

The GCC in 2020

The Gulf and its People

A report from the Economist Intelligence Unit
Sponsored by the Qatar Financial Centre Authority





About this research

The GCC in 2020: Outlook for the Gulf and the global economy is a white paper written by the Economist Intelligence Unit and sponsored by the Qatar Financial Centre (QFC) Authority. The findings and views expressed in this briefing paper do not necessarily reflect the views of the QFC Authority, which has sponsored this publication in the interest of promoting informed debate. The Economist Intelligence Unit bears sole responsibility for the content of the report. The author was Jane Kinninmont and the editor was Aviva Freudmann.

The findings are based on two main strands of research:

- A programme of in-depth analysis, conducted by the Economist Intelligence Unit, which drew on its own long-term forecasts and projections for the six GCC economies, along with other published sources of information.
- A series of interviews in which economists, academics and leading experts in the development of the GCC were invited to give their views. In some cases, interviewees have chosen to remain anonymous.

Our sincere thanks go to all the interviewees for sharing their insight on this topic.

September 2009



Executive summary

The profound demographic and social changes that have transformed the six-nation Gulf Cooperation Council (GCC) region (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) are set to continue over the next decade, raising significant questions related to labour and immigration policies, the role of women, and the adequacy of infrastructure and public services.

This report is the second in a series that examines the likely themes in the development of the GCC economies to 2020. The first report predicted that the GCC will grow in importance as an economic and trading hub, making it an increasingly important trading partner as well as investor in Asia and Africa. This second report takes a closer look at the population mix of the GCC and concludes that demographic trends, while presenting some major challenges, will support the region's increasingly pivotal role in the global economy. Future reports will consider the prospects for diversification into non-hydrocarbons industries, as well as food, water and power security in the region.

Key findings of the second phase of our research on the GCC and its people are highlighted below.

- The GCC has one of the fastest-growing populations in the world. By 2020 this population is forecast to increase by one-third, to 53m people. The vast majority will be under 25 years of age. The rapid growth and the relative youth of the population present serious challenges as well as major opportunities.
- The robust population growth, together with the region's affluence and its abundant natural resources, point to continued strong market demand, which in turn helps to make the GCC countries attractive prospects for foreign investors. At the same time, the region's long-term economic growth will depend critically on the success of efforts to educate and employ the rapidly expanding young population.
- Rapid population growth will remain concentrated in cities. This will put pressure on public services, infrastructure and housing in urban centres. It will also create a large pool of labour that may be difficult to absorb into the private sector, owing to mismatches not only of skills, but also of expectations of wages and working conditions. Ongoing education reforms will help, but will not solve these mismatches within the next ten years.



- The population will remain very young over the forecast period, in contrast to the ageing populations of the US and western Europe. The proportion of the population under 15 years of age will drop from 29% in 2008 to 24% in 2020, but will remain substantial. The large size of the young population, which has increasing access to education, the international media and new technologies, suggests that social attitudes and norms may change fast.
- The recent trend of more women entering the labour force is likely to continue, buttressed by increased investment in educating women for jobs, a change in social attitudes and the creation of role models for a new generation of working women. Businesses will face pressure to adapt to this trend, but will not necessarily use the same models seen in the West.
- Based on a simple extrapolation from the trends of the past five years, nationals could become a minority of the GCC population by 2021. Under the Economist Intelligence Unit's core scenario, however, nationals are likely to remain in the majority, as net immigration slows compared to its rate during the recent oil boom. Despite the slowdown, net immigration will remain strongly positive, as the private sector remains heavily dependent on expatriate labour. The gaps of cost and of skills between nationals and expatriates will gradually narrow, but will not close within the next decade.
- The rising expatriate population will contribute to economic growth. An expanding pool of skilled professionals from overseas will provide a diverse talent pool, which should help to stimulate further economic diversification.
- At the same time, GCC countries will face questions about how best to manage immigration, as they face competing pressures from groups that want to protect jobs for nationals and those that want more rights for immigrants. The treatment of foreign workers will become an increasingly important aspect of foreign relations with source countries. The GCC countries are unlikely to pursue a common policy on managing immigration, given the significant differences between the countries in terms of population size and natural resource endowments.



