

## **GLOBAL ECONOMIC FACTORS ON GULF LABOR DYNAMICS: LOCALIZATION VERSUS IMMIGRATION**

**Esra Pakin ALBAYRAKOGLU**  
BILGESAM (Wise Men Strategic Research Center) &  
War Colleges Command, Strategic Research Center  
E-mail: esrapakin@gmail.com

### **Abstract**

*The Gulf Cooperation Council (GCC) represents an ambitious bloc of six Arab countries in pursuit of deeper integration with the global economy. Although the members differ among themselves in terms of composition of population, natural resources or economic and military capabilities, they look relatively similar as regards conservatism and prosperity based on hydrocarbon revenues. This paper presents an international political economy perspective on the past and present labor crises in the GCC countries and makes suggestions for improving the qualities and conditions of national and foreign work force. It is concluded that the GCC would survive in the post-carbon era, provided that economic diversification went coordinately with necessary adjustments in the labor sector.*

**Key Words:** migration, regional labor markets

**JEL Classification:** F22, O53, R23

### **1. INTRODUCTION**

The kingdoms of Bahrain and Saudi Arabia, the sultanate of Oman, and the emirates of Kuwait, Qatar, and the United Arab Emirates (UAE), comprise the Gulf Cooperation Council. These countries are proactively diversifying their economies with respect to finance, tourism and alternative energy, investing abroad, and hosting international events. They are all members of the Arab League and World Trade Organization, while Qatar, Saudi Arabia, Kuwait and the UAE are also OPEC members. The long-awaited GCC Monetary Union finally came into effect in June 2009, notwithstanding Oman and UAE's abstinence (Pakin,2009:83,87).

### **2. LABOR DYNAMICS IN THE GULF**

#### **2.1. Global Economy and Intraregional Labour Dynamics**

Since the early 1950s, the Gulf regimes have enjoyed an immense oil wealth, which peaked after the oil boom of October 1973. In order to make the best use of this surplus revenue, the GCC members initiated economic diversification programs to maintain sustainable growth. Accordingly, they decided to invest in such sectors as infrastructure development, tourism, health care and education. However, given the small size of national populations, where about 60 per cent is between the ages of 14 and 27, and their lack of interest to develop necessary organizational and managerial skills for private sector jobs necessitated the need to export foreign labor (Bahgat,1999:128; Winckler,1997:480-481; Naithani and Jha,2010:98-99). According to the latest figures, foreign labourers in the Gulf account for 59 per cent of the work force in Bahrain, 81 percent in Kuwait, 71 per cent in Oman, 86 per cent in Qatar, 50 per cent in Saudi Arabia, and 90

per cent in the UAE. The majority of migrants in GCC countries are employed in manual and low-skilled jobs in the private sector (Ruhs,2009:18).

The Arab work ethic is in direct opposition to the Protestant work ethic, which regards work as a noble act, developing the character and capabilities of people. Most Arabs associate occupations requiring manual labor, such as agriculture or crafts, with lower class status. On the other hand, there is also a general disinclination toward mechanics, industry, and technical innovation. They may eagerly use western technology but do not even entertain the idea of producing them (Harnish,2004:131). Despite the fact that the GCC welfare states of the early 1970s contributed to the expansion of educational facilities, those people who failed to find places in the already-saturated public sector could not compete with foreign expatriates on grounds that academic training was dominated by humanities, arts and religious studies, rather than technical and vocational education. Thus, Gulf governments took the responsibility to provide jobs for all graduates mostly by opening more posts at the public level. Requiring limited skills and experience, public employment was advantageous in a number of respects like high wages, benefits like maternity leave and long holidays, job security and social status. The public sector was also conducive to nepotism that private sector could never tolerate or forgive. Parenthetically, reservations in the Gulf regarding hybrid occupational spaces prevented women's active participation in vocational training programs mainly reserved for men such as electrical or mechanical engineering. In general, women were encouraged to study subjects such as sewing, hairstyling, or at best, teaching (Bahgat,1999:131-135; Al-Ali,2008:368; Forstenlechner,2008:83). All these elements culminated in today's overstuffed and ineffective bureaucracies, albeit with partial success in nationals' education for and placement in the private sector.

## **2.2. Global Economy and International Labor Dynamics**

Dating back to the oil exploration agreements in the Gulf in the 1920s, the initial flow of labor migrating to this region came from the poor and mainly unstable Arab neighbors, especially Yemen, Egypt, Jordan and Palestine. The GCC states have presented a profitable and the most available labour market for those Arabs, who could not immigrate to far away European countries mainly because of linguistic and cultural obstacles. At the beginning, the Arab workers were very welcome. Nevertheless, and relatively quickly, local governments, foreign companies, as well as the GCC nationals began to be more accomodating towards the Asians (Kapiszewski,2004:115,119).

