III. Labor Market Structure

A. Growth and Structure of Population and Labor Force

Over the past three decades, the GCC countries as a group have recorded one of the highest rates of population growth in the world[6] (averaging 5 percent a year during 1970–95), reflecting the high rate of indigenous population growth as well as the large influx of expatiate workers. The rapid rate of growth of the national population (averaging 3 ½ percent a year in recent years) is attributable to the high fertility rates in the GCC countries (more than twice the world average) and significant advances in the areas of health and education, which have drastically reduced infant mortality rates (by a factor of 5 since 1970) and raised life expectancy (by some 20 years since 1970). The growth of indigenous labor force has been also influenced by the population's young age profile (40 percent below the age of 15) and the low participation rate of nationals in the labor market (Table 1).

The degree of labor market participation in the GCC countries (35 percent) is lower than that of other countries at the same stage of economic development and with similar per capita income levels. This reflects a combination of demographic, economic, social, and cultural factors. First, a relatively large proportion of the population is below working age. Second, there are incentives to delay entry into the labor force and continue education at least through university: education is free; a university degree significantly increases the chances of securing a government job or other highly paid jobs; and there is a social premium associated with university education. Third, a low retirement age in the public sector—typically about 45 years with 20 years of service—allows early exit from the labor force (although many retirees establish private businesses and remain active). Finally, the female participation rate in the GCC countries is low despite the growing number of educated and qualified women; at about 30 percent, Kuwait has the highest female participation rate among the GCC countries and even that is low by international standards.

Adult literacy rates in the GCC countries have improved significantly over the past three decades in response to large investments in education and the countries' compulsory education policies. Adult literacy rates in most GCC countries is about 80 percent because of high literacy rates among the younger adults, and the GCC average of 64 percent is higher than the MENA average of 55 percent. Moreover, the traditional gender imbalance in literacy rates in favor of men is narrowing because of similar enrollment ratios between males and females at primary and secondary education levels, and the larger share of women in local universities. In several GCC countries, women university students significantly outnumber men reflecting, among other things, the higher drop out rates among men, the greater opportunities for men in the local job markets and military, and the

[6]The GCC has a total population of some 27 million, ranging from 0.6 million in Qatar to about 19 million in Saudi Arabia. On average, nonnationals comprise about one-half of the population. With the exception of Oman, the GCC population is highly concentrated in urban centers.

Table 1. GCC Countries: Population, Labor Force, and Social Indicators

(1995 or most recent year)

	Bahrain	Kuwait	Oman	Qatar	Saudi Arabia	U.A.E.	GCC
GNP per capita (U.S. dollars)	7,840	17,390	4,820	11,600	7,040	17,400	8,592
Demographic indicators							
Population (millions)	0.58	1.66	2.20	0.64	18.98	2.46	26.52
Aged 0-14 (percent of total)	35	35	46	30	44	29	41
Aged 15 and over (percent of total)	65	65	54	70	56	71	59
Population growth (percent, 1993–95 average)	3.6	5.4	5.1	6.4	4.1	5.7	4.4
Population gender ratio (men:women)	57:43	56:44	53:47	63:37	55:45	63:37	56:44
Age dependency ratio 1/	0.6	0.6	1.0	0.5	0.9	0.5	0.8
Urban population (percent of total)	90	97	13	92	79	84	75
Labor force indicators							
Total labor force (millions)	0.25	0.82	0.55	0.33	6.26	1.14	9.35
Male (percent of total)	82	73	85	88	88	89	86
Female (percent of total)	18	27	15	12	12	11	14
Labor force growth (percent, 1993–95 average)	2.3	-1.6	5.2	3.9	3.3	3.9	3.0
Participation rate (percent)	44	49	25	52	33	46	35
Social indicators							
School enrollment (percent)							
Primary (1992)	111	...	85	90	75	110	79
Secondary (1992)	99	...	55	84	45	49	54
Tertiary (1992)	20	...	5	29	14	11	13
Adult literacy rate (percent, 1990)	85	79	35	79	63	79	64
Population per physician (1990)	760	...	...	667	749	1208	...
Access to safe water (percent of population, 1993)	100	...	...	100	93	98	...
Life expectancy at birth (years)	72	76	70	72	70	75	71
Infant mortality rate (per 1,000 live births)	19	11	18	18	21	16	19

Sources: World Bank, *Social Indicators of Development*, 1997; and UNDP, *Human Development Report*, 1997.

