, low wages, long work days and work weeks, little or no vacation time, little or no room to negotiate the job contract, easy dismissal and even inhuman living conditions in some sectors such as construction, where workers are often housed in notoriously unsanitary labor camps.

Although the history of labor market segmentation remains to be studied to gain a more precise understanding of the actors who shaped it, it is safe to assume that the phenomenon is the result of considerable political effort on the part of both social protest actors and the regimes. This is evidenced in negotiations over the nationality clauses in the oil company concession agreements and protest movements by national workers in the petroleum industry that aimed *inter alia* to get them enforced. Elements of segmentation between national and expatriate workers were present at a very early stage in the process of industrialization and expansion of wage labor. Segmentation was a spontaneous response to the unequal competition between national and expatriate workers that characterized the beginning of the petroleum industry. It is actually a recurrent reaction in this type of situation. Since their legal status offers them more resources, national workers usually press for a more restrictive migratory policy, or for the institution of what anthropologist Edna Bonacich has called a “caste arrangement” that reserves certain jobs, usually better paid ones, for nationals.<sup>17</sup> Caste arrangements tend to produce a “labor aristocracy” that has a higher status and wage scale than the other workers. In the Gulf monarchies, the combination of a specific legal situation, membership in an ethnonational group and a socio-occupational status makes the borderline between “aristocrats” and “commoners” particularly rigid.

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<sup>16</sup> The private sector excludes so-called semi-private enterprises in which the state is the majority shareholder and where working conditions are comparable to those in the public sector. Yet the various governments often classify these companies as private.

<sup>17</sup> E. Bonacich, “A Theory of Ethnic Antagonism: The Split Labor Market,” *American Sociological Review*, 37 (5), 1972.

## The “kafala” system

A specific legal instrument contributes to labor market segmentation in the Gulf monarchies: the *kafala* system. Often translated as “sponsorship,” this Arab term denotes a system shared by many Arab countries but which has become the most deeply institutionalized in the Gulf monarchies. As practiced in these countries today, the *kafala* system is a legal form and a social relationship at the crossroads of two provisions of traditional Muslim law: guarantees for commercial transactions and guardianship of orphans. For instance, in the medieval Arab world, commercial transactions came under the control of a *kafil* (guardian or sponsor) who acted as a representative of the civil authority.<sup>18</sup> *Kafala* also refers to a form of guardianship of orphans by a third party in a legal culture that does not recognize adoption. In both cases, it is a means of delegating authority: political authority in one case, parental authority in the other.

Such delegation of authority has a contemporary equivalent. As Gilbert Beaugé has shown in one of the rare attempts to carry out a systematic analysis of the *kafala* system, the state delegates authority to society to control the entry of labor and capital into the country.<sup>19</sup> First, migrant workers as a rule<sup>20</sup> cannot enter a country without being invited by a citizen of that same country, who thus becomes their *kafil*. Although technically the *kafil* can be someone other than the employer, typically the two functions are vested in one and the same person. It is up to the *kafil* to secure work permits and residence permits for expatriate workers, and he is held responsible by the authorities for the conduct of the person he sponsors, particularly in the event of an infringement of the law. This responsibility however remains rather vague in reality: the main penalty the *kafil* seems to risk is a limitation on their right to sponsor expatriate workers (or withdrawal of this right for a given time period) if they prove to have sanctioned illegal immigration practices. Second, until recently,<sup>21</sup> any foreign company wishing to open offices in one of the Gulf monarchies had to accept that a minimum of 51 % of its capital be held by one or more national partners. There again, the investment partner is not technically the sponsor, but the two functions were long merged, although in countries where it is permitted, foreign direct investment is increasingly tending to set them apart.<sup>22</sup>

Initially, the institution of the *kafala* system as the main tool for “managing the presence”<sup>23</sup> of foreigners is the result of states’ lack of ability to control population flows. In the second half of the 1980s, it was subject to processes of bureaucratization<sup>24</sup> designed to bring migratory

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<sup>18</sup> See H. Thiollet, *Migrations et intégrations dans le sud de la mer Rouge. Migrants et réfugiés érythréens au Soudan, au Yémen et en Arabie saoudite 1991-2007*, political science thesis, Institut d’études politiques de Paris, 2007, p. 162.

<sup>19</sup> G. Beaugé, “La kafala: un système de gestion transitoire de la main-d’œuvre et du capital dans les pays du Golfe,” *Revue européenne des migrations internationales*, 2 (1), September 1986, p. 109.

<sup>20</sup> In some countries and for a short time, certain nationalities were allowed to sponsor themselves. This was the case for Yemenis in Saudi Arabia and in Kuwait until the Gulf War of 1991.

<sup>21</sup> The laws on foreign investment changed in certain Gulf monarchies in the late 1990s, permitting 100 % foreign investment in certain sectors. Such is the case in Bahrain since 1999, in Qatar and in Saudi Arabia since 2000.

<sup>22</sup> I thank one of the anonymous reviewers of this study for drawing my attention to this point.

<sup>23</sup> See G. Beaugé, “La kafala: un système de gestion transitoire de la main-d’œuvre,” *op. cit.*.

<sup>24</sup> See H. Thiollet, *Migrations et intégrations dans le sud de la mer Rouge, op. cit.*, p. 164.

flows and labor market dynamics back under state control. Administrative procedures for obtaining visas thus multiplied. Significantly, however, the *kafala* system has endured despite the extension of the state's sphere of intervention. One of the reasons for that is its economic dimension: the *kafala* system is in fact a remunerated service since the *kafil* receives money in exchange for his role as sponsor. It can be a flat sum, a share in business in the event that the sponsor exercises a commercial activity, or profit-sharing, in other words a remuneration proportional to one's initial investment.<sup>25</sup>

For some, the role of *kafil* can even become their primary economic activity either in an institutionalized and legal form or an informal and illegal form. Given the increasing complexity of administrative procedures for obtaining work visas, recruitment offices have made their appearance. These are companies that literally import labor and sell it to employers. For companies, this system has the advantage of taking care of all the formalities. Another means of trading on one's nationality so to speak, is to bring in expatriates under cover of a fictitious company. This system is commonly known as the "free visa" system, which supplies a large percentage of the black labor market. People who enter the country via this system are then recruited unofficially by employers at a lower cost than workers who go through the usual channels, because the employers do not have to pay administrative fees or social contributions. Rumor has it that the main purveyors of free visas are employees of the Labor Ministries and the Interior Ministries. Free visa holders are sometimes self-employed, often remitting a share of their earnings to their sponsor.

## UNEMPLOYMENT AND EMPLOYMENT POLICY REFORM

In the Gulf monarchies, labor market segmentation is a full-fledged policy. Its primary objective – to protect nationals against competition from expatriate workers on the job market – is no longer fulfilled today, at a time when mass unemployment has clearly become endemic. To achieve this, states are trying to reform their employment policies.