Population trends

Rapid growth is likely to continue

Demographic trends tend to change slowly and population totals are often seen as being among the easier economic indicators to predict. However, population growth in the GCC is heavily driven by immigration trends, with expatriates making up 42% of the region's population in 2009, according to Economist Intelligence Unit estimates. This makes population totals less predictable. We have therefore prepared three different scenarios based on different outlooks for the expatriate workforce.

Core scenario—Slight slowdown in population growth

Under the Economist Intelligence Unit's core scenario for GCC demographics, the total population of the six GCC states is expected to rise by an average rate of 2.6% per year between 2009 and 2020, with the rate of growth gradually declining further out into the 11-year forecast period. This represents a marked slowdown on the rate of growth in the decade to 2008, which stood at 3.4% per year. During the past five years in particular, the GCC's population grew by an average of 4% per year, driven largely by a substantial influx of migrant labour attracted by the job opportunities offered by the economic boom. This goes some way to explaining the inflationary pressure that has been experienced in recent years, with surging rents and traffic congestion seen across the GCC during this period.

In 2009-20 economic growth is forecast to remain strong by global standards, but not as strong as in the recent boom. As a result, the influx of expatriates is expected to slow down. Indeed, the expatriate population is projected to contract temporarily in 2009, as employment opportunities are reduced (particularly in the labour-intensive construction sector). At the same time the natural rate of population growth will gradually slow, in line with the trend in recent decades in the GCC and in most other countries.

Even with these assumptions, however, the GCC's population would grow from an estimated 39.6m in 2008 to 53.4m in 2020—a 33% increase over 12 years. This level of population growth will require considerable investment in infrastructure and services, including power, water, transport, housing, healthcare and education. This will put pressure on government budgets. Much of the GCC's current spending—which accounts for the vast majority of government spending—goes on wages, subsidies, healthcare and education. Demand for all these services will grow in line with population growth.



The GCC's population is already largely urbanised, and this will remain the case, but will add to the pressure on urban infrastructure and housing. Where space permits, some governments will attempt ease the pressure on existing cities by developing new ones, such as the "economic cities" in Saudi Arabia. Land reclamation is also likely to continue.

GCC Population: core scenario by country

	2000	2005	2010	2015	2020
Total (m)	29.63	35.08	41.45	47.52	53.41
Average annual change over previous five years	2.80	3.44	3.40	2.80	2.40
Saudi Arabia	20.47	23.12	26.18	29.59	33.34
Kuwait	2.23	2.99	3.58	4.40	5.20
UAE	3.24	4.61	5.57	6.44	7.06
Bahrain	0.64	0.89	1.18	1.45	1.66
Oman	2.40	2.51	3.11	3.32	3.53
Qatar	0.64	0.97	1.82	2.33	2.79

Sources: IMF; individual country statistical agencies (historical data); Economist Intelligence Unit long-term forecasts.

(Our population growth estimates are based on separate projections for each GCC state and population growth is projected to be higher in some of the smaller countries.)

Alternative scenario 1: Continued boom

If population growth rates were to continue at the pace seen in 2004-08, the GCC's population would rise by a total of 58% between 2008 and 2020, reaching 62.4m people by the end of the period. Under this scenario, the national population grows by an annual average rate of 2.6%, while the expatriate population expands by 5.5% per year. By 2020, nationals would make up one-half of the population under this scenario—becoming a minority by 2021 if the same trends continued. However, this scenario is less likely than the core scenario, as economic growth is expected to be lower than it was during the recent boom. There are also questions about the ability of the GCC countries to cope with such a high rate of population growth for an extended period. Investment in power and water, housing, transport, health and education would have to rise sharply.

Alternative scenario 2: Passing the peak

Under this scenario, the expatriate population contracts from 2014 as the GCC construction sector slows down. This assumes that after a dip in 2009 associated with falling property prices and tight international financial conditions, construction picks up from 2010, supported by government-led investment in infrastructure and industrial projects throughout the region. However, as these projects begin to come on stream, demand for construction workers drops. Typically, an expatriate worker's GCC residency depends on holding a job; those out of work are likely to leave.