1/ Population under the age of 15 and over the age of 65 as a share of the total working-age population.

higher number of men studying abroad. Past investments in education have tended to favor primary, secondary, and tertiary education at the expense of technical and vocational training.[7]

The service sectors employ over one-half of the total labor force in almost all GCC countries for reasons discussed earlier (Chart 1). Employment in the industrial sector has reflected the GCC countries' different strategies toward diversifying their economic base. In some GCC countries (Saudi Arabia and Qatar), economic diversification has stressed the development of industries based on their hydrocarbon resources. Oman has also promoted the development of its non-oil industrial base. Policy emphasis in Kuwait has been on downstream diversification in the oil sector through assets acquisitions abroad. In the other GCC countries, the development of the industrial sector has been overshadowed by more dominant service sectors (transit trade in the United Arab Emirates and offshore banking in Bahrain). Reflecting these strategies, over the years industrial employment as a share of total labor force has increased in Oman, Qatar, and Saudi Arabia, but declined in the other three GCC countries. With the exception of Oman and to a lesser extent Saudi Arabia, the share of the agricultural sector in total employment is very small reflecting the GCC countries' limited potential in food production and the rapid urbanization of the population.

B. Institutional and Legal Framework of the Labor Market

The legal framework and institutional regulations governing the labor markets in the GCC countries have many common features. There is no minimum wage legislation and no tradition of collective bargaining in public or private sectors.[8] Moreover, in some GCC countries, there are still no legal provisions in the existing labor laws to allow the establishment of social security or pension schemes in the private sector. Other legal provisions, however, protect the right of workers, and there are laws against child labor and against discrimination on the basis of race, religion, and gender.

In several GCC countries, the right of every citizen to work is formalized by legislation; in some countries, short of guaranteed employment, this had served as the basis for absorbing nationals in the government sector. Regulations and conditions governing down-sizing and staff retrenchment are practiced less widely, particularly in the government sector where job security for nationals is a key feature. In the private sector, the difficulty of dismissing a national increases the attractiveness of hiring an expatriate worker on a fixed-term contract.

The employment of expatriate workers in the GCC countries is based on renewable sponsorship visas and work permits. Visas and job-specific work permits are issued once the sponsor demonstrates the need and guarantees employment for the duration of the

[7]With the exception of Bahrain, enrollment in technical schools is insignificant (2–6 percent of total enrollment in secondary education), compared with 20 percent in some other MENA countries (e.g., Egypt and Jordan).

[8]In Oman, there are legal minimum monthly salaries for Omani workers at different skill levels.

contract. Sponsorships are either transferable only subject to restrictive terms and conditions, or not transferable at all. In many cases, the expatriate workers would have to leave the country and stay abroad for a minimum period of time before being considered for another position. Generally, there are no strict numerical quotas for hiring foreign workers—either by activity, nationality, or qualifications—but some GCC countries have limited the issue of visa to specific sectors or the number of workers sponsored by small businesses. The terms and conditions of employment, including compensation packages, are typically agreed bilaterally and specified in binding contracts. In some GCC countries, there are indicative sector-specific wage guidelines for hiring expatriates, but for all practical purposes, wages are based on market conditions and are broadly uniform across the GCC countries. Expatriate workers have recourse to local legal channels in the event of contract dispute on the same basis as nationals.

C. Labor Market Segmentation

The labor markets in the GCC countries are segmented along several dimensions: between public and private sectors, between nationals and nonnationals, and between skilled and unskilled labor. The extent of market segmentation is such that in some GCC countries (e.g., Kuwait and the United Arab Emirates), over 90 percent of nationals in the labor force are employed by the public sector. The segmentation of the labor market reflects a number of factors. Perhaps most importantly among them is the significant disparity in wage and nonwage benefits between the pubic and private sectors even for comparable skills, and between nationals and nonnationals employed in the same sector. Nationals and nonnationals of similar qualifications typically follow different career ladders, and certain positions are reserved for nationals even in the private sector. There are also marked dissimilarities in educational background, training, and qualifications between the national and nonnational labor.

Direct comparisons between private and public sector wages are difficult because of very dissimilar market structures between the two sectors and the lack of relevant data. It is hardly disputed, however, that wages in the government sector in most GCC countries are substantially higher than those in the private sector for comparable job content and skills. Moreover, in many cases, government workers receive guaranteed annual salary increments, and promotion through the public sector grade structure is virtually guaranteed for nationals in some countries. Even within the government sector, nationals command higher wages for similar grades, enter employment at higher levels, and move up the ladder faster. Wages for expatriate workers in the private and public sectors seem to be much more comparable across skill levels. The GCC countries' open border policies with regard to foreign labor have ensured the availability of a sufficient supply of labor at competitive wages at all skill levels.

