



Middle East
Centre



Kuwait
Programme

THE POLITICAL ECONOMY OF LABOUR MARKETS AND MIGRATION IN THE GULF



About the Middle East Centre

The LSE Middle East Centre opened in 2010. It builds on LSE's long engagement with the Middle East and provides a central hub for the wide range of research on the region carried out at LSE.

The Middle East Centre aims to enhance understanding and develop rigorous research on the societies, economies, politics, and international relations of the region. The Centre promotes both specialised knowledge and public understanding of this crucial area and has outstanding strengths in interdisciplinary research and in regional expertise. As one of the world's leading social science institutions, LSE comprises departments covering all branches of the social sciences. The Middle East Centre harnesses this expertise to promote innovative research and training on the region.

About the Kuwait Programme

The Kuwait Programme on Development, Governance and Globalisation in the Gulf States is a multidisciplinary global research programme based in the LSE Middle East Centre and led by Professor Toby Dodge. The Programme currently funds a number of large scale collaborative research projects including projects on healthcare in Kuwait led by LSE Health, urban form and infrastructure in Kuwait and other Asian cities led by LSE Cities, and Dr Steffen Hertog's comparative work on the political economy of the MENA region.

The Kuwait Programme organises public lectures, seminars and workshops, produces an acclaimed working paper series, supports post-doctoral researchers and PhD students and develops academic networks between LSE and Gulf institutions.

The Programme is funded by the Kuwait Foundation for the Advancement of Sciences.

THE POLITICAL ECONOMY OF LABOUR MARKETS AND MIGRATION IN THE GULF

Workshop Proceedings

August 2016

Few policy areas in the Gulf Cooperation Council (GCC) have been subject to as much public debate and behind the scenes consulting as the regulation of local labour markets. The challenge to find sufficient high quality jobs for GCC nationals in the coming decades is the largest socio-economic issue the region faces. At the same time, local labour market policy affects the economic prospects of millions of labour migrants and their families. Yet, academic research on Gulf labour markets remains very limited, and there has been barely any exchange between academic researchers and stakeholders among government, business and labour. Against this background, the ‘Comparative Political Economy of the MENA Region’ project at the LSE Middle East Centre’s Kuwait Programme organised a workshop in Kuwait City on 8 March 2016 that aimed to address both lacunae.

Leading thinkers and practitioners on GCC labour and migration issues were invited to discuss current and future research on the above questions. The timing of the event was propitious: On the one hand, the labour policy discussion in the GCC has acquired additional urgency as the recent drop in oil prices has underlined the limited long-run capacity of GCC governments to act as employer of last resort. On the other hand, a number of academic economists from leading international universities have started to work on large datasets in the region, asking focused questions about the impact of particular policy measures. They have joined a growing number of anthropologists, sociologists and political scientists working on GCC labour and migration issues. The workshop brought these academics together with policy-makers as well as stakeholders from business across the GCC region to gain a deeper understanding of the constraints and opportunities for labour and migration reform in the GCC.

Key findings emerging from the workshop include:

- The large gaps in labour cost and labour mobility between citizens and foreign workers are key factors hampering private employment of nationals. A further critical, albeit less easily measured, factor is the gap in skills and work experience. More research and policy experiments are needed to identify ways to overcome these gaps.
- There is particular need for higher quality data on the ‘soft’ aspects of labour market behaviour, including preferences on work environment, behaviour in the workplace, prejudices of both national employees and employers etc. There is much potential for replicating the few existing studies on these matters across the whole region.
- There are large opportunities to exploit the growing amounts of administrative labour market data for research purposes. Academic researchers and policy-makers need to engage in a more regular dialogue on how data can be used and how data collection can be improved to yield policy-relevant information.
- Given the similar policy challenges across the region, pooling and standardising of (anonymised) raw data is of paramount importance.

The workshop was introduced by Professor Steffen Hertog with an overview of the main knowledge gaps on Gulf labour and migration policies. Professor Hertog highlighted that existing research has identified gaps between nationals and foreign workers in terms of labour prices and labour mobility as key obstacles to labour market nationalisation. Knowledge on the efficacy of existing labour market interventions to bridge these gaps remains quite limited, however. Professor Hertog underlined further critical research gaps on overseas recruitment and the role of formal and informal ‘brokers’ in the process, on ‘soft’ factors that deter nationals from competing on the private labour market, and on the broader political economy of Gulf labour markets.

