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Employment and Unemployment in the GCC:

EXECUTIVE SUMMARY

The empirical analysis conducted in this report reveals that job creation is a top priority for the GCC economies in order to absorb the future flows of national labor market entrants and prevent unemployment from exacerbating further. The GCC economies are creating new industries, including manufacturing, aerospace, renewable energy, health, tourism and many others. The long-term sustainability of these new industries depends, to a great extent, on delivering a highly skilled, stable workforce[1].

Employment and unemployment issues are crucial in the GCC countries for the obvious reason that their endowment set is principally in terms of oil and natural gas which are both finite and technologically-replaceable resources. Moreover, the hydrocarbon sector tends to have thin labor absorption capacity, both upstream and downstream. Accordingly, an important policy anchor in the GCC economies has been to diversify away from the hydrocarbons cluster. Dynamically, the GCC economies have imported millions of foreign workers and, in the process, substantially changed the skill and wage composition and structures of their labor markets. The massive importation of foreign labor made it all the more difficult for freshly-graduating nationals to compete for employment with much cheaper and readily available foreign workers in the private sector.

The GCC economies must achieve high and sustainable economic growth-cum the creation of adequate jobs for nationals. According to the World Bank estimates, economic growth in the GCC should not fall below 6 percent during the next decade in order to create the jobs required by the its rapidly growing labor force[2].

Prospectively, GIC estimates that the GCC economies must create millions of jobs in order to employ the sizeable numbers of "national" entrants who will enter the labor markets for the first time. Broadly, our estimates of the future number of jobs for GCC nationals that must be created during the five year interval, 2010-2015, is 1.1 million about 2.1 million national jobs over the ten-year period 2010-2020.

[1] Deloitte 2010: "Wanted: A national labor force: Labor policies and youth unemployment in the Gulf region"

[2] World Bank 2011 "Economic Development and Prospects September 2011: Investing for growth and jobs: Middle east and North Africa

The GCC economies have succeeded in the past ten years to create millions of jobs but the downside is that the great majority of these jobs went to foreign workers and especially in the private sectors of the GCC economies while the great majority of nationals cluster in the public sector of the economy. To illustrate, for every Omani working in the private sector, there are five foreign workers. The corresponding figures in Saudi Arabia are 9 to 1. In other countries such as Kuwait the number of foreigners per one Kuwaiti national was 63:1 in 2000 but dropped to 44:1 in 2010. In Qatar, the corresponding ratio of foreigners to nationals in the private sector was 5:1 in 2000 but increased over time to 99:1 in 2010.

Education is critical developmental, growth and employment force. But in the context of the GCC there is an apparent mismatch between the qualifications and skills that the education system produces and the labor market requirements and skills which private sector employers demand. While the governments of the GCC countries have invested heavily in educating their youth, the investments did not always succeed in providing the quality and skills requisite for the modern work place. Skill-mismatch made it very difficult for new GCC graduates to compete against foreign workers and earn jobs in the private sector. Many empirical studies on the topicality of GCC employment corroborated the existence of such gap. For instance, according to Booz & Company, the GCC youth are deeply concerned about financial insecurity and unemployment and in the meantime believe that their education is not adequately preparing them for the workplace. Their field youth survey revealed only 19 percent of the surveyed youth said their education is preparing them to find a job. The rest were much less enthusiastic about their preparation for the working world[3].

The skill shortages of the GCC youth is quite costly because it strains the GCC economy and thereby (1) drags its growth potential; (2) reduces the employability of its nationals, and (3) increases dependency on foreign labor[4]. These high triple costs make job creation for skilled national a top policy priority. The mismatch of skills is exacerbated by the oil windfalls and the pervasive government presence in GCC economies which resulted in the underdevelopment of human capital—a critical input for economic growth, which leads to job creation.

Government wages are much higher than private sector wages for comparable jobs. For instance, in KSA, the average salary of government workers is SR 7500 whereas the corresponding average in the private sector is about SR 3500,or nearly 50% of public sector wages[5]. Similar profiles exist in the rest of the GCC. Moreover, public-private wage differentials widen over time because of the tendency of governments to increase civil service wages at higher rates than those of the private sector.

[3] Booz & Company 2011: "Youth in the GCC"
[4] Booz & Company 2010: "Meeting and employment challenge in the GCC".
[5] KSA Public sector pay scale and Gulfnet 2012.

For instance, in 2011 the Kuwaiti government granted a pay increase of 25% to its national employees[6] and KSA granted a bonus of 2 month salary to government workers, or a raise of about 17%. As well following regional geopolitical risks, Oman and Bahrain each increased the minimum wage to OMR 200 and BHD 402 respectively. Unlike the substantial growth in public sector wages, the GCC private sector wages increased at much slower rates of 5.5% on average in 2011[7].

In addition to widening the private-public wage gap***, these increases harm the GCC long-term economic growth*** because they increase the ***divergence between productivity and wages and harm the incentives to produce on the job***. Moreover, they bloat governments' wage bills and adversely affect GCC long-term fiscal sustainability. For instance, Kuwait's public sector wage bill increased from $20 billion to nearly $70 billion over the short period of 2003-2004 to 2010-2011; more than tripling in seven years.

While the impact of these wage increases is somewhat uncertain in terms of governments' future liabilities, "it is expected to be significant and will leave some of the pension funds with a major funding gap unless the governments provide "top ups" to the pension funds. It is not clear where these funds will come from"[8].

Unemployment of GCC nationals is a serious socio-economic issue that affects the living standards and well-being of millions of jobless nationals and their families. It is a top policy issue because it tends to persist and increase over time. Currently, the rate of unemployment in the GCC hovers around 10.5% in KSA, 14% in the UAE, and 6.2% in Kuwait. Unemployment rates are also high in Bahrain and Oman but have declined in Qatar from their highs of 11% in 2001 to less in recent years.

Foreigners represent nearly 70 percent of the total employed workers in the GCC labor markets. In recent years their numbers exceeded ten million workers with no signs of tapering-off, let alone reversing. From the economics perspective, the coexistence of millions of foreign workers alongside very large numbers of unemployed nationals is inefficient and counter intuitive if not paradoxical! Prospectively, the IMF estimates that as many as 2-3 million additional citizens in the GCC could become unemployed despite the continued past trend of high job creation[9].

Most alarming however is the remarkably high and ***rising unemployment among the youth of the GCC***: Youth unemployment stands at 29.2% in Saudi Arabia, 28.2% in Bahrain, 23% in Oman 12% in Kuwait and 24%[10] in the UAE whereas it is under 3% in Qatar. Long-term unemployment is also widespread among the GCC youth; that is, many of the youth

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6 Reuters March 31 2012

7 Gulf Talent 2012, " Employment and Salary Trends in the Gulf 2012".

8 Insight discovery: October 2011 "Securing the future-building a retirement income infrastructure for expatriates in the "

9 IMF 2011 "Gulf Cooperation Council Countries: Enhancing economic outcomes in an uncertain global economy"

10 UAE national bureau of statistics, labor force 2009.

remain unemployed for long time periods which causes them to lose whatever skills they may have learnt at schools. The high incidence of unemployment among national youth risks overall social cohesion and stability[11].

The incidence of unemployment is especially high among the most educated. For example, over 43 percent of those with tertiary education are unemployed in Saudi Arabia and 14% in the UAE. This implies that the education system is not helping eradicate unemployment largely because it is not providing the proper skills that private sector employers need.

Females bear the brunt of unemployment which is noteworthy because governments in the region are now encouraging women to participate in the labor force. The unemployment rates appear to be worst for educated women with the most years of education. For example, in Saudi Arabia and the UAE, the unemployment rate for women with first-stage tertiary education (including complementary programs that provide qualifications for advanced research and/or practi-cal professions) reached 30 and 24 percent, respectively, in 2008.

Men's unemployment rate for the same category was 7 percent in both countries. Similarly, 2007 figures for women's unemployment rate in Bahrain show 19 percent unemployment for those with second-stage tertiary education levels (leading to an advanced research qualification). Men's unemployment rate for the same category stood at 2 percent[12].

MAJOR STUDY RECOMMENDATIONS

Establish A Small Business Fund for New Job Entrants. GIC contends that one feasible approach to increase the presence of natives in the private sector is through the establishment of a small business fund. The fund provides financial loans to new native entrants who are fresh graduates from the high school and university. The government-established fund grants new labor market entrants loans, say $30-40,000 each to help each entrant establish a small or medium-size businesses in certain private sector niches. To be attractive, the loan conditions and terms must be soft such as repayment of the principle over a long period of time. In order to be taken seriously, recipients of the loans must bid competitively and demonstrate verifiable business project with strict conditions for the discernment and use of the loan money.

Such an approach may prove attractive because it embodies the following:

First, it matches native labor with financial capital in a competitive bidding process.

[11] ILO, May 2012 :Rethinking policies toward youth unemployment: What have we learnt?"

[12] Booz & Company 2010: "Meeting the employment challenge in the GCC"

Second, it offers entrants broad choices of business niches and grants them the opportunity to chose the location of the business, distant versus proximate locations in cities, villages and undeveloped locations. Special *incentives may be offered to projects in distant or remote locations in order to encourage economic development across space.*

Third, it Accelerates the Creation Of Private Sector Jobs and, an Tandem, It Fosters The Growth of Small and Medium Size Enterprises that Are "The Bread And Butter" of Middle Class In Countries of The World.

Finally, the Proposed Approach Helps Level-off the Playing Field By Enhancing the Chances of the National Labor to Compete Against the Entrenched Foreign Workers Who Enjoy Overwhelming Presence With "Insider-Knowledge" of the Working Intricacies of Small Business Opportunities and Thereby Open Access to Their Customers and Markets.

Improve the Nexus Between the Education-Training System and the Labor Markets by Creating Partnerships Between the Education Industry Leaders and the Employers In the Private Sector of the Economy. In this regard, the GCC countries may consider emulating other country experiences that have forged successful partnership between academic and private sector niches, particularly industrial and manufacturing niches and high value-added services and management activities. The list of countries include Germany, Malaysia, France, and Denmark which succeeded in creating industry-academia partnerships which contributed to mitigating the level of unemployment by providing private sector jobs

Change the Public-Private Wage Structure. The GCC governments must earnestly mend the harmful wage gap between the two sectors of the economy, government and private. For years, the public sector of the GCC attracted nationals because of its higher wages and benefits, including pension benefits, shorter working hours, less stress, and easier and more comfortable environment. *Such wage and benefits differentials sever the relationship between productivity and pay and distort incentives for productive employment; that is, induce disguised unemployment*.

To a large extent, the employability of nationals in the public sector results directly from the "social contract" that prevails in the GCC where public employment is perceived as a means for re-distributing the oil wealth to the citizens. The downside risk however is that the absorptive capacity to employ more and more locals is increasingly becoming constrained by space limits and narrowing margins for further productive government jobs and, more importantly, by fiscal constraints.

It is worth noting here that the employment share of GCC government services is much higher than the corresponding share in some fast-growing, resource-rich countries such as Brazil, Malaysia, and Indonesia who enjoy higher labor productivity levels than those of the GCC[13].

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[13] World Bank 2011 "Economic Development and Prospects September 2011: Investing for growth and jobs: Middle east and North Africa

Enhance the Flexibility of GCC Labor Markets. It is commonly believed that GCC labor markets suffer from rigidities and can benefit from enhanced labor mobility. Existing rigidities prevent a large segment of GCC nationals from becoming active labor market participants. Regimentation into rigid work patterns has the undesirable outcome of pushing willing-to-work-segments of the population outside the labor force simply because they cannot fit into the tight schedules and inflexible work standards. Therefore, employment inflexibility exacerbates the high proportion of the population of the GCC who are outside the labor force through the "discouraged worker" phenomena. In other words, many national GCC workers get too discouraged to look for work and are therefore no longer considered unemployed by the officially reported unemployment rates. In addition, labor market inflexibility deprives the GCC economies of the potential "work-power" of students during summer vacations, holidays and school-recess. For instance, a recent study noted that the economically inactive population in the GCC "is considerably larger than international benchmarks. In several countries in the GCC, the inactive populations in recent years have averaged well over 40 percent of the total active population in each country. By contrast, the inactive populations in European countries were much lower—in the U.K., for instance, it was just 19.2 percent in 2003"[14].

The potential benefits that the GCC economies could reap from introducing labor market flexibility are immense because flexible employment entails flexible contract duration, flex hours and distance working, or telecommuting, as well as working part time. Such flexibility would expand the choices that the GCC citizen encounters in the labor markets and accordingly would help attract nationals with different needs and abilities to become effectively engaged in the workplace. With a tailored work schedule, nationals could more easily balance their at-home responsibilities, schoolwork, and other daily constraints with the demands of employment, which entices them to participate more regularly in the workforce.

