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# Arab Gulf States: An Assessment of Nationalisation Policies

Steffen Hertog

**Abstract:** Gaps in labour rights and labour prices between nationals and migrant workers are the main causes explaining the low participation of GCC citizens in the region's private labour markets. Past policies of "Gulfization" have not directly addressed these structural constraints but have rather attempted to impose higher nationalization quotas by fiat, with limited success. More recently, some of the Gulf governments have started to use taxes and subsidies to try to narrow the labour price gap; at the same time, some have improved the labour mobility rights of foreigners. This paper provides a preliminary assessment of these "second generation" policies. It concludes with general observations on how the rights and price gaps could be closed more systematically and on the broader distributional reforms this might entail.

**Keywords:** Policy Implementation, Labour Rights, Sponsorship, Work Conditions, Irregularity, Foreign & National Populations, Labour Market, (Un)Employment, National Labour, Foreign Labour, Visas & Fees, Nationalisation, Work Force, GCC, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

## Introduction

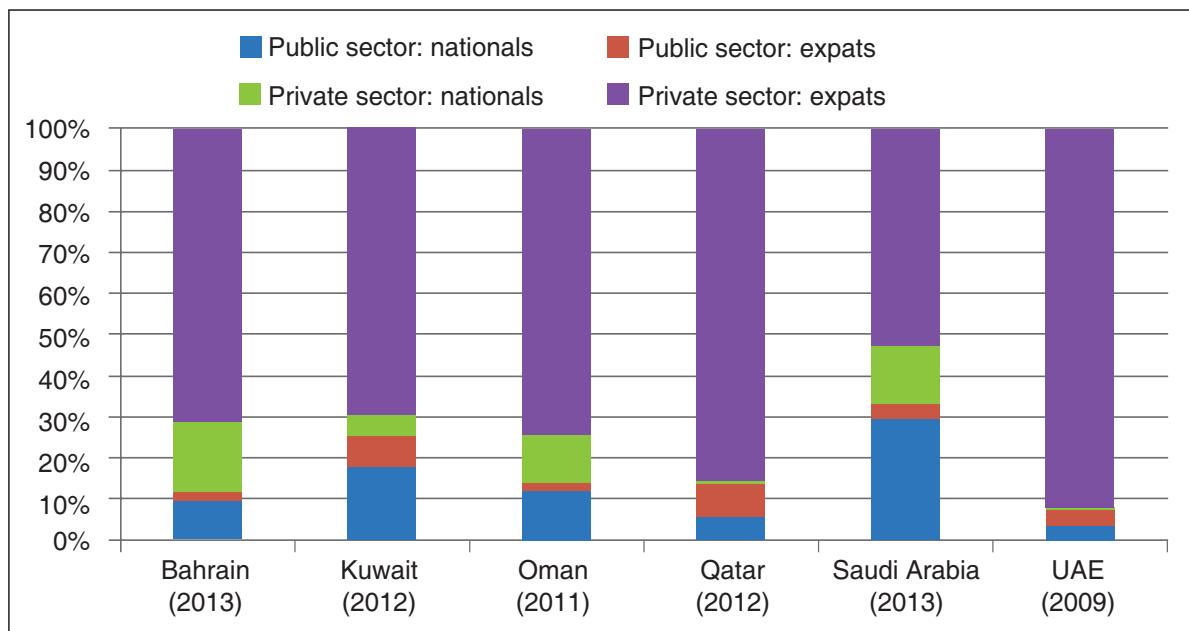
The integration of nationals into the local labour market is the most important socio-economic challenge that GCC countries are facing today. It is tied to, but even more urgent than long-term challenges of fiscal sustainability. Two fundamental features of GCC countries' political economy stand in the way of increasing nationals' share in private employment: a migration regime that gives the local private sector more or less open access to cheap and easily controlled international migrant labour on the one hand and distortive patterns of domestic rent distribution, notably through public employment of citizens, on the other. The two together cause a gap in labour prices and in labour rights between foreigners and locals that undermines private employment of locals.

This paper reviews GCC governments' attempts to increase nationals' participation in the private labour market and evaluates their success against these fundamental constraints. It analyzes "first generation," prescriptive nationalization policies in the shape of quotas and prohibitions and, in more detail, "second generation" policies, which are based on market incentives. Although it is important to distinguish them conceptually, the paper will show that in practice the two approaches are often mixed. The paper then extracts preliminary lessons learned from past labour market reforms and concludes by arguing that unless policies are adopted that close labour cost and labour right gaps between nationals and migrant workers, "Gulfization" campaigns in private labour markets will typically amount to heavy-handed, post hoc tinkering that is costly to business and likely to lead to evasion. While some recent policies are in the right direction, none to date are sufficiently deep and systematic.

## 1. Overview of GCC Labour Markets

All GCC labour markets share two fundamental outcomes: (i) private labour markets largely dominated by foreigners and (ii) the outsized role of government in the employment of nationals. Figure 1 gives an overview of the resulting segmentation structures across the GCC. There are significant intra-GCC differences in the extent of these biases. Yet in international comparison even the states with the highest private labour market participation of nationals, Oman and Bahrain, do stand out as highly migrant-dependent and exceedingly generous in their public job provision for nationals. While in both developed and developing countries typically around 20 per cent of nationals have a public sector job, in all GCC countries bar Bahrain there are more nationals in the public than in the private sector.<sup>1</sup>

**Figure 1: Distribution of employment by sector and nationality in the GCC**



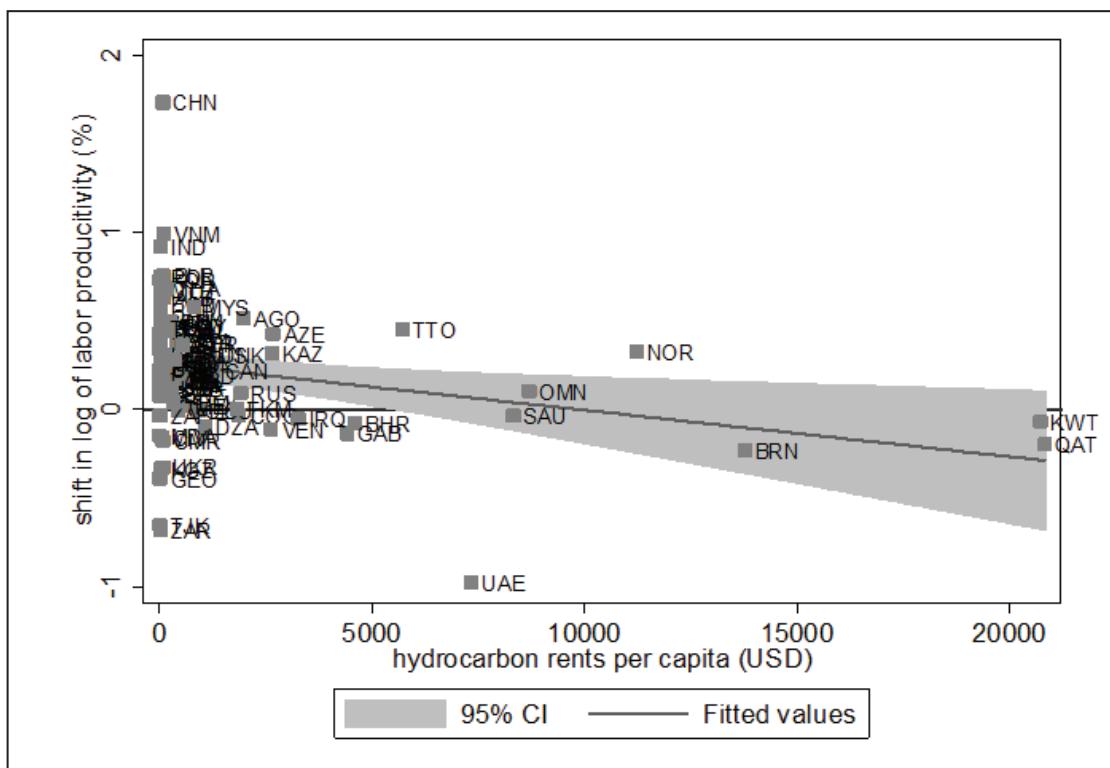
Source: Labour Market Regulatory Authority (Bahrain), Public Authority for Civil Information (Kuwait), Central Bank (Oman), Qatar Statistics Authority, Central Department of Statistics (Saudi Arabia), author's estimates combined with 2005 census data (for UAE).