### Who are the unemployed?

It is virtually impossible to obtain a coherent statistical series of unemployment figures at regular intervals, even limiting the time frame to the pivotal period of the 1990s and 2000s.<sup>26</sup> It is only recently that some countries have founded institutions in charge of recording and in

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<sup>25</sup> See G. Beaugé, "La kafala: un système de gestion transitoire de la main-d'œuvre," *op. cit.*, p. 113.

<sup>26</sup> For a critical analysis of population statistics in the Gulf monarchies, see M. Baldwin-Edwards, *Labour Immigration and Labour Markets in the GCC Countries: National Patterns and Trends*, Kuwait Programme on Development, Governance and Globalisation in the Gulf States, London School of Economics, 15, March 2011, pp. 2-7.

some cases compensating job seekers. In this context, states have traditionally collected data in the framework of censuses. Some of them (Bahrain, Oman, Qatar and the United Arab Emirates) have also used labor surveys conducted jointly with the International Labor Organization (ILO). For all that, not all countries make all their statistics available to the public. Internet websites of the institutions involved often only post the most recent data. Oman for instance does not give out any unemployment figures.

The ILO sometimes publishes complete statistical series on the basis of data supplied by states. The problem then is that these figures are calculated solely for the total active population, national and expatriate workers included. The number of unemployed compared to the total active population is of little analytical value for GCC countries, where expatriate workers constitute the greater proportion of the population and among whom there are by definition no unemployed because, barring a few exceptions, there is no immigration other than for work. What matters is indeed unemployment among nationals. Two examples will suffice to make this clear. ILO figures for Qatar show an unemployment rate of 3.9 % in 2001, whereas unemployment among nationals for this same period stood officially at 11.6.<sup>27</sup> For the United Arab Emirates, ILO figures show 4 % unemployment in 2008, compared to an official unemployment rate for nationals of 13.8 %.<sup>28</sup>

Confusion grows when other sources are consulted. For instance, a UN study on the question of employment in the Middle East gave still different figures for 2010: 1 % for Qatar and 2 % for the United Arab Emirates, on the basis of the "latest available data" (sic).<sup>29</sup> The authors of a 2004 International Monetary Fund report cautiously give no specific unemployment figures and in a footnote point out that "Labor statistics in GCC countries [...] are scant and vary significantly across countries in terms of coverage, quality, measurement, and timeliness."<sup>30</sup> In a survey conducted in 2011 on labor statistics in GCC countries, the most thorough to date, Martin Baldwin-Edwards gives unemployment figures for only four countries: Saudi Arabia, Qatar, the United Arab Emirates and Kuwait.<sup>31</sup>

Official figures are often the subject of controversy. Opposition forces and other critics suspect them out of hand to be underestimated, either because governments are reluctant to recognize the scale of the problem officially, or because they do not have reliable means of collecting statistics. In the early and mid-2000s, in the three least wealthy countries (Saudi Arabia, Bahrain and Oman), which were the most affected by mass unemployment, unofficial figures put forward by opposition forces (30 %) were sometimes double those of official figures (15 %).<sup>32</sup>

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<sup>27</sup> C. Berrebi, F. Martorell and J. C. Tanner, "Qatar's Labor Markets at a Crucial Crossroad," *Middle East Journal*, 63 (3), Summer 2009. See p. 428 for unemployment figures. This article takes up a RAND Corporation-Qatar report commissioned by the Qatari government on the basis of the 2001 labor survey.

<sup>28</sup> The figures for 2008 and 2009 were published on the National Bureau of Statistics website: <http://www.gov.ae/>

<sup>29</sup> J. Chaaban, *Job Creation in the Arab Economies: Navigating through Difficult Waters*, Arab Human Development Report, Research Paper Series, 3, United Nations Development Programme, Regional Bureau for Arab States, p. 11.

<sup>30</sup> U. Fasano and R. Goyal, *Emerging Strains in GCC Labor Markets*, IMF Working Paper WP/04/71, April 2004, p. 4.

<sup>31</sup> M. Baldwin-Edwards, *Labour Immigration and Labour Markets in the GCC Countries*, *op. cit.*, p. 19.

<sup>32</sup> Personal observations in Saudi Arabia (2004) and Bahrain (between 2002 and 2008). For the case of Oman, see M. Valéri, *Le Sultanat d'Oman. Une révolution en trompe-l'œil*, Paris, Karthala, 2007, p. 400.

The most serious controversy has been stirring up Bahrain since the 1990s. Unemployment in the archipelago was a major factor triggering the long uprising that lasted from 1994 to 1999, which started with demonstrations by the unemployed in front of the Labor Ministry and headed by members of the opposition. Unemployment has since become a major mobilization theme for the opposition. Some pro-government groups, particularly the merchant oligarchy that controls the private sector, go so far as to claim that unemployment is a myth entirely manufactured by the opposition. Since 2007, official unemployment figures have been dropping considerably, now around 4 %. The government ascribes this decrease to the success of the labor market reform it undertook in 2006. Most foreign observers as well as certain opposition groups agree that unemployment is still heavily underestimated, and instead hovers between 15 % and 20 %.

The countries where unemployment figures seem less subject to dispute are Qatar and the United Arab Emirates. In 2001, Qatar conducted an initial labor survey using ILO methodology, which showed a disturbing unemployment rate of 11.6 %. Another survey, carried out in 2007, revealed an unemployment rate of 3.2 %.<sup>33</sup> It is hard to interpret this decrease in the absence of any public debate in a country where there is no organized opposition that expresses itself. Either the figures were rigged or the government made a concerted effort to give the unemployed public sector jobs. This second option would be in keeping with the Qatari government's usual practices, as well as those of other GCC countries (Kuwait in particular), which many consider to be a form of disguised unemployment.<sup>34</sup>

In the United Arab Emirates, the first ILO labor survey dates from 2008 and found an unemployment rate of 13.8 %; the 2009 survey showed 14 %. The United Arab Emirates is the most active country in terms of research and analysis of unemployment, relying on a vast network of foreign universities.

**Official unemployment figures for nationals (two most recent figures available)**

Saudi Arabia		10.5% (2009)
Bahrain	18.5% (2004 labor survey)	3.7% (2010)
Oman		12-15% 2004
Kuwait		3.6% (2008)
Qatar	11.6% (2001 labor survey)	3.2% (2007 labor survey)
United Arab Emirates	13.8% (2008 labor survey)	14% (2009 labor survey)

**Source:** government publications, except Kuwait and Oman.<sup>35</sup>

<sup>33</sup> Analytical Summary of the Labor Force Sample Survey Results 2007, p. 6: [http://www.qsa.gov.qa/eng/surveys/labour\\_force\\_analysis\\_2008/labour\\_survey2008.pdf](http://www.qsa.gov.qa/eng/surveys/labour_force_analysis_2008/labour_survey2008.pdf)

<sup>34</sup> S. Radwan, *Arab Youth Employment: Economic, Social and Institutional Exclusion and its Impact on Employment*, United Nations, Economic and Social Commission for Western Asia (ESCWA), p. 21.