In fact, OECD countries with higher percentages of part-timers in the workforce exhibit higher overall labor participation. Flexibility of employment can be generalized to the foreign segment of the labor force in order to take advantage of the pool of companion spouses and dependents who could be put to effective labor participation especially at boom times instead of resorting to importing more foreign workers. This approach was tried out by Qatar in 2008 when spouses of expatriates were allowed to work without transferring sponsors if they pay an annual fee of 500 QR (USD140)[15].

Improve The Functioning of Institutions, Enhance Competitiveness. The GCC economies should continue to improve the investment and doing-business climate in a manner that attracts more foreign direct investments.

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[14] Booz & Company 2010: "The case for flexible employment in the GCC"
[15] Booz & Company 2010: "The case for flexible employment in the GCC"

Examples of well-functioning institutions include clearly-defined and enforced property rights and efficient and transparent public administration, a fair and independent judiciary and high corporate governance standards. In the realm of regulatory structure, policies that promote labor mobility and reduce labor market rigidity including the hiring and firing policies of nationals and foreign workers alike would enhance efficiency and increase the employability of nationals especially in the private sector of the economy[16].

Encourage the Privatization of Relevant Enterprises and Activities While Steadily Pursue Economic and Business Reforms. The study contends that the GCC economies will benefit in terms of economic growth as well as employment of nationals if they privatize in a timely manner public enterprises and relentlessly pursue economic and business reform policies. Country experiences in emerging economies strongly support the recommendation of improving the business climate and reducing bureaucracies in order to encourage local enterprising and domestic investments and to attract FDI and technology transfers for the purpose of attaining robust growth with sufficient job creation for nationals[17].

Consider Aligning Labor Immigration Policies. The labor immigration policies could be better aligned with the requirements of the prospective high growth GCC economies in the years ahead. Accordingly, government labor and immigration agencies should work closely and directly with the business sector in order to ensure the importation of highly productive, experienced and high-value added foreign workers, while in the meantime, encourage the departure of low-skilled, low educated foreign workers. Meanwhile, the current system of hiring nationals should be improved by introducing rewards according to merits, credentials specs and talent in both the private and public sectors of the economy.

[16] World Economic Forum (WEF): 2012 "Arab World Competitiveness Report 2011-2012"
[17] World Bank 2011 "Economic Development and Prospects September 2011: Investing for growth and jobs: Middle east and North Africa"

Job Creation Challenges and Policy Responses

Creating private sector jobs to employ nationals is one of the core challenges in the GCC.

Deploying a suite of official and international data sources and information, this issue focuses on GCC employment and unemployment profiles and their drivers including economic growth, demography and education systems. In the process, the issue considers policy dimensions that affect labor market flexibility including the Nitaqat systems, as well as the private-public wage differentials.

Employment and unemployment issues are crucial in the GCC countries for the obvious reason that their endowment set is principally in terms of oil and natural gas which are both finite and technologically-replaceable resources. Moreover, the hydrocarbon sector tends to have thin labor absorption capacity, both upstream and downstream. Accordingly, an important policy anchor in the GCC economies has been to diversify away from the hydrocarbons cluster.

Citizens find the private sector wage and salary packages insufficient to meet their living standards in the face of rising apartment rents, transportation and commodity groups.

Meanwhile, the GCC economies have imported millions of foreign workers and, in the process, substantially changed the skill and wage composition and structures of their labor markets. The massive importation of foreign labor made it all the more difficult for freshly-graduating nationals to compete for employment with much cheaper and more readily available foreign workers in the private sector. Because more than 50 percent of natives are under the age of 24, and in view of the big push for education, more and more educated labor market entrants try to compete against foreign workers in the private sector. But citizens find the private sector wage and salary packages insufficient to meet their living standards in the face of rising apartment rents, transportation and commodity groups.

The employability of nationals is even more complex in view of the "social contract" that prevails in the GCC whereby public sector employment is perceived a "right" as well as a means for re-distributing the oil wealth[18]. As a corollary, nationals cluster in the public sector while foreigners hold the rank and file of private sector jobs. Such asymmetrical employment profiles are not economically and fiscally sustainable because of its adverse effects on labor productivity and fiscal straining due to bloated wage bills.

Globally, labor market questions have gained more political and economic prominence following the global financial crisis of 2008 which caused an unprecedented rise in unemployment rates to 8-10% in the US and UK, 15% in Ireland, and 21% and 25% in Greece and Spain, respectively. Slow global economic growth and high and protracted unemployment brought to the forefront the critical significance of macroeconomic and financial policy that could effectively achieve the objective of stable, sustainable economic growth while gainfully employing the labor force.

[18] Al-Ebraheem Y. and Sirageldin I. (2002) "Budget Deficit, Renewable Resource Gap and Human Resource Development in Oil Economies" in I. Sirageldin, ed., *Human Capital and Population Dynamics in the Middle East*.

Besides the social stigma that joblessness triggers, it raises questions about the effectiveness of the underlying macro and labor policies. Worst, when unemployment persists and becomes widespread over time, it park offs political instability.

The news is not all discouraging however: The ILO[19] data suggest that oil exporting countries in Asia, Africa and Latin America including Algeria, Libya, Iran, Nigeria and Venezuela and Brazil experience high unemployment rates too. For some countries the overall unemployment rates are even higher than those of the GCC. For instance, during the period 2005-2010, unemployment rates averaged 10.9% in Iran, 12.4% in Algeria, 9% in Libya and 8.3% in Venezuela and 8% in Brazil.

During 2000-2010, the GCC generated about 8.5 million jobs, a figure that is greater than that of Iran at 6 million, Algeria, at 4 million jobs and Venezuela at 3.5 million jobs. The downside is that the majority of the jobs created were populated by the foreign segment of the labor force, especially in the private sector.

To their credit is the larger number of jobs that the GCC economies were able to create historically relative to their population size. To illustrate, the ILO data files reveal that during 2000-2010, the GCC generated about 8.5 million jobs, a figure that is greater than that of Iran at 6 million, Algeria, at 4 million jobs and Venezuela at 3.5 million jobs, Table 1. The downside is that the majority of the jobs created were populated by the foreign segment of the labor force, especially in the private sector. Prospectively, creating private sector jobs to employ nationals is the core challenge that the GCC economies will encounter in the years ahead.

Table 1: Employment & Job Creation in Oil Exporting Countries

Country	2010		2000		Jobs created (2010-2000)
	Employment 2010	Participation Rate %	Employment 2000	Participation Rate %	
Algeria	9,995	43.30	6,181	43.80	**3,814**
Indonesia	109,596	67.40	93,632	67.40	**15,964**
Iran	22,665	44.30	16,461	43.50	**6,204**
Iraq	6,026	41.40	4,440	40.30	**1,586**
Libya	2,176	53.80	1,625	50.90	**551**
Nigeria	46,592	55.50	36,416	55.80	**10,176**
Norway	2,519	65.80	2,294	66.10	**225**
Venezuela	12,476	65.90	9,135	65.20	**3,341**
GCC	**18,183**	**59.80**	**9,643**	**54.97**	**8,540**

Source: KILM, ILO

[19] International Labor Office, www.ilo.org.

GCC Population

> *The GCC population increased from 7.7 million in 1970 to 39 million in 2010. Futuristically, it will reach 65 million in 2050.*

Over the past few decades the GCC population underwent widespread transformations which affected its composition, age and gender structures. These transformations occurred in the backdrop of declining fertility and massive immigration of foreign workers.

Immigrants represent a large component of the population, ranging between 27% in KSA to 89% in the UAE. Their share in the labor force is 68% but varies between 53% in KSA and 93% in the UAE, Table 2.

Table 2: GCC Expatriate Population & Labor (%), 2007-2009

	2007		2008		2009	
	Population	Labor	Population	Labor	Population	Labor
Bahrain	49	74	51	75	53	75
Kuwait	60	85	60	84	60	.
Oman	30	72	31	75	36	75
Qatar	.	93	.	94	.	94
Saudi Arabia	27	54	27	54	27	53
UAE	86	93	89	93	89	93
GCC	**40**	**69**	**43**	**70**	**43**	**68**

Source: GCC Secretariat "Statistical Bulletin 2011".
. = Not available

In 2010, the size of the GCC population was 39.2 million and is expected to grow rapidly to reach 53 million by 2020[20]. Increased modernization and education and the widespread use of health facilities including contraceptives have been transforming the region to a low fertility–low mortality region. Comparative population growth figures convey the profound demographic transformation that the GCC underwent: Between 1970 and 1975, the average population growth rate for developing and Arab countries stood at 2.4% and 2.8% respectively.

> *There are differences in the population growth rates of the six GCC countries however. For instance, due to its rapid pace of foreign labor importation, Qatar's population is currently growing at a fabulous rate of 10.7% which is commensurate with its remarkably rapid GDP growth rates, in excess of 15% over the past few years.*

Table 3: GCC Population Dynamics, Size ('000) and Growth Rates

Country	Total Population			Average Rate of Population Growth	
	1970	2010	2050	1970-2010	2010-2050
World	3,685,777	6,908,688	9,194,984	1.58%	0.72%
Dev. Country	2,678,300	5,671,460	7,874,742	1.89%	0.82%
Arab Reg.	127,865	359,273	598,174	2.62%	1.28%
Bahrain	220	807	1,277	3.30%	1.15%
Kuwait	744	3,051	5,240	3.59%	1.36%
Oman	747	2,905	4,878	3.45%	1.30%
Qatar	111	1,508	2,316	6.74%	1.08%
KSA	5,745	26,246	43,658	3.87%	1.28%
UAE	225	4,707	8,253	7.90%	1.41%
Total GCC	**7,792**	**39,224**	**65,622**	**4.12%**	**1.29%**

Source: United Nations (2009a), GIC estimates based on UN data.

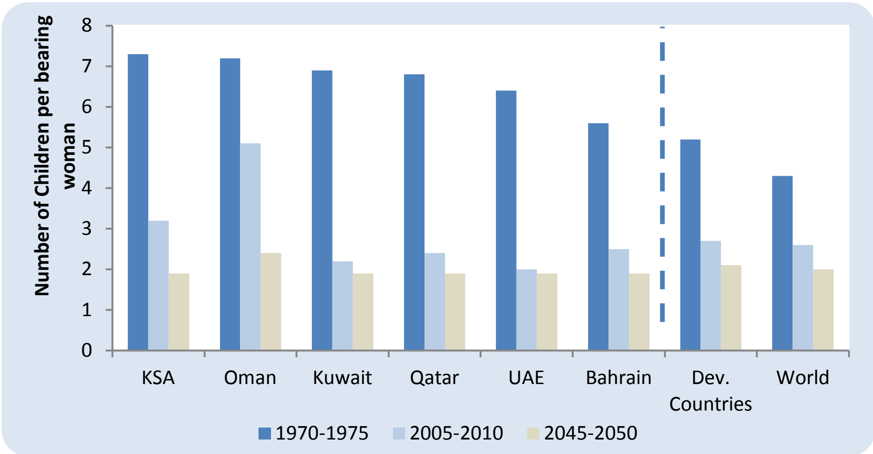
[20] EIU: "The GCC to 2020, the Gulf and Its People", September 2009.

There are differences in the population growth rates of the six GCC countries however. For instance, due to its rapid pace of foreign labor importation, Qatar's population is currently growing at a fabulous rate of 10.7% which is commensurate with its exceptionally rapid GDP growth rates, in excess of 15% over the past few years. By contrast, the population increase in the UAE and Kuwait and other GCC countries hovers around 2%.

The Fertility Factor

Declining fertility is the major force behind the slowing population growth (especially among nationals of the GCC as traditional marriage patterns and living arrangements have been undergoing profound changes). Fertility rates have declined so fast that they currently hover around replacements rates in two GCC countries, Kuwait and the UAE.

Figure 1: Fertility Rates and Estimates (1975-2010-2050)



Source: United Nations (2009a).

Historically, GCC fertility rates had peaked during the first half of the 1970s when child-bearing women used to have 7 children on average. The number has steadily shrunk to an average of 3 children per woman in child-bearing age during the years 2005-2010. Saudi Arabia, experienced steady declines in fertility since the late 1980's to an average of 3.1 per child bearing woman between 2005 and 2010. In Oman, total fertility rates plummeted by an astonishing 5.6 births per woman during those 30 years: an average pace of nearly 1.9 births per woman every decade[21]. Yet, Oman's fertility rates remain among the highest in the world. That said, fertility rates are expected to decline gradually and reach parity with global averages by 2050.

The sharp decline in fertility rates during the last decades is attributed to the rising age of marriage, higher level of girls' enrollment in school and female education in addition to the increased woman labor participation rate[22].

Historically, GCC fertility rates had peaked during the first half of the 1970s when child-bearing women used to have 7 children on average. The number has steadily shrunk to an average of 3 children per woman in child-bearing age during the years 2005-2010.

During 1990-2010, the GCC fertility rate was cut in half as a result of quadrupling per capita income levels (400% increase in per capita income times 0.25 elasticity of fertility with respect to income).