The historical roots of GCC's skewed employment patterns lie in the oil-fuelled state expansion and labour migration that started after WWII and accelerated in the wake of the post-1973 oil boom. As national populations were too small and insufficiently skilled to serve the rapidly growing demand to expand infrastructure, public and private services, GCC economies relied on labour imports from the wider Arab world and, increasingly, South Asia.<sup>2</sup> Delegating some of the control over migrant workers to the local private sector, GCC governments from the 1960s on curtailed foreigners' internal labour market mobility through "sponsorship" rules tying them to their local employers. While private labour markets were flooded with cheap foreign workers, oil rents allowed GCC regimes to absorb large numbers of nationals in local government jobs with questionable productivity but typically convenient working conditions and considerably higher salaries than in the private sector.<sup>3</sup>

The main economic causes for GCC labour market segmentation – employer-driven open migration regimes, gaps in labour rights between nationals and foreigners, and very generous public employment policies – are essentially the same across cases. Again, there are differences of degree, notably on the scale and availability of public sector employment, which differs in line with the rents per capita available. The underlying mechanisms, however, do not qualitatively differ.

Migration regimes continue to be employer-led, simply reacting to local businesses' applications for work visas which – although not granted in all cases – are granted liberally enough to lead to continuous fast expansion of the foreign workforce. The average annual growth rates of the stock of work migrants in the 2000–2012 time period ranges from 5 per cent to 16 per cent across GCC countries.<sup>4</sup>

Foreign employees are attractive because they are cheap, but also because they are more easily controlled and, in some cases, exploited. The sponsorship system, while diluted in some cases, continues to prevent most foreigners in the GCC from moving to a new employer without the consent of the present one. This system, which covers even long-term foreign residents, leads to artificial rigidities on the labour market, misallocation of labour, and over-importation of new foreign workers due to the weak or absent local market for foreign talent. It gives foreign employees a weak bargaining position, tends to generate wages that lie below marginal productivity, and provides foreigners with weak incentives to acquire new skills and improve their productivity. In all GCC countries bar Oman, labour productivity has declined since 1990, a pattern shared by all high-rent countries worldwide that strongly rely on migrant labour (see figure 2).<sup>5</sup>

**Figure 2: Rents per capita and shifts in labour productivity 1990-2010**

Source: Hertog, "Rent Distribution, Labour Markets and Development in High-Rent Countries."

The rigidity of the sponsorship system has created a large black market in labour that involves industrial-scale rent-seeking by nominal sponsors (national businesses or individuals) who act as informal "brokers" for foreign labour, either selling it to other employers or extracting payments from workers in return for releasing them onto a large market for self-employed informal labour. Various crackdowns, most recently the 2013 "correction" campaign in Saudi Arabia, have temporarily reduced the size of this black market but have never eliminated it.<sup>6</sup>

Nationals are not subject to sponsorship and can bargain and move freely on the private labour market, making them relatively less attractive to businesses used to docile and dependent migrant workers, and disincentivizing, in particular, on-the-job training for nationals. Further gaps in labour rights between nationals and foreigners pertain (in at least some cases) to dismissal procedures, pensions, and other social security rules – all of which contribute to making nationals less attractive to businesses to the extent that such gaps make employing and firing them more costly.

Easily available public employment in turn serves as benchmark to shape nationals' own reservation wages and work expectations, which tend to lie above what the private sector can or is willing to provide. The prospect of public employment also distorts education incentives, leading notably to the widespread choice of degree programs that are irrelevant for the private market in humanities and Islamic studies

and low educational achievement among male citizens in particular.<sup>7</sup> Econometric tests show that the limited number of nationals in private employment are typically paid considerably more than foreign workers with equivalent qualifications and experience. For some segments of the labour market in Abu Dhabi, the “bonus” for being a national can amount to 600 per cent of the equivalent foreigner’s salary. The deterrent effect that such labour cost gaps have for employers is obvious. As a result, labour market participation ratios of nationals have been very low despite generous public sector employment, ranging from 36 to 51 per cent.<sup>8</sup>

All across the GCC, at least some segments of the leadership are aware that governments will not be able to absorb new cohorts of national labor market entrants forever. In particular, among the smaller, high-rent GCC countries, there is also concern of losing “ownership” of the local private sector to foreigners; although ownership of companies is largely in national hands, this is not necessarily the case with management, especially among smaller and medium size companies. Policies to increase the share of nationals in private employment have been a topic since at least the 1980s; the discussion has become wider and more visible since the 2000s.

Across the GCC, however, first-generation, interventionist nationalisation policies based on quotas and prohibitions have had limited success. Mandatory percentages of local employment and the limitation of specific jobs to nationals have led to a very uneven distribution of cost across businesses. They have been difficult to monitor, have led to evasion and in some cases corruption between businesses and labour administration.<sup>9</sup> Various forms of “phantom employment” of nationals are widespread across the region, and quotas have probably increased the informal employment of foreigners who do not officially appear on companies’ payroll. As long as cheap foreign labour is amply available, it will find its way and outcompete nationals, whether formally or informally.

The problematic outcomes of first generation “Gulfization” policies have generated a lively debate about the nature of GCC labour market regulation in general and, more specifically, about alternative market-based mechanisms for attaining higher national employment results. The basic idea behind more recent reforms, to date most clearly articulated by the Bahraini government from 2007-2011, is that nationalisation cannot be decreed. Instead, it has to be induced through market mechanisms, primarily by narrowing the wage gap between locals and foreigners and by allowing foreigners mobility in the local market. The idea that a government can let in hundreds of thousands or millions of foreign workers but then prevent them by fiat from competing with locals on the labour market is increasingly seen as fallacious.

The following sections review these more recent debates and the new policy steps that GCC governments have taken as a result. This paper first focuses on Saudi Arabia, Oman and Bahrain, three countries that are relatively similar in terms of oil rents, GDP per capita, prevailing wages, and the demographic ratio of citizens to foreign nationals. They have faced the most acute citizen unemployment issues and have made the most concerted effort at increasing nationals’ private sector employment. The subsequent sections discuss the reform debate in the high-rent countries of Kuwait and UAE. The nationalisation challenge in these countries is less acute due to a higher rent-to-citizen ratio, which makes excess public sector employment of citizen an easier option in the short run. Policy experiments there

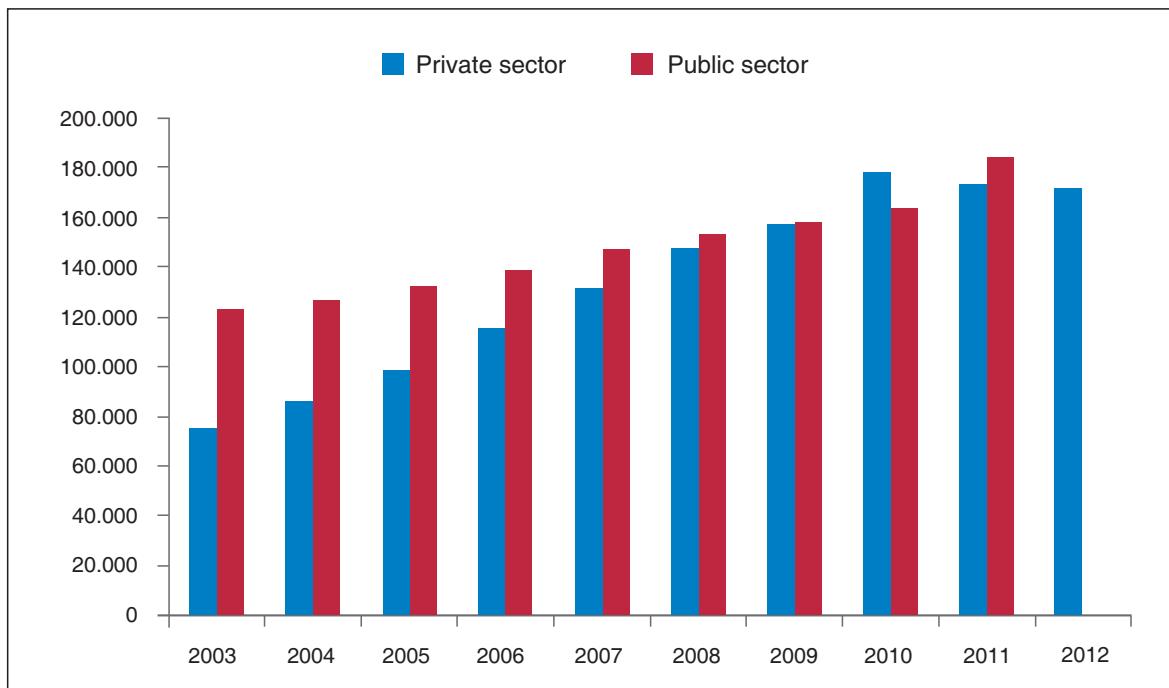
are accordingly less advanced. Finally, Qatar, a rich country with the smallest population among all GCC members, has made the least systematic efforts to “nationalize” employment in its private sector and will hence be discussed only in passing.