<sup>35</sup> The government of Oman does not publish unemployment figures. Marc Valéri collected the above range in the course of his fieldwork (see *Le Sultanat d'Oman, op. cit.*, p. 400). The Kuwaiti government publishes the number of unemployed but not their percentage of the active population, here calculated by Martin Baldwin-Edwards on the basis of national statistics (see *Labour Immigration and Labour Markets in the GCC Countries, op. cit.*, p. 19).

Despite confusion and controversy, there is one observation all agree on: unemployment primarily affects young people entering the job market, and it affects women more than men. This particularity points up two important facts. First, unemployment attests to the public sector's inability to maintain a level of recruitment in step with steady population growth, which is partly a reflection of ambitious birth-rate policies.

This yields a high proportion of youths among the unemployed, even compared to other Middle East countries.<sup>36</sup> Second, the overrepresentation of women indicates that the family model underlying traditional employment policies is no longer valid. Many young women do not want to stay at home or cannot afford to. In the three least wealthy countries where wages and social benefits are also lower, a single salary is often not enough to ensure a satisfactory level of material resources. This has been true particularly since the oil boom of the 2000s and the ensuing high rate of inflation, which drove up real estate prices. For an increasing number of women, work is also viewed as conducive to personal fulfillment and enters into strategies of leaving the domestic space.<sup>37</sup> This is true in Saudi Arabia as well, where some institutions continue to believe only male unemployment needs to be measured.<sup>38</sup> In this country, as a result of reforms undertaken during the 1990s, the government has promoted a discourse relayed by the media strongly enhancing the value of women working, contributing to a "transformation of gender norms"<sup>39</sup> that is making the traditional family model obsolescent. In August 2010, the debate in the media and religious institutions regarding the decision made by a Saudi supermarket chain to hire female Saudi cashiers in the city of Jeddah is revealing of the reconfiguration of the female labor force underway in the kingdom. The Ministry of Labor decided not to heed the religious opinion (*fatwa*) issued by the Senior Ulema Council condemning women's work in places where they were in contact with men.

### **Segmentation as an impediment to transition to the private sector**

Due to public sector saturation in a context of high population growth and transformation of the traditional family model, unemployment in the Gulf monarchies is not related to a low level of job creation, unlike in most other Middle East countries. On the contrary, growth in the first decade of 2000, spurred by the high rise in oil prices, generated a large number of private sector jobs. As in the oil boom in the 1970s, however, expatriate workers have filled most of these jobs, and their inflow has risen sharply in some countries.

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<sup>36</sup> N. Kabbani and E. Kothari, *Youth Employment in the MENA Region: A Situational Assessment*, World Bank, Social Protection Discussion Paper 0534, September 2005, pp. 6-7.

<sup>37</sup> See A. Le Renard, *Femmes et espaces publics en Arabie saoudite*, Paris, Dalloz, 2011, pp. 171-192.

<sup>38</sup> For instance, the CIA, in the data it publishes on Saudi Arabia in the CIA World Fact Book, only gives unemployment figures for men: [www.cia.gov/library/publications/the-world-factbook/geos/sa.html](http://www.cia.gov/library/publications/the-world-factbook/geos/sa.html)

<sup>39</sup> A. Le Renard, *Femmes et espaces publics en Arabie saoudite*, *op. cit.*, p. 5.

### Evolution of the foreign component of total population in the GCC countries

	1975	1985	1997	2008
Saudi Arabia	25%	23%	31%	27%
Bahrain	21%	35%	39%	51%
Oman	17%	22%	28%	31%
Kuwait	52%	60%	66%	68%
Qatar	59%	60%	67%	87%
United Arab Emirates	70%	79%	76%	81%

**Source:** Martin Baldwin-Edwards, *Labour Immigration and Labour Markets in the GCC Countries*, op. cit., p. 10.

However, the unemployment problem can only be solved by moving nationals into the private sector. This is precisely what the employment policy reforms implemented since the 1990s have strived to achieve. They have all come up against the obstacle of labor market segmentation which, although it was originally a mechanism to protect nationals from competition from expatriate workers, has become a major cause of unemployment today.

In the absence of any type of unemployment insurance scheme, unemployment has compelled many nationals to seek work in the private sector. This is particularly true in the three least wealthy countries where, given the relative lack of resources but also due to the larger proportion of nationals in the population, governments have less leeway to practice the solution of disguising unemployment by creating a surplus of public sector jobs (as do Kuwait and Qatar, two states with low unemployment rates despite not having truly reformed their employment policies). Most of those who have entered the private sector have done so after registering on the waiting list for a public sector job. The wait can turn out to be very long: in Bahrain, some respondents interviewed report being on the list for over ten years.

The experiences of those who have found work in the private sector are often bitter, particularly when the job requires little or no skill. Although poor working conditions are unanimously denounced, it is primarily the low wages that are criticized, as they do not provide enough to live decently in countries where the cost of living is high. Private sector wages have plummeted since the 1990s: in the 1994-2003 period, consultants for the McKinsey institute estimated they declined by 24 % in Saudi Arabia, 21 % in the United Arab Emirates and 16 % in Bahrain.<sup>40</sup> This drop has been particularly noteworthy in the construction business, which developed considerably during the oil boom of the 2000s. In this sector, McKinsey estimates that in 2007 private companies paid nationals an average of \$460 per month, but that a family needed at least \$900 a month to attain an acceptable standard of living.<sup>41</sup> Due to their low wages, unskilled workers are often obliged to turn to public assistance and private charity. Managed by the Ministries of Social Affairs, public assistance draws on surveys by "social researchers" who assess the needs of the poor or those in a vulnerable social position, such as widows and divorcees. Public assistance is experienced as very humiliating and, contrary to a widespread idea among expatriate workers, nationals do not consider it a decent alternative to

<sup>40</sup> G. Al-Kibsi, C. Benkert and J. Schubert, "Getting labor policy to work in the Gulf," *The McKinsey Quarterly*, special edition 2007, p. 22. Data is not available for Kuwait, Qatar and Oman.

<sup>41</sup> *Ibid.*

employment, all the more since benefit amounts remain low. In the three wealthiest countries, people who prefer to wait for a job in the public sector are not usually taken care of by the state but by their family instead. This is precisely the reason behind rising demands for the institution of an allowance for recent graduates seeking a job.

The policy of labor market segmentation is the main cause of poor working conditions and low wages in the private sector. The private sector was in fact simply not designed for nationals, who, faced with such working conditions, would probably have found the means to exert pressure to improve them, as shown by the history of the petroleum industry and social movements that it has experienced. Most expatriate workers, being subject to labor laws and a migratory policy that considerably limits collective action, have little means with which to bargain with their employers. More generally speaking, segmentation and migratory policy have reinforced the correlation between different legal statuses for nationals and expatriate workers and different lifestyles. Expatriate workers generally come from countries where the working conditions and especially wages are either the same as in the Gulf monarchies or considerably worse, and where unemployment is rife. Nationals, accustomed to conditions in the public sector and recipients of very generous allowances from the welfare state, are reluctant to take jobs where different standards apply. Expatriate workers are also generally temporary migrants. This factor has two major implications: for one, they are more inclined to put up with difficult working and living conditions, perceiving them as temporary; second, they usually come alone, which releases them from the very time-consuming family and social obligations that nationals are subject to.<sup>42</sup> As one Qatari in a management position in the family business explains, "Here we work from 8:00 a.m. to 10:00 p.m. As a Qatari, socially I've had it if I agree to work such long hours."<sup>43</sup> He compared his current situation with his time spent studying in the United States, during which he worked very intensely because he was not "socially tied" (sic).