There are therefore two dips in the expatriate population under this scenario: one in 2009, as the global recession leads to local job cuts; and a gentler, but longer-term, decline from 2015 onwards as many construction projects are completed. Assuming that nearly half a million expatriates lose their jobs in the GCC in 2009 as a whole, and that the expatriate population declines by 0.5% (or an



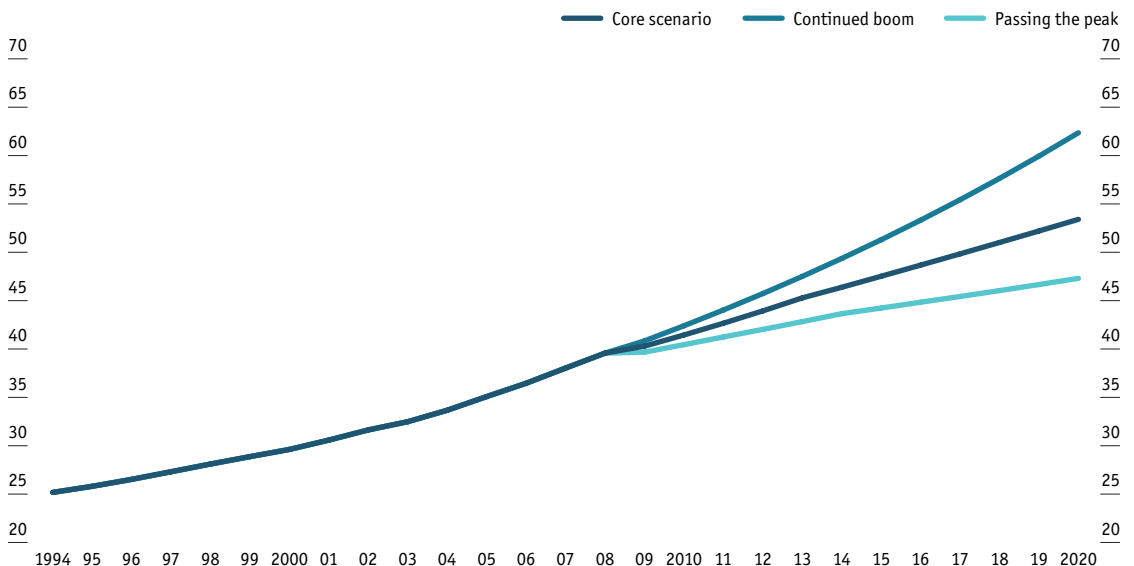
average of some 83,000 people) per year in 2015–20, the GCC’s population would be 47.3m by 2020. This population total would still be 19.2% higher than the 2008 figure, owing to a still-robust rate of growth among the national population. By 2020, under this scenario, nationals would comprise about two-thirds of the population.

Yet this scenario seems unlikely unless there is a dramatic turnaround in government policy. While demand for construction workers may fall once the raft of planned infrastructure projects are completed, there is likely to be persistent demand for low-cost labour to staff the growing tourism sector and to provide personal and household services that are only economical when labour costs are very low. For instance, housemaids are widely employed in the GCC, unlike in many higher-income countries. Singapore’s experience is instructive in this regard. Since the 1980s it has sought to reduce its dependence on foreign workers, but remains dependent on a revolving pool of migrant labour in sectors where nationals are unwilling to work and/or are too expensive to be the employees of choice.¹

The importance of migration flows in determining GCC population growth generates some uncertainty about the country’s demographic future. Government planners typically use several different population growth scenarios for long-term development strategies.

The likelihood of each scenario taking place will depend critically on government policies. For example, each government’s approach to immigration versus nationalisation of the workforce will play a crucial role. Moreover, since GCC governments will remain key drivers of economic growth, government spending priorities will also influence the composition of the economy and the types of jobs on offer. These will differ between GCC states. For instance, governments of GCC states with small populations are increasingly trying to move away from labour-intensive manufacturing and

GCC population scenarios
(Population, m)



Sources: IMF; GCC central banks; Economist Intelligence Unit estimates and forecasts.

¹ Singaporean residents (comprising citizens and permanent residents) accounted for around 75% of the country’s population in 2008, down from nearly 82% in 2003. The annual rate of growth in the number of residents has averaged just 1.6% over the past five years. By contrast, total population growth has accelerated rapidly, rising from just 1.3% in 2004 to 4.3% in 2007 and 5.5% in 2008.



construction and towards more knowledge-based industries, whereas those with larger populations have a greater interest in developing the manufacturing sector further.