The first presentation was by Professor Suresh Naidu of Columbia University, who presented preliminary results from a field experiment in India looking at overseas recruitment. Overseas recruitment is the least understood yet arguably most important aspect of the labour supply function in the Gulf. It is complex, involving layers of brokers and recruitment centres which have a strong impact on the quality of labour recruited, the information available about it and – through several types of formal and informal fees – on the price of labour and workers’ levels of debt on entering Gulf labour markets. Understanding these brokerage structures is critical for improving both the skills and the rights situation of expatriate workers.

Professor Naidu described an ongoing field experiment that will assess the effect of getting a construction job in the United Arab Emirates (UAE) on Indian overseas workers. While the experiment is ongoing, the research has already yielded a survey of overseas recruitment networks, providing critical information about local brokers bringing jobseekers to the training and selection centres in which construction workers are recruited. Professor Naidu reported that to access these centres 98 percent of workers used agents, who typically charge high fees of 40,000 Rupees (600 USD) or more.

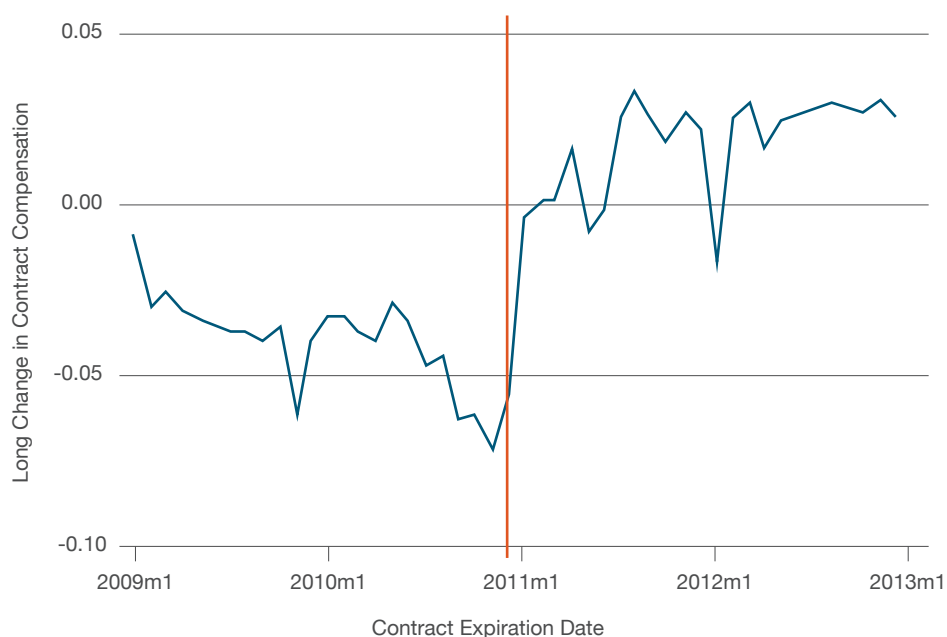
He underlined that the contribution of both brokers and recruitment centres to screening for workers’ skills is unclear, as brokers tend to take on all applicants willing to pay and the skills tests in the centres appear superficial. One interesting if preliminary result was that cognitive ability seems to predict success in such skills test more than formal schooling, and that members of discriminated social groups (from scheduled Indian castes for example) are much more likely to pass the tests than other groups.

While it is too early for detailed policy suggestions, the workshop group discussed proposals for generating generally recognised credentials – an ‘Arabtec certificate’ or the like – which could reduce the power of brokers and hence the rents they extract, while improving the quality of recruits. The importance of introducing competition among brokers was also highlighted. Workshop participants also emphasised that in other sectors and for smaller companies, informal ethnic networks can play an important role in direct recruitment and that the research design does not capture the effects of informal employment and trade in visas. Construction, a fairly tightly regulated sector, might be a special case. Due to its substantial importance in Gulf labour markets, it remains important in its own right, however. Policy-makers attending the workshop pointed out that overseas skills verification is an important field of policy experimentation in the GCC, and that several

projects are currently under way for standardised skills testing. This was identified as a promising area for future research and collaboration with policy makers to make sure that sound monitoring and evaluation are built right into new policies.