This overall picture must of course be put in perspective, as expatriate workers are no more a homogeneous category than nationals are. Thus, although most expatriate workers today are temporary workers, there is another category of employees, often citizens of other Arab countries (especially the Palestinian Territories, Lebanon and Yemen), as well as India and Pakistan, who have been established there for several generations. Their status is precarious, they are unlikely to acquire the nationality of the host country and are among those who suffer the most from their inferior status in the workplace, precisely because it is not perceived as temporary.

Hierarchies between different categories of expatriate workers sometimes become institutionalized. For instance, "Westerners" are considered a separate category, above that of "Easterners." The categories of "Westerner" and "Easterner" are frequently used in the workplace, sometimes even ratified in corporate policies and procedures. Some companies grant specific social allowances according to their employees are Western or Eastern. Such allowances, which supplement the base salary, are designed to cover employee expenses for

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<sup>42</sup> For a more detailed analysis of the discrepancy between expatriate worker and national lifestyles, see L. Louër, "The political impact of labor migration in Bahrain," *City and Society*, 20 (1), 2008.

<sup>43</sup> Interview, Qatar, November 2010.



transportation, housing, and children’s education when they are allowed to bring their families. Some companies offer considerably higher allowance to the Western employees. Thus, in 2010, according to the corporate policies and procedures of a large, semi-private Bahraini company, the accommodation allowances “differ based on the category of expatriate, eastern or western”; middle managers accompanied by their family are given 700 Bahraini dinars per month if they are Western, 500 if they are Eastern. The difference is even greater at the lower rank; Western “general staff and specialists” receive 600 dinars, Easterners 250. Furthermore, “education assistance is only applicable to Western Expatriate staff.”

Generally speaking, Westerners enjoy a very favorable image among employers, and hence a greater margin for maneuver in negotiations. They usually occupy high skilled and management positions. They are also used to a certain standard of living that they expect to find in the country they settle in, and usually move with their family when they are married and have children. For all these reasons, employers treat them differently. Relations with Westerners are moreover affected by the past and current relations between the Gulf monarchies and Western powers. Except for Saudi Arabia, British rule is still fresh in mind for all these states. Kuwait only achieved independence in 1961; the others in 1971. Not all ties were broken with decolonization and it is still common to find British subjects in senior civil service positions. The oil industry has also made these countries highly dependent on Western technology to exploit petroleum resources, and British and American standards still govern working conditions in most oil companies. Lastly, strategies of economic diversification the Gulf monarchies implemented to decrease their dependence on hydrocarbon revenues rely on foreign investment which still largely comes from the West, despite the emergence of China and India, which have become increasingly sought-after partners.

**Estimates of major expatriate communities (after Andrzej Kapiszewski)**

	Saudi Arabia 2004	Bahrain 2004	Oman 2004	Kuwait 2003	Qatar 2002	United Arab Emirates 2002
Indians	1,300,000	120,000	330,000	320,000	100,000	1,200,000
Pakistanis	900,000	50,000	70,000	100,000	100,000	450,000
Bangladeshis	400,000		110,000	170,000		100,000
Nepalese					70,000	
Sri Lankans	350,000		30,000	170,000	35,000	160,000
Philippians	500,000	25,000		70,000	50,000	120,000
Indonesians	250,000			9,000		
Egyptians	900,000	30,000	30,000	260,000	35,000	140,000
Yemenis	800,000					60,000
Sudanese	250,000					30,000
Jordanians/ Palestinians	260,000	20,000		50,000	50,000	110,000
Syrians	100,000			100,000		
Iranians		30,000		80,000	60,000	40,000
Turks	80,000					
Stateless persons				80,000		

**Source:** A. Kapiszewski, *Arab versus Asian Migrant Workers in the GCC Countries*, United Nations Expert Group Meeting on International Migration and Development in the Arab Region, Beirut, May 15-17, 2006, p. 10

From the employer standpoint, segmentation has also created habits that are difficult to break. Most are reluctant to hire nationals, whose comparative advantages seem pale in relation to expatriate workers: more demanding in terms of working conditions and wages, nationals are also considered to lack loyalty and ready to leave their job as soon as a better opportunity presents itself. Until recently, expatriate workers could not do this, as they were not allowed to change jobs without authorization from their sponsor, usually their employer. The low cost of expatriate labor has had considerable effects on work methods. In particular, it has prevented the development of productivity and mechanization in the building trade and in industry.

### **Nationalization of the workforce**

To address the unemployment problem, GCC countries have instituted so-called job nationalization policies designed to replace expatriate workers with nationals. In the public sector, Bahrain took the lead in the 1970s, and these policies developed especially in the 1990s in the private sector. In their study commissioned by the IMF in 2004, Ugo Fasano and Rishi Goyal identified three categories of measures: measures aiming to tailor the national workforce to market demands; financial incentives designed to influence the market; administrative measures imposing by-sector quotas.<sup>44</sup>

The first type of measure aims to reduce the gap in working conditions and wages between public and private sectors. Public sector wages have thus been capped, and certain social allowances reserved for civil service employees extended to nationals employed in the private sector. This is particularly the case for social security and retirement eligibility. Considerable efforts have also been made to improve vocational training for nationals. Institutions have been created to match private employers with job seekers, which amount to job placement agencies.

The second category of measures aims to reduce the difference in labor costs for expatriate workers and nationals. The two main measures are a rise in fees for work and residence permits, and subsidies for hiring nationals.

The third set of measures involves quotas on the employment of nationals and a ban on hiring expatriate workers in certain sectors. Penalties may apply if quotas are not respected. More than fines, the penalty companies fear most is a restriction on the number of work visas. In the United Arab Emirates, companies are classified into three categories (A, B and C) by the number of nationals they employ, the wage scale and the variety of nationalities represented among their expatriate employees (they should not recruit too many expatriate workers from the same country. The country's migratory policy is designed to prevent any one nationality from becoming dominant and forming a locus of power). Category A companies enjoy privileges such as exoneration from certain visa fees and are also allowed more visas than those in categories B and C. Saudi Arabia adopted a similar system in 2011. There, companies are classified into four categories: excellent, green, yellow and red.

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<sup>44</sup> U. Fasano and R. Goyal, *Emerging Strains in GCC Labor Markets*, *op. cit.*, p. 17.

Policies to nationalize the work force have helped to change the landscape in the Gulf monarchies in two areas. First, they have altered the education offer. Governments have undertaken education system reforms to place greater emphasis on scientific and technical fields and encourage fluency in English. At the higher educational level, some states promote the establishment of foreign, particularly American, university branches to train students in line with market demands. Qatar and the United Arab Emirates are the two countries that have counted the most on foreign universities, which have sprouted up in recent years in part due to job nationalization policies. Saudi Arabia, rather than investing in importing a foreign university system, which the Wahhabi religious establishment would frown upon, instead prefers to fund thousands of grants to study abroad. The main destination of both male and female students remains the United States.