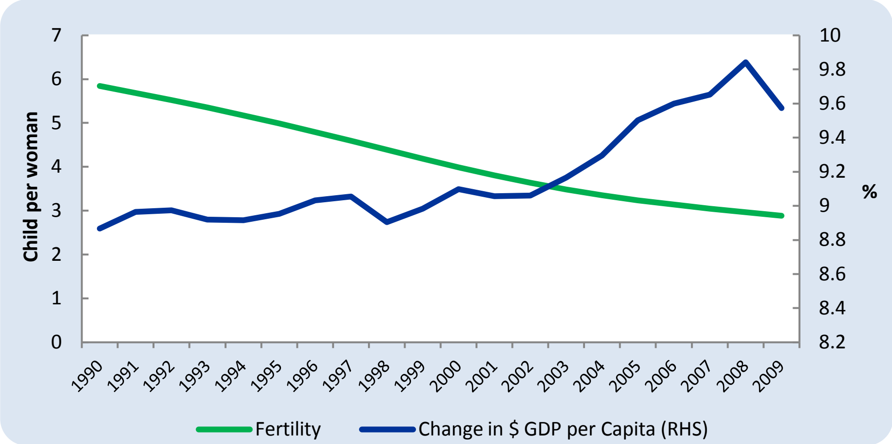
[21] Nicholas Eberstadt and Apoorva Shah "Fertility Decline in the Muslim world: A Veritable Sea-Change, Still Curiously Unnoticed" AEI Working Paper Number 7, December 2011.
[22] Al-Qudsi, S. 1998, Journal of Population Economies, "The demand for children in Arab countries: Evidence from panel and count data models".

> *The sharp decline in fertility rates during the last decades is attributed to the rising age of marriage, higher level of girls' enrollment in school and female education in addition to the increased woman labor participation rate.*

Per capita incomes and their changes over time proxy these variables. In Saudi Arabia for example, GDP per capita on purchasing power parity estimates (PPP) increased from $3076 in 1990 to $38,000 in 2009 accompanied by a declining fertility rate from 7 children per woman in 1990 to nearly 3 children per woman in 2009.

A simple quantitative analysis revealed that during the past four decades, doubling per capita GDP was associated with a reduction in fertility by 25%. Since per capita income on Purchasing Power Parity, was increasing at 7% per annum over the past four decades; per capita income quadrupled since the 1970's, that is; increased by 400%. The fertility rate was cut in half as a result (400% increase in per capita income times 0.25 elasticity of fertility with respect to income)[23].The figures below depict the fertility-income relationship for KSA and UAE.

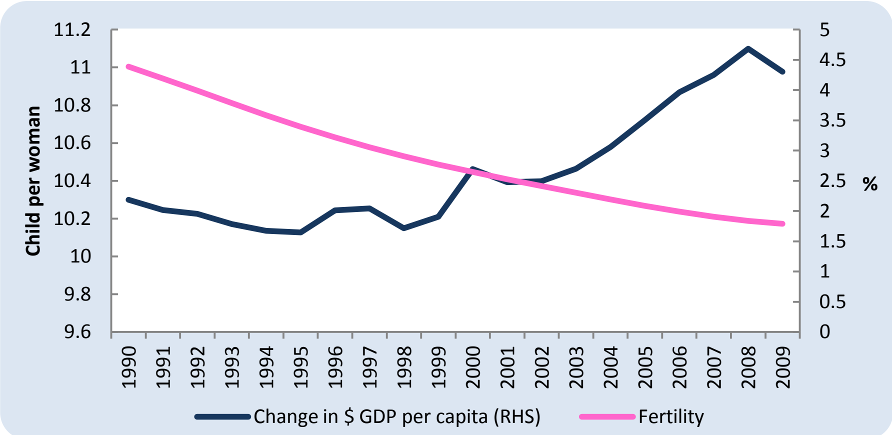
Figure 2: GDP Growth and Fertility Rates in Saudi Arabia



Source: GIC estimates based on IIF and World Bank WDI database.

> *The UAE cohort aged 25-69 years represent 67% of the population which is the highest among the GCC countries but the ratio is set to decline to 57% in 2050 as the eldest cohort is expected to gain more ground to reach 18%, up from 2% in 2010.*

Figure 3: GDP Growth and Fertility Rates in UAE



Source: GIC estimates based on IIF and World Bank WDI database.

As a result of these substantial fertility declines, the age structure of the GCC nationals is changing sharply. To illustrate, the cohort aged 0-14 will decline by a full ten percentage points in **Bahrain** from 26% in 2010 to 16% in 2050.

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[23] Fertility was nearly 7.2 in 1970 and dropped to 2.4 in 2010.

The cohort aged 0-10 years will shrink in **Oman** to 20% in 2050 down from 31% in 2010 and 21% of its population will be 60+ years old by 2050. The **Kuwaiti** cohort aged 25-59 years will shrink from 58% in 2010 to 47% in 2050. Older cohorts, 60+ years old, will increase in **Qatar** to 19%, up from 2% in 2010. **Likewise, Saudi Arabia** is undergoing significant decline in fertility rates resulting in reduced size of the cohort aged 0-10 years from 38% in 2010 to 19% in 2050. Older cohorts, 60+ years of age, will increase from 6% in 2010 to 19% in 2050.

Similarly, the **UAE** cohort aged 25-69 years represent 67% of the population which is the highest among the GCC countries but the ratio is set to decline to 57% in 2050 as the eldest cohort is expected to gain more ground to reach 18%, up from 2% in 2010.

Looking ahead, the share of GCC elderly population will increase as a result of increased longevity and reduced fertility: By the year 2050, the 60+ years old national population will range between 24% and 25% in Bahrain and Kuwait respectively.

The elderly population will also increase as a result of increased longevity and reduced fertility: By the year 2050, the 60+ years old national population will range between 24% and 25% in Bahrain and Kuwait respectively. The aging trend carries significant implications for the pension and retirement systems in light of the current rules that permit nationals to retire at a young age once they have served for 20 years or more. This implies that as much as 40% of the GCC population could be living off of pensions and retirement plans by 2050.

Table 4: GCC Population by Age Cohort (2010 -2050)

	0-14 years		15-24 years		25-59 years		60+ years	
('000)	2010	2050	2010	2050	2010	2050	2010	2050
Bahrain	210	209	145	146	424	611	30	311
Kuwait	711	889	440	588	1,779	2,456	124	1,307
Oman	898	953	598	656	1,269	2,263	140	1,006
Qatar	240	329	269	245	969	1,289	31	453
KSA	8,383	8,296	494	5,741	11,703	21,494	1,211	8,127
UAE	901	1,152	559	937	3,152	4,714	96	1,451
GCC	11,343	11,828	2,505	8,313	19,296	32,827	1,632	12,655

Source: United Nations (2009a).

GCC Labor Participation Rates

Because of the youthful population structure, low female labor market engagement, and because more and more youth continue their tertiary and higher education, the overall labor participation rate is low. A second feature pertains to the gender-based differentiation in labor market activity with lower rates for women who withdraw from the labor market for child-bearing, nursing and raising (although the male-female labor engagement gap is gradually narrowing over time as more and more educated women choose to work and earn a living).

More and more women are pursuing employment with pressures on the GCC job-creation capabilities.

Labor participation rates for males aged 25-45 years old are high (as expected) hovering around 97%. For older cohorts however, participation rates will begin to decline, Figure 4.

In 2010 for instance, while the participation rates were 96.2% for Bahrainis in the age bracket 45-49, the next age bracket, 50-54, had a markedly lower rate of 89.1%. While the same pattern holds for Kuwait, labor market attachment is lower than that in Bahrain.

Specifically, the corresponding participation rates for, Kuwaiti males were 92.3% and 81.9% for the two age cohorts respectively.

The participation rates of young males, aged 20-24, have trended down significantly during the last decade. The sharpest decline occurred in Bahrain and Saudi Arabia as the male youth participation rates dropped from 84.8% in year 2000 to 74.5% in 2010 for Bahrain and from 54.4% to 46.9% for Saudi Arabia.

Similarly, participation rates of Omani and Saudi males declined by 10 percentage points in each for the older age cohorts where the rates for the 50-54 are 82.2% and 84% respectively, down from nearly 96% for the 49-50 age cohort. Lower declines in the participation rate of the 50-54 age cohort occurs in the case of Qatar and the UAE, at 96.5% and 94.8%, respectively.

The participation rates of young males, aged 20-24, have trended down significantly during the last decade, Table 5. The sharpest decline occurred in Bahrain and Saudi Arabia as the male youth participation rates dropped from 84.8% in year 2000 to 74.5% in 2010 for Bahrain and from 54.4% to 46.9% for Saudi Arabia. The decline may reflect the “discouraged worker” phenomenon where too many workers are too discouraged to look for work, longer attachment to the education system or “not needing to work” especially for those who live with their parents.

Table 5: Male Youth Labor Participation Rates in the GCC

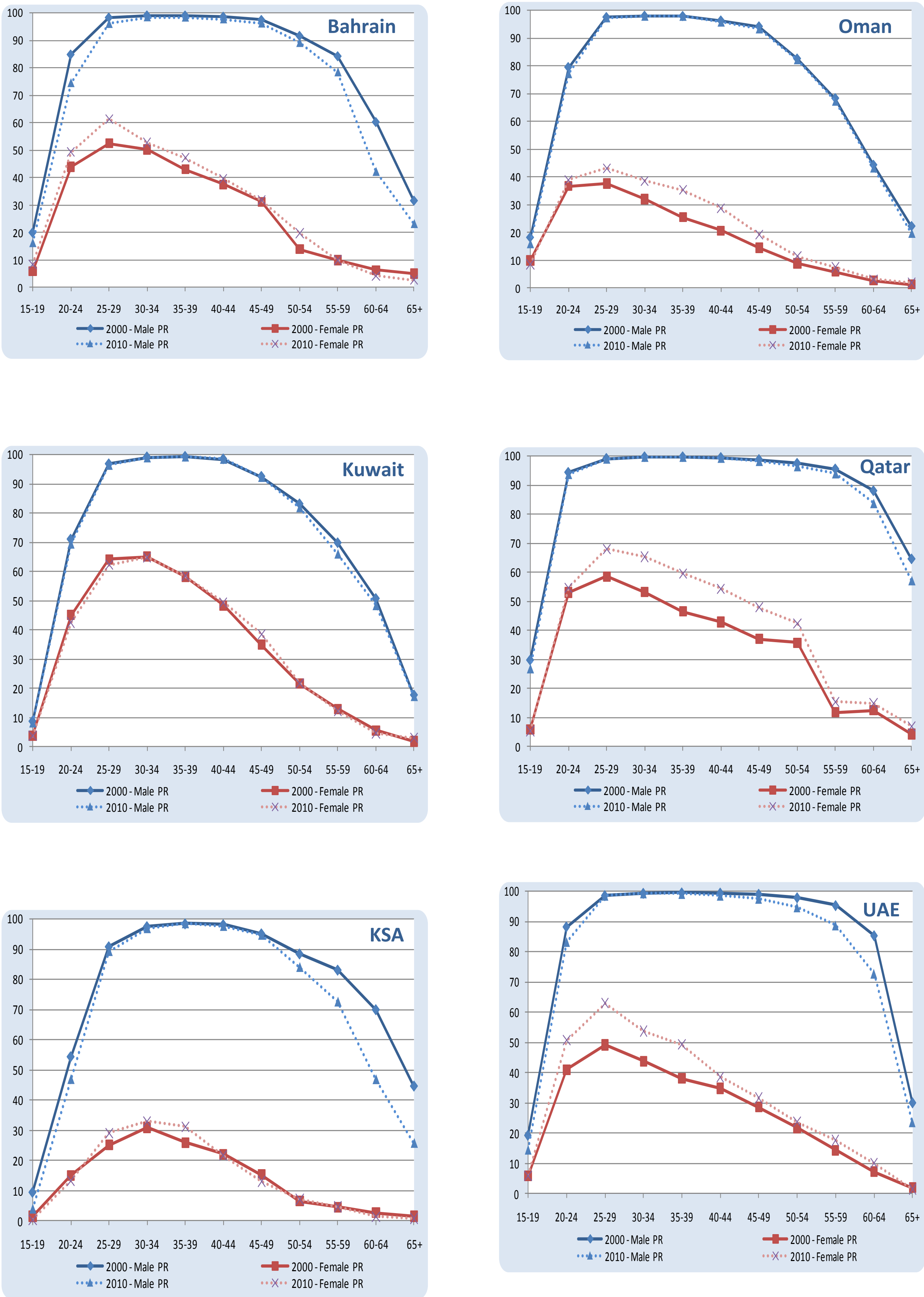
	2000	2007	2010
Bahrain	84.8	75.3	74.5
Kuwait	71.0	68.4	69.5
Oman	79.4	78.0	77.2
Qatar	94.3	93.8	93.8
KSA	54.4	51.5	46.9
UAE	88.3	84.4	83.3

Source: ILO.