### ***1.1 Omani Labour Market Reforms***

Oman has pursued a dedicated “Omanization” policy since 1994, when it set a number of fairly high quotas for different sectors of business and reserved several job categories for nationals. The implementation of several of the steps had to be postponed, and during the first few years, Omanization was seen as a relative failure. This perception changed at least somewhat after the mid-2000s, when the government broadened its policies beyond the mere imposition of quotas.

Omanization has always had a market-based component. A 7 per cent levy on the wages of foreign workers has been used to finance the training of nationals. The government subsidized training of citizens on the job, but the subsidies are tied to the condition of subsequently employing the individual in question. The most important measure taken by the Omani government in recent years has however been the reform of the sponsorship system. Since late 2006, expatriates no longer need the permission of their current employer to switch to a new one. Foreigners can now compete with locals on a more even footing, making the latter relatively more attractive as employees – although it is likely that in fact it is mostly higher-skilled expatriates who are capable of using their new mobility rights. While statistics on actual employer changes are not available, this regulatory shift toward a real, integrated labour market seems to have led to an increase in the wage levels of expatriates (11 per cent in 2007 in the case of professionals, according to GulfTalent, 2007), which has further decreased the segmentation of the labour market.

Labour fees and higher expatriate mobility have probably contributed to the impressive increases in absolute Omani employment in the private sector from 2007 to 2010. Figure 3 shows that the number of Omani employees in the private sector increased by a dramatic 138 per cent from 2003 to 2010, compared to a growth rate of Saudi private employment of only 22 per cent during the same period – all the while, real salaries for nationals remained stable while they dropped in Saudi Arabia. The large simultaneous increase in foreign workers from 400,000 to 950,000 individuals does not seem to have undermined Omani private employment.

**Figure 3: Number of Omani employees in the public and private sectors since 2003**

Source: Central Bank of Oman [various yearbooks].

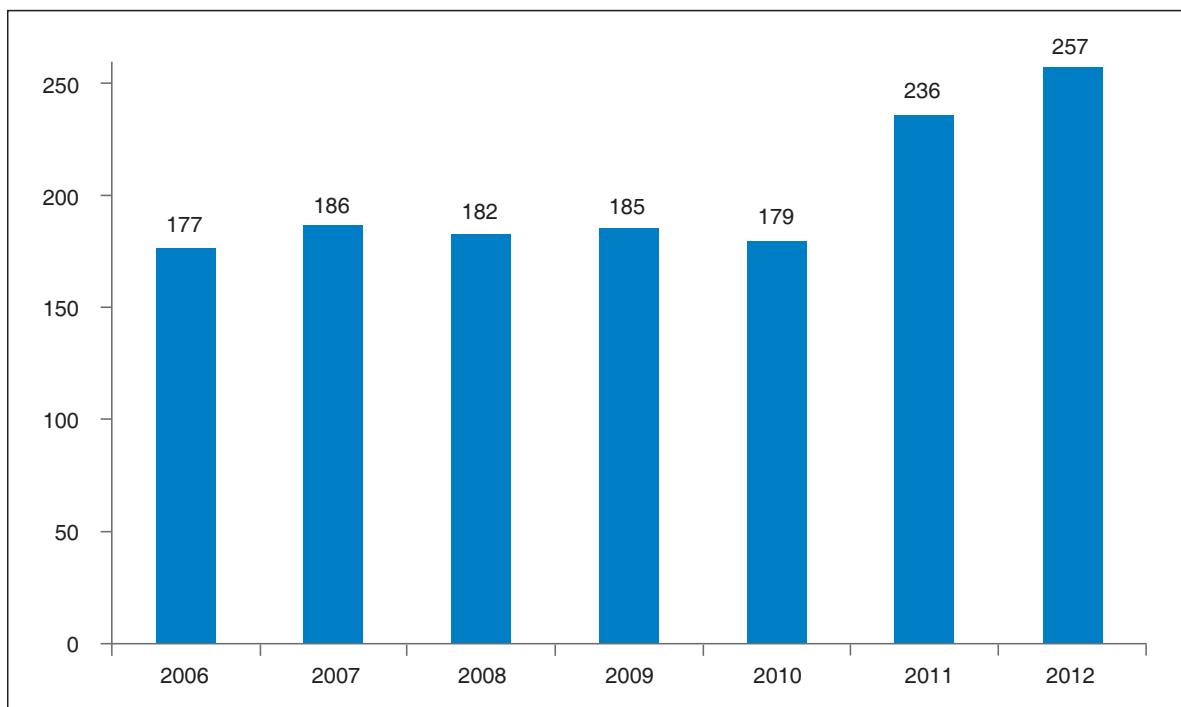
As Figure 3 shows, Omanisation has, however, stagnated since 2011. The primary causes appear to be policy changes that followed the regional unrest in the Arab world and that have thrown the country's previous reforms into doubt. First, the Omani government announced the creation of 35,000 new government jobs in February 2011, which reportedly led 37,000 Omanis to resign their private sector positions to seek public employment. At the same time, the pace at which businesses received work permits for expatriate employees further accelerated, with the total number of foreign workers reaching 1.3 million by 2012.

Also in February 2011, the Omani government increased the official monthly minimum wage for nationals from 120 to 200 Omani Riyal, corresponding to about \$520. There are concerns about the implementation of this policy, given that in 2010, according to social insurance data a full 72 per cent of Omanis in the private sector still earned below RO200. The minimum wage, which does not apply to foreigners, was further increased to OR325 in February 2013. Since 2012 annual wage increases were made mandatory for Omani private sector employees.

In March 2011, the government also created an unemployment benefit for nationals of 150 OR per month – more than the monthly wages of about half of the Omani private workforce in 2010. Press reports have indicated that more than 60,000 private sector employees quit their jobs after the announcement of the allowance. According to other reports, many of the remaining applicants were housewives with low levels of education, raising doubt about their seriousness as job-seekers.

While the high minimum wage has very likely reduced employer demand for Omanis, the benefit is likely to reduce labour supply, inducing nationals to drop out of or reject low-paid employment. As basic economic theory would suggest, employment growth of nationals has hence come to a halt in 2011. GCC governments face a trade-off between the price and quantity of national labour that private sectors can absorb and for the time being, the Omani government seems to privilege wages over employment numbers (see Figures 3 and 4).

**Figure 4: Average monthly basic salaries for Omanis in the private sector  
(constant 2006 Omani rials; 1 OR = 0.385 USD)**



Source: Various Statistical Yearbooks.

Although the future of Oman's labour market policies is unclear, the track record from 2003 and 2010 provides a useful study of how a mid-rent country can achieve simultaneous employment increases for its nationals in the private market while keeping salaries stable. This arguably happened because the Omani government took some (even if partial) steps towards closing the mobility and labour price gap between nationals and foreigners. The labour price gap however has widened again since then, undermining Omanization in the absence of countervailing price-oriented policies.

### ***1.2. Bahraini Labour Market Reforms***

Bahrain was the first GCC country to have a comprehensive debate about labour market reforms in the 2000s, including the sponsorship system and labour pricing. For a while, it also adopted the most coherent policy package, based on research by international consultancies.

Originally, “Bahrainisation” was based on quota rules imposed in 1995: A new company had to employ 20 per cent nationals in its first year, and an additional 5 per cent in each subsequent year, until 50 per cent of its employees were nationals. Existing companies had to follow the 5 per cent per year increments until they reached 50 per cent nationalisation. As happened in other countries, the quotas were often not reached and created an atmosphere of insecurity and backhand dealings. It was reported that 9,000 unemployed Bahrainis were making a living by registering fake companies to engage in informal trade in labour.<sup>10</sup>

After the creation of the Economic Development Board under the Bahraini Crown Prince in 2001, a comprehensive policy review was initiated. The basic conclusion of the process was that labour market nationalisation could be reached only by integrating the labour market—in other words, by narrowing the wage gap between locals and foreigners and by giving foreigners the same internal mobility on the market.

The official aims of Bahrain’s labour reform, started in 2007, were to:

- Deregulate the labour market
- Eliminate the cost differential between foreign and local labour
- Give equal rights and choices to foreigners and locals.
- Upgrade the working environment standards.
- Eliminate the Bahrainization policy in terms of quota rules.
- Deregulate “hire-fire” procedures.

A separate Labour Market Regulatory Authority (LMRA) was created and started operations in 2008 by taking over visa matters and work regulation from the Ministry of Labour. All foreign employees had to be re-registered and companies had to “cleanse” the data collected on them by Bahrain’s MoL, eradicating records of employees who had left or were in fact employed by other companies. The LMRA has built up a larger inspection capacity than the MoL and offers e-government services for both employers and workers, who can check their status and data online. A one-stop shop has been created to deal with all labour-related bureaucratic transactions. Employers are not allowed to hold employees’ passports anymore.