Job nationalization policies have also enabled nationals to be recruited in a wide variety of fields in the private sector. In the least wealthy countries, some sectors that use low-skilled labor have been reserved exclusively for nationals. Such is the case for taxi drivers in Bahrain and Oman. In Saudi Arabia, Bahrain and Oman, nationals now work in tourism, especially in the hotel and restaurant business, service jobs that were long reserved de facto for expatriate workers and still not long ago considered degrading by many nationals. In Bahrain, it is not uncommon for young Bahraini women to work in the hotel business, an area that was still particularly stigmatized only a few years ago, as many hotels sell the services of prostitutes. Such an evolution remains difficult for the moment in the three wealthiest countries, where most nationals refuse to work in service jobs and still prefer socially prestigious management positions. In all the Gulf monarchies, the sector in which nationalization has been the most successful is banking. It must be said that here governments have been especially vigilant in enforcing quotas and developing quality professional training. Jobs in the banking sector are particularly in demand and are sometimes even considered more prestigious than public sector jobs of a similar rank.

Generally speaking, however, the achievements of policies to encourage transition to the private sector have remained limited, with the possible exception of Bahrain, where official statistics indicate that 60 % of the national active population was working in the private sector in 2010, and to a lesser extent Oman. Elsewhere, the transition has not occurred.

#### Public sector employment as a share of total employment of nationals in the GCC

	1990	2000	2006	2008
Saudi Arabia	70%	82%	73%	72%
Bahrain	68%	80%	38%	29%
Oman	76%	Not available	50%	47%
Kuwait	42%	75%	87%	86%
Qatar	Not available	Not available	89%	88%
United Arab Emirates	Not available	Not available	Not available	Not available

**Source:** Martin Baldwin-Edwards, *Labour Immigration and Labour Markets in the GCC Countries*, op. cit., p. 15.

One of the main reasons for the limited success of job nationalization is resistance from actors in the private sector. As mentioned earlier, entrepreneurs and businessmen generally have a

very low opinion of nationals: they find them lazy, devoid of any work ethic, incompetent and unreasonable in their wage and working condition demands.<sup>45</sup> This perception is particularly widespread in the three wealthiest countries where transition to the private sector is very slow, even non-existent, and where nationals are a minority compared to expatriate workers. Many anecdotes and rumors circulate regarding nationals' "unmanageableness" in the work sphere: they all want management positions, refuse to start at the bottom of the ladder, do not like to take orders, demand the same hours as the public sector (where employees start between 7:00 and 8:00 a.m. and finish work between 1:00 and 2:00 p.m.) and two days off a week, whereas many companies only give one. It would even appear that some demand separate toilettes from those used by expatriate employees, as reported by the human resources manager for a company based in Qatar.

Other considerations also come into play in employer reluctance to recruit nationals. In the United Arab Emirates and Qatar, testimonials indicate that business managers are afraid of hiring nationals because they might wind up in situations of hierarchical work relations that are not in line with the social hierarchy rooted in very strong tribal and ethnoreligious bases in these two countries. Thus, a person of high social rank could end up at a lower position in the company hierarchy, a situation likely to generate conflicts not only in the workplace but also on the outside.

For all these reasons, companies have exercised considerable ingenuity in getting around the quotas. One common practice is the bogus hiring of nationals. Some companies pay nationals who stay home although they appear on the employee roster. Since many of them are part of large conglomerations, national employees are shifted from one company to another as inspections occur. The hiring of illegal expatriate workers on the "free visa" market is another expedient that enables them to conceal the real number of expatriate workers. As they were not recruited through the usual bureaucratic channels, there is no administrative trace and they do not appear on the employee roster.

As Steffen Hertog has pointed out with regard to Saudi Arabia, policies to nationalize the work force have also been hindered by specific state governance mechanisms,<sup>46</sup> characterized by bureaucratic fragmentation. The bureaucracy is in effect penetrated by networks of patronage that link the different factions of the ruling dynasties to various interest groups in society. The result is lack of coordination, even rivalry, among agencies in charge of implementing public policy. Corruption is another means by which a well-connected person can easily negotiate exceptions to the rule.

Last, another obstacle to successful job nationalization policies has to do with the general philosophy underlying them: they contrive to establish a special status for nationals in the private sector, not to change working conditions. When investigating the labor market in the Gulf monarchies, it is striking to note that no one ever states that private sector working conditions are simply unacceptable in and of themselves. The game involves integrating nationals in the

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<sup>45</sup> See M. Al-Waqfi and I. Forstenlechner, "Stereotyping of citizens in an expatriate-dominated labour market: implications for workforce localisation policy," *Employee Relations*, 32 (4), 2011.

<sup>46</sup> S. Hertog, *Princes, Brokers and Bureaucrats. Oil and the State in Saudi Arabia*, Ithaca, Cornell University Press, 2010, pp. 185-222.

private sector while shielding them from the general rule such that, even in the private sector, they enjoy better working conditions than expatriate workers. For example, certain countries (the United Arab Emirates, Oman) have set a minimum wage for nationals working in the private sector. Only Kuwait established a minimum wage of 60 Kuwaiti dinars (160 euros) for all employees, regardless of nationality, and this in 2010. There is also considerable pressure for companies to introduce more flexible hours for nationals alone. Furthermore, since they are better integrated socially, nationals do not hesitate to use the whole array of legal instruments available to them to assert their labor rights. Unlike expatriate workers, they thus regularly take issues to labor court in the event of a conflict with their employer.

All these provisions perpetuate the basis for labor segmentation that is at the root of unemployment among nationals. An overall reform of labor law that would raise working conditions to the level of ILO standards would be much more effective in reducing the gap between the public and private sectors than the measures taken up to now. It would also help reduce the difference in the cost and benefits of labor between nationals and expatriates. If they were subject to the same workers rights and wages, the two categories would compete on a more equal basis. This of course would imply the abolition of the *kafala* system, and hence a migratory policy that would come entirely under state responsibility and no longer governed by the principle of delegating authority to society. In a free labor market for both nationals and expatriate workers, questions of skill and work ethic would gain greater relevance to the detriment of the legal statuses of national and expatriate.

### **A unique experiment: the labor market reform in Bahrain**

In 2006, Bahrain undertook a vast overhaul of its employment policy. This “labor market reform” differs from employment policies traditionally carried out in the GCC countries on several accounts. It drew to a great extent on the recommendations outlined in the report by McKinsey international consultants commissioned in 2002 to analyze the employment situation in Bahrain and suggest ways of solving the problem of unemployment among nationals.<sup>47</sup> Its conclusions, published in 2004, recommended equalizing the cost of employing national or expatriate labor by liberalizing the labor market while curbing immigration.<sup>48</sup>

To do so, it recommended a measure that was in fact implemented: the levying of a tax on expatriate workers that would be earmarked almost entirely for funding vocational training for nationals, called Tamkeen (*reinforcement*). The fee, paid by employers of expatriate workers, that is, primarily by private sector companies, in the minds of the McKinsey consultants was supposed to be essentially dissuasive in nature and should thus be set at a fairly high rate: 75 BD

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<sup>47</sup> E. Foucaut, *La Réforme du marché du travail à Bahreïn. Naissance, mise en place et négociation d'une réforme socio-économique en contexte semi-autoritaire rentier*, Master's Thesis in Comparative Politics, Institut d'Études Politiques, Paris, 2010, p. 72.