The changing nature of the labor market (that is becomingly increasingly information-technology based), together with an impressive education gain that females have achieved over time, increasing age at first marriage and declining fertility rates have been powerful drivers of the steep increase in the participation rates of women in the GCC economies.

Historically, low female labor participation was due to low education level, high fertility rates and cultural norms. In general, women participation rates peak for cohorts in the age bracket 25-29 years but gradually decline afterwards due to marriage and child rearing. The changing nature of the labor market (that is becomingly increasingly more information-technology based), together with an impressive education gain that females have achieved over time, increasing age at first marriage and declining fertility rates have been powerful drivers of the steep increase in the participation rates of women in the GCC economies, Figure 4. Such increases in female labor participation rates will have important implications for the size and gender composition of cohorts seeking employment in the future GCC labor market. Concurrently however, most forecasts suggest that male labor market engagement will weaken as more and more men retire once they satisfy the pension age and minimum service year conditions, Figure 4.

Figure 4: Labor Force Participation Rate distribution by age cohort in 2000 and 2010



Source: ILO.

Job Creation in the GCC

Up until 2015, GIC estimates that the GCC economies need to create 1.260 million jobs. The IMF forecast the figure are higher, at 1.567 million.

Creating sufficiently good jobs for the fast-rising youthful cohorts of GCC job-seekers is probably the most challenging goal on the GCC policy agenda. The numbers of prospective jobs that must be created are dazzling: In Saudi Arabia for instance, the Saudi labor minister announced recently that the Kingdom needs to create 3 million jobs by 2015 in order to absorb new entrants and prevent current unemployment rates from exacerbating and an additional 1.3 million jobs by 2020. Recall that the year 2030 is when the world is supposed to make the initial large transition from hydrocarbon economy to economies that rely on other energy forms; with attendant downward pressures on prices and hence exporting country-revenues[24].

In assessing the total number of jobs that must be created in say the next five or ten years, a distinction must be made between new jobs to accommodate prospective labor *market entrants*; and jobs that must be created in order to *reduce unemployment* among natives. Reducing unemployment will require the creation of new jobs and/or replacing foreign workers once adequate training and incentives are put in place. In the case of replacing expatriate workers, no new jobs will actually be created. Instead, existing jobs filled by foreign workers will migrate to nationals, although some of these jobs may have to be upgraded in order to be considered "good jobs" by nationals. This is the essence of the foreign worker replacement systems that the GCC countries implemented at various times including the more recent Saudi Nitaqat system.

Given the global search for alternative energy, the GCC economies should ensure that future generations are gainfully employed in good-paying jobs.

In order to forecast the prospective number of jobs that the GCC economies will have to generate over the span of five and ten years respectively, that is 2010-2015 and 2015-2020, GIC deployed three sets of data sources shown in the tables below. These are:

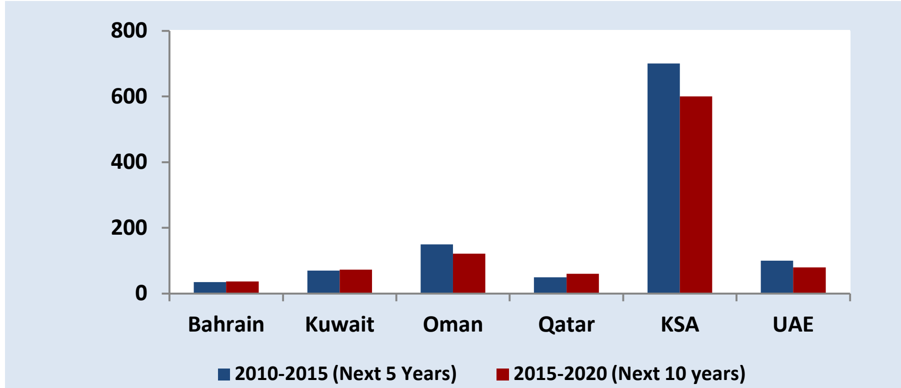
- ILO forecasts of labor force by size and participation rates;
- National estimates of cohort sizes that will be job-seekers in 5 to 10 years , and
- IMF estimates of job seekers (nationals and foreigners separately) over the five years, 2010-2015.

Since the three sources differ markedly with respect to employment and labor force numbers, total as well as GCC nationals, the estimates of the prospective jobs created from these three sources also differ conspicuously.

Broadly, estimates of the future number of jobs that must be created during the five year interval, 2010-2015, range between 1.1 million and 1.9 million according to the GIC and ILO scenarios. The IMF scenario envisages 1.8 million jobs to be created for the nationals of the GCC.

[24] The Gulf Daily, March 2012.

Figure 4: Job Creation for Nationals, '000



Source: GIC Estimates based on National data

The higher ILO and IMF numbers imply more buoyant economic conditions and faster increases in participation rates, especially of youthful females. For the longer period, 2010-2020, GIC scenario forecast the total number of jobs for "nationals" that must be created at 2.1 million. The corresponding ILO estimate is 3.3 million. The higher ILO figure is due to the fact that it includes jobs for foreign workers.

Table 6: Job Creation to 2015 and 2020, ILO Data (Thousands)

Country	2010-2015	2015-2020	Total
Bahrain	76.7	42.6	119.3
Kuwait	139.0	104.3	243.3
Oman	213.8	133.6	347.4
Qatar	159.7	57.5	217.2
KSA	744.3	768.5	1.512.8
UAE	558.9	294.0	853.0
Total Jobs to be created in the GCC	**1,892.5**	**1,400.5**	**3293.0**

Source: GIC Estimates based on ILO

Table 7: Job Creation for Nationals to 2015 and 2020, National Data (Thousands)

Country	2010-2015	2015-2020	Total
Bahrain	35.2	37.3	72.5
Kuwait	70	73	143
Oman	149.9	121.8	271.7
Qatar	50	60.2	110.2
KSA	700	600	1300
UAE	100	80	180
Total Jobs to be created in the GCC	1105.1	972.3	2077.4

Source: GIC Estimates based on National data.

Saudi Arabia needs to create 700,000 jobs for Saudi nationals by 2015 according to GIC estimates and an additional 600,000 jobs between 2015 and 2020. By and large, these estimates are comparable to the estimates of the IMF at 1.17 million jobs opportunities for nationals between 2010 and 2015. The IMF expects that the Saudi private sector will generate 865,000 jobs during the period.

The additional jobs that the **UAE** will need to create are in the vicinity of 100,000 up until 2015 and another 80,000 jobs by 2020. Again, these estimates are generally in the same order of magnitude of the forecasts by the IMF, at 84,000 job opportunities up until 2015 with most of them being in the private sector.

For **Oman,** nearly 150,000 jobs need to be created by 2015 which compares well with estimates of the IMF at 118,000 jobs. Given historical patterns, the private sector is expected to generate two-thirds of Oman's prospective jobs. Omani authorities have already indicated that they will diligently seek to provide new jobs in 2012 on top of the 96,000 jobs that were already created in 2011.

The economies of Bahrain and Kuwait will need to create respectively 35,000 and 70,000 jobs up until 2015 in order to absorb new national labor market entrants. Furthermore they need to create additional 38,000 and 73,000 jobs respectively during 2015-2020.

The economies of **Bahrain** and **Kuwait** need to create some 35,000 and 70,000 additional jobs respectively up until 2015 and furthermore are expected to create additional 38,000 and 73,000 jobs during 2015-2020. These estimates diverge a little from the job forecast of the IMF at 43,000 jobs for the Bahrainis and 106,000 jobs for Kuwaiti nationals.

In the case of Qatar, the numbers of prospective job seekers are smaller: 50,000 by 2015 and an additional 60,000 jobs by 2020 according to GIC estimates. The corresponding IMF forecasts are somewhat smaller at 44,000 jobs by 2015. The IMF expects that the new jobs will be created by the private and public sectors at nearly equal share of each, 50%.

The reader will discern that the forecasts above are directional and preliminary. They are meant to underscore the magnitude of the challenges ahead and hence the importance of undertaking all necessary institutional and regulatory preparations to successfully absorb new labor market entrants. The GCC has succeeded in creating a large number of jobs historically; but most of the jobs created went to foreign workers. With the socio-economic and political-demographic dynamics, it is important for all stakeholders to create jobs that are good enough, in terms of quality, conditions, and remuneration to appeal to the new national labor market entrants.

Table 8: GCC: Job Creation, 2000-15 IMF Estimates

	2000-10 Estimate			2010-15 Forecast		
	Total Job	Private	Public sector	Total job	Private	Public
	(Thousands)			(Thousands)		
Bahrain	297	284	14	167	155	12
Bahraini	55	42	13	43	32	11
Kuwait	986	680	306	635	365	270
Kuwaiti	135	65	69	107	32	75
Oman	527	481	46	467	414	53
Omani	157	105	52	118	73	45
Qatar	1,118	1,078	40	866	827	39
Qatari	40	21	19	44	22	22
UAE	1,546	1,391	155	1,060	954	106
Emirati	110	99	11	83	75	8
Saudi Arabia	2,598	2,344	254	2,502	2,153	349
Saudi Arabian	1,302	1,068	234	1,172	865	307
Total	**7,072**	**6,258**	**814**	**5,697**	**4,868**	**829**
o/w nationals	**1,799**	**1,401**	**398**	**1,567**	**1,099**	**468**

Source: IMF, Gulf Cooperation Council Countries, December 2011.

Public versus Private Sector Employment

The message is: Job Growth for nationals is as imperative as sustainable economic growth in order to safeguard the future of the GCC Economies and protect the cohesiveness of their societies.

Foreign workers cluster in the private sector of the GCC economies while natives are mainly in the public sector. The concentration of nationals in the public sector of Kuwait and Qatar is particularly striking, with 84% and 86% of all Kuwaitis and Qatari nationals respectively holding public sector jobs in 2010. Equally worrisome, such heavily-skewed employment distributional pattern has persisted for many years which makes it difficult to reverse.

To illustrate the significance of "nationalizing" private sector job, we pose the question: How many foreign workers exist per one native in the private sector of each of the six countries over time? Available data suggest that Kuwait's efforts to "nationalize" the private sector met with some success: as the number of foreigners per Kuwaiti national dropped from 63:1 in 2000 to 44:1 in 2010.

In Qatar, by contrast, the ratio of foreigners to nationals in the private sector started at 5:1 in 2000 but increased over time, reaching 89:1 in 2007 and peaked in 2008 at 117:1. Subsequently however, the ratio receded to 99:1 in 2010 (the highest in the GCC).

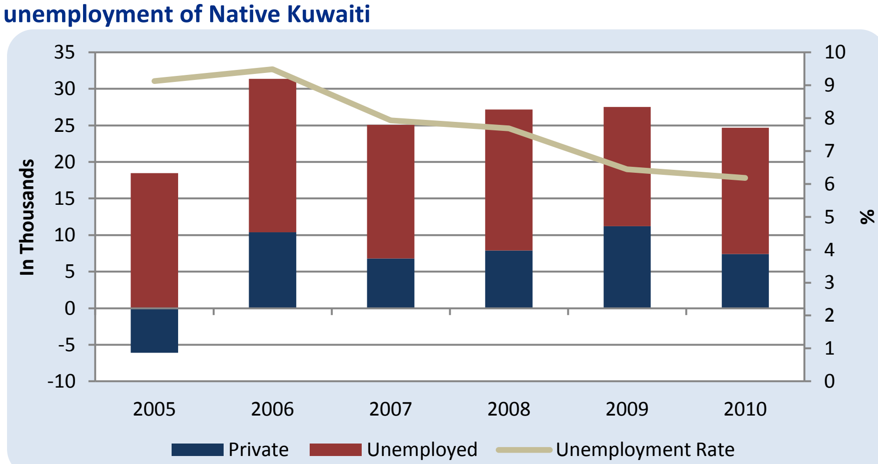
How many foreign workers have existed per one native in the private sector of each of the six GCC countries over time? In Kuwait the number of foreign workers per one Kuwaiti national employed in the private sector stood at 44 to:1 in 2010.

Table 9: Kuwait Employment 2000-2010 ('000)

	Public Sector		Total	Private sector		Total	Total Employment	Nationals Unemployed
	Kuwaitis	Expatriates		Kuwaitis	Expatriates			
2000	221	84	**305**	14	885	**899**	**1,204**	-
2005	169	58	**227**	15	912	**927**	**1,154**	**18.5**
2006	178	60	**238**	22	1,010	**1,032**	**1,270**	**21.0**
2007	184	61	**245**	28	1,118	**1,146**	**1,391**	**18.2**
2008	199	68	**267**	32	1,149	**1,181**	**1,448**	**19.2**
2009	202	69	**271**	35	1,497	**1,532**	**1,803**	**16.3**
2010	220	79	**299**	42	1,849	**1,891**	**2,190**	**17.3**

Source: GCC Economic Statistics/GIC .

Figure 5: Jobs Created for Kuwaitis in Private and Public Sector versus unemployment of Native Kuwaiti



Source: National Authorities.