With the end of the oil decade (1973-1982), the Gulf countries had to control the admission of foreign workers due to the economic recession emanating from the sharp drop in oil prices and the following decline in state expenditure. The only exception to this trend was Oman, where foreign labour flow endured as a reflection of this non-OPEC member's being a relatively new oil producer, which was able to compensate falling world prices by increasing production. Gulf authorities also became worried about non-local Arabs spreading radical ideas like secularism and communism. Leftist, pan-Arab ideas promoted by some Arab expatriates called for the abolition of monarchies in the Gulf, or an equitable share of the oil revenues. Hence, in the 1970s and 1980s, numerous immigrant Arab labourers were prosecuted, jailed and deported because of their revisionist behavior, including labor-strikes (Kapiszewski,2004:119-121; Winckler,1997:483; Birks et al.,1986:805-806,808). Concerns over the emergence of Shi'a extremism during the Iran-Iraq War of 1980-1988 saw GCC states deport large numbers of Iranian workers impose restrictions against the entry of Iranians and Iraqis (Humphrey,1991:52). With the First Gulf War,

Iraqis and those supportive of Iraq (including Palestinians, Jordanians, Yemenis and Sudanese) were distrusted and forced to leave during and in the aftermath of the crisis (Kapiszewski,2004:121; Humphrey,1991:57).

On the other hand, Asians were less expensive to employ, easier to lay off, and often considered to be more efficient and obedient. Arabs' departure worked more to the benefit of Asian workers, for whom Asian governments, unlike their Arab counterparts, became closely involved in the recruitment and placement process so as to assure the steady flow of workers. Asian workers were preferable because, compared to Arab workers, they were much more used to leaving their families behind (Kapiszewski,2004:119-120). Another factor was the desire to safeguard development projects from regional political pressures (Humphrey,1991:58). Additionally, it was hard to reject fellow Arabs' claims regarding equal treatment with the GCC nationals. However, extending benefits to Arab workers like free schooling, subsidized housing or public employment increasingly became a burden for the Gulf countries (Weiner,1982:12). On the contrary, Asian workers were regarded as unlikely to claim citizenship or any other political rights (Winckler,1997:487). With the massive deportation of Arabs, the labour-exporting countries were deprived of the financial remittances transferred by workers to support industrial, agricultural, and housing projects in their home countries and the reduction of pressure for work opportunities (Winckler,1997:481-482). In Yemen, for example, it resulted in a 200 per cent increase in food prices between 1990 and 1992, and an increase in poverty from 15% to 35%. In return, free market dynamics led Asians to take the vacant jobs, again raising their share in the workforce (Kapiszewski,2004:122). The Asian financial crisis of 1997 did not cause much consternation, since, despite the inevitable fall of oil prices, Asian workers held their jobs and remittances continued to flow to their home countries (Abella and Ducanes,2009:7)

In the contemporary period, Westerners in the GCC rank the first in the social ladder, occupying higher executive and technical positions. Arabs from North Africa or the Levant are accorded secondary status as a function of their economic status and level of education. The lowest position on the social hierarchy is occupied by Asians from India, Pakistan, Thailand, or the Philippines, with Indians generally receiving higher wages than other Asians. Asian women, often working as domestic servants are held in lesser esteem (Malecki and Ewers,2007:478-479; Naithani and Jha,2010:99). However, in the face of the latest global financial crisis, especially the Asians have witnessed hard times. Many were faced with wage decreases or outright firing. Housemaids with minimum pay are allowed to continue with increased workload (Rajan and Prakash,2009:10-12). Labour repercussions of the ongoing financial crisis is related with the GCC countries' (except for Kuwait) having pegged their exchange rates to the dollar. The GCC witnessed asset depreciation and subprime exposure, even though it fared better than the USA or Europe. International banks in local project finance market faced liquidity constraints, which adversely affected various mega-infrastructure projects. Reduced demand for crude oil and products, coupled with the slump in newly-launched petrochemical and aluminum industries in the Gulf further complicated the issues (Woertz,2008:3-7,12-19). The UAE and Oman's aversion to participate in the GCC Monetary Union launched on June 7, 2009 also preclude any effective coordination and cooperation to fight against regional problems (TradeArabia,2010). Immigrant workers' plight under the abusive *kafala* (sponsorship) system, in which the *kafeel* in fact stands up to be the employer, is augmented with the lack of official measures upholding the rights of immigrant workers while at work or upon leave. Family reunion, access to welfare benefits and rights in the labour market, as well as integration projects are fairly restricted. None of the GCC countries are party to the two ILO

conventions on migrant workers or the UN's 1990 MWC (Ruhs,2009:19-20). Likewise, citizenship laws and requirements for naturalization in Gulf countries are very rigid (Nakhleh,1977:143).