Professor Yaw Nyarko of New York University gave the next presentation, ‘Asymmetric Information, Remittances and Monopsony Power in Migrant Labour Markets: Evidence from the United Arab Emirates’. Professor Nyarko provided an overview of the labour ‘sponsorship’ system in the GCC that limits foreign workers’ ability to move between employers, and discussed the impact of partial reforms to the UAE’s sponsorship system in 2011, which is analysed in detail in a paper co-authored with Suresh Naidu and Shing-Yi Wang. Exploiting different work contract durations before and after reform, the research shows that the monopsony power of employers over their foreign workers has fallen with the 2011 policy changes, increasing the mobility of foreign workers, their retention rates in the country and wage levels after contract expiry among those staying in the country (Figure 1).

Figure 1: Change in Real Wages at Point of Contract Expiration and Re-Employment



These results are encouraging in terms of improving labour market efficiency and labour rights as well as closing the labour price and mobility gap with national workers – although these gaps are so large in higher-rent countries like the UAE that such reforms by themselves will not substantially dent the dominance of foreign workers in the private labour market. Professor Nyarko and his colleagues are closely monitoring the further liberalisation of sponsorship rules that the UAE government has undertaken in January 2016; results from this next study phase will be critical for informing mobility reforms across the region. The study also underlines the existence of high quality administrative labour data which authorities are increasingly open to share with researchers – one workshop

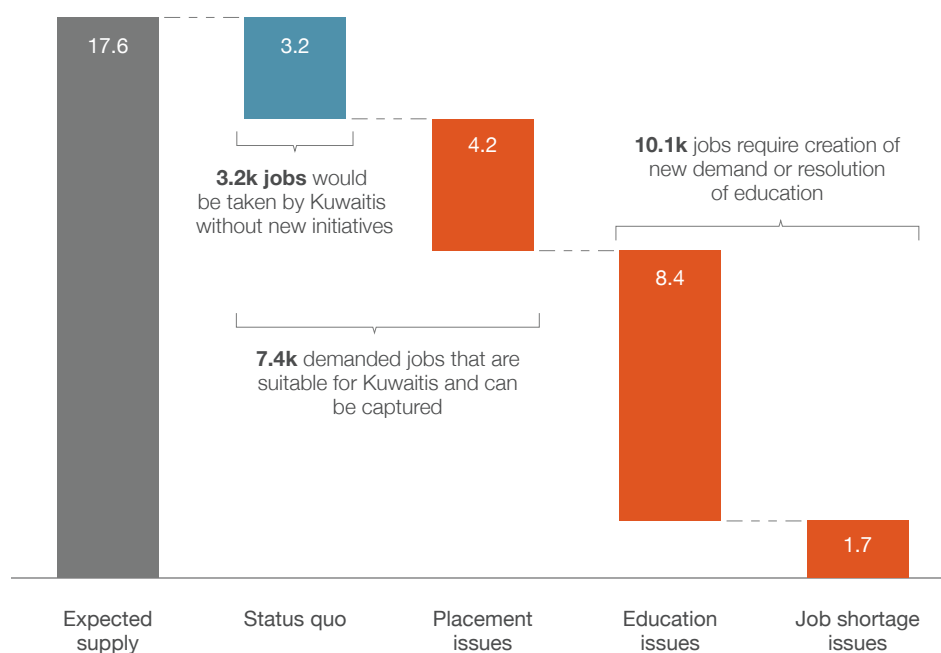
participant from the policy side even encouraged researchers to signal their data needs to relevant authorities to guarantee the generation of data most relevant for policy evaluation.

Improving internal mobility of foreign workers has emerged as a critical focus area of GCC policy-makers. Further research will need to focus not only on formal regulatory changes, but also on complementary policies that can help foreign workers use their mobility rights in practice.