Table 10: Qatar Employment 2000-2010 ('000)

	Public Sector		Total	Private sector		Total	Total Employment	Nationals Unemployed
	Qataris	Expatriates		Qataris	Expatriates			
2000	27	25	**52**	2	10	**12**	**64**	**1.42**
2005	34	34	**68**	4	20	**24**	**92**	**-**
2006	35	40	**75**	4	24	**28**	**103**	**1.53**
2007	55	68	**123**	7	623	**630**	**753**	**1.89**
2008	60	81	**141**	8	938	**946**	**1,087**	**2.05**
2009	61	89	**150**	9	1,020	**1,029**	**1,179**	**4.89**
2010	61	78	**139**	10	986	**996**	**1,135**	**3.01**

Source: GCC Economic Statistics/GIC.

The ratio of foreigners to Omanis in the private sector averaged 5:1 between 2005 and 2010. The distribution of employment across public and private sectors in Oman and Saudi Arabia is slightly more balanced. Yet, the ratio of foreigners to Saudis in the private sector increased appreciably from 1:1 in 2001 to a high of 9:1 in 2009.

The ratio of foreigners to Omanis in the private sector averaged 5:1 between 2005 and 2010. The distribution of employment across public and private sectors in Oman and Saudi Arabia is slightly more balanced.

In 2010 for instance, 42% of Omanis were working in the public sector versus 54% in Saudi Arabia. In 2000, 82,000 Omanis worked in the public sector versus 56,000 in the private sector.

Table 11: Oman Employment 2000-2010 ('000)

	Public Sector		Total	Private sector		Total	Total Employment	Nationals Unemployed
	Omanis	Expatriates		Omanis	Expatriates			
2000	82	29	**111**	56	495	**551**	**665**	-
2005	109	23	**132**	99	425	**524**	**656**	-
2006	116	23	**139**	114	511	**625**	**764**	-
2007	124	23	**147**	132	638	**770**	**917**	-
2008	131	22	**153**	147	795	**942**	**1,095**	-
2009	137	23	**160**	158	874	**1,032**	**1,192**	**7.50**
2010	131	22	**153**	178	956	**1,134**	**1,287**	**2.50**

Source: GCC Economic Statistics/GIC.

In 2001, 21% of Saudi nationals were working in the public sector. The share of Saudis working in the public sector has been increasing over the past 10 years, at an annual average rate of 2% from 752,000 Saudis in 2001 to 885,000 in 2010. On the other hand, private sector employment of Saudi nationals dropped from 2744,000 in 2001 to 725,000 in 2010. Concomitantly, the number of unemployed Saudis rose from 253,000 to 449,000 in 2009.

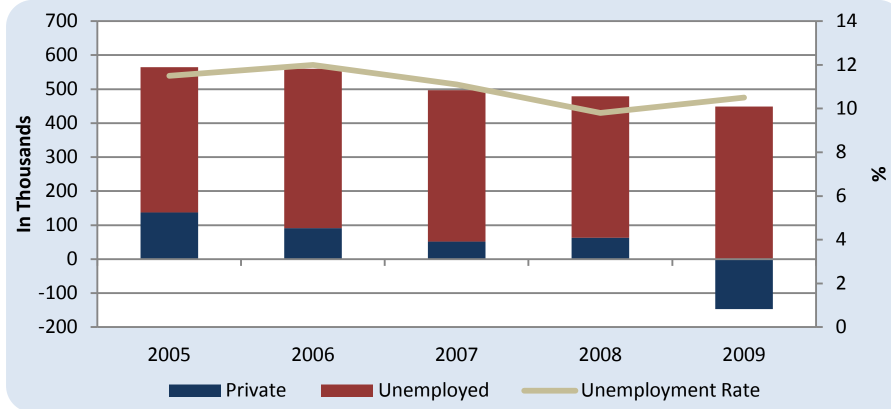
Meanwhile, the ratio of foreigners to Saudis in the private sector increased appreciably from 1:1 in 2001 to a high of 9:1 in 2009.

Table 12: Saudi Arabia Employment 2000-2010 ('000)

	Public Sector		Total	Private sector		Total	Total Employment	Nationals Unemployed
	Saudis	Expatriates		Saudis	Expatriates			
2000	**631**	80	**711**	2,744	3,639	**6,383**	**7,094**	**252.7**
2005	**713**	70	**783**	623	4,739	**5,362**	**6,145**	**427.8**
2006	**734**	70	**804**	714	4,867	**5,581**	**6,385**	**469.02**
2007	**761**	69	**830**	766	5,061	**5,827**	**6,657**	**445.20**
2008	**828**	72	**900**	829	5,393	**6,222**	**7,122**	**416.35**
2009	**867**	75	**942**	682	6,214	**6,896**	**7,838**	**448.55**
2010	**885**	75	**960**	725	6,267	**6,992**	**7,952**	**-**

Source: GCC Economic Statistics/GIC.

Figure 6: Private & Public Sector National Jobs and Unemployment of Saudis



Source: National Authorities.

The GCC private sector is a dynamic creator of jobs. For instance, 93% of the new jobs created between 2005 and 2010 were in the private sector.
The corresponding ratios in Bahrain and Oman were 86% and 78% respectively. The downside is, the great majority of these created jobs were populated by foreign, rather than national, workers.

In 2010, there were 36,000 Bahrainis in the public sector and 84,000 Bahrainis in the private sector of the economy. Accordingly, only 30% of Bahraini nationals work in the public sector while 70% concentrate in the private sector.

Table 13: Bahrain Employment 2000-2010 ('000)

	Public Sector*		Total	Private Sector		Total	Total Employment
	Bahrainis	Expatriates		Bahrainis	Expatriates		
2000	28	3	**31**	51	108	**159**	**190**
2005	34	4	**38**	72	227	**299**	**337**
2006	35	4	**39**	66	247	**313**	**352**
2007	35	4	**39**	67	273	**340**	**379**
2008	35	5	**40**	82	349	**431**	**471**
2009	36	5	**41**	81	365	**446**	**487**
2010	36	5	**41**	84	387	**471**	**512**

Source: GCC Economic Statistics/GIC *Excluding ministry of interior and Bahrain defense force.

Table 14: Ratio of foreigners to nationals employed in the Private Sector

	Bahrain	Kuwait	Oman	Qatar	KSA
2000	2.1	63.2	8.8	5.0	1.3*
2005	3.2	60.8	4.3	5.0	7.6
2006	3.7	45.9	4.5	6.0	6.8
2007	4.1	39.9	4.8	89.0	6.6
2008	4.3	35.9	5.4	117.3	6.5
2009	4.5	42.8	5.5	113.3	9.1
2010	4.6	44.0	5.4	98.6	8.6

*2001 Source: GCC Economic Statistics/GIC.
*Excluding ministry of interior and Bahrain defense force.

The GCC private sector is a dynamic creator of jobs. For instance, 93% of the new jobs created between 2005 and 2010 were in the private sector. The corresponding ratios in Bahrain and Oman were 86% and 78% respectively. However, the downside is that the great majority of these created jobs were populated by foreign, rather than national, workers.

Nationalization of jobs has for decades been a pivotal policy anchor of GCC development plans. Apparently, Oman and Saudi Arabia were most active in implementing jobs nationalization programs, starting as early as 1985 for KSA and 1988 for Oman. This is reflected in the negative growth of jobs created for expats in the private and public sector.

Table 15: Number of Jobs Created: 2000-2005 and 2005-2010 ('000)

Country	Bahrain		Kuwait		Oman		Qatar		KSA	
Year	2005	2010	2005	2010	2005	2010	2005	2010	2005	2010
Nationals in Public Sector	6	2	55	3.3	27	22	7	27	47	172
Nationals in Private Sector	21	12	18	44	43	79	2	6	17	102
Expats in Public Sector	1	1	9	26	-6	-1	9	44	9	5
Expats in Private Sector	119	160	26	159	-70	531	10	966	-18	1,528
Total Nationals	27	14	73	47	70	101	9	33	64	274
Total Expats	120	161	35.8	184	-76	530	19	1,010	-8	1,533

Source: GCC Economic Statistics/GIC *Excluding ministry of interior and Bahrain defense force.

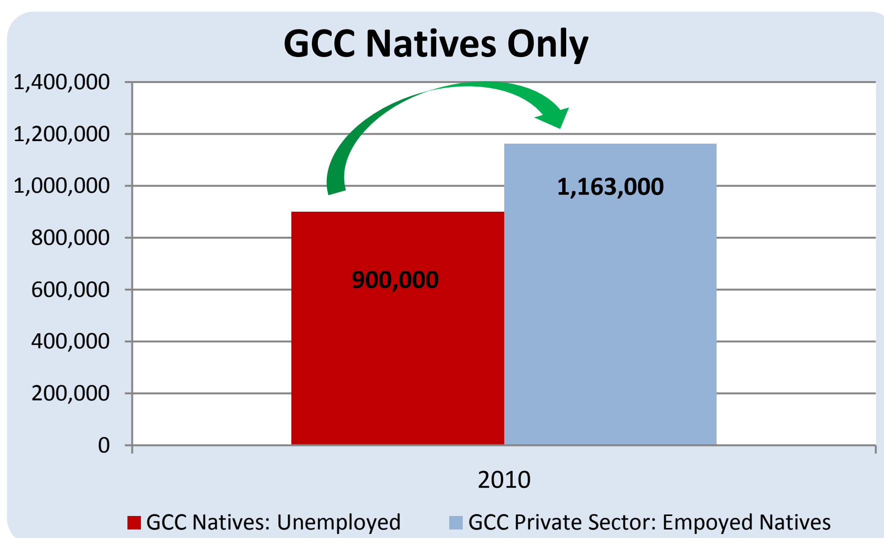
The limited capacity to absorb national workers is due to an amalgam of factors that include: 1. The low relative wages of the private sector; 2. The mismatch between skills of nationals and requirements of opening jobs; 3. The increase in the number of private sector job-seekers as a result of the shrinking job-creation capacity of the public sector because of fiscal and slot availability reasons; and, 4. The seemingly unlimited supply of cheaper, more experienced and docile foreign workers.

Private Sector: Capacity for Employing Nationals

When contrasting the number of unemployed nationals relative to nationals that the private sector actually employs, the figures are staggering. In brief, they reflect strained private sector capacity to employ nationals. The limited capacity is due to an amalgam of factors that include: 1. The low relative wages of the private sector; 2. The mismatch between skills of nationals and requirements of opening jobs; 3. The increase in the number of private sector job-seekers as a result of the shrinking job-creation capacity of the public sector because of fiscal and slot availability reasons; and, 4. The seemingly unlimited supply of cheaper, more experienced and docile foreign workers.

As shown in Figure 7, we estimate that in 2010 the private sector of the GCC employed 1.16 million nationals which is commendable. The downside side is that it left some 900,000 nationals classified as "Unemployed".

Figure 7: Employment Deficiency: Employed in the Private Sector versus the Unemployed



Source: GIC estimates.

Utilizing national data sources, we discern a distinguishing trend; each year, the numbers of unemployed GCC nationals rise in absolute terms at faster rates than the corresponding increase of employed nationals in the private sector. As a result, the ratio of the "unemployed" relative to the "employed" nationals steadily rises over time; increasing from a low of 15% in 2000 to 77% in 2010 (Table 16).

The fiscal impact of employing more nationals is becoming burdensome. Fiscal strains will limit the future employability of nationals in government activities especially during periods of low oil prices.

Table 16: Private Sector De-facto Employment Capacity

Year	Unemployed/Private Sector Employed
2000	14.86
2001	14.72
2002	16.14
2003	62.33
2004	69.06
2005	70.59
2006	75.98
2007	69.05
2008	63.55
2009	82.33
2010	77.38

Source: GIC estimates.

For example, Kuwait is official data show that the absolute number of unemployed is more than double the number of jobs that the private sector managed to create for the "Kuwaiti nationals".

Unemployment and Budget Balance

Because the public sector is the "employment of choice" for most GCC nationals, governments have been burdened by over-staffed civil service national workers. The fiscal impact of employing more and more nationals is becoming burdensome. Fiscal strains will limit the future employability of nationals in government activities especially during environments of low oil prices. When nationals do not succeed in securing public jobs they attempt to find employment in the private sector. However, the stiff competition from the cheaper and more experienced foreign workers often render their bids for private sector jobs unsuccessful. Accordingly, unemployment increases.

They public purse is heavily pressured by over-staffing the public sector and by the inflating wages of natives. The generous government pay structure causes wages to be disjointed from the productivity of national workers.

We estimated the relationship between the rate of unemployment and fiscal position of GCC governments (surplus or deficit). The findings indicate that when the government purse is in the red (deficit), unemployment tends to rise. Specifically, during times when the budget went into deficit by say 10% as percent of GDP, the 10% increase in the budget deficit, as percentage of GDP, will lead to an increase in unemployment rates by 0.4% in KSA, 014% in Qatar and 0.06% in Bahrain.