Commenting on our scenarios, Steffen Hertog, Kuwait Professor at the Chaire Moyen Orient at the Institute of Political Studies (Sciences-Politique, known as Sciences-Po) in Paris, said, "We need to understand that population growth in the short run is essentially a political decision." In the longer run, Professor Hertog added, oil price developments will determine state spending policies, which in turn will determine the growth of the contracting sector, the most labour-intensive sector in the GCC. There is therefore considerable uncertainty. "My best guess is that population growth will slow but not stop, as spending will continue on reasonably high levels," said Professor Hertog.

According to Jim Krane, a journalist specialising in the Gulf and author of a recent book on Dubai,² stalled megaprojects (delayed owing to the global recession) present another wildcard. In Dubai, he believes that the major infrastructure projects currently under way should taper off by the end of 2010, but if other planned property and infrastructure projects are revived, population growth could return to the high single digits seen during the recent boom. Similar long-term mega-projects in other countries, notably the planned new "economic cities" in Saudi Arabia, could also contribute to another spike in population growth if they are revived towards the middle or end of the forecast period.

² Jim Krane, *Dubai: The Story of the World's Fastest City*, Atlantic Books, UK, 2009.

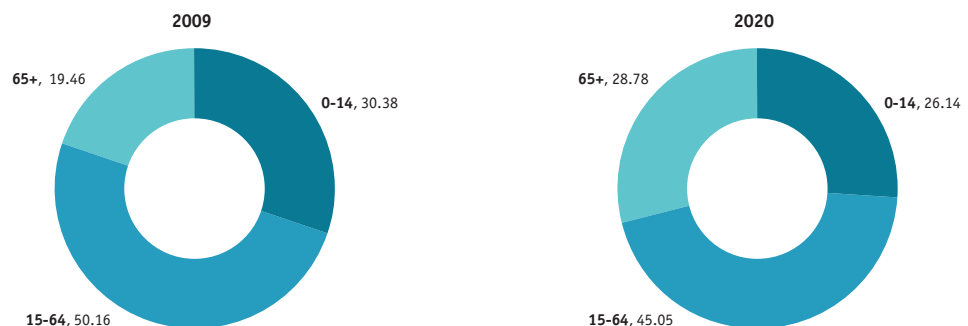


The GCC will remain a youthful region

Most of the GCC's population is under 25, and a bulge in the population of under-15s suggests that this will still be the case by 2020. Africa is the only region likely to have a younger demographic profile than the Middle East by 2020. The US and Europe will increasingly seek to attract younger migrants from overseas to help reduce their old/young dependency ratio, and, in particular, to help fund pensions. These countries are also likely to make increasing efforts to attract foreign students to their universities as their own populations age.

While the average age of GCC residents will remain low compared to other regions, that age will gradually rise as the birth rate slowly declines. The fertility rate has already been declining slowly in recent years, in line with the trend seen in most countries as they develop economically. This tends to be correlated with rising education levels (especially for women) and greater awareness of family planning. A study of Saudi households in 2006 by TNS, global market research specialists, found that the proportion of parents who were graduates in families with three members was substantially higher than in large households with six or more members. Anecdotally, some in the region put the falling birth rate down to the rising cost of living and the desire to provide better for a smaller number of children. The trend towards lower birth rates will probably continue, especially as more women enter the workforce. The age of marriage is rising in many Arab countries, although data for the Gulf

Age breakdown
(% of population)



Source: Economist Intelligence Unit.



are scarce. This trend is likely to continue as both male and female GCC nationals spend longer in education. The cost of forming a new household is also a factor, with mortgage lending still low and with growth in the affordable housing sector lagging behind the high-end sector.

The Gulf experienced a long baby boom between the 1970s and the 1990s, as high birth rates declined only gradually. That slight decline was more than offset by a sharp drop in the rate of infant mortality, owing to better healthcare. As a result, 29% of the GCC's population was under 15 years of age in 2008, although this figure has been falling gradually, compared with 31.6% in 2004 and 35% in 1999. By 2020, 15-year-olds are projected to account for just under one-quarter of the population.