Jeff Yousef from Oliver Wyman delivered the next presentation discussing supply and demand for Kuwaitis in the private sector and initiatives to plug the gap. Mr Yousef gave an overview of the challenges faced by Kuwait in productively integrating nationals in its private labour market, focusing in particular on the mismatch between the qualifications and expectations of Kuwaiti jobseekers and the profile of available jobs. One key result was that the annual supply of new Kuwaiti jobseekers amounts to about 23,000, while only around 6,000 are actually needed in the public sector, leaving a balance of 17,000 nationals to be absorbed in the private labour market. Of the 66,000 new annual job openings in the private sector, however, only about 9,000 are suitable for Kuwaitis – and given mutual reluctance of Kuwaiti employers and jobseekers, little more than 3,000 of these would be taken by Kuwaitis under the status quo scenario.

Even if these placement issues can be overcome, more than 10,000 jobs for Kuwaitis would need to be created through reskilling and educational reform as well as a general increase in labour demand (Figure 2).

Figure 2: The Employment Challenge for Kuwaiti Citizens (number of jobs in thousands, yearly average, 2016–2020)



The presentation highlighted the need for fundamental reform of skills systems and labour price structures in the Kuwaiti labour market – issues that other high-rent countries like Qatar and the UAE face in a very similar fashion. Mr Yousef introduced several policy ideas to make private sector jobs for nationals more feasible, including apprenticeship systems, the adjustment of existing private sector wage subsidies for nationals, and increases in visa fees to narrow the cost gap between nationals and foreigners. He also pointed to the fragmented jurisdiction as a key institutional constraint to coherent labour reforms across the GCC.

Mr Yousef's presentation indicated that the 'private sector premium' available for Kuwaiti nationals is too small to overcome their preference for public sector work with its shorter working hours, higher job security and often easier work environment. The impact of the government employment benchmark in determining reservation wages and employment expectations was identified as critical across the region – and an issue that labour market reforms to date have been unable to grapple with. The discussion highlighted the need for creative thinking about how to narrow the attractiveness gap between public and private sectors in a politically feasible way, be it through subsidy reforms or cash grant systems.

The presentation also led to a general discussion on 'phantom jobs' for nationals in GCC private sectors which are created only to fulfil quota rules or cream off subsidy income, while not actually putting nationals in productive employment. It was generally agreed that the continuing labour price gap between nationals and foreigners would incentivise such evasion strategies.

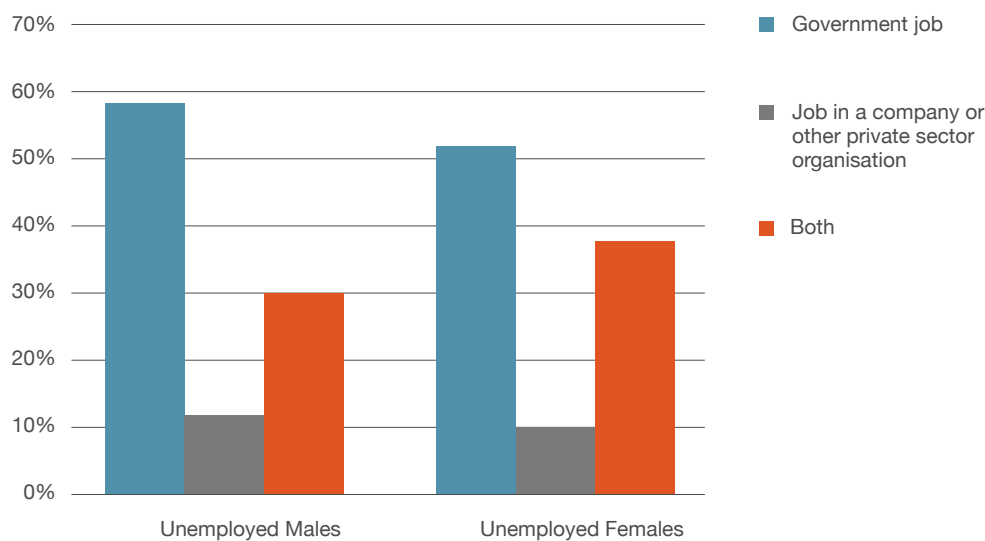
The final presentation in the morning session was given by Professor Robert Holzmann, University of New South Wales, entitled 'Triangulating the Labour Market in Saudi Arabia: Surveying Firms, Nationals and Expats'. Professor Holzmann presented a labour market survey project conducted by the World Bank for the Ministry of Labour in Saudi Arabia since late 2012, the scale and scope of which are unprecedented in the GCC region. Starting with an extensive phase of qualitative interviews and focus group research, the survey has covered 2,021 firms, 4,944 nationals and 3,397 foreign workers, asking numerous questions about labour regulation and policy, work environment, skills, productivity, employment preferences and many other issues of critical importance for labour policy-makers.