GCC Economic Growth and Employment

How is employment affected by economic growth in the GCC? The essence of the relationship is gauged by the so-called employment elasticity of economic growth. Intuitively, it measures the percentage increase in employment that a given percentage increase in economic growth is capable of producing.

In some economies, that elasticity is above one, implying that an increase in economic growth of one percent leads to an increase in employment by greater than one percent.

GIC findings indicate that throughout the GCC, the employment level is strongly influenced by the economic growth: When GDP increased by 10% during the period 1990-2011, employment increased by 8.8%; that is the employment elasticity of GDP is 0.88.

Our findings indicate that throughout the GCC, the employment level is strongly influenced by the economic performance. When GDP increased by 10% during the period 1990-2011, employment increased by 8.8%; that is the employment elasticity of GDP is 0.88.

Table 17: Employment Elasticity with respect to GDP Growth

Country	Elasticity
Bahrain	0.98
Kuwait	0.48
Oman	0.71
Qatar	0.82
KSA	1.27
UAE	1.34
GCC	**0.88**

Sources: EIU, Data Pool and ILO Data.

At the country level, Saudi Arabia seems more responsive to changes in GDP growth as a 10% increase in GDP growth leads to 12.7% rise in job creation compared to 13.4% increase for the UAE and 5.1% for Kuwait. Oman and Qatar's response to a 10% increase in GDP growth is 7.1% and 8.2% increase in the job creation while the elasticity in Bahrain is 9.8%.

Accelerated Growth Also Reduces Unemployment

For varied reasons, economies go through peaks and valleys, booms and busts. For instance, history shows that agricultural economies tend to boom during times of abundant water or rainfall, but go to bust during seasons of water scarcity.

In the context of the GCC economies, most booms and busts originate externally and are transmitted to the local economies as a result of fluctuations in oil and natural gas demand and their companion prices.

To illustrate, during the most recent global boom, oil prices rose sharply between 2003 and 2008, peaking at $148 dollar to the barrel in August 2008.

High oil prices caused sizzling economic growth in the GCC economies but the question that crops is: Did unemployment rates contract in tandem? In essence the question hovers around an empirically-derived link between economic changes in unemployment and the changes in GDP economic performance, deviations of actual output from potential or long-term growth. The relationship is dubbed as Okun's Law following its originator, Arthur Okun. It loosely states that for every 2% that real GDP falls below its trend rate, unemployment rate will increase by 1%.

The relationship has been vindicated in the US economy in particular. Because other economies have different institutional and economic structure, the magnitude of the relationship is expected to be different.

Utilizing The Conference Board and ILO data, GIC finds that whenever real GDP increased by 2% above its trend level, unemployment tended to drop by nearly one-half of one percent. That is, GCC unemployment is less responsive to deviations of current GDP from long-time trend than in the case of the USA.

Utilizing Conference Board data on Geary Khemis PPP GDP and ILO data on unemployment in the GCC, we estimated the empirical relationship between changes in GDP, deviations of actual output from its long-term potential, and the ensuing changes in unemployment in the GCC economies.

The findings suggest that if real GDP declines by 2% below its trend, unemployment increases by nearly one-half of one percent. That is, GCC unemployment is less responsive to deviations of current GDP from long-time trend than in the case of the USA, Table 18.

Table 18: Unemployment versus GDP Deviation from Trend

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
BAHRAIN											
Unemployment Rate	6.62	5.63	6.42	7.17	9.18	8.82	8.75	8.33	8.10	8.31	7.88
Deviation of GDP growth from trend	-0.31	-0.31	-0.31	1.69	0.69	2.69	1.69	2.69	0.69	-2.31	-1.31
KUWAIT											
Unemployment Rate	0.83	0.80	1.14	1.28	1.68	1.89	2.00	2.02	2.04	2.20	2.06
Deviation of GDP growth from trend	-4.30	-3.30	-1.30	12.70	6.70	5.70	0.70	-0.30	0.70	-9.30	-1.30
OMAN											
Unemployment Rate	9.02	9.00	9.24	9.34	8.90	8.81	8.71	8.53	7.99	8.97	8.47
Deviation of GDP growth from trend	-3.33	-2.33	-6.33	-8.33	-5.33	-4.33	-2.33	-1.33	4.67	-7.33	-4.33
QATAR											
Unemployment Rate	2.41	3.79	3.95	3.96	0.93	3.24	0.76	0.48	0.49	0.76	0.68
Deviation of GDP growth from trend	4.56	-0.44	-3.44	-0.44	11.56	0.56	19.56	11.56	11.56	5.56	10.56
KSA											
Unemployment Rate	4.61	4.60	5.19	4.61	4.09	5.03	6.25	5.63	4.99	5.38	5.28
Deviation of GDP growth from trend	-1.02	-5.02	-6.02	1.98	-1.02	-0.02	-3.02	-4.02	-2.02	-6.02	-2.02
UAE											
Unemployment Rate	2.27	2.48	2.62	2.76	2.96	3.12	3.18	3.20	3.99	4.25	4.04
Deviation of GDP growth from trend	4.66	-5.34	-8.34	8.66	2.66	1.66	1.66	-0.34	-2.34	-10.34	-4.34

Source: GIC Estimates, based on The Conference Board.

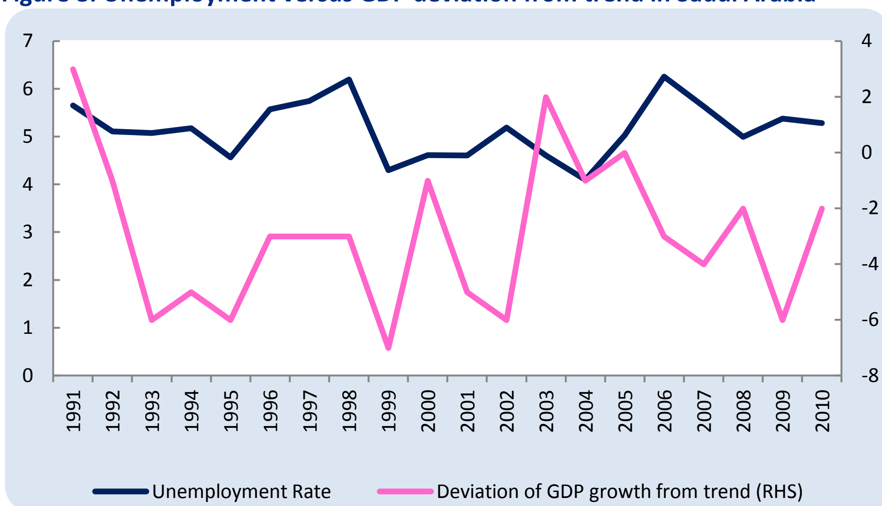
Okun's law applies in the GCC economies but the relationship between growth and unemployment is weaker.

The weaker Okun relationship in the context of the GCC economies is not a bad thing during economic downturns because unemployment would not increase appreciably. But during boom times the reverse is true; that is, during periods of economic boom, unemployment in the GCC does not necessarily drop precipitously as a result of rising GDP above trend level, ceteris paribus.

This seems to hold true as unemployment, especially of national youth seem to persist during peak times, although its level tends to be lower than during bust periods.

Among nationals, the unemployment rates are disturbingly high. Youth unemployment rates are

Figure 8: Unemployment versus GDP deviation from trend in Saudi Arabia



Source: GIC estimates based on The Conference Board and ILO data.

GCC Unemployment over Time

There is no national time series data on unemployment rates by age cohorts. Available estimates from international sources are for the total labor force, national and foreign. Table 19 displays estimates of overall unemployment in the GCC economies during the period 1991-2010.

The estimates are derived from the ILO and reveal that the highest rates of unemployment are in Bahrain, Oman and KSA.

Unemployment rates have been alarmingly high and persistent. The incident of unemployment is highest among the youth, the highly educated and females.

Notice that the data is for the total labor force, national and immigrant segments. Among nationals, unemployment rates tend to be discernibly higher. For instance, the recent official unemployment rate among Saudis hovered around 10.5%, that is twice the rate for the total Saudi and non-Saudi segments of the labor force. The same holds true for other GCC countries, especially the UAE, Oman and Bahrain, Tables 19 and 20.

Table 19: Unemployment Rates in the GCC

	Bahrain	Kuwait	Oman	Qatar	KSA	UAE	GCC
1991	6.73	1.53	7.63	2.85	5.65	2.67	4.97
1992	7.36	0.51	7.16	3.16	5.11	2.67	4.53
1993	7.11	0.91	7.30	3.11	5.07	2.84	4.59
1994	6.48	0.65	7.25	3.08	5.18	2.07	4.51
1995	5.86	0.78	7.33	3.05	4.57	1.86	4.09
1996	5.28	0.76	7.69	3.01	5.57	3.22	4.90
1997	5.80	0.73	7.71	2.97	5.75	3.04	4.96
1998	5.57	0.69	8.42	2.89	6.20	2.67	5.18
1999	5.41	0.66	9.11	2.80	4.30	2.40	4.01
2000	6.62	0.83	9.02	2.41	4.61	2.27	4.18
2001	5.63	0.80	9.00	3.79	4.60	2.48	4.21
2002	6.42	1.14	9.24	3.95	5.19	2.62	4.65
2003	7.17	1.28	9.34	3.96	4.61	2.76	4.35
2004	9.18	1.68	8.90	0.93	4.09	2.96	4.02
2005	8.82	1.89	8.81	3.24	5.03	3.12	4.68
2006	8.75	2.00	8.71	0.76	6.25	3.18	5.27
2007	8.33	2.02	8.53	0.48	5.63	3.20	4.82
2008	8.10	2.04	7.99	0.49	4.99	3.99	4.56
2009	8.31	2.20	8.97	0.76	5.38	4.25	4.90
2010	7.88	2.06	8.47	0.68	5.28	4.04	4.72

Source: GIC Estimates based on ILO, KILM data.

Over time, GCC unemployment tended to vary depending on economic conditions but generally the overall rate of joblessness for native and foreign segments has increased since 2000. In Saudi Arabia, the national unemployment is 10.5%, in the UAE its 14% and is 6.2% for Kuwait

Over time, GCC unemployment tended to vary depending on economic conditions but generally the overall rate of joblessness for native and foreign segments has increased since 2000. Among the GCC countries, Bahrain and Oman have the highest rates of unemployment, averaging 7.0% and 8.3% respectively. Saudi Arabia ranked third with an average unemployment rate of 5%. As for the remaining countries, unemployment is reasonably low averaging 1.26% for Kuwait, 2.4% in Qatar and 2.92% in the UAE. During the last two decades, GCC unemployment estimates ranged between 4% and 5% with a high of 5.18% in 1998, and another peak of 5.27% in 2006.

Table 20: National Estimates of Unemployment in Saudi Arabia

	SAUDI			NON-SAUDI			TOTAL		
	M	F	MF	M	F	MF	M	F	MF
2002	7.6	21.7	9.7	0.8	0.6	0.8	4.2	11.5	5.3
2003	8	23.2	10.4	0.8	0.8	0.8	4.4	12.5	5.6
2004	8.4	24.4	11	0.8	0.9	0.8	4.5	13.4	5.8
2005	8.7	25.4	11.5	0.8	1.1	0.8	4.6	14.1	6.1
2006	9.1	26.3	12	0.7	1.2	0.8	4.7	14.7	6.3
2007	8.3	24.7	11.1	0.4	0.5	0.4	4.2	13.2	5.6
2008	6.9	24.9	9.8	0.4	0.6	0.4	3.5	13	5
2009	6.9	28.4	10.5	0.3	0.7	0.3	3.5	15.9	5.4

Source: SAMA.

Table 21: National Estimates of Unemployment Rate in the UAE

	1995	1998	1999	2000	2001	2002	2003	2004	2005	2008	2009
Emirati	6.2	8.2	7.6	8.1	8.4	9.8	10	11.6	13.2	13.89	14
Total	1.00	1.99	2.16	2.31	2.49	2.47	2.59	2.81	3.12	3.71	3.86

Source: IMF, UAE 2011 Article IV Consultation.

Table 22: National Estimates of Unemployment Rate in Kuwait

	2004	2005	2006	2007	2008	2009	2010
Kuwaiti	13.53	9.12	9.48	7.93	7.69	6.44	6.18

Source: Central Statistical Office, www.cso.org.

The latest available data indicates that Saudi Arabia has the highest youth unemployment, around 29.2% in 2010 and posting highs of 32.5% and 30.5% during 2006 and 2007.

The latest available data, table 23, indicates that Saudi Arabia has the highest youth unemployment, hovering around 29.2% in 2010 and posting highs of 32.5% and 30.5% during 2006 and 2007.