The two core components of the reform are that (i) foreign labour is in effect taxed through biannual and monthly fees, increasing its price relative to local labour and (ii) foreign employees enjoy increased mobility on the market, able to move to new employers.

Under the new setup, the government charged firms a fee of BD200 (\$530) for a two-year work visa, in addition to a fee of BD10 (\$26.50) per month. Originally the government planned much larger visa and monthly fees of BD600 and BD75, respectively, but it gave in to business protests against a sudden increase in labour costs.<sup>11</sup> Bahrainization quotas, which were supposed to be abolished instantly, were only reduced and have been maintained for the time being. Gradual fee increases were planned to allow businesses to adjust gradually to higher labour costs, but never came to pass. As 80 per cent of Bahraini labour levies are used for training, the fees are spent locally, and their use is expected to contribute

to increasing the overall productivity of the national labour force. Training schemes for Bahrainis are administered through Tamkeen (formerly the Labour Fund) and a joint public-private training institute.

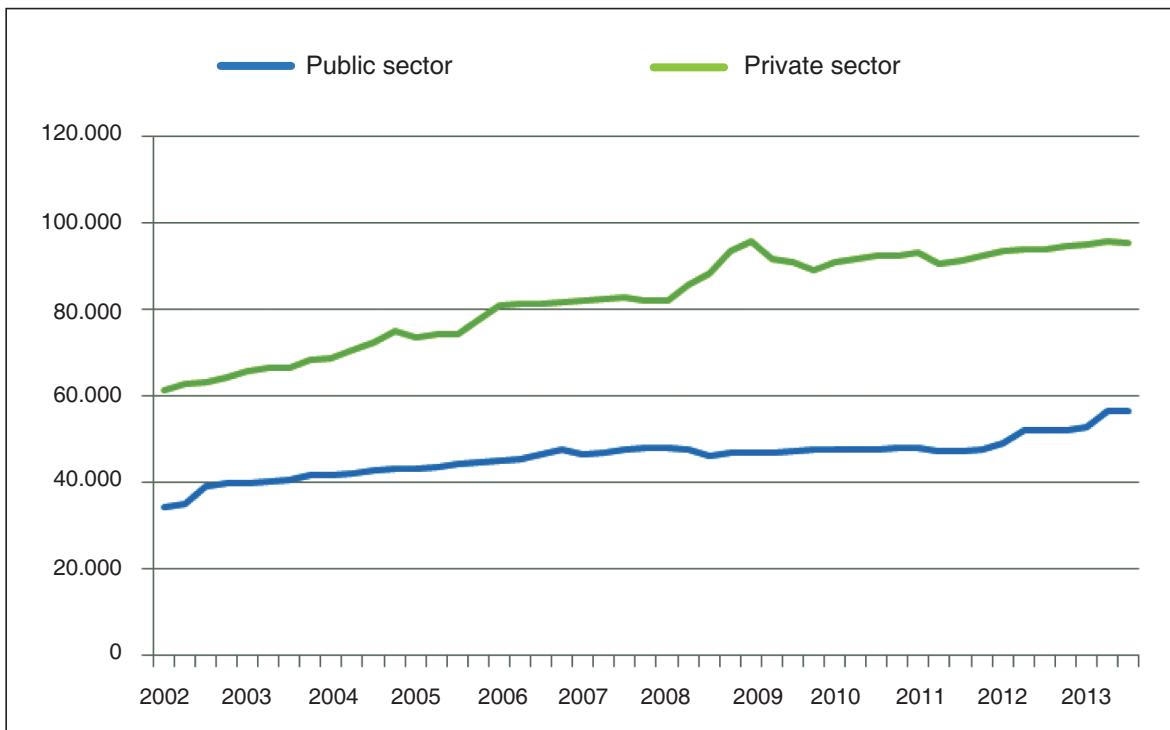
The second component of the labour reform is the abolition of the sponsorship system, effected by abolishing the requirement for a “no objection certificate” from current employers when moving to a new job. Lifting the requirement has allowed foreign workers internal mobility on the Bahraini job market since the summer of 2008. As in Oman, this reform seems to have increased wages for expatriates and increased the competitiveness of national labour: Bahrain was the only GCC country in which professional wages rose above inflation in 2008.

The Bahraini reforms were preceded by wide-ranging public debate about the policy proposals; draft regulations have usually been posted on the LMRA website for public comment. The reform was introduced in a reasonably smooth manner, and apart from the reduction in the planned labour fees, the Bahraini government avoided the sudden reversals and short-term modifications typical of GCC labour policy. While private employment of Bahrainis stagnated in the two years before the 2007-08 reforms, it increased substantially from 2008 to 2009 (Figure 5), while salaries also increased. The share of private wages in Bahraini GDP in 2011 reached 16.4 per cent, of which Bahrainis accounted for 6.8 per cent. This compares to a private wage share of 7 per cent in Saudi Arabia in 2010, of which Saudis only accounted for about 3 per cent. This indicates a private economy that is somewhat more self-sustaining on the back of truly private demand.

The Bahraini government has also introduced a 1 per cent income tax for a national unemployment assistance and insurance scheme, from which unemployed university graduates are paid a stipend of between BD120 and 150 in return for attending training courses. Nationals who lose their job after paying contributions for a minimum of 12 months are eligible to receive 60 per cent of their salary every month, with a maximum payment of BD500 and a minimum of BD150. Compared to the Omani case, these rates appear more reasonable relative to prevailing private sector wages (average private wages for Bahrainis reached BD500 in 2013). At the same time, they significantly reduce the economic risk for nationals of joining the private sector.

Until 2011, Bahrain seemed to be the country most successful at combining acceptable incomes with acceptable private employment levels for nationals in the Gulf. Not only is the proportion of private to public employment for nationals higher than in Saudi Arabia and Oman, but Bahrain's total employment rate of Bahrainis of working age is also higher.

Even at the best of times, however, for a number of reasons the labour market reforms have not been as effective as they could have been. First, the BD10 monthly fee on foreign labour has done little to close the wage gap between locals and foreigners, which has been fluctuating between BD200 and 400 per month (not controlling for type of job and qualifications). Business lobbying appears to have defeated the original plans to gradually increase the fees. Moreover, it is not known how much of the fee is indirectly borne by foreign employees through lower wages, which would defeat the purpose of the arrangement.

**Figure 5: Employment of Bahrainis by sector since 2002 (quarterly data)**

Source: Bahrain's LMRA.

Second, the practical impact of abolishing the “no objection certificate” rule in 2008 has been limited. In the first quarter of 2011, only 4,271 out of a total of 453,661 foreigners changed employers. Of those, 68 per cent did so after the termination or expiration of their work visas, while 30 per cent changed employers with the consent of their current employer. Only 2 per cent of workers made the change without such consent. The total annualized turnover of expatriate workers was only 3.8 per cent, which is low, and turnover without the employer’s consent represents only 0.08 per cent of the total foreign workforce (source: LMRA quarterly indicators).<sup>12</sup>

According to interviews with Bahraini employers, the few individuals who switched to a new job against their current employer’s will were mostly high-skilled expatriates. Lower-skilled expatriates lack the legal knowledge, confidence, resources, and market information to switch to new jobs. It is true that most Bahrainis compete for mid- to high-skilled rather than low-skilled jobs, and it is hence more important to make them competitive with better-educated foreigners by providing mobility to the latter. Yet low mobility of low-skilled workers incentivizes employers to create more easily controlled and exploited low-skilled positions rather than high-skilled ones, resulting in a smaller provision of higher-quality jobs with acceptable wages that could be nationalized.

Moreover, employers are still able to expel foreign employees from the country on short notice, and foreigners are allowed to search for a new job only if they have indicated this intention before their current employer gives them such a notice of dismissal. Migrant workers in turn need to provide their employers with a three month notice. These residual aspects of sponsorship limit both the mobility and

legal security of foreign employees on all levels. All of this indicates that even when “no objection certificates” are formally abolished, complementary institutions are likely needed to “mobilize” lower-skill foreign employees by educating them on their rights, providing matching services, and providing support during temporary phases of unemployment, while preventing employers from threatening employees who attempt to leave their employment by reporting them as absconding, suing them in court, or withholding their wages and benefits.