While the analysis of the survey data is ongoing, first descriptive analyses confirm a number of hypotheses formed during the qualitative phase. These include:

- the existence of large skills and experience gaps between what Saudi jobseekers offer and employers demand;
- firms' expectations of 'job ready' employees that will not require substantial training – similar to foreign workers traditionally hired abroad – while would-be Saudi employees expect comprehensive on-the-job training;
- rapid staff turnover as a considerable problem for Saudi employers;
- the dominance of menial jobs on the Saudi labour market, with only 17 percent of positions being managerial or professional in nature;

- employers' perception that Saudi women are more motivated, productive, and qualified than Saudi men;
- unemployed Saudis' strong preference for public sector employment (Figure 3).

Figure 3: Sector of Work Desired by Unemployed Males and Female



While it is likely that survey results would be similar in other GCC countries, Saudi Arabia is currently the only country with good quality hard data on the 'soft' aspects of labour market segmentation. Several participants stressed the need to replicate similar work in other GCC countries, ideally in a panel format similar to existing labour market panel studies in the West (and, in the Arab world, Egypt), which allows for observations of trends and the impact of government policies over time.

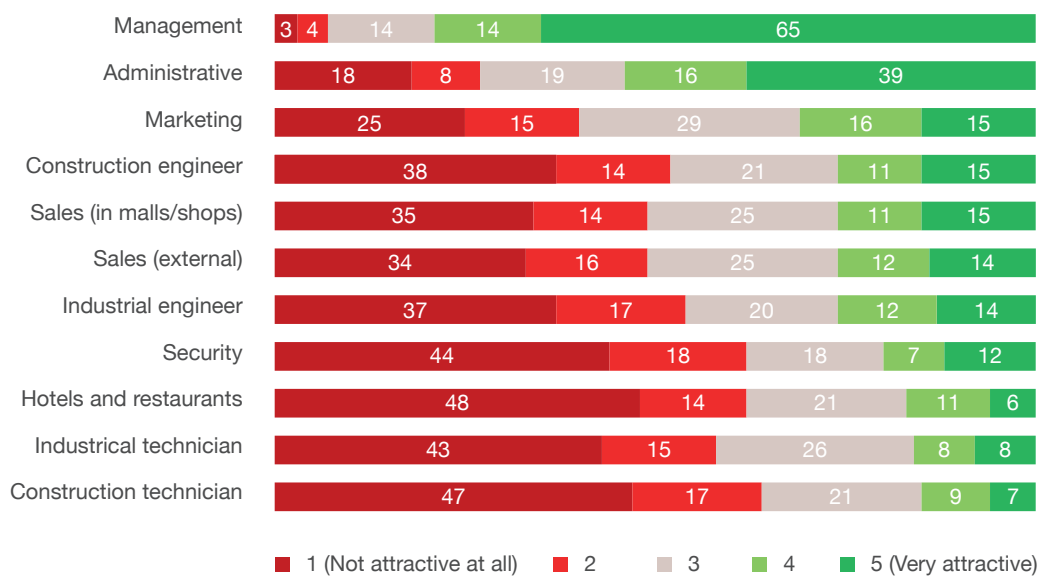
The presentation was followed by a lively discussion of the 'labour market distance index' that is being developed on the basis of the Saudi data to assess Saudi nationals' job readiness.