Bahrain and Oman youth rates of unemployment were 28.2% and 21.9% respectively while Kuwait's youth unemployment steadily increased from 2% in 1992 to 12% in 2010. Similarly, UAE youth unemployment rose from 7% in 1991 to 13.6% in 2010. Arguably, Qatar has the lowest youth unemployment rates. Moreover, its rates tend to decline from their peak 17% level in 2002 to 2.4% in 2006 and 2.31% in 2010.

Table 23: Youth Unemployment Rates in the GCC

	Bahrain	Kuwait	Oman	Qatar	KSA	UAE	GCC
1991	25.00	8.41	20.91	10.81	21.75	6.99	18.87
1992	24.32	2.00	20.72	13.16	20.92	7.28	17.75
1993	23.68	5.38	21.43	12.82	23.00	8.13	19.24
1994	23.08	4.60	21.55	10.26	24.35	5.92	19.32
1995	22.50	3.57	21.95	12.50	23.41	6.18	18.56
1996	21.95	4.65	22.56	12.50	28.64	10.64	22.23
1997	21.43	4.40	21.92	12.82	29.04	7.58	21.72
1998	20.93	4.08	22.36	10.53	30.30	6.70	22.15
1999	22.22	3.81	23.43	12.82	20.75	5.88	16.97
2000	22.22	4.50	22.40	10.26	21.70	6.38	17.42
2001	19.57	5.17	22.16	15.38	22.13	6.48	17.64
2002	22.22	6.72	22.83	17.50	25.65	6.56	19.87
2003	24.44	7.44	23.50	14.29	23.31	7.25	18.77
2004	28.26	9.84	22.95	4.08	21.12	7.31	17.38
2005	28.00	12.10	22.75	11.29	26.23	7.94	20.38
2006	28.07	12.50	22.66	2.41	32.51	8.40	22.93
2007	27.27	12.03	21.72	1.82	30.50	8.73	20.78
2008	28.00	12.23	20.25	1.45	28.52	13.22	20.26
2009	29.27	12.24	22.80	3.11	29.82	14.06	20.91
2010	28.24	12.00	21.86	2.31	29.16	13.58*	20.17

* UAE national bureau of statistics, labor force 2009.
Source: GIC Estimates based on ILO, KILM data.

Does Productivity Lead to Lower Employment?

Labor productivity of the GCC economies tends to be low, in fact it is almost half the corresponding levels of the US and core European countries. During the longer-hall, it oscillates and grows fairly minutely. Productivity trends must change upwards for sustainable and productive GCC future.

This section applies the Conference Board estimates and contrasts the trend in labor productivity in the GCC countries with employment trends Our ultimate objective is to gauge the behavior of unemployment as productivity levels improve in the GCC economies.

Intuitively employment (E), output (O) and productivity (P) are inter-related through the economic relationship (P=O/E): which states that productivity is total output divided into total employment; that is, productivity is the average output per worker. Hence employment is the ratio of output to productivity (E=O/P). Accordingly, the employment impact of productivity changes depends pretty much on the direction and magnitude of output changes. If output increases proportionately more than productivity increases, then employment would increase.

The Conference Board estimates indicate that GCC labor productivity tends to be low, Table 24. In fact it is almost half the corresponding level of the US and core European countries. It oscillates and grows minutely over time. At the country level, Bahrain for instance experienced declining productivity trends since 2006 but improved in 2010, only to fall back again in 2011. Kuwait's productivity on the other hand increased steadily in the past 11 years and in 2011 it stood at $53.5 thousand per person employed. The figure is higher than the estimated figure for 200, at $41.7 thousand. Labor productivity in the UAE contracted by 36.6% during the past 11 years: It reached $76.3 thousand per person employed in 2011, down from the highs of $120,000 which the UAE realized in 2000.

The GCC unemployment seems to be mildly negatively related to productivity increases. This preliminary finding was weakly validated by a simple pooled fixed effect model that yielded an inverse relationship between GCC labor productivity and rates of unemployment.

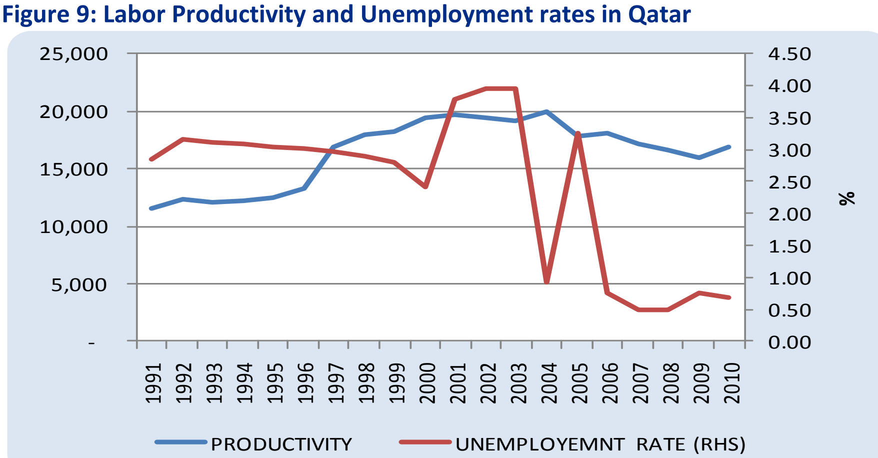
All considered, GCC unemployment seems to be adversely, albeit marginally, affected by labor productivity increases. This rudimentary finding was weakly corroborated by a simple fixed-effect pooled regression analysis that yielded a negative relationship between labor productivity and the rates of unemployment but the statistical significance was not particularly powerful, Figure 9.

Table 24: GCC Productivity- GDP per Person Employed, in 2011 EKS$

	Bahrain	Kuwait	Oman	Qatar	KSA	UAE
2000	57,724	41,671	58,257	167,520	65,948	120,336
2001	59,938	40,158	60,827	169,949	62,912	116,100
2002	63,638	39,729	60,849	167,350	59,226	109,477
2003	68,144	44,989	59,563	164,907	60,119	119,462
2004	69,094	48,719	59,925	171,595	59,821	119,720
2005	68,272	52,330	60,250	153,752	60,125	114,857
2006	63,645	53,578	61,298	156,497	59,400	107,488
2007	59,181	54,347	62,845	148,142	58,295	97,654
2008	54,315	55,624	68,172	143,694	58,887	88,893
2009	49,721	51,119	66,107	138,044	57,181	76,736
2010	50,024	51,690	67,052	145,788	58,045	76,385
2011	49,170	53,491	68,227	160,302	60,297	76,307

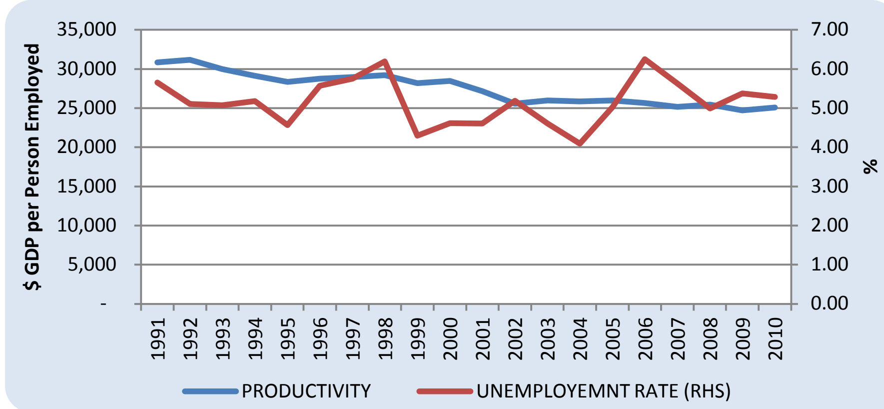
Source: The Conference Board.

Figure 9: Labor Productivity and Unemployment rates in Qatar



Source: GIC Estimates based on The Conference Board and ILO KILM data.

Figure 10: Labor Productivity and Unemployment rates in KSA



Source: GIC Estimates based on The Conference Board and ILO KILM data.

Alarming Study Findings

Prospectively, the IMF estimates that as many as 2-3 million additional citizens in the GCC could become unemployed despite the continued past trend of high job creation.

The empirical analysis conducted in this report reveals that job creation is a top priority for the GCC economies in order to absorb the future flows of national labor market entrants and prevent unemployment from exacerbating further. The current unemployment rates among nationals of the GCC economies are alarming because of their high order of magnitude, persistence and tendency to increase over time. As of 2010, unemployment rates hovered around 10.5% in KSA, 14% in the UAE, and 6.2% in Kuwait. Unemployment rates were also high in Bahrain and Oman but are less than 3% in Qatar.

A striking feature of unemployment in the GCC is that it is also high among the most educated. For example, over 43 percent of those with tertiary education are unemployed in Saudi Arabia and 14% in the UAE. Prospectively, the IMF estimates that as many as 2-3 million additional citizens in the GCC could become unemployed despite the continued past trend of high job creation[25].

Youth unemployment has serious economic and societal consequences. It demoralizes the youth and deprives society of their human capital and person-power

More troublesome however is the remarkably high and rising unemployment among the youth of the GCC. In 2010 the ILO data files indicate that the overall youth unemployment in the GCC as a whole was much higher than the overall unemployment rate, around 20.2%, with marked differences across the six countries: Youth unemployment stands at 29.2% in Saudi Arabia, 28.2% in Bahrain, 23% in Oman 12% in Kuwait and 14% in the UAE whereas it is under 3% in Qatar.

Economy-wide, and youth unemployment in particular, has serious economic and societal consequences because it implies idleness of human resources which de-facto reduces the economic potential of the GCC and deprives the societies of valuable contributions of some 20% to 30% of the labor power of their youthful population segments.

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[25] IMF 2011 "Gulf Cooperation Council Countries: Enhancing economic outcomes in an uncertain global economy"

The inability of the economy, and the private sector in particular, to make use of its youthful resources carries additional costs in terms of continued reliance on foreign workers that currently represent nearly 68% of the total labor force, GCC-wide.

Furthermore, recent international work corroborates that the unemployed youth tend to suffer diminished "happiness" which is a fundamental human goal because they do not have self-earned wage or income streams. Therefore, their unemployment status adversely affects their ability to afford the continuously rising costs of living and to meet the expenses of family formation and achieve family stability. At the macro level, contemporaneous country experiences ascertain that the high rates of joblessness among the youth could trigger instability and cause societal unrest.

Recent international research corroborates that the unemployed tend to suffer diminished happiness, which is a fundamental human goal because they do not have self-earned wage or income stream.

To be sure, the GCC economies have succeeded in the past ten years to create millions of jobs but the downside is that the great majority of these jobs went to foreign workers and especially in the private sectors of the GCC economies while the great majority of nationals cluster in the public sector of the economy. To illustrate, for every Omani working in the private sector, there are five foreign workers. The corresponding figures in Saudi Arabia are 9 to 1. In other countries such as Kuwait the number of foreigners per one Kuwaiti national was 63:1 in 2000 but dropped to 44:1 in 2010. In Qatar, the corresponding ratio of foreigners to nationals in the private sector was 5:1 in 2000 but increased over time, reaching 99:1 in 2010.

Prospectively, relying on official data sources, GIC estimates that the GCC economies must create a large number of jobs in order to employ the sizeable numbers of "national" entrants who will enter the labor markets for the first time. Broadly, our estimates of the future number of jobs for GCC nationals that must be created during the five year interval, 2010-2015, is 1.1 million. During the ten-year period, 2010-2020, about 2.1 million national jobs will be needed to employ nationals.

Causes of GCC Unemployment

The roots of unemployment in the GCC are demographic, economic and socio-cultural in nature: Demographically, the population of the GCC has been growing rapidly with strong momentum which temporally triggered rapid domestic labor supply in view of the bulging out of youthful cohorts in the overall histogram.

Reliance on expatriate workers that began in the 1970s for developmental purposes has increasingly become entrenched into excessive dependence on foreign labor for productive and consumptive activities that is hard to sustain in the long-run.

Anecdotal evidence suggests that, for some activities and jobs, such entrenched dependence is not economically vindicated where native workers can and should become competitive and replace foreigners

On the supply-side, the public-private sector wage differentials induces nationals to cluster in public jobs. To a large extent, the employability of nationals in the public sector results directly from the "social contract" that prevails in the GCC where public employment is seen as a means for re-distributing the oil wealth to the citizens. The downside risk however is that the absorptive capacity to employ more and more locals is increasingly becoming constrained by space limits and narrowing margins for further productive government jobs and, more importantly, by fiscal constraints. It is worth noting here that the employment share of the government services in the GCC economies is much higher than the corresponding share in some fast-growing, resource-rich countries such as Brazil, Malaysia, and Indonesia[26].

The fiscal impact of government employment and pay structure is illustrated by recent trends in Kuwait where the average real and nominal growth rate of the public wage bill has more than doubled in the last six years (2006/07-2011/12), to 8 percent and 13 percent, respectively. The continuation of such a trend could put significant pressures on government finances-via higher wage payments, government pension contributions, and an increase in the unfunded liabilities of the pension system-and would be difficult to reverse if oil prices were to decline in the future. Finally, rapid population growth-about 60 percent of the Kuwaiti population is under the age of 24-years-is likely to put increasing pressures on public sector employment and the provision of public services going forward[27].