Bahraini private employment has not followed a systematic trend after 2009. At least some of the stagnation probably again has to do with distributional policies adopted from 2011 on as a reaction to regional and local unrest. As a prop to the local business class, the BD10 monthly fee was suspended in 2011, to be only partially reintroduced in 2013 with a BD5 discount for small employers. In the same year, a new period rule was created under which foreigners are not allowed to switch to a new employer during the first year of their contract. The LMRA continues to record almost no employment transfers against employers’ wishes.<sup>13</sup>

Also in early 2011, the government announced the creation of 20,000 new jobs in its Ministry of Interior, a huge number corresponding to 40 per cent of its total official stock of Bahraini public sector employees. As Figure 5 shows, public employment of nationals has picked up considerably since 2011 after a long period of restrained hiring. The government also significantly increased public sector salaries in August 2011, further reorienting the expectations of young Bahrainis toward public employment. Plans to provide graduate wage subsidies in the private sector for up to two years might somewhat stanch nationals’ re-orientation towards the public sector, but are unlikely to be fiscally sustainable in the long run given that Bahrain’s breakeven oil price has been far above \$100 per barrel since 2011.

Recently, some business voices have even demanded the abolition of LMRA. While this has not come to pass, it is clear that the policy momentum in Bahrain, until recently the main laboratory of labour market reforms in the GCC, has reversed. Saudi Arabia now is arguably the country conducting the most comprehensive policy experiments.

### ***1.3 Saudi Labour Market Reforms***

Saudi Arabia was probably the first Gulf country to experiment with national employment rules: The first Saudisation quotas were codified as early as the late 1940s but never implemented consistently. A renewed push for quota-based Saudisation was made with Decree 50 of 1995, which stipulated an annual 5 per cent increase in the employment share of Saudis in all companies with more than 20 employees. The quotas turned out to be impossible to implement in most sectors and the decree was interpreted differently by different actors. Until the onset of Nitaqat in 2011, the MoL imposed lower quotas on a variety of sectors on an ad hoc basis; for example, it permitted lower Saudisation in the low-wage contracting sector and demanded considerably higher quotas in banking.

Even sectoral quotas, however, have often been honored in the breach. In practice, Saudisation was often negotiated on a discretionary basis between companies and local labour offices. The new labour law of 2005 restated a previously existing, global 75 per cent Saudisation quota—in apparent conflict with the dynamic Decree 50 rules—but without outlining an implementation mechanism. An attempt in the

mid-2000s to incentivize Saudization by reducing the number of work visas granted to business failed in the face of massive business lobbying, particularly from the contracting sector.<sup>14</sup>

Like its smaller GCC peers, Saudi Arabia saw a raft of distributional measures in early 2011 that would very likely worked against private sector Saudisation: King Abdullah decreed a minimum wage in the public sector of SR3,000/month (\$533) and announced an unemployment assistance scheme that provided monthly payments of SR2,000 for up to a year, corresponding to 2/3 of the average Saudi salary in the private sector at the time according to survey data. The scheme seems to have led at last some low-wage Saudi employees to drop out of private employment. The government also created 300,000 new public jobs in 2012 alone, corresponding to almost half of the number of nationals officially working in the private sector at the time, according to figures from the General Organization for Social Insurance.<sup>15</sup>

In the same period, the Ministry of Labour rolled out an upgraded Saudisation quota system called “Nitaqat” (bands), which differentiates quotas by forty-one sectors and four company size categories. Within these, companies are classified into four levels of compliance, resulting in different combinations of sanctions and incentives mostly linked to companies’ ability to acquire new work visas. Foreign employees in companies classified into lower bands are free to move to more highly classified companies. The latter rule entails a partial relaxation of the sponsorship system, which otherwise however continues to provide employers control over their employees’ domestic labour market mobility. The recent creation of large private recruitment companies might provide workers under these companies’ sponsorship more mobility. Most businesses, however, continue to import workers directly, and how exactly the new recruitment firms will impact labour mobility remains unclear at the time of writing.

Nitaqat clearly provides more flexibility to companies and is more in line with different businesses’ actual capacity to employ Saudis. As a result of an unprecedented monitoring and sanctioning campaign, about half a million Saudis have been added to the private payroll from 2011 to 2013, constituting a stunning 70 per cent increase. Nitaqat policies have been accompanied by a “correction” campaign in the course of which foreigners not working for their official sponsor were forced to officially register with an actual employer or to leave the country, resulting in the exit of more than a million expatriates by late 2013.<sup>16</sup> Although informal market and trade in visas have not disappeared, they have clearly shrunk and at least in some sectors, this has further increased the pressure to find local employees. That being said, there is clearly evasion of Nitaqat rules, notably through formally employing nationals at low wages while telling them to stay at home. The scale of this evasion is unclear; interviews indicate that it is particularly pervasive in the construction sector. It is the sector which has seen the strongest increase in Saudi employment from about 150,000 pre-Nitaqat employees to about 300,000 in late 2012; it is also a sector which predominantly caters to government demand and will be able to price the costs of Nitaqat into future public contracts. Initially, Nitaqat also gave additional credit for the employment of Saudi females, a policy that seems to have led to particularly widespread “phantom employment” of Saudi women and has been abandoned.

Nitaqat also gives potentially problematic incentives for firms to move to the lower boundary of the quota band they are in and incentivizes low-quality employment, as any Saudi with a wage of at least SR3,000 count as one full employee. The imposition of the program also appears to have doubled the rate of market exit of Saudi firms,<sup>17</sup> probably due to the additional costs imposed. In the short run, there are clear supply constraints on the private market for Saudis: While many are un- or underemployed, few

possess skills that are wanted in the private sector, which further incentivizes “phantom employment” arrangements. It remains to be seen to what extent Nitaqat pressures will change firm policies on training and nurturing Saudi talent, and to which degree the larger number of jobs available will motivate Saudis to seek out education that is relevant for the private market. Future revisions of the program are likely to take wages as well as employment numbers into account, which might make the provision of higher-quality jobs and training to Saudis more attractive to employers. It is clear that the roll-out of the Nitaqat scheme has allowed the Ministry of Labour to considerably increase its monitoring and sanctioning capacity, not least by creating a new “wage protection system” monitoring wage payments across the private sector. Although it appears that sanctions beyond the non-issuance of visas are still applied only selectively, it is clear that compliance with MoL rules has drastically increased compared to the pre-Nitaqat status quo. The new regulatory capacity will be useful in the implementation of complementary labour market policies that are more market- and price-oriented.

One such price-oriented policy has been the provision of subsidies for training and first-time recruitment of Saudis in the private sector. About 400,000 Saudi men and women reach working age every year. In 2010, the total number of expatriate-held positions in the private sector that paid salaries above SR3,000/month – generally considered the bare minimum for national job-seekers – also was only about 400,000. The private sector currently appears to extract large rents from foreigners, as the share of wages in total private sector GDP was only about 25 per cent in 2010, according to national accounts data, less than half of what is customary in other economies. There hence appears to be some scope for a larger wage bill without strangling the national economy. However, there is reason to doubt that it can be increased fast enough to absorb the 200,000 or so nationals per year (at living wages) that would be needed to maintain socio-economic stability.

At least in the mid-term, subsidies might hence be needed to bridge the gap between what Saudis consider acceptable wages and what the private sector is able to provide. The MoL-controlled Human Resources Development Fund (HRDF) has supported both on-the-job training and the initial phase of employment through temporary wage subsidies for Saudis since the early 2000s. Wage subsidies appear to be a viable method of temporarily tackling the labour cost gap between foreigners and Saudis; however, Saudis are often not considered competitive employees once the subsidies are phased out, which is usually within two years or less. As employers are expected to compensate for the loss of support payments by increasing wages after the initial subsidy period, the uptake among businesses has been limited, with the HRDF at times unable to disburse a large share of its funds.