The workshop's afternoon session started with Professor Hertog's presentation on GCC labour and migration policy. A survey of recent empirical evidence on key policy questions, it started with a discussion of quota mechanisms to enforce national employment in the private sector, providing suggestive evidence of 'phantom employment' under Saudi Arabia's *Nitaqat* quota system, particularly in the construction sector. This was followed by an overview of Saudi data on the labour cost gaps between nationals in the public sector, nationals in the private sector, and foreigners in the private sector, as well as evidence that a narrower price gap between nationals and foreigners does indeed contribute to higher nationalisation outcomes in the private labour market.

The next segment of the presentation analysed the mobility gap between national and foreign employees on the private market across the GCC, showing that employee-initiated

turnover is much higher for nationals, while nationals are harder to dismiss than foreigners. According to a survey conducted under Professor Hertog's guidance by Accenture and Yougov in Saudi Arabia in 2014, both factors significantly deter employers from hiring Saudis. In line with Professor Holzmann's presentation on 'soft factors', Professor Hertog showed survey evidence that most Saudi jobseekers reject most available jobs in the private sector (Figure 4).

Figure 4: Job Preferences of Saudi Jobseekers (Accenture/Yougov Survey)



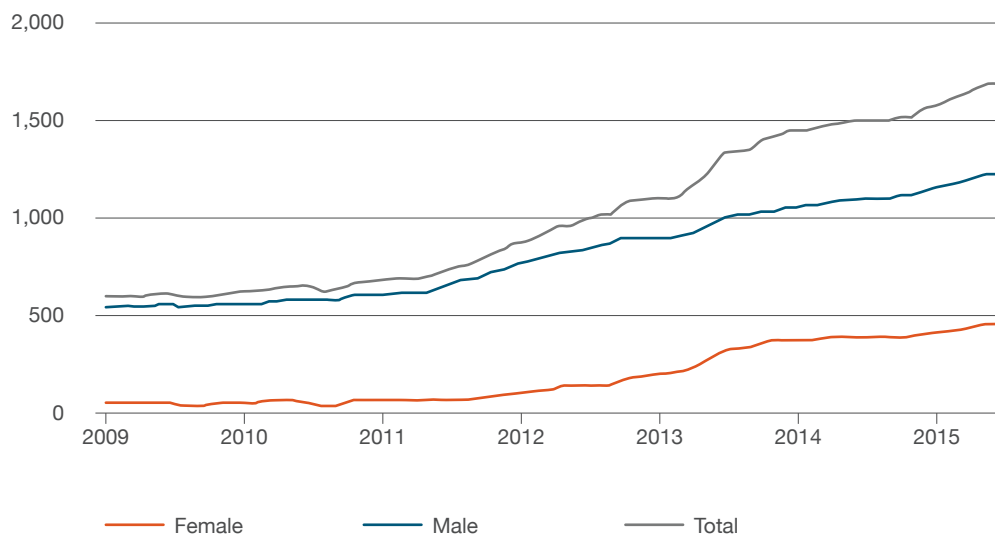
He linked this to the high benchmark created by the availability of stable, low-effort, white-collar public sector jobs. 71 percent of respondents preferred a government over a private sector job even at the same salary. 61 percent of Saudi employers 'definitely' or 'to some extent' identified government as their main competitor in recruitment.

The presentation closed with a short discussion of the limited absorptive capacity of local private sectors for national labour, indicating that in Saudi Arabia for example, according to social insurance data, less than 400,000 foreigner-held jobs paid more than 3,000 Saudi Riyals (around 800 USD), which is often considered the bare minimum for high school educated Saudis to accept a job. This led to a broader discussion of how the distributional systems of the GCC could be re-engineered to both guarantee acceptable incomes for nationals while also incentivising them to take relatively low-paid government jobs. The substitution of a general citizen cash grant for the current public sector employment guarantee was highlighted as one promising option.