<sup>48</sup> G. Al-Kibsi, C. Benkert and J. Schubert, “Getting Labor Policy to Work in the Gulf,” *op. cit.*, pp. 25-26.

(about 190 euros) monthly plus 600 BD (1,500 euros) every two years.<sup>49</sup> Under pressure from private sector lobbies, these amounts were finally reduced to 10 BD and 140 BD respectively.

Another measure the McKinsey consultants recommended was also implemented, but there again, only partially: the abolition of the *kafala* system and elimination of quotas, a key aspect of traditional job nationalization policies. The idea was to make competition for jobs between national and expatriate workers entirely free in order to raise private sector wage levels. If expatriate workers were given the same prerogatives as nationals to negotiate and terminate their work contract, employing them would lose much of their appeal, all the more as vocational training would meanwhile have borne fruit, closing the qualification gap between national and expatriate workers. Equalizing recruitment and employment conditions between the two categories would make the nationalization quota system obsolete. Rather than totally liberalizing the labor market, in 2009 the government decided to loosen the *kafala* system, not abolish it – as it claimed through a vast media campaign –, by eliminating one of its provisions: the “non-objection certificate,” in other words authorization that any expatriate had to obtain from his sponsor to change employer or leave the country. Moreover, even if quotas were made more flexible, they were not eliminated.

Labor market reform introduced a remarkable innovation to the GCC and the Middle East: unemployment insurance. It is financed by a tax amounting to 2 % of the employees’ wages, paid in equal shares by the employer and the employee, to which the state contributes an additional amount of 1 % of the salary. The unemployed are now entitled to assistance for six months, a period during which they are also enrolled in training programs. The allowance remains fairly small: 120 BD (about 300 euros) per month for unskilled workers, 150 BD (375 euros) for skilled workers. It is cancelled if recipients turn down two job offers. It should be noted that unlike typical unemployment schemes in OECD countries, a person need not have been previously employed to qualify for assistance: such a condition would make little sense in a context where unemployment almost exclusively affects first-time job seekers.

Since the reform was undertaken, the government has posted very satisfactory figures compared to those of neighboring countries. According to the Labor Market Regulation Authority in Bahrain (LMRA), 60 % of Bahrainis were working in the private sector in 2010. Unemployment has been at a historically low rate, around 3.5 %-4 % since 2008. Most agree, however, that this figure should be regarded with caution. Besides the fact that it is always possible that the true figures are deliberately dissimulated, the reform changed the method of calculating unemployment. The unemployed are no longer counted in census-taking operations or labor surveys (the latest dating back to 2004); the unemployed are now considered to be those registered as such. However, after six months, people are systematically struck from the list if they have not bothered to re-register – which would appear to be the case for many of them, unaware of the obligation or not seeing the point of doing so.<sup>50</sup>

Another goal of the reform was better control of migratory flows. A debate focused on this issue when the government announced in February 2010 that the total population of

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<sup>49</sup> E. Foucraut, *La Réforme du marché du travail à Bahreïn*, op. cit., p. 31.

<sup>50</sup> *Ibid.*, pp. 14-15.

Bahrain had reached a little over 1 million, whereas it had been 743,000 one year prior to that. The government readily acknowledged that the sudden increase was primarily due to the near doubling of the expatriate population, which now represents slightly more than half the total population. Is this a sign of the failure of the government's employment policy, as some opposition activists allege? Or is it on the contrary an indication of a healthy economy, especially the boom in the construction sector, as the chamber of commerce and large local construction firms contend? Construction by its very nature generates badly paid blue-collar jobs (about 80 BD a month, or 200 euros) and the work is carried out in particularly harsh physical conditions. Job nationalization measures therefore do not apply, as the government deems it unrealistic to imagine that large numbers of Bahrainis would agree to take this sort of job. It hence does not consider the rise in the number of construction workers is in any way the sign of an employment policy failure.

## **POLITICAL BATTLES SURROUNDING EMPLOYMENT POLICY REFORM**

Employment policy reform is a major political issue. It is not easy to grasp the extent of it, as political battles do not always take the form of public debate and the actors often suffer from a lack of organization. There are two major exceptions to this rule: Bahrain and Kuwait, two countries that have participatory institutions, organized political movements and trade unions. Elsewhere, social interests remain poorly organized, a fact that has considerable consequences on the implementation of reform.

### **Two examples: Bahrain and Kuwait**

As it has become clear in the preceding discussion, the private sector has generally shown great reluctance toward employment policy reforms, which are accused of denying it what it considers one of its primary assets: unlimited access to cheap, docile expatriate labor. Up until now, the private sector has enjoyed considerable government protection, a direct consequence of the state's intention to co-opt a social category that long represented a challenge to the ruling dynasties, to which some of the major actors of the organized opposition belonged, sometimes into the 1960s. The co-optation process of these beds of protest gave rise to a coalition of interests between the ruling dynasties and the merchant oligarchy. Marital alliances were sometimes formed. A case in point is Qatar, where in 1977 the current emir, Hamad bin Khalifa al-Thani, took as his second wife the renowned Moza bint Nasser al-Misnad, daughter of an opponent to the previous emir from the al-Misnad merchant family.

Economic practices have largely followed a pattern of patronage. Thus, most of the major conglomerates that dominate the private sector today formed on the basis of exclusive import licenses for modern consumer goods, automobiles in particular. Public spending also encouraged

their development, as they had privileged access to major public works contracts. Massive investment by members of the ruling dynasties in business also furthered the penetration of state power networks in the private sector, creating an intermingling of economic and political interests. The two categories are sometimes all the more difficult to tell apart as certain merchant families have been awarded ministerial portfolios, thereby gaining powerful positions in government. Since the 1990s, they have also participated in the “consultative councils,” these assemblies of prominent figures and technocrats either appointed directly by the emirs or partly elected. The most advanced example in this regard is Oman.

Employee interests are poorly represented in the face of such alliances that sometimes blur the distinction between private sector elites and the dynasties. Trade unions are only allowed in Kuwait and in Bahrain, whereas the private sector is organized everywhere through chambers of commerce, the governments’ inescapable partners in any economic reform process, particularly employment policies. In most Gulf monarchies, workers and those who want to join their numbers – the unemployed – only exercise influence by default, that is, through the specter of a large-scale social revolt, which the regimes attempt to dispel. Rarely do governments confront the demands of organized groups, even though in recent years embryonic social organizations have emerged, particularly among university-educated unemployed in Saudi Arabia and Oman.