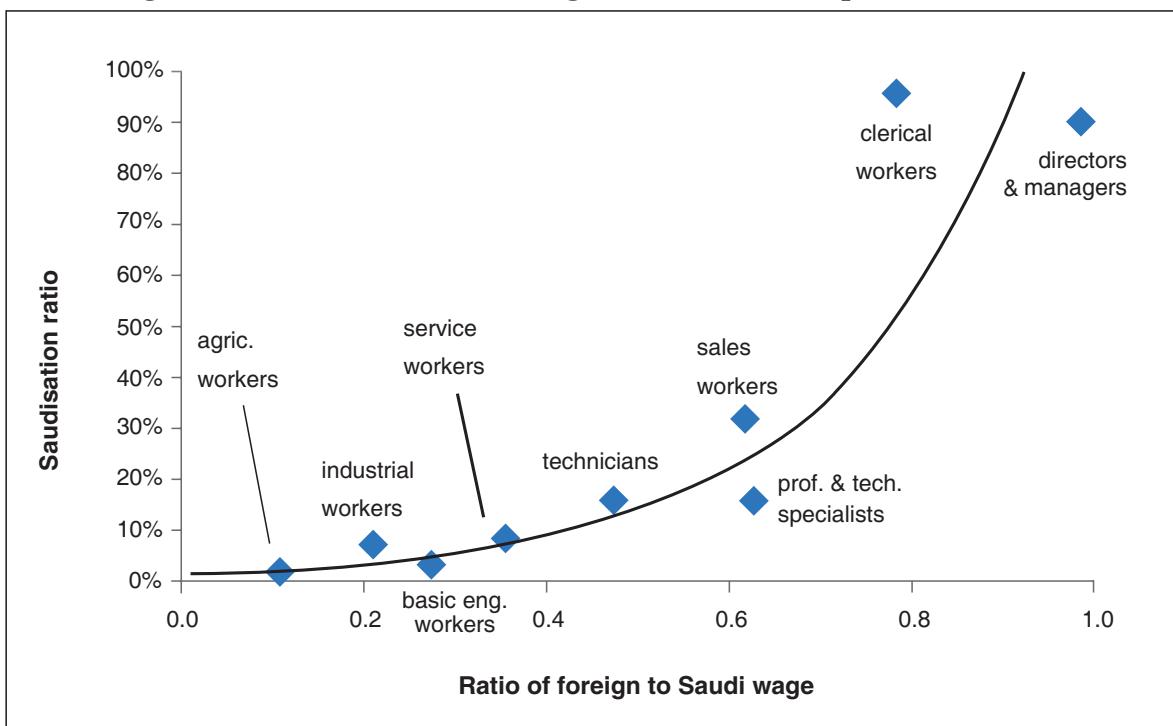
Wage subsidies were recently expanded to Saudi teachers in the private sector and Saudi sales-women in lingerie shops, aiming at minimum total salaries of SR3,000 and 5,000 a month, respectively, with HRDF covering up to half of the total. The subsidy scheme has also been aligned with the Nitaqat system, with better-classified companies now receiving larger subsidies for longer periods. Businesses falling into the “platinum” band can receive up to SR4,000/month for four years per new Saudi employee. Although not permanent, this appears to be a substantial incentive. Interviews, however, indicate that to date many companies do not claim subsidies due to the perceived administrative complexities involved in the process.

To narrow the labour cost gap, the government has also levied a new fee on businesses of SR200/month for every foreign employee who exceeds a general 1:1 quota of Saudis to non-Saudis. The impact

of this policy is likely to be small, as wage gaps can amount to SR3,000 or more. It sets a positive precedent, however, given that it was imposed past business resistance and that the imposition of any form of taxation in the GCC is politically fraught. The fees are collected by the HRDF and can potentially be used for training and subsidising of national workers.

The Nitaqat system continues to allow open labour migration for companies in high bands of the system, which means that wages for foreigners continue to be strongly influenced by the low reservation wages in their countries of origin. In many professions, the wage gap remains high, particularly in low-skilled, blue collar ones. Figure 6 shows that higher Saudisation ratios are generally correlated with narrower wage gaps. This implies that without further government interventions on labour prices or the quantitative supply of foreign workers, many jobs will remain hard to Saudiise.

**Figure 6: Saudisation ratios vs. wage ratios of different professions (2010)**



Source: based on data from General Organization for Social Insurance.

Saudi Arabia has emerged as the main laboratory of labour market reform in the GCC region. It has deployed a policy mix of reinvigorated and more nuanced quota rules on the one hand and price-oriented tools (subsidies and taxes) on the other. While Nitaqat quotas are more in line with actual sector-specific employment patterns and leave companies more flexibility in adjustment, they still constitute an attempt to prescribe specific employment quotas to individual firms. This approach tends to create uneven costs and thereby efficiency losses across businesses, puts a large monitoring burden on the administration, and can lead to evasion and phantom employment.

The price-oriented tools by contrast do not prescribe specific numbers or ratios but attempt to give broad incentives for Saudization while allowing the market to settle the details. Barring subsidy abuse,

the latter approach is more likely to lead to genuine Saudi employment as companies can individually react to them according to their own HR needs and cost structures, which can differ drastically within the same sector and size segment.

The price tools deployed so far might not be far-reaching enough to result in a systematic shift towards Saudi employment and have not yet been subject to a comprehensive evaluation. It would be particularly important to establish whether employer or employee “capture” the majority of the subsidies and to which extent fees are merely “passed on” to foreign workers in the shape of lower wages, which would defeat their purpose and potentially raise labour rights issues.

#### ***1.4 The Kuwaiti Policy Discussion: Sponsorship and Wage Subsidies***

High-rent GCC countries like Kuwait, the UAE, and Qatar face somewhat different labour market dynamics than Oman, Bahrain and Saudi Arabia. The cohorts of nationals to be potentially absorbed in the private sector are smaller relative to the size of the labour market, but at the same time the wage gaps between nationals and foreigners as well as the sources of non-work income for nationals are larger. Labour market reform initiatives have been less comprehensive than in Bahrain or Saudi Arabia, but there has nonetheless been some movement on both sponsorship and labour prices. Kuwait in particular is worth studying, as it is the only GCC country with a systematic long-term wage subsidy policy for nationals. A reform of the sponsorship system has also been under discussion in Kuwait for almost a decade, not least due to pressure from international as well as local human rights groups, which are fairly well organized in Kuwait.

Like other GCC countries, Kuwait has been imposing sector-specific “Kuwaitization” quotas, which have often been honored in the breach.<sup>18</sup> The regulatory capacity of the labour administration has been insufficient for either implementing consistent Kuwaitization or effectively controlling the foreign workforce. In 2013 and 2014, several large scandals broke out that involved senior officials in the Ministries of Labour and Interior (among them a ruling family member) who acted as large-scale brokers for hundreds of thousands of work visas for foreigners – a black market made possible by the sponsorship system.

Several alternatives to this system have been under consideration. One of the proposals under discussion is the creation of a private joint stock company that would handle the recruitment of foreign labourers, similar to large recruitment companies recently formed in Saudi Arabia. This arrangement would replace the current arrangement in which individual companies import labour directly from abroad or through a plethora of recruitment agencies that act as intermediaries only up to the point of entry. The proposed specialized company would be in charge of permanently monitoring the fate of foreign workers. Those workers, who would presumably be mobile between different employers, would be brought into the country not exclusively on the basis of individual company requests but based on a national human resources strategy that would assess the aggregate needs of the Kuwaiti economy.

The government has also considered a special state organization to be in charge of labour imports and acting as their sponsor, and it has announced plans to directly import workers for its own contracting and construction projects to prevent free visa deals. The idea of “self-sponsorship” for higher-income expatriates in Kuwait has also been mooted. It has already prohibited employers from keeping the pass-

ports of their employees. For the most part however, the above plans have not been acted on, although this might change with the planned creation of a new, independent labour market regulator announced in 2013. It remains to be seen whether this regulator would also act as workers' sponsor, thereby guaranteeing their mobility on the internal labour market. An alternative plan recently announced would be to put all workers under MoL sponsorship after a year.

Kuwait has already partially loosened general sponsorship rules: Since 2009, non-domestic foreign workers in the private sector can change employers without their consent (or "no objection certificate") after three years of work. With the consent of the current employer, switching jobs is possible after one year. In practice, less educated foreigners in particular have often found it difficult to avail themselves of this right. The fact that Kuwaitis can leave employers any time continues to make them less attractive for employers and undermines company incentives to invest in national human resources. Interviews with HR managers at Kuwaiti investment companies indicate that poaching of Kuwaiti employees between financial service firms has been a problem in the past, disincentivizing national recruitment.

Kuwait's wage subsidy system for nationals in the private sector is perhaps of the greatest comparative interest in the GCC context. It goes back to Law 19 of 2000, which extended social and child allowances to privately employed Kuwaiti nationals. The system, also known as *da'm al-'amala* ("wage support"), was implemented in 2001 and has since been extended to an ever-growing number of private sector employees. The levels of the basic allowance differ by family status and education level, and are broadly in line with allowances in the public sector, which are also differentiated by family status.<sup>19</sup>

After a raft of drastic public sector salary increases, the *da'm al-'amala* allowances were also almost doubled in early 2013, reaching 790 KD (\$2,800) per month for an unmarried holder of a bachelor's degree and 1248 KD (\$4,400) for a married man with a degree. A high school graduate now receives 557 KD (\$2,000). It should be noted that although higher levels of education lead to higher core allowances, the proportional differences in private sector salary levels according to education are considerably larger. This means that, at least in proportional terms, the subsidy scheme is of greater benefit to less educated nationals. It therefore is equivalent to a progressive tax and gives particularly strong incentives to less educated Kuwaitis to join the private sector.