Meanwhile, the continued influx of working-age expatriates will add to the bulge in the working-age population, which is normally defined as the 15-65 age group. However, many nationals do not start work until around age 21, when they have completed their tertiary education. The slowdown in the birth rate in recent decades also suggests that the number of pensioners will rise faster than the number of under-15s, causing the old/young dependency ratio to increase gradually. The relative youth of the population will limit the healthcare burden on public spending, but young GCC nationals will also suffer from what are sometimes termed diseases of affluence, such as diabetes or smoking-related diseases.

"Satisfying the future healthcare needs of the region over the next 10-20 years is set to challenge all GCC governments, although governments in the region have already made significant preparations to meet the challenge," says Tarek Rabah, president of AstraZeneca Gulf, an Anglo-Swedish pharmaceuticals firm, who notes that some 75% of healthcare spending in the GCC is currently funded by the public sector. "Obesity is a growing concern and cardiovascular diseases, although not common today, are expected to account for a significantly larger proportion of total healthcare costs in the future." Mr Rabah predicts that spending on healthcare as a proportion of GDP will rise from current levels of less than 5%, but will not reach the level spent in Europe (typically around 8%) or the US (15%) by 2020.

The large size of the young population, and its growing access to education, the international media and new technologies, suggests that social attitudes and norms will change fast. Research into youth attitudes—whether sociological or market research—is still fairly limited. The emerging generation of young people in the GCC will be highly educated, and will thus have high expectations of high-status future employment. They will be increasingly technologically literate. Many will be affluent and well-travelled, and many will be educated overseas, giving them a high awareness of different lifestyles and cultures. Even those who are not educated abroad will be more likely to speak foreign languages and to use the Internet to communicate with young people from other countries and cultures.

In terms of consumer tastes, they are likely to retain an appetite for cutting-edge technology and striking design and fashion, like young people elsewhere. As at present, they are likely to favour a mix of global brands and local or Islamic brands. Scepticism in some quarters about aspects of Western culture and politics will not stop young people in the GCC from being avid consumers of global youth culture. Yet surveys suggest that although young people in the Gulf are increasingly globally connected, they are also concerned about preserving national and, in many cases, Islamic identities. As well as consuming international media and culture, young people in the GCC will increasingly



develop their own creative industries with a local flavour for a global market (such as Arabic heavy metal or Islamic i-phone applications)—given adequate support and creative freedom for young entrepreneurs.

A 2008 survey by Asda’a Burson-Marsteller, a Middle East public relations consultancy, found that of the 1,500 young Arabs and 1,500 young Westerners interviewed, the Arabs were more likely to express optimism about their own and their country’s future. This could partly be a reflection of growing up during an economic boom; other surveys have found a high degree of optimism about the future in China in recent years. The young generation in the GCC may be increasingly confident about their education, careers and society—although high expectations may also be challenged if growth slows over the next decade.

Young entrepreneurs?

The GCC’s youthful demographic profile—and correspondingly youthful consumer tastes—suggests growing employment and entrepreneurship opportunities for locals. With government support, more opportunities may emerge for young entrepreneurs in particular to access credit and to obtain the mentoring they need to develop their ideas and produce viable business plans. This could have a significant impact on economic diversification and on employment in a region that is still heavily dependent on the oil and gas sector and on government spending. The region’s banking sector would have to change its practices drastically to become a significant source of credit to the small and medium-sized enterprise (SME) sector, although access to credit may improve as individual credit ratings and risk assessment systems are developed further. There is potential for venture capital to grow—at present it barely exists in the GCC—but industry specialists say it is likely to require government support in its early stages.

Young entrepreneurs are receiving some encouragement from government-backed business incubators and expanding business schools, but it remains difficult for them to obtain credit and training. Moreover, the GCC economy does not yet offer a level playing field for new businesses to enter, given the strength of public-sector companies and traditional merchant families, which typically benefit from lucrative government contracts, and from restrictive agency and franchise laws.