In addition to high wages, the GCC nationals employed in the public sector benefit from generous family, housing, and transportation allowances, which together provide a significant income supplement. In some countries (e.g., Saudi Arabia), there are also incentives to continue training and education while on the job. Moreover, many

government institutions provide highly subsidized housing loans to national employees. Benefit packages in the private sector are generally less attractive, particularly at lower skill levels. Typical employment contracts in the private sector provide no family allowances and there are no provisions for formal training. Housing allowances or free accommodation are usually provided to unskilled expatriate labor, and in some cases, modest transportation allowances supplement the basic pay.

Pension benefits in the public sector—in some countries (e.g., Qatar and the United Arab Emirates) without contributions from employees during the years of service—and early retirement (sometimes after 20 years of service) are among the other chief attractions of government jobs. Bahrain, Oman, and Saudi Arabia have pension systems covering their nationals working in the private sector, but there is no social security coverage in the other GCC countries. For expatriate workers, end-of-service compensation is usually in the form of gratuity payments linked to years of service. Paid leaves are longer in the government sector, and shorter working hours allow many government employees to conduct private businesses after working hours. There are also important nonpecuniary benefits associated with government employment such as job security and social status.

The component of benefits provided to nationals in the government sector, which could be measured in monetary terms in many cases equals or even exceeds the basic salary, and all benefits put together significantly increase the reservation wages of nationals (i.e., the minimum wage for which they would be willing to work). The reservation wages of expatriate workers—reflecting their expected earnings in their home country, adjusted for the obligation to remit family support and save for investment on return home—are low and relatively even across labor-exporting countries, particularly those in Asia. Moreover, the shift in the geographical origin of expatriate labor over the past decade in favor of Asian workers appears to have effectively lowered the average cost of employing foreign workers. Additionally, free or highly subsidized availability of many services (e.g., utilities, education, and health services) in the host countries may have induced the expatriate workers to accept even lower wages in the GCC countries.

Market segmentation also arises from the mismatch between the qualifications of new entrants to the labor market and the requirements of the private sector even at the upper end of the market and at higher skill levels.[9] Consequently, highly specialized technical positions as well as low-skilled menial jobs are filled by expatriate workers, whereas nationals tend to gravitate toward administrative positions.

---

[9]According to the Economic and Social Commission for Western Asia (1995), 38 percent of graduates from universities in the GCC countries completed studies related to social and Islamic studies, 34 percent in education (mostly women), but only 11 percent in business administration, and 18 percent in technical fields where private sector requirements are greatest.

D. Employment Conditions and Prospects

The lack of sufficient flexibility in the labor markets has been manifested in longer search periods and the growing evidence of tighter employment conditions for nationals. The scant information available on the unemployment situation in the GCC countries varies significantly across countries in terms of coverage, measurement, and currentness. At one extreme, open unemployment is believed to be almost nonexistent in Qatar. At the other extreme, the unemployment rate in Bahrain is reportedly in the range of 12–15 percent. The unemployment rates in the other GCC countries fall between these two extremes, with the rate in Oman being toward the upper end and the rates in the remaining GCC countries lying at the lower end of this spectrum. There is also strong evidence suggesting overstaffing in the public sector, contributing to underemployment of the national labor force.

Unemployment among nationals is still largely of a frictional and voluntary nature in most GCC countries. Those registered as unemployed include recent university graduates seeking government employment; job holders searching better paying jobs; and cultural factors and family ties limiting labor mobility, particularly among women. Nevertheless, in some GCC countries, unemployment is emerging as a more immediate economic and social concern, and virtually all GCC countries are facing the challenge of creating opportunities for productive employment for their nationals.

In those GCC countries where unemployment is a relatively recent phenomenon, the evolving supply-demand dynamics of the labor market suggest further tightening. (See Box 1, which provides an illustrative scenario of the evolving labor supply and demand conditions in the GCC countries.) More specifically, the rapidly growing supply of labor—reflecting both the high population growth and the rising participation rates—is outpacing the demand for labor, which is moderating due to slower economic activity and shifts in the structure of production. The situation is further complicated by the growing mismatch between the educational and technical qualifications of the new entrants and the skill requirements of the market. On the demand side, governments—the major employment outlets in the past—can no longer act as employers of first and last resort for efficiency reasons and because of the need to trim the high government wage bill (Chart 2). Also, given the traditionally strong link between public spending and domestic economic activity in the GCC countries, government expenditure restraint is affecting labor demand indirectly. At the same time, the private sector has not been able to pick up the slack because of labor market rigidities.

IV. Labor Market Challenges and Policies

A. Current Policy Approach

The prospects of tighter labor market conditions have already prompted a policy response in several GCC countries to facilitate the absorption of a large number of