Half of one per cent (0.5 per cent) of listed companies' profits are used to finance the scheme. This falls far short of covering the total costs, which amounted to about KD 240 million in 2010 and are bound to increase drastically under the new allowance system. The remaining funds for the subsidy scheme come from the government's general budget. In 2011, the system supported more than 50,000 out of a reported total of about 70,000 Kuwaiti private sector employees. There are altogether about five times more Kuwaiti private sector employees than when the scheme was introduced in 2001.

The effect of the scheme on Kuwaiti employment is hard to isolate from other factors, such as the impact of "Kuwaitization" quotas. It should be noted, however, that private sector employment of nationals in Kuwait is considerably higher than in the other two high-rent GCC countries, the UAE and Qatar. In the UAE, a country with a comparable number of nationals, only about 20,000 hold private employment; in Qatar, a country with a national population about a quarter of that in Kuwait, less than 8,000 do. While the UAE and Qatar have been using quota rules to try to boost national employment, they have not yet employed any systematic subsidies (although the UAE has introduced some in an ad

hoc fashion; see Section 4 below). Some of Kuwait's comparative success might hence be explained by the da'm al-'amala system. The system has been abused through phantom employment, notably by female Kuwaiti housekeepers, but a good deal of the registered employment appears genuine.

One of the original ideas behind the scheme was to relieve the budgetary pressure created by ever-growing expenditures on civil service salaries. Success has been partial at best, as civil service employment in Kuwait has continued to expand rapidly into the 2000s, and there has been a costly back-and-forth between public salary and allowance increases. A broader "quid pro quo" might be necessary under which rents are distributed to citizens in a way that makes it easier for government to reduce its over-employment in the public sector. In the absence of an integrated labour market policy that takes labour prices in both the public and private sectors into consideration, there is the risk of a wage spiral in which policy in one sector (over-)reacts to raises in another.

The da'm al-'amala system has nonetheless been less distortionary of market forces than the pre-scriptive quota regulations that Kuwait, like all other GCC countries, has been pursuing in parallel. A thorough impact evaluation of the scheme, which is yet to be undertaken, would be all the more useful.

### ***1.5 The UAE Policy Discussion***

The UAE's main historical tool of labour market nationalisation have again been quotas. They have been de facto limited to a small number of sector (commerce, exchange, insurance and banking) and have been de facto abandoned since 2007 outside of banking. Some types of jobs, like HR management, government relations officer and secretarial positions, have also been formally reserved for nationals, but again with limited success.

A more serious labour reform debate in the UAE has only started in recent years, and most initiatives are still in the planning stage. Two relatively significant changes have already been undertaken, however: a partial loosening of sponsorship rules and a differentiation of fees on foreign labour according to "Emiratization" results.

In January 2011, the UAE Ministry of Labour issued a new set of rules determining the conditions under which expatriates can switch to new employers. The new regulation allows transfers without the previously mandatory six-month waiting period abroad and without a "no objection certificate" if any of the following conditions hold:

- The employment contract has come to an end.
- The employee has finished a minimum of two years of work with the employer.
- The employer has violated his/her duties toward the employee.
- The employee is moving to a high-skilled job with a wage above certain pre-determined levels.

The monthly wages in the three top skilled job categories that qualify under the last condition are Dh 12,000, Dh 7,000, and Dh 5,000, and they are monitored through the government's wage protection system, implemented in 2009, which requires all wage payments to be routed through a limited number of closely monitored financial institutions.

The new mobility rules significantly relax the sponsorship system and clarify previously confusing rules, and they have had a discernible impact on the ground. In March 2011, some 28,000 expatriates changed their jobs, while the pre-2011 monthly average was about 4,000 (Ministry of Labour). Recent econometric research shows that the post-contract mobility of foreigners has strongly reduced their rate of exit from the country, has resulted in an increase of new wages after contract expiration by 10% compared to the pre-reform status quo, and has led to a doubling of transitions to new employers. While educated workers retain a higher level of mobility compared to less educated ones, the mobility of both has benefited strongly from the reform.<sup>20</sup> The increased wages in particular are a sign of better labour market matching and higher productivity.

The limitation of free mobility to employees with certain minimum skills and wages as defined by the January 2011 rules creates a relative disadvantage for lower-skilled expatriates in the period before contract expiry. While the new rules might help to attract higher-skilled foreign migrants on the supply side, on the demand side (that is, for local employers), it is likely to make lower-skilled employees relatively more attractive, as they remain easier to control. The net impact of the new rule on the demographic balance of the country hence is not clear and might be negative, while a general relaxation of sponsorship would arguably have a generally positive impact. Higher mobility of more highly skilled foreigners would seem to make Emirati nationals more attractive as employees, however, as the mobility gap between them and foreigners is diminished.

In line with regional policy trends, the UAE Minister of Labour has mentioned the wholesale abolition of the sponsorship system in the long term as a policy option. In the meantime, the MoL announced a revised fee schedule for foreign workers, somewhat analogous to the Saudi Nitaqat system, which is supposed to contribute to Emiratization. Companies are classified according to the share of dominant nationalities in their workforce, skill levels, and compliance with Emiratization quotas according to rather complex ranking criteria, resulting in five company categories and biannual work permit fees ranging from Dh300 to 5,000 (\$80 to 1350, see table 2).

**Table 2: Biannual fees under the UAE's new company classification scheme**

Labour fees (Dh) per worker/per 2 years	Firm's rank				Group 3	
	Group 1					
		Class 2.A	Class 2.B	Class 2.C		
300	600	1,500	2,000	5,000		

Source: UAE MoL.

Different from Saudi Arabia's Nitaqat, the system targets more objectives than just nationalisation, and it provides no administrative incentives. Yet in its combination of quota-based fee incentives, its basic design resembles Nitaqat. Its outcomes have yet to be closely evaluated, but given the small differences in fees between the group 1 and group 2 companies and the conflation of several policy criteria in the classification system, the Emiratization-specific incentive effects might be modest.

National employment numbers remain very low in the UAE; recent estimates are that there are no more than 20,000 Emiratis in private employment in a country that has about 1 million citizens and up to 8 million expatriate residents. The private wage gaps between nationals and foreigners remain large. In Abu Dhabi, where generous public sector employment is particularly easily available for nationals, they receive an implicit salary “bonus” of up to 600% just for being a national, holding constant type of job, sector, level of education etc. The UAE government has been considering wage subsidies for privately employed nationals, and the Minister of Labour has publicly stated that Emiratization is bound to fail without the use of subsidies. In summer 2013, the government announced plans to pay 30 per cent of Emirati graduates’ first private sector wage up to a limit of 5000 Dirham/month (\$1,360) for 8 months. Again, like for the differentiated fee scheme, this price-oriented intervention has yet to be subjected to detailed outcome evaluation.

Government efforts to find jobs for unemployed nationals in fact often concentrate on the public rather than the private sector. The job matching efforts of Abu Dhabi’s national employment agency Tawteen for example are mostly focused on state-owned enterprises and the “mixed sector” rather than the private sector proper. Private sector Emiratization is not yet as critical an issue as nationalisation has become in Bahrain, Oman and Saudi Arabia.

This paper does not include a dedicated section on Qatar, for the simple reason that Qatariization policies have been pursued even less systematically than equivalent policies in the UAE and Kuwait. The Qatari national population is even smaller (about 250,000 citizens) and has been predominantly accommodated in the public sector. There are private sector Qatariization quotas, but enforcement appears patchy and there are reports of “phantom employment”. Qatar uses a scheme that classifies companies according to their compliance with labour rules, but no Qatariization-specific incentives are provided. Despite considerable international pressure on labour rights, Qatar has been holding steadfast to the sponsorship system, which the local business class vigorously defends. Foreigners still have to leave the country to switch employers, although the abolition of the requirement to stay abroad for at least two years was discussed in 2013. Fees on foreign workers are low (residency permits valid for 1 to 3 years cost \$290) and no private employment subsidies are provided.

## 2. Other Policy Trends across the GCC Region

There are several further policy ideas beyond sponsorship reform and labour price interventions that have been discussed across the region which impact the nationalisation agenda at least indirectly. They are briefly discussed here.

### 2.1 Labour Organization

Some GCC governments have made increasing allowances for labour organization. In Bahrain, labour market policy is formally debated in tripartite forums involving unions, employers, and the government. Unions also exist in Kuwait and Oman, and their formation has been announced in Qatar – a project which however seems to have been put on ice for the time being. Saudi Arabia allows for workers’ councils in large enterprises which however have no collective bargaining mandate.