### **2.3. Localization versus Immigration**

Since the late 1970s and more thoroughly in 1990s, the GCC countries have engaged in localization programs based on positive discrimination against the nationals to integrate a larger share of them into the workforce. The programs have names such as Bahrainization, Emiratization or Saudization. Much of these affirmative actions' content involved both carrot (i.e. providing tax reduction for foreign countries contributing to the localization programs) and stick (i.e. maintaining quotas for nationals in foreign companies and punishing those who fail to abide by it) tactics, and has been no more than rhetoric (Malecki and Ewers,2007:477; Mashood et al.,2009:1). Exceptions to the rule are success (albeit partial) stories of localization by such companies as Shell, HSBC and DHL through training and internship programs as well as rewards to incentivize Gulf nationals (Figliolini,2008:17-18).

To give some specific examples, Bahrain, having the smallest reserves of hydrocarbons the Gulf region, developed a new National Employment Strategy that includes fiscal subsidies for training nationals in the private sector and financial aid for the unemployed. The country introduced measures to improve vocational and technical training programs. Kuwait established Manpower and Government Restructuring Program (MGRP) in July 2001 to train and employ Kuwaitis for the private sector. In September 2002, company quotas for the proportion of Kuwaitis to be employed were introduced. Oman has established the High Committee for Vocational Training, the Ministry of Social Affairs and Labour and Vocational Training to oversee the Omanization process launched in 1991. The country created a new Ministry of Manpower in 2002 and a new Labor Law was adopted in May 2003. Qatar terminated the long-cherished policy of automatic employment for Qatari graduates. Saudi Arabia created the Human Resources Development Fund (HRDF) to provide training of Saudi labor force and developed a database for matching and placement of Saudi workers in the private sector. The UAE established the National Human Resource Development and Employment Authority (TANMIA) in 1999 to help improve skills of UAE nationals looking for jobs, and created a database to facilitate job searches (Figliolini,2008:22-23; Al-Lamki,2000; Franklin,1985:7).

Ironically, these indigenization programs were remarkably successful in terms of raising qualified personnel for the public sector, but not very much for the private sector (Forstenlechner,2008:83; Al-Ali,2008:368; Al-Dosary and Rahman,2005:498-499). Nationals opt to study teacher training and business studies programs that prepare them for highly-esteemed posts in the public sector (Al-Enezi,2002:893). Only the communications, banking and hospitality sectors seem to have succeeded in fulfilling quotas. This can be attributed to fact that these sectors demand close interaction with the public, and that locals are naturally more qualified for such a task. However, quota pressure has also resulted in the appearance of "phantom" or "ghost" employment in the private sector. This happens when companies hire Gulf nationals on a small pay, provided that they stay home. It is through this means that some private companies evade the fines for not satisfying the quota (Salih,2010:176; Forstenlechner,2008:87). Continuous and last minute changes to the rules and regulations of localization programs also discourage foreign companies, leading them to more secure and stable work environments abroad (Forstenlechner,2010:139; Bremmer,2004:26). There is a downside to the limiting of foreign labourers in the Gulf or paving

the way for companies' departure. Incomplete initiatives and early termination of contracts lead to heavy losses which result in non-payment or diminution of salaries, and lengthening of work hours for remaining workers (Rajan and Prakash,2009:10-12).

### **3. CONCLUSION**

Developmental and labor issues in the Gulf can cripple not only the GCC but other countries, leading to poverty, resource problems, illegal immigration and inclination to crime. Sustainable progress in the Gulf may have been hindered by global economic factors and the governments' failure to develop good responses. However, the GCC members can overcome any issue through making the best use of technological, industrial and educational advantages that globalization offers.

Most importantly, the divide between a consumerist local population and a productive immigrant population should be narrowed through raising consciousness about the impossibility of growth without the acquisition of values associated with modern capitalist economy (Weiner,1982:3-4). The governments should re-evaluate and enhance not only the higher education or vocational institutions, but also elementary and secondary schools through a western agenda. It is equally important that, apart from professional training, there should be in place some acculturation programs to prepare the Gulf nationals for positions in the private sector (Al-Lamki,2000; Achoui,2009:36). It is argued that, Gulf people, who were educated abroad or with an international curriculum, are much more inclined to work in the private sector. The campuses of Carnegie Mellon, Texas A&M, Weill Cornell and other leading universities already present in many GCC countries may attract attention of locals through generous scholarship programs (Salih,2010:179; Pakin,2009:86). Efforts to eliminating nepotism would further motivate well-qualified Gulf nationals to take part in uplifting their countries rather than seek jobs abroad (Al-Ali,2008:373). Last, but not least, human and social capital development in GCC countries should be taken out of the domain of governments, and be founded upon cooperation among employers, unions, government and other related institutions and agencies (Achoui,2009:36). The ILO can pressurize the governments into embracing more worker-friendly standards, but it can also guide the GCC about long-term government spending in special employment and social protection programmes (Tzannatos,2009:2).

Although new oil and gas reserves are being discovered in the GCC geography, experts conclude that the era of fossil fuels would be over in the foreseeable future. In order to prepare for the post-carbon world, the Gulf countries should continue to diversify their economies with an eye to sustainable development. The GCC countries would survive this dreadful phenomenon provided that they put into practice the necessary rules and regulations pertaining to humane working conditions as well as educational and training facilities for both domestic and foreign work force.

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