There are two major exceptions to this configuration: Bahrain and Kuwait. A comparative analysis of these two cases is all the more instructive since these countries belong to the category of per capita least wealthy and wealthiest countries respectively, indicators that have proven their relevance for understanding socioeconomic issues. Beyond their differences in terms of resources, these two countries have many similarities from a political standpoint. Since 1963, Kuwait has had a parliament elected by universal suffrage,<sup>51</sup> which has a fairly broad competence by Middle Eastern standards; Bahrain set up a parliament modeled after Kuwait’s in 1973. In both countries, highly organized social groups imposed the creation of participatory institutions: the merchant oligarchy in Kuwait’s case, labor movements in the oil industry in Bahrain’s case. In that country, the need for participatory mechanisms was particularly strong, given the historic divide between the Shia majority (70 %) and the Sunni minority (30 %), to which the ruling Al Khalifa family belong. With the setting up of parliaments, a relatively liberal legislation on the freedom of association and the right to form trade unions has followed. In the 2000s, however, the position and role of labor unions with regard to employment policy in these two countries diverged considerably.

Labor market reform in Bahrain would probably not have made such strides without opposition backing. Since 2002, in the context of political reforms which among other things reinstated Parliament, suspended by the authorities in 1975, opposition movements, most of them being Shia Islamic movements, have been invited to participate in legislative elections. The main opposition forces at first refused to play the game, claiming that the Parliament’s powers had been curtailed significantly by the new Constitution promulgated unilaterally by the king. In 2006 however, the largest opposition party, al-Wifaq (the Accord), decided to take part in the

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<sup>51</sup> Men and women since 2005.



parliamentary elections, winning a relative majority of seats (18 out of 40). Al-Wifaq's entrance into Parliament sealed the co-optation of an opposition party in Bahrain that agreed to work within the parliamentary framework, thereby limiting the scope of its action.

Although al-Wifaq persisted in its refusal of certain aspects of the regime's policies, it did support the far-reaching program of socioeconomic reform steered by crown prince Salman bin Hamad Al Khalifa, which included labor market reform. Apart from its political support for the reform, it also relied on the trade unions to push for compliance with the legislation on the ground. Trade unions were allowed once again in all sectors as of 2002. Exclusively found in the private and semi-private sectors, they are company-based and affiliated with the General Federation of Bahrain Trade Unions, which represents them in public administrations and international bodies. Only nationals are entitled to organize and lead unions but expatriate workers are allowed to be full-fledged members, a significant measure for the private sector. Many union leaders are either al-Wifaq members or sympathizers. At first trade unions were present only in large semi-private companies where, due to the weight of government representatives catering to national employees, boards of directors tended more by nature to consider them as bargaining partners, unions started investing the purely private sector in 2006. Their strength there depends on their ability to recruit expatriate employees, and thus are intent on proving their usefulness. Many of them have achieved their goal, such that in recent years some major private companies have been forced to negotiate with trade unions that have a majority of expatriate workers.

Although there is still a long way to go, considerable progress has been made for expatriate workers: wage hikes, improved living conditions in construction worker camps, telephone cards to make international calls at reduced prices and other small perks. Trade unions can come to the aid of expatriate workers in the event of unfair dismissal, increasingly common with the economic slowdown of 2008, bringing some cases before the labor court. Because they help expatriate workers better resist the abuse so prevalent in private companies, these activities work toward the goal of leveling out the cost of employing national and expatriate workers. If such is the government's ambition, trade unions could also help to improve working conditions in the private sector considerably, bringing them up to a par with those for nationals. But this perspective comes up against what could be called the "special status" culture which, like in the other Gulf monarchies, drives employment policy in Bahrain.

From a political standpoint, cooperation between the main opposition party and the government has significantly altered the dynamics of the governing coalition. Barring a few exceptions, the private sector has wound up on the side of political opponents open to reform, going as far as to ransack the premises of the LMRA in autumn 2010. However, the interpenetration of economic elites in the private sector and entire segments of the royal family is such that members of the business community have found strong support within the dynasty in the person of Prime Minister Khalifa bin Salman Al Khalifa, who has occupied the post since independence in 1971. He had traditionally been the preferred intermediary in relations between the merchant elites and the dynasty during the previous monarch's reign. An experienced businessman, he is reputed to be the richest man in the country. In addition to the commissions he is said to take on all large-scale projects put together in the archipelago, he is directly involved in a number of real estate and financial deals in both

Bahrain and abroad. Opponents to labor market reform thus naturally turned to him to get the plan emended. And it was through his mediation that they won a significant reduction in the amount of fees on expatriate workers, which weakened the reform's impact.

Kuwait undertook to change its employment policy along similar lines to its neighbor Bahrain, but without launching into an ambitious reform. An ILO mission conducted in December 2010 has not yet yielded any new measures. The autumn 2010 announcement that the *kafala* system would be abolished in February 2011 was not acted upon. The employment situation in Kuwait is largely comparable to Qatar's: a low official unemployment rate (which has never been calculated through a labor survey) and a very low percentage of nationals working in the private sector, which suggests a high number of surplus jobs in the public sector where, unlike in Qatar but like in Bahrain, employees' social interests are strongly represented through political parties and trade unions. With the notable exception of the banking sector which employs a significant number of Kuwaitis, unions are logically absent from the private sector and, another major difference with Bahrain, expatriate workers are only allowed to join if they obtain a government-issued certificate of morality and can prove five years of consecutive residence in the country. Trade unions are thus essentially present in government agencies and semi-private companies, and, like in Bahrain, are all affiliated to a single federation, the Kuwait Trade Union Federation.

Unlike in Bahrain, however, no influential coalition of actors has emerged to support government efforts to reform employment policy, in particular to increase the proportion of nationals in the private sector. Although a new labor law that significantly improved working conditions in the private sector was passed in 2010, it came ten years after debates in Parliament and did not modify the *kafala* system. In the 2000s, in the context of rising oil revenues, union and parliamentary pressure was applied more toward increasing welfare provisions. Thus between 2008 and 2009, a huge series of battles pit the Cabinet, appointed by the Emir in disregard of the election results, and members of Parliament demanding debt forgiveness for all Kuwaitis. Demands for public sector salary hikes also frequently came up in Parliament and were often approved by the Cabinet, even though battles raged there, too, over the amount. In the autumn of 2011 a large-scale social movement led by the trade unions affected several public administrations. It began when the oil industry union, threatening to strike, wrested a sizeable salary increase (between 15.5 % and 66 % depending on rank), which prompted other sectors – particularly employees in the customs administration, the port authority, Kuwait Airways, and the Interior, Health as well as Labor and Social Affairs Ministries – to strike in the hope of winning similar gains, an endeavor in which they were actually successful.