Labour organisation could improve labour conditions in the private sector, making it more attractive for national employees, and could help to level the playing field between foreigners and locals. There are strict limits to the participation of foreigners in unions, however, which undercuts—but does not completely undermine—their potential to close the rights gap between nationals and foreigners.

## ***2.2 Minimum Wages for Foreigners***

The new minimum wage for Omani nationals and its adverse impact on national employment has already been analyzed above. A policy that could potentially help national employment, albeit indirectly, is a general minimum wage for all workers, including foreigners. Kuwait to date is the only country that has set a general minimum wage (KD60 per month, about \$210), which increases the price of at least the lowest skilled expatriates and hence could make their substitution with more highly skilled employees possible, including potentially nationals.

Qatar is currently discussing minimum wages for foreigners, but has not taken any action on this front. While the idea was rejected in Saudi Arabia under the previous Minister of Labour, the government has recently shown some renewed interest in the topic. While unlikely to have a strong impact by themselves, they could be complementary policies to strengthen the impact of fees on foreigners and broader labour rights reforms. Minimum wages can be difficult to implement and might require comprehensive administrative monitoring through an arrangement such as the wage protection systems in the UAE and, more recently, Saudi Arabia. Such monitoring systems, however, are arguably necessary in any case, as many labour market policies require micro-level information about wages.

## ***2.3 Cooperation with Countries of Origin***

Governments across the region are increasingly cooperating with Asian countries of origin in enforcing migrant labour standards, recording of contracts, wages, maximum working hours, and accommodation standards. While follow-up on these agreements has sometimes been patchy, in principle better-enforced labour rights tend to close the labour cost and mobility gap between locals and foreign workers and hence can contribute to national employment. The UAE and Kuwait are also planning to cooperate with countries of origin on assessing workers' qualifications before they are imported into the local labour market. Any labour market policy that involves migration rules or taxes differentiated by qualification level is likely to require such arrangements. It remains to be seen whether the required administrative capacity can be built.

## ***2.4 Policy Outlook***

One main lesson from two decades of “Gulfization” policies is that administrative micro-interventions in the labour market that prescribe how individual businesses must organize their human resources are difficult to implement and monitor, can lead to widespread evasion and are prone to political wrangling and post hoc exceptions.

These experiences underline the need to address the underlying causes of labour market segmentation instead of trying to alleviate them after the fact. A more flexible policy regime would aim to avoid micro-interventions but instead narrow the gap in labour prices and labour rights between nationals and

foreigners. Some of the GCC countries have taken tentative steps in this direction, but none of them systematically and forcefully, and results for the most part still await systematic evaluation.

The labour price gap can in principle be narrowed by increasing the price of foreign employment through fees, or reducing the price of employing nationals through subsidies. Such interventions have been tried by some GCC countries, but in a rather unsystematic fashion and without comprehensive evaluation of results. They could potentially achieve higher nationalisation results at lower cost, as they would allow companies to adjust their employment in line with their individual cost structures, eliminating the uneven costs and deadweight losses imposed by rigid quota rules. In a potentially cost-neutral arrangement, fees on foreign employment could be used to finance subsidies for nationals. Due to the preponderance of foreign labour for the foreseeable future, under such an arrangement the subsidies in all GCC countries could be considerably higher per capita than the fees – which by themselves probably cannot be increased sufficiently to close the cost gap without doing significant damage to the local economy.

Price-oriented interventions would reduce or eliminate the currently widespread evasive strategies used by private business to avoid nationalisation rules. At the same time, precautions would need to be taken against misappropriation of subsidies and to ensure that fees are not “passed on” to foreign workers in the shape of lower wages. Increased mobility of foreign workers would be an important complementary policy to ensure that this does not happen.

Restrictions on mobility are the core aspect of the labour rights gap between foreigners and nationals, which is the second main factor incentivizing employers to shun national labour. Again, some GCC countries have taken steps to narrow this gap by partially or fully abolishing the sponsorship system. The practical experience shows however that less educated foreigners in particular find it hard to avail themselves of their new freedoms, as their mobility rates stay much below those of their high-skilled peers. This highlights the need for potential complementary policies such as multi-language information campaigns and hotlines, labour ombudsmen, domestically oriented job agencies for foreigners and, critically, rules to allow foreigners to stay in the country for a limited period to seek a new job after they lose or leave their existing one.

The above policies pertain mostly to migration and labour market regulation. There are further policies that undermine effective nationalisation, notably the generous and often indiscriminate public employment policies in the GCC. These typically take the dominant share of able-bodied nationals out of the private economy and contribute to making many of the remaining ones less employable due to their general effect on reservation wages, work expectations and educational decisions. For the time being, a systematic move away from the paradigm of low-skilled labour remains difficult unless current patterns of public sector employment are also changed thoroughly.

Reforming these policies would mean touching the bedrock of the distributional bargain that underlies the political economies of the GCC, in which well-paid and low-effort government jobs are a key tool of rent distribution.<sup>21</sup> With some creative thinking, this might be less difficult than it appears at first glance: The core challenge is not how to abolish rent distribution to citizens, which is neither politically feasible nor socially desirable. It is rather how to reform it so as to reduce its distortionary effects on

labour and other markets. One promising idea in this respect is direct distribution of cash grants to all citizens not employed by government in return for reduced recruitment in the public sector.

Under such a scenario, nationals would need to think more systematically about how to make themselves employable on the private market given reduced availability of government jobs. At the same time, their ‘citizens’ income’ could provide basic income security in case of unemployment, and would also decrease nationals’ reservation wages on the private labour market, as national employees could top up their private sector wages with the cash grants, which would not be means-tested. They would therefore boost private sector Gulfization outcomes without having to force employers to recruit nationals they are not interested in employing, while maintaining acceptable total incomes for nationals.

A citizens’ income could make other, more restrictive policies, such as a reduction in public sector recruitment and a tightening of civil service standards (as well as potentially also energy subsidy reforms), more politically acceptable. Simple simulations show that in the long run, such a scheme would be less expensive than the current practice of public sector over-employment. It would contribute to a leaner and better-functioning bureaucracy, give stronger work incentives to nationals in both civil service and private sector, and would be transparent, fair, and easier to predict and plan than the current ad hoc regimes of rent circulation.<sup>22</sup> The citizens’ income would also make for a powerful political gesture of benevolence and inclusion towards Gulf citizens – while helping them to stand on their own feet in the private labour market.

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## Endnotes

1. The figures for Bahrain in official statistics from the Labour Market Regulatory Authority likely understate public employment as they seem to exclude the security sector. Older (2010) data from the Central Informatics Organization indicate a third more government employees than shown in the graph.
2. Martin Baldwin-Edwards, *Labour Immigration and Labour Markets in the GCC Countries: National Patterns and Trends* (London: LSE Kuwait Programme, 2011); Andrzej Kapiszewski, “Arabs versus Asian Migrant Workers in the GCC Countries” (Beirut, 2006).
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4. International Monetary Fund, *Labor Market Reforms to Boost Employment and Productivity in the GCC*, IMF Report, Washington D.C., October 2013.
5. Trinidad and Tobago and Norway are the two only high-rent countries with relatively small migrant populations; they are also the only two which have also witnessed significant productivity growth. The significant negative relationship is robust to the omission of outliers and influential cases.

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12. It cannot be determined how many employees who gained the consent of their current employers did so because the latter knew that they could not prevent the workers' mobility anyway. But even if this should be the case for all of the transfers, total employee-initiated mobility would not exceed an annualized 1.2 per cent of the total stock of foreign workers.
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## About the Author



**Steffen Hertog** is an associate professor of comparative politics at the London School of Economics. His research interests include Gulf and Middle East politics and economics as well as the political economy of the developing world more broadly. He has published in journals such as *World Politics*, *Review of International Political Economy*, *Comparative Studies in Society and History*, and *International Journal of Middle East Studies*. His book about Saudi state-building, “Princes, Brokers and Bureaucrats: Oil and State in Saudi Arabia” was published by Cornell University Press in 2010. He has worked with the World Bank, OECD, GIZ and the European Commission on numerous projects relating to labour market, public sector reform, and trade issues in the GCC region.

**Publication Reference :** Citations and quotations should always include either the long or the short reference provided here. Generally the long reference should be used but in exceptional cases (e.g. not enough room), the short reference may be used.

**Long Reference:** Steffen Hertog, *Arab Gulf States: an Assessment of Nationalization Policies* Research Paper No. 1/2014, Gulf Labour Market and Migration (GLMM) programme of the Migration Policy Center (MPC) and the Gulf Research Center (GRC), <http://gulfmigration.eu>

**Short Reference:** S.Hertog, *Arab Gulf States: an Assessment of Nationalization Policies* Research Paper No. 1/2014, GLMM, <http://gulfmigration.eu>

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