Yasser Hatami, managing director of GulfTalent.com, an online recruitment portal, argues that the problem is not so much a lack of funding as a lack of entrepreneurs. “Those of the right calibre are still much happier to join a blue-chip company and take a salary,” he says. Mr Krane, who worked extensively with young entrepreneurs in Dubai, suggests that one of the explanations is cultural: “In the Gulf, bankruptcy and business failure is viewed as a humiliation among a local community that is inordinately used to seeing success—even when that success is due to a monopoly or government favour. Further hurting matters is the easy availability of cushy government jobs.” Mr Hatami also emphasised that private-sector employers in general, not just start-up enterprises, find it hard to compete with the quality of life offered in government jobs.



Education and employment

The GCC's demographic trends point to a growing labour force. Expatriate workers are likely to continue to make up the majority of the private-sector workforce over the 11-year forecast period. A massive expansion of education spending is under way throughout the GCC as governments try to address skills shortages, lay the groundwork for economic diversification and improve employment opportunities for nationals. Such efforts should start to bear fruit over the next 10-11 years. However, the GCC economies are likely to remain dependent on expatriate labour. Skills shortages are only part of the reason. Employers also tend to prefer expatriates because of their lower wage costs, higher productivity and generally better work ethic, as well as the fact that they are easier to fire. A few tentative policy measures are under way with the aim of gradually narrowing the gap in costs and employment rights, but this gap is likely to remain wide even by 2020.

Spending on education is rising across the GCC and there will be an increasing focus on the quality of education. Education reforms are likely to go deeper and wider than has been the case in recent years. More attention will be paid to improving standards in primary and secondary schools, in contrast to the recent focus on higher education. Demand for private education is likely to rise, and ensuring the quality of the various educational institutions will pose a challenge.

Higher education institutions are likely to offer an increasing range of scientific, technical and business courses, as the traditional focus on humanities and religious studies is now seen as having failed to prepare GCC nationals for the workplace. There is also likely to be an increasing focus on vocational training and on-the-job training. Foreign companies that contribute to training nationals tend to be welcomed by GCC governments. Both public and private companies are likely to be encouraged to sponsor formal training courses for young employees. There may be more efforts to tailor the availability of degrees and government-funded scholarships to the requirements of employers. One concern related to such efforts is that these courses may not offer students enough flexibility for the future. The provision of mentoring and work experience programmes is currently limited, but may well expand.

Yet education reforms are not a panacea: such efforts in the past have largely failed to solve the problem of high unemployment among nationals. Some GCC governments have been discussing the need to boost the local skills base with education initiatives—and to provide market-relevant



vocational training—since the 1970s. Many more GCC nationals go to university today than did then. The GCC's spending on education as a percentage of GDP is among the highest in the world. Yet since the 1970s, dependence on expatriate labour has increased alongside the expansion of higher education for nationals. This may reflect both the quality of education offered and a mismatch of expectations. Higher education tends to increase salary expectations. However, the types of jobs that have been created as the economy has expanded—largely in construction or in services sectors serving affluent nationals—tend to be low-wage. The result is a mismatch between local demand and supply for labour.

Professor Hertog argues that rather than focusing on education reform, “The more important challenge is labour market reform, which can only succeed if foreign labour's price is pushed up through either taxation or quantitative restrictions. Unless this happens, the majority of nationals will still not have strong enough incentives to seek quality education and compete on the private job market.” Much will also depend on the extent to which the government sector continues to be perceived as a safe haven or offering a better quality of life.

All told, it is likely that large numbers of nationals will still be employed in the public sector by 2020. This suggests there is a persistent likelihood of overstuffed bureaucracies hindering the efficiency of policy implementation, including education reforms themselves. However, oil price trends will be a key factor in determining the extent to which governments can continue to expand these bureaucracies.

The large-scale expansion of higher education is likely to have a profound social impact over the next decade. Foreign private providers are becoming increasingly involved in providing education in the GCC. One implication of this is that English-language skills will be required for more of the degree programmes offered locally. English-language teaching is likely to be extended further through secondary and pre-secondary schools. This may create challenges in ensuring that Arabic literacy is also kept to a high standard. It is also possible that there will be a backlash in some quarters against the increasing prevalence of English, as language is a sensitive and symbolic issue.

A second implication of the rising foreign role in Gulf education is that more higher education institutions will be co-educational