The focus of groups representing social interests in Kuwait on the demand to increase government provisions is typical of all three wealthiest countries, as their budgetary room to maneuver allows them to go at a slower pace for reform. This is particularly obvious in Qatar, where the press, although tightly controlled, is the main echo for such demands. Demands have increased particularly since the oil boom of the 2000s, as nationals believe they are entitled to benefit from the increase in hydrocarbon revenues. As in Kuwait, the government tends to satisfy these demands, but as a number of local and international economists point out, the sharp rise in welfare provisions, and particularly the public sector wage bill, exposes

states to fluctuations in oil prices. Thus, according to a Kuwaiti economist, the cost of public sector salaries in Kuwait rose from 1.5 to 4 billion dinars (10.8 billion euros), between 2002 and 2010, requiring a constant per-barrel oil price of between \$85 and \$90.<sup>52</sup>

### **The impact of the Arab Spring on employment reforms**

Although they were less affected than other Arab countries, the Gulf monarchies also faced protest movements during the “Arab Spring.” Significantly, these movements took place in the three least wealthy countries, whereas the three wealthiest countries have been almost entirely spared. The political turmoil that rocked Kuwait originated well before the uprisings broke out, and regional context hardly affected them. The first warning signal logically came from Bahrain, which has a long history of popular uprisings dating from the beginning of the petroleum era and where political life is punctuated by periodic crises. On February 14, 2011, demonstrators gathered at and later occupied Pearl Roundabout in the capital, Manama, demanding political reform. Tremors shook Saudi Arabia’s eastern province a few days later, where the kingdom’s hydrocarbon resources and most of the Shia population are concentrated. Petitions from liberal and Sunni Islamic activists followed, demanding reform and solutions to the socioeconomic difficulties encountered by the younger generations. In late February, police killed demonstrators in Oman as a wave of protest swept through the country, spurred on by slogans with a clearly more social tone than in Bahrain and Saudi Arabia: demonstrating youths primarily demanded jobs and better salaries, and criticized the economic elites associated with the sultan.<sup>53</sup>

The wave of protest caused panic among the GCC ruling elites, who took measures that were sometimes exceptional in scope. Security forces were naturally called in, resulting in the death of several dozen demonstrators in Bahrain and Oman. Thousands of others were imprisoned, and often tried and sentenced by military courts. The demonstrations in Bahrain even gave rise to unprecedented security cooperation among the six states with the arrival of a detachment from the GCC’s joint military force, the Peninsula Shield Force, to help quash the protest. Nevertheless, the handling of the uprising had a strong social dimension, true to the Gulf monarchies’ tradition of generous distribution. For instance, on February 23, 2011, King Abdallah of Saudi Arabia announced a package of measures never before matched in the country’s history, for an estimated \$130 billion, one of the key measures being a monthly unemployment allowance of 2,000 Saudi riyals (about \$400). On February 27, Oman’s Sultan Qabous also announced the creation of a monthly unemployment allowance of 150 Oman rials (\$290). In a sign that the unemployment issue is perceived as particularly pressing, both monarchs moreover promised the creation of several thousand new public sector jobs,

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<sup>52</sup> See J. Calderwood, “Public sector strikes in Kuwait set to get worse, trade union chief warns,” *The National*, October 10, 2011.

<sup>53</sup> For an analysis of the impact of the Arab spring on the Gulf monarchies, see L. Louër (ed.), *Les Monarchies du Golfe face au printemps arabe*, Les dossiers du CERI, September 2011: <http://www.cerisciencespo.com/cerifr/kiosque.ph>

particularly in the security forces. Saudi Arabia also decided to institute a minimum wage of 3,000 riyals (\$560) in the public sector.

The old reflexes have clearly been reactivated. Public sector employment, the traditional distribution channel, has recovered its preeminent role as the instrument of social control. The same philosophy underlies direct cash transfer to the unemployed, even if the creation of an unemployment allowance appears as an essential measure given the persistence of unemployment. The fact remains that, as they have been implemented, these measures jeopardize the viability of employment policy reforms, the main goal of which is to encourage the transition of nationals into private sector jobs. Although the creation of public sector jobs automatically contributes to reducing unemployment, these are inevitably a surplus with respect to real needs and reinforce the idea among citizens that the state can continue to employ them all if it chooses to. In the case of Saudi Arabia, the institution of a minimum wage in the public sector that is three times higher than the average wage in the private sector runs counter to the efforts made to enhance the image of employment in this sector. The same holds true for the unemployment allowance, twice as high as the average wage in the private sector.<sup>54</sup>

In Bahrain, the government also announced a series of social assistance measures in the month of February for an estimated total amount of \$417 million.<sup>55</sup> They include a one-time grant of 1,000 BD (about \$2,000) for all families, the creation of 20,000 new jobs under auspices of the Interior Ministry, an increase in subsidies for certain food staples as well as a raise in civil servant salaries. A new \$500 million program to build low-cost housing, financed by the state, was also announced.<sup>56</sup> There again, employment policy was placed at the center of counter-revolutionary measures. Thousands of demonstrators were thus sacked from the public and semi-private sector. And in April 2011, new demonstrations by private sector entrepreneurs demanding cancellation of the fee on expatriate workers prompted the prime minister to declare the monthly fee of 10 BD would be suspended for a six-month period, while members of Parliament, particularly Salafists and Muslim Brotherhood members traditionally allied with the regime, asked for a one-year suspension to allow time to reassess the measure's efficacy. Everything indicates that labor market reform is once again at the heart of internal reconfigurations within the ruling dynasty, directly instigated by the protest movement and the ensuing crackdown. The Bahraini prime minister, whose intervention led to a significant reduction in the fee on expatriate workers, very likely had support from the Saudis who commanded Peninsula Shield Force troops that put down the demonstration in March. He also joined forces with another dynastic faction led by the Minister of the Royal Court, Khaled bin Ahmed Al Khalifa, and his brother, Khalifa bin Ahmed Al Khalifa, commander-in-chief of the army. This faction is notoriously hostile to the alliance with the opposition made by the king and his son, the crown prince.

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<sup>54</sup> S. Hertog, "The costs of counter-revolution in the GCC," in L. Louër (ed.), *Les Monarchies du Golfe face au printemps arabe*, op. cit., p. 3.

<sup>55</sup> N. Hodson, *Distributional Structures in the Arab Gulf*, op. cit., p. 5.

<sup>56</sup> *ConstructionWeekOnline*, "\$500m social-housing programme launched in Bahrain": <http://www.constructionweekonline.com/article-11658-500m-social-housing-programme-launched-in-bahrain/>

## CONCLUSION

Employment policy reform in the Gulf monarchies serves as an indicator for these countries' entire political economy. They point up the limits of the distributional policy conducted since the oil boom in the 1970s. They also show that despite their wealth and great ability to penetrate society, the GCC countries all have trouble imposing changes to acquired habits. The main obstacle to reform is without a doubt the national private sector, which often has considerable ability to organize and mobilize to confront generally disorganized labor interests. What is really at stake in these reforms is a deep change in the economic culture of local entrepreneurs and businessmen, which the reforms underway do not seriously address. Lastly, lessons from employment policy reform indicate that contrary to a deep-rooted image, the Gulf monarchies are not sheltered from the turmoil rocking the Arab world today. Like Egypt and Tunisia, they are also faced with the obsolescence of their social model, which wealth enables them to compensate for, but which they must remedy, sometimes in the very short term.

Translated from the French by **Cynthia Schoch**