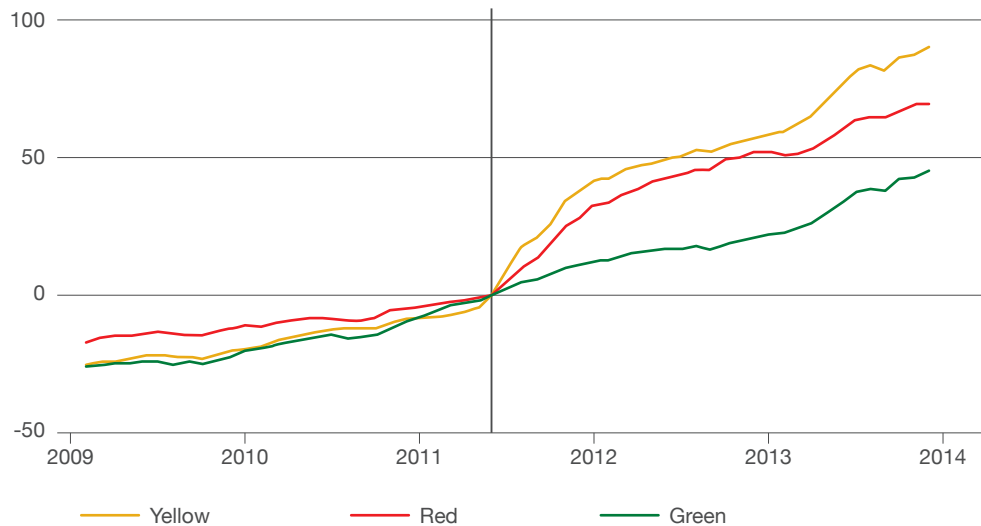
The day's final presentation was given by Professor Jennifer Peck of Swarthmore College, who discussed the impact of hiring quotas on employment and wages, providing evidence from Saudi Arabia. Drawing on joint work with Conrad Miller of the University of

Berkeley, Professor Peck provided a detailed econometric analysis of how the *Nitaqat* quota system in Saudi Arabia has affected employment levels and the composition of the Saudi labour force in different sectors and types of companies. The analysis of *Nitaqat* is critical as it is by far the most ambitious and systematic quota scheme implemented in the GCC to date. While it is closely watched by authorities in other GCC countries, hard evidence on its impact to date is limited. While also increasing firm exits in the short run, *Nitaqat* appears to have strongly contributed to growing Saudi employment levels in the private sector (Figure 5).

Figure 5: Monthly Total Private Sector Saudi Employees



The relative impact of *Nitaqat* has been stronger for firms in ‘yellow’ and ‘red’ bands whose Saudisation levels lie below the officially required thresholds, indicating a direct impact of the quota system (Figure 6).

Figure 6: Large Discontinuity in Saudi Employment Growth at Yellow and Red Firms

While the aggregate impact on employment is hard to deny, it is difficult to identify to which extent *Nitaqat* employment is genuine and to which extent firms simply pay minimal salaries to inactive Saudis in order to fulfil their quotas. Workshop participants discussed several ideas of how to detect evasion and phantom employment in the available data, pointing in particular to the high incidence of ‘first time’ job hires by red firms, some of whom could not be genuine labour market participants. The particularly high addition of female Saudi employees by yellow and red firms could also reflect a degree of phantom employment. Finally, the significant drop in average education levels of Saudi employees and the increase in low-skilled jobs since the onset of *Nitaqat* are arguably signs that inactive Saudis with limited qualifications are employed for quota purposes.

Professor Peck outlined her ideas for future work to gauge *Nitaqat*’s impact on the quality of employment – research plans that again are only possible because Saudi authorities have been willing to share administrative panel data with researchers. Like the research undertaken by Yaw Nyarko and Suresh Naidu in the UAE, this reflects a broader trend of collaboration between governments and researchers that needs to be further encouraged.

The workshop ended with a discussion on future opportunities to exploit administrative data for research purposes and a spirited exchange about the willingness of authorities in other GCC countries to provide data. The importance of pooling and standardising data across the region was underlined. On the policy front, participants agreed that price and mobility gaps between nationals and foreign workers are increasingly understood as key roadblocks to ‘Gulfisation’ of labour markets – but also that there are continuing research needs on how to overcome these gaps while creating minimal distortions. A better understanding of overseas recruitment and ‘soft’ factors like family background and social mobility expectations that keep nationals out of private labour markets were also identified as critical items on the future research agenda – and for future collaboration among workshop participants from both the academic and the policy worlds.



Kuwait Programme
Middle East Centre
London School of Economics and Political Science
Houghton Street, London WC2A 2AE

@LSEmiddleeast | @LSEKuwait