Concurrent policies are not conducive for reforming the asymmetric employment profile of nationals nor mitigate the rising government wage bills. To illustrate, following regional geopolitical risks, the sectoral wage disparity widened in 2011 as Saudi Arabia, Oman and Bahrain each increased the minimum wage to SR 3,000, OMR 200 and BHD 402 respectively. Unlike the substantial growth in public sector wages, the GCC private sector wages grew at much slower rates by an average of 5.5% in 2011.

Concurrent policies are not conducive for reforming the asymmetric employment profile of nationals nor mitigate the rising government wage bills. To illustrate, following regional geopolitical risks, the sectoral wage disparity widened in 2011 as Saudi Arabia, Oman and Bahrain each increased the minimum wage to SR 3,000, OMR 200 and BHD 402 respectively. Unlike the substantial growth in public sector wages, the GCC private sector wages grew at much slower rates by an average of 5.5% in 2011[28]. While the impact of these wage outlay increases is somewhat uncertain in terms of governments' future liabilities, "it is expected to be significant and will leave some of the pension funds with a major funding gap unless the governments provide "top ups" to the pension funds. It is not clear where these funds will come from"[29].

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[26] World Bank 2011 "Economic Development and Prospects September 2011: Investing for growth and jobs: Middle east and North Africa
[27] IMF April 2012 "Kuwait 2012-Article IV Consultations".
[28] Gulf Talent, " Employment and Salary Trends in the Gulf 2012".
[29] Insight discovery: October 2011 "Securing the future-building a retirement income infrastructure for expatriates in the "

Rote learning and the near absence of troubleshooting and creative thinking approaches to learning in the GCC education system continue to be powerful drivers of the sectoral employment cluster and the rising unemployment among nationals.

On the demand-side however, the apparently insufficient and inadequate skills that the education system imparts on nationals is a significant hindrance to their recruitment by private sector employers who opt to hire the cheaper and more docile foreign workers. Rote learning and the near absence of troubleshooting and creative thinking approaches to learning in the GCC education system continue to be powerful drivers of the sectoral employment cluster and the rising unemployment among nationals. The authorities are largely aware of the need to upgrade the education system to improve the quality of education and make it attuned to the needs of the business sector[30].

A related deficiency of the education system pertains to the thin numbers of graduates from technical and vocational schools; under 15%, in the GCC at large. Moreover, there is virtual absence of "applied skills " that result from forming partnerships between the education system and the business sector. Students do not experience "real life applied learning" during their young formative years. Additionally, only 12% of the GCC vocational graduates directly enter the job market and 32% of those work in their field of expertise[31].

Policies and Quota Systems for Employing Nationals

The suite of quota policies comprised demand-side and supply-side measures, subsidies and incentives to encourage the hiring of nationals as well as wage policies to reduce the native-immigrant wage gaps.

Over time, the GCC countries followed a compendium of policies for increasing the share of nationals in the employment at the overall and sectoral-levels. The suite of policies comprised demand-side and supply-side measures, subsidies and incentives to encourage the hiring of nationals as well as wage policies to reduce the native-immigrant wage gaps. Demand-side policies aimed at raising the cost of hiring foreigners and restricting employment to natives in certain sectors and niches. Supply-side policies ranged from immigrant-visa restrictions to direct tax on migrant workers and deportation of irregular workers. Finally, GCC countries provided incentive measures, including wage subsidies, for the natives and employers to increase the participation of natives in the private sectors of the economy[32].

While these policies have partially succeeded in reducing the tide of immigration and in mildly increasing the share of natives in the private sector of the economy, especially in KSA, replacing natives for foreigners often fell short of stated targets because of resistance from both employers and national workers.

[30] IMF April 2012 "Kuwait 2012-Article IV Consultations".
[31] McKinsey &Company, "GCC Education Breakout: Preparing GCC youth with the skills to meet job market needs", November 2007.
[32] Martin Baldwin-Edwards "Labor immigration and labor markets in the GCC: national patterns and trends" Kuwait Program on Development, Governance and Globalization in Gulf States".

Employers found it challenging to promote the employment of nationals without imposing undue costs of doing business that would erode competitiveness and potentially reduce growth[33] while a quarter of employees shirked and failed to turn up for work regularly, saying they were bored[34].

Very high expectations have been placed on the GCC private sector employers. Qatar has set targets of 50 percent national workforces for all sectors, even though nationals currently represent only 5.7 percent of the country's labor force.

Clearly, very high expectations have been placed on the GCC private sector employers. These include pressure to nationalize their workforce, owing to a combination of high regional unemployment and a currently outsized proportion of expatriate workers are high in the region. Qatar has set targets of 50 percent national workforces for all sectors, even though nationals currently represent only 5.7 percent of the country's labor force.

Kuwait plans to introduce residency caps to reduce the percentage of expatriates to 45 percent of the overall population. Saudi Arabia is taking perhaps the most drastic step, with a new Saudization plan called *Nitaqat* that assigns private-sector companies a rating of red, yellow, green, or excellent depending on the number of Saudis they employ; companies in the red zone would not be permitted to renew the visas of their expat staff. The government hopes to create 1.12 million new jobs for Saudi nationals by 2014, or 92 percent of all new jobs created. The government plans for 75 percent of the private-sector workforce to be nationalized[35].

One downside of the quota systems is that they tend to create "ghost national workers".

That said, a downside of the quota systems is that they tend to create "ghost national workers" whereby private sector employers use loopholes in the system by paying say university students who are nationals a fixed sum of money in return for their supply of personal documents that are presented as "rigged" evidence of company employment of nationals.

Study Recommendations to Promote National Employment

Our research validates that the GCC economies must achieve high and sustainable economic growth-cum the creation of adequate jobs for nationals. According to the World Bank estimates, economic growth in the GCC should not fall below 6 percent during the next decade in order to create the jobs required by the its rapidly growing labor force[36].

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[33] IMF 2011 "Gulf Cooperation Council Countries: Enhancing economic outcomes in an uncertain global economy

[34] Martin Baldwin-Edwards citing Al-Kibsi survey "Labor immigration and labor markets in the GCC: national patterns and trends" Kuwait Program on Development, Governance and Globalization in Gulf States"

[35] Booz&Co. 2011" Educated, ambitious, essential Women will drive the GCC's future".

[36] World Bank 2011 "Economic Development and Prospects September 2011: Investing for growth and jobs: Middle east and North Africa

An important policy dimension pertains to diversifying the economic base of the GCC economies in a manner that buttresses the employability of the large future flows of first-time national entrants into the labor markets.

GCC countries could better expand the employment of their national labor force by concentrated focus on tradable manufacturing activities, information technology, financial, investment and trade and tourism in the private sector of the economy.

This requires policy shift: instead of focusing on public sector employment and non-tradable sector jobs, the GCC countries could better expand the employment of their national labor force by concentrated focus on tradable manufacturing activities, information technology, financial, investment and trade and tourism in the private sector of the economy[37]. Bolstering these sectors should go hand-in-hand with measures to support a vibrant, competitive and entrepreneurial private sector. In tandem, governments of the GCC should expand their partnership with private sector, PPP, in an array of economic activities and sectors including manufacturing, IT, trade and transportation, tourism and related financial services.

Likewise, governments should improve the functioning of institutions, enhance competitiveness, and improve the investment and doing-business climate in a manner that attracts more foreign direct investments. Examples of well-functioning institutions include clearly-defined and enforced property rights and efficient and transparent public administration, a fair and independent judiciary and high corporate governance standards. In the realm of regulatory structure, policies that promote labor mobility and reduce labor market rigidity including the hiring and firing policies of nationals and foreign workers alike would enhance efficiency and increase the employability of nationals especially in the private sector of the economy[38].

Country experiences in emerging economies strongly support the recommendation of improving the business climate and reducing bureaucracies in order to encourage local enterprising and domestic investments and to attract FDI and technology transfers for the purpose of attaining robust growth with sufficient job creation for nationals[39].

The GCC countries should consider aligning labor immigration policies with the objective of achieving robust and sustainable economic growth in the years ahead by working directly with the business sector to ensure the importation of productive, educated, experienced and high-value added foreign workers while in the meantime, encourage the departure of low-skilled, low educated workers.

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[37] World Bank 2011 "Investing for Growth and Jobs"

[38] World Economic Forum (WEF): 2012 "Arab World Competitiveness Report 2011-2012"

[39] World Bank 2011 "Economic Development and Prospects September 2011: Investing for growth and jobs: Middle east and North Africa"

Meanwhile, the current system of hiring nationals should be improved by introducing rewards for natives according to merits, credentials specs and talent in both the private and public sectors of the economy.

The work environment and expectations along with a reformed reward system should encourage mid-and-highly-skilled foreign workers to transfer their skills onto their GCC natives. While a bit has been achieved in this juncture over the course of time, a bit more remains to be realized by adjusting work plans and incentive system at the work-place.

The work environment and expectations along with a reformed reward system should encourage mid-and-highly-skilled foreign workers to transfer their skills onto their GCC natives. While a bit has been achieved in this juncture over the course of time, a bit more remains to be realized by adjusting work plans and incentive system at the work-place.

In this regard, policy makers may also consider establishing innovative training centers in a selective set of private and public sector niches. The centers offer specialized training courses with the specific objective of preparing job entrants to become productive workers. The funding of such centers may come from re-directing some of the current subsidy elements that natives receive including the very generous pension payments. The funding source may be augmented by a special fee system that is imposed on private sector establishments (or foreign workers therein) as a penalty for hiring non-native workers beyond a threshold level.

As well, GIC proposes that policy makers should establish a small business fund for new job entrants**.** GIC contends that one feasible approach to increase the presence of natives in the private sector is through the establishment of a small business fund. The fund provides financial loans to new native entrants who are fresh graduates from the high school and university. The government-established fund grants new labor market entrants loans, say $30-40,000 each to help each entrant establish a small or medium-size businesses in certain private sector niches. To be attractive, the loan conditions and terms must be soft such as repayment of the principle over a long period of time. In order to be taken seriously, recipients of the loans must bid competitively and demonstrate verifiable business project with strict conditions for the discernment and use of the loan money.

Finally, our reviews and study findings corroborate that an important factor behind the high unemployment of GCC nationals is the mismatch between the skills provided and those needed by private sector firms. This calls for greater involvement of the private sector in contributing to skill development. Specifically, partnership between the education system and business sector is an important element of the education-labor market reform.

Denmark has encouraged young adults and employers to engage in mutually beneficial part-time internships—or "school-to-work" programs—prior to and after vocational studies

Accordingly, the GCC countries may consider emulating other countries that have forged successful partnership between academic and private sector niches, particularly industrial and manufacturing niches and high value-added services and management activities. The list of countries include Germany, Malaysia, France, Denmark, and Canada which succeeded in creating industry-academia partnerships which contributed to mitigating the level of unemployment by providing private sector jobs to the already apprenticed in the sector, fresh graduates of the education system[40]. For instance, France's government has introduced incentives for employers to hire young adults under a "fixed duration" contract; if those new hires thrive, employers can retain and hire them on a full-time basis. If, however, those new hires prove unsatisfactory, employers decide to let the employment contract expire, with few administrative or financial costs. Similarly, Denmark has encouraged young adults and employers to engage in mutually beneficial part-time internships—or "school-to-work" programs—prior to and after vocational studies. As a result, it has the lowest youth unemployment rate in its region (6 percent, against an OECD average of 13 percent in 2008); 55 percent of Danish youth are employed part time compared to an OECD average of 28 percent[41].

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The GCC need to diversify the economy and create high value added activities and niches. The GCC economies should benefit from the path taken by other hydrocarbon-rich economies which succeeded in diversifying the economy and minimizing joblessness. Norway stands out as a striking example in this regard. Norway responded to the oil-resource- challenges with a variety of measures that have given it a much sturdier economic base. It prodded domestic companies to spend more time looking for opportunities in international markets. It created industrial centers as part of a strategy of "clustering," or building proficiency in selected industrial segments. It made heavy investments in R&D and education, not just in new areas but in areas where Norway was already strong, to ensure the country's future competitiveness. And in support of all of these initiatives, it invested in strategic parts of the Norwegian infrastructure. By doing all these things, Norway managed to advance its high-tech industries and economy and reduce unemployment. Notwithstanding the negative effect of the global economic crisis, Norway's unemployment rate is expected to reach 4.3 percent in 2010, a much healthier level than many other OECD countries[42].

[40] Economic Research Forum 2008 "Oman Country Profile: The road ahead for Oman".
[41] Booz & Company 2011.
[42] Booz & Company 2011.

Information:

GICMER is a monthly economic periodical, produced by the Economics Division at GIC. GICMER provides monthly discussion and analysis of unfolding global and regional developments.

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