

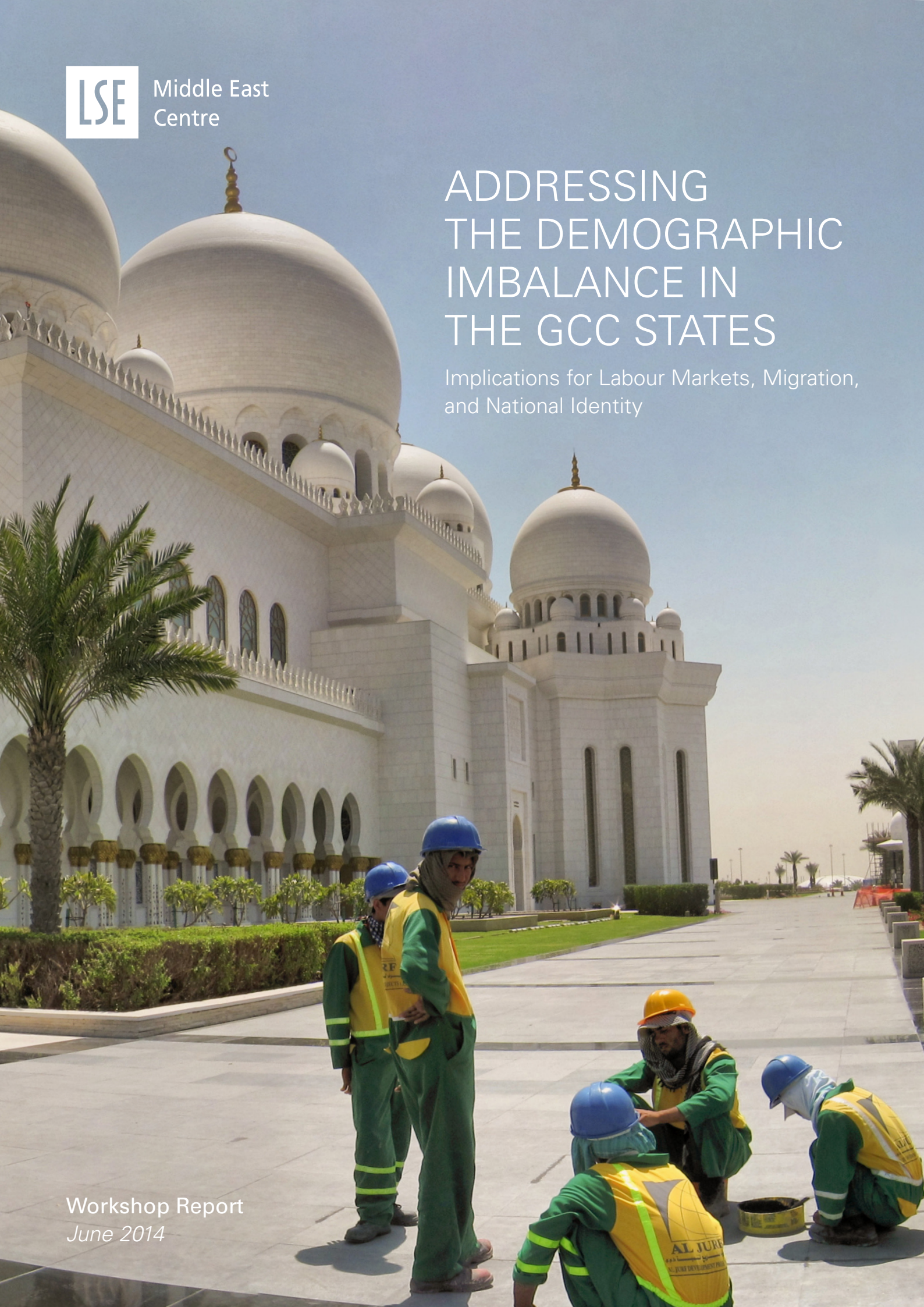


Middle East
Centre

ADDRESSING THE DEMOGRAPHIC IMBALANCE IN THE GCC STATES

Implications for Labour Markets, Migration,
and National Identity

Workshop Report
June 2014



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INTRODUCTION

This report contains the proceedings from a workshop organised by the LSE Middle East Centre and led by Dr Kristian Coates Ulrichsen which examined demography in the Gulf Cooperation Council (GCC) states. The event took place on 24 January 2014 under the Chatham House Rule¹ and hosted six speakers from the Gulf and Europe who addressed the shifting dynamics of the study of demographic issues in the GCC states. Speakers and participants were drawn from academic institutions, think-tanks, governments, and commercial enterprises from across the Gulf and Europe. Issues for discussion included the following:

- Challenges to the research of demographic issues arising from the lack of available statistics
- Perceptions, emotions, and reality of the demographic imbalance on the ground in the GCC states
- Sponsorship as a demographic policy in the GCC states
- The evolving role of non-nationals in the GCC states
- The role of business actors in the GCC states demographics debate
- Interaction of labour and politics (with a focus on Bahrain)

Recent developments across the six GCC states² have demonstrated the complexity of connections between demography, labour markets, and more intangible concepts of identity and citizenship. Large-scale deportations of expatriate workers have taken place in Saudi Arabia and Kuwait alongside renewed efforts to increase the proportion of nationals in labour markets. Amid the wider regional Arab Spring upheaval, questions of security and identity have increasingly preoccupied the minds both of decision-makers and publics alike. The 'demographic imbalance' in the GCC States has thus become a value-laden frame of reference that has, in recent years, expanded and gained popular currency in the GCC states. This encompasses not only issues of labour market (in-)efficiency and conventional political-security challenges, but also perceived socio-cultural threats among national populations.

¹ Meaning that information may be used but neither the identity nor the affiliation of the participants may be revealed.

² The Gulf Cooperation Council was formed in 1981 and consists of the six member-states of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

RELIABILITY OF DATA AND STATISTICS

Migration in the GCC states is unique and constitutes one of the most pronounced and visible 'peculiarities' that set the region apart from almost every other national and regional polity in the world. Ground-breaking research has been conducted in recent years on various aspects of the demographic debate in the GCC, and important works have appeared that have added depth and nuance to the literature. Yet, the raw data available to practitioners and researchers in (and on) the GCC remains very limited by comparison to international standards. Many existing statistics are fragmentary and scattered across multiple and sometimes overlapping sources while large gaps remain; such as information relating to the number and presence of illegal immigrants and the 'safety nets' that have emerged to sustain them. In the UAE, for example, undocumented migrants have developed their own insurance and education systems. It is thus necessary to connect the various perspectives on demography and migration, including the legal, economic, and labour market aspects, and assess how they interact as they overlap and inform each other. Another avenue for further research is assessing patterns of change in labour-sending states alongside the countries of destination, as is the ability to set current developments within the context of historical trends in migration to the GCC states.

Much of the extant data on migration has been produced by the GCC states themselves. The challenges lie in obtaining access to the data and assessing the quality, reliability and indeed the compatibility of the figures that have been generated:

- National data in itself is insufficient and must be augmented with international sources such as the United Nations and its specialised agencies, for example the International Labour Organisation and the World Bank.
- Publicly-available information should be brought together and delivered through a more efficient and centralised platform.
- Researchers and officials must also be able to identify and take into account the political and vested interests when analysing the available information and to develop ways of making the data available to a wider audience in easily-digestible forms.

A recent venture in this regard is the Gulf Labour Markets and Migration portal, an international programme launched in 2013 as a joint initiative by the Gulf Research Centre and the Migration Policy Centre.³

PERCEPTIONS VS. REALITY IN THE 'DEMOGRAPHIC IMBALANCE'

There are, nevertheless, significant lacunae in the existing data which render the nature and scale of the 'demographic imbalance' hard to quantify. In practice, three factors make the statistics on demography in the GCC unreliable:

- A lack of public accountability or collaboration within and among the various national and regional institutions or government ministries collecting information.
- A culture of secrecy surrounding the actual figures collected through mechanisms such as census returns or internal surveys conducted within public agencies.
- A shortfall in reliable data on 'legacy migrants' such as hajj over-stayers in Saudi Arabia, illegal migration along largely-uncontrolled borders in Oman, and those who simply never registered as migrants after national boundaries were fixed in the 1960s and 1970s.

One participant described at length the lack of institutional cooperation on all aspects of population strategy and management in the GCC states and ascribed this to a weakness in maturity and a lack of consistent policy objectives among the different ministries and agencies involved. This makes it problematic for many institutions within the GCC to implement rules such as pertaining to labour nationalisation that require cross-government policy coordination. An example is the *nitaqat*⁴ system in Saudi Arabia, which not only faces difficulties in aligning the interests of the various political and business actors involved but also encounters auditing challenges posed by the large number of undocumented migrants in the country.

Compounding the issue is the fact that emotions and sensitivities run high around demographic issues and imbalances, fuelled in part by the way the issues are portrayed in political debate and media coverage – even though the lack of openness surrounding official

statistics means many people are not aware of actual migration statistics and data. A particular trigger of citizens' anxiety about migration levels concerns the growing number of jobs, and perceived benefits, that go to migrants, while others relate to more intangible concerns for self-defined notions of 'national identity' and 'cultural values.' Both officials and publics across the GCC states hence feel increasingly threatened by the pace of growth in populations that have nearly doubled (Bahrain), more than doubled (UAE) and even trebled (Qatar) as a result of mass inward migration over the past decade. Similar concern is also evident in public policy discourse in the other three GCC states of Kuwait, where non-nationals outnumber citizens by more than two to one, as well as in the more populous Saudi Arabia and Oman, where the larger number of citizens vis-à-vis expatriates is counterbalanced by higher levels of local unemployment.

While the demographic imbalance is such a prominent feature of domestic policy agendas across the GCC states, it is unlikely to narrow in the immediate or near future:

- Numerous initiatives are underway that aim to raise the educational and skill levels of GCC citizens through vocational training and qualification programmes, while the nationalisation of GCC states workforces has, on paper, been a declared policy objective in most GCC States since at least the 1980s.
- And yet, GCC economies remain dependent on large numbers of low- and semi-skilled labourers filling positions that many GCC states nationals would be unwilling to occupy.
- Moreover, the paradox of sustained economic growth fuelled (quite literally) by consistently high oil prices since 2002 has seen GCC states reliance on foreign workers increase rather than decrease.

Demand for labour has soared with the succession of mega-projects unveiled in the GCC states, notably in the UAE and in Qatar, alongside major infrastructural programmes in Saudi Arabia. With Dubai booming once again (following the downturn of 2009) and gearing up to host Expo 2020 and with Qatar embarking upon massive infrastructural spending ahead of the 2022 FIFA World Cup, the economic 'push' factors that underpin the demographic imbalance look set to intensify over the coming decade.

³ See <http://gulfmigration.eu/> for further information on the Gulf Labour Markets and Migration project.

⁴ The *nitaqat* system, launched in 2011 in Saudi Arabia, offers a grading structure for companies based on their nationalisation performance by calculating the percentage of Saudi employees in comparison to non-citizens.

This policy dilemma has augmented the public perception of the demographic imbalance in the GCC states:

- Strategies to raise the operating cost for companies employing non-nationals has failed to discourage those firms from bringing in migrants as the overall cost of labour has not risen substantially.
- Over the longer-term, the two most realistic policy options for reducing the number of expatriates are increasing the skill-sets of nationals and the full cost of migrants.
- However, such policies fail to address the current concerns raised by many GCC states nationals who feel 'surrounded' by migrant labourers, and question their future role in GCC polities.

Related issues of naturalisation and the 'Bidoon' (stateless) communities remain highly sensitive for these reasons (among others), with only the UAE going some way toward addressing them in a comprehensive manner.

SPONSORSHIP AS A DEMOGRAPHIC POLICY

Participants assessed the role of the sponsorship ('*kafala*') system as one of the main causes of the structural imbalances in GCC labour markets and the differential patterns of growth in the national/non-national workforce, as well as its role in shaping the size and dynamics of the GCC states' populations. Among the issues discussed were how the *kafala* system facilitates the ease of importing foreign labourers, with 94 per cent of Emirati households having a maid and each Kuwaiti household hosting an average of 2.3 domestic workers in 2013. Visa trafficking was another factor identified as sustaining high levels of labour importation with one participant noting that in 2003, the Saudi Minister of Labour estimated that some 70 per cent of all visas issued were subsequently sold on the black market.

The concept of *kafala* emerged in the 1950s and has since evolved in different ways across the GCC states, typically balancing the relationships between nationals and immigrants, and between state and business interests. Prior to the 1950s, immigration flows had been managed through foreign oil companies such as Aramco (the Arabian-American Oil Company) or Bapco (the Bahrain Petroleum Company) which developed and organised hierarchies of labour with expatriates above nationals and large numbers of South Asian workers making their way to the GCC in the 1930s and 1940s.

Today, migrants can only come to the GCC with a work permit through a kafeel (local sponsor), a policy intended to deter migrants from settling and seeking permanent residence. *Kafala* was first mentioned in Saudi Arabia's 1950 Residency Law. The system then developed during the subsequent decade as national movements emerged as channels for demands for the employment of local labour and equal pay and status with expatriates:

- Until 2000, there was no limit on the number of *kafalas* that a kafeel could have and cases persisted of the system being abused as the sponsor would accept a fee from the incoming migrant to be left to find his/her own way and employment.
- Other instances of malpractice occurred when sponsors established 'front' companies to cover the importation of migrants with 'fake' visas.

The *kafala* system has underpinned the emergence of dual labour markets and a situation whereby citizens and expatriates tend not to compete for the same jobs, with nationals mostly employed in the public sector and non-nationals in the private sector. In mixed sectors, nationals typically receive higher salaries and enjoy better job security. This also has disconnected professional advancement from economic productivity in many cases.

Aside from reinforcing the co-existence of two largely-separate labour markets in the GCC states, the *kafala* system has also created 'dual societies' by concentrating employment into stratified occupations and banning expatriates from accessing the benefits of citizenship, which is, and remains, largely closed to non-nationals.

- The *kafala* system has enhanced the construction of the notion of citizenship as a privilege to be granted, rather than a right to be earned, while also privatising manpower as a means of production by allowing local sponsors to control and regulate the presence of foreigners.
- This normally is the prerogative of the state rather than private individuals, and the sponsorship system therefore inserts a layer of middlemen as 'sub-rentier' intermediaries between the state and its expatriates.
- Nevertheless, with the emergence of second and even third generation immigrants in GCC states societies, notions of identity and belonging are becoming blurred.

Meanwhile, the erosion of the barrier between dual labour markets, as relatively high levels of unemployment are increasingly driving GCC states nationals into taking unskilled jobs, is also placing under strain the system of *kafala*. Workshop participants agreed that a radical overhaul of the system was not merely unavoidable but was already taking place across the GCC states.

EVOLVING ROLE OF NON-NATIONALS

GCC societies are being transformed by sweeping changes to the urban and spatial landscape of GCC states cities:

- The region has witnessed a prolonged real estate boom since the early-2000s as governments launched a series of 'mega city projects' both in terms of creating new urban agglomerates based around specific industries or economic sectors and, in some states, by liberalising the real estate market and opening it up to foreign investors.
- One GCC participant noted that the largest ten investment projects in the GCC states all involved real estate and cited the legal and regulatory changes in Bahrain, the UAE, Oman, and Qatar that have permitted foreign ownership in selected areas. This has occurred in tandem with the introduction of long-term residency visas linked to the acquisition of real estate in Bahrain, Qatar, and Oman (5 years) and the UAE (3 years).
- Many of the 'economic visions' that form the cornerstone of the GCC states' post-oil diversification plans are geared toward becoming regional and international hubs and capturing massive flows of foreign investment.

Within this reformulation of GCC states cityscapes, new dynamics are emerging for many groups of non-nationals, who are seen as consumers, investors, and property owners in addition to labourers. In the words of one participant, expatriates are 'the agents that animate the city' as they evolve into sources of demand and consumption that in some cases surpass even the role of GCC citizens. One participant cited a 2009 household census in Dubai that indicated that national households totalled only 17.6 per cent of overall household expenditure while another stated that expatriates in Bahrain spend more on average than Bahraini citizens. In addition, expatriates provide important sources of revenue, particularly in polities such as Dubai or Bahrain that lack substantive oil reserves, through the levying of fees

and indirect taxes on the non-national population. As these trends point to expatriates playing an ever-greater and more prominent role in GCC states societies, they raise a host of awkward public policy challenges as officials attempt to balance the enticement of higher-worth non-nationals with the reality that they will not ultimately be allowed to fully settle or integrate.

There are thus layers of instability that run through the proliferation of mega-projects aimed at expatriate audiences:

- One is the probability that GCC states citizens and expatriates ultimately will have diverging interests and may end up competing for scarce physical resources as some of the most highly water and food-stressed countries in the world attempt to sustain unprecedented population levels.
- Another is the rising segmentation in urban space as gated communities introduce hierarchies where different groups of expatriates live, potentially leading to struggles for access to open spaces in the GCC states.
- A third is the potentially problematic nature of the financial and free zones that have hitherto been the hubs for growth as they have also created alternative legal, judicial, and institutional frameworks that could almost be equated to parallel societies.

Hence, studying the changing role of non-nationals raises important questions about the spatial, as well as demographic, reconfiguration of GCC societies, as non-nationals play a role that goes far beyond the mere provision of labour, especially in the smaller GCC states such as the UAE, Qatar, and Bahrain.

ROLE OF BUSINESS ACTORS IN THE DEMOGRAPHY DEBATE

The role of business actors in the demography debate in the GCC is both under-explored and difficult to research. Over the past decades, business actors have driven the growth in employment of migrant labour; yet they do not conceive of themselves as political actors with a stake in the public policy debate. While local business-people do have more of a recognised role in GCC states parliaments, a lot of their influence over legislatures appears to be informal, quite opaque, and difficult to map. There is thus an analytical gap in tracing how business interests manifest themselves in actual policy, with clear implications for GCC states decision-makers as they attempt to confront repeated failures to address the demographic imbalance in the GCC states.

Policy dilemmas reflect a conflict of interest between business and political stakeholders in the GCC:

- Governments feel the need to provide jobs to citizens for social and political reasons, consistent with the broader expectation of the state as an economic provider and redistributor of resources.
- Business actors, however, have an interest in maintaining the low-cost labour base provided by migrant workers.

There is very little open or public acknowledgment of the gap between different policy aims which nevertheless act to undermine each other – notably, the inherent tension between economic interests and political demands to create jobs for nationals and moving toward sustainable economic diversification. The Abu Dhabi Vision 2030 plan does attempt to overcome this dilemma by reversing the current breakdown of the expatriate population, which consists primarily of unskilled labourers, so that by 2030 a target of 80 per cent of non-nationals will be skilled.

Recent initiatives to reform labour markets in Bahrain provide an illustration of how the diverse objectives among different groups of stakeholders have come out into the open. In contrast to earlier policy responses that focused on setting regulations on the use of migrant labour and quotas on employment for nationals without producing the desired results, Bahrain experimented with changing the structure of incentives by adjusting the cost gap between the employment of nationals and non-nationals. This represented an attempt to overcome the reluctance to employ citizens of the GCC states as it raised operating costs for businesses. However, business elites saw the issue very differently, and viewed the mandate to employ more nationals over expatriates as a cost that was imposed rather than an opportunity to be grasped.

Other participants noted how recent developments in Saudi Arabia have shown that GCC states governments can in fact overrule business protests with only limited backlash:

- For decades, business interests had successfully stymied reforms to labour markets but after some initial organised resistance, caved in to government changes to the quota system. This suggests there is something new about the parameters of business lobbying as it works only in the absence of political will, and on occasions where the Royal Court commits to reform it is far harder to reverse.

- With policy responses to the Arab Spring injecting a powerful new political rationale for reform, there was nothing like the organised campaign of business resistance that defeated an attempt by then-Minister of Labour Ghazi al-Gosaibi to reform the visa system in 2003.

INTERACTION OF LABOUR AND POLITICS

Recent changes to the labour market in Bahrain fall into three categories – changes to union laws, changes to policies of labour nationalisation, and changes to the *kafala* system. As all three examples of reform are inherently political issues that will require in-depth support from key ministries, this complicates their implementation in practice. Close policy coordination is thus a precondition for the successful application of reform initiatives.

Bahrain has a long record of labour activism, with the right to establish unions forming part of popular demands in the 1950s and 1970s, and receiving official recognition in 2001, following reforms initiated by King Hamad bin Isa Al-Khalifa. The first decree legalising unions allowed for the creation of a single umbrella organisation, the General Federation of Bahrain Trade Unions (GFBTU), which permitted only one union per industry or organisation. Subsequently, unions started to emerge across a range of industries, and by that year, over 33,000 workers were registered in 70 unions. When protests broke out across Bahrain in February 2011, the unions played an instrumental role in mobilising the local workforce, with the GFBTU calling for a general strike on 20 February, which received support from numerous professional organisations:

- An estimated 80 per cent of workers did not turn up for work on the day of the strike due both to worker participation and a general deterioration in security. A heavy-handed response to workers participating in the general strike led the GFBTU to call for a second general strike on 14 March 2011.
- In the months that followed, a total of 4539 workers from the public and private sectors were suspended or dismissed from their jobs and although many were reinstated following the Bahrain Independent Commission of Inquiry, about 400 were not.
- In addition, a new labour law was passed in 2012 which altered the ability of the GFBTU to mobilise on such a large scale again, and legislation allowing for the creation of multiple trade unions led to the creation of more 'pro-government' bodies that effectively diluted the power of the labour movement.

- Moreover, the Bahrain Labour Union Free Federation (BLUFF) was established to counter the GFBTU.

Changes also have been made to policies of labour nationalisation. Attempts to promote 'Bahrainisation' extend back to the 1980s and were successful in the public sector but a failure in the private sector, which actually witnessed a decline in the number of Bahraini workers from 33 per cent in 1981 to a current level of 24 per cent. The Labour Market Regulation Authority (LMRA), established in 2006, imposed a flat fee of 200 Bahraini Dinars (BD) on every expatriate hired (for a two-year visa) plus an additional fee of BD10 per month. However, in April 2011, the LMRA suspended the foreign worker levy in an effort to soften the impact of the uprising in Bahrain on local businesses. The levy was partially reintroduced at a lower fee in August 2013 as part of a wider Labour Ministry announcement that the ministry was moving toward a more qualitative nationalisation scheme in the private sector focusing on job quality and providing proper training and skills to Bahraini citizens. It is likely that strategies to overhaul 'Bahrainisation' policies will be reviewed across a range of sectors in a drive to raise the participation of Bahraini citizens in the workforce.

The third element of reform in Bahrain is in the *kafala* system. Foreign workers have been granted the right to switch employers after a year of employment, with or without the permission of their employer; in the past, such permission was required.

- Nevertheless, employers still retain the prerogative to cancel foreign labourers' contracts and send them home.
- Moreover, the reforms do not apply to domestic workers and also fall short of resolving the 'free visa' system, which constitutes arguably the most pronounced shortcoming in the labour market. A 'free visa' is a travel permit that allows the holder to enter the country but does not provide the individual with employment, accommodation, or mandatory health insurance.
- This issue has caused a major distortion in labour markets as there are an estimated 50,000 'free visa' holders in Bahrain and requires in-depth support of numerous ministries to work together to make progress on addressing the issue.

CONCLUSION AND POLICY RECOMMENDATIONS

Workshop participants took a view of the demographic imbalance as a set of interconnected policy challenges that run through political, economic, and social structures in the GCC states. The existence of diverging sets of interests creates policy dilemmas that are not easily resolved, as evidenced in the failure of successive labour nationalisation initiatives to reduce either the absolute or relative numbers of expatriates in the GCC states workforces. Nevertheless, in a politicised 'post-Arab Spring' context, it is important for the formulation not only of sound public policy but also for medium- and long-term prospects of social cohesion more generally, that:

- Governments across the GCC identify and implement measures to move toward sustainable long-term economic growth. Shifting from a comparative advantage in oil or gas toward a competitive advantage in human capital is a critical component of the transformation of the GCC states economies, underpinned by policies to enhance the skill-levels of GCC states nationals and increase their representation in the workforce.
- Policy-makers and other political and economic stakeholders identify a balance among competing interests and perspectives that matches short-term requirements with broader reforms to economies and labour markets, through a comprehensive approach that examines demographic issues in their totality and not merely through the lens of labour nationalisation or labour market reform.
- Officials in the GCC states acknowledge that greater access to comprehensive statistics and more reliable data is needed as a matter of policy urgency in order to take the heat (and the uncertainty) out of public and policy debates and also to enable stakeholders to better target incremental reforms to existing economic and political structures.
- Attempts must be made to defuse the highly-charged atmosphere of political and public discourse on the 'demographic imbalance' in the Gulf so as to balance consideration of genuinely felt concerns with awareness of the areas in which the relationship between expatriates and their host societies has been – and can remain – mutually beneficial to both sets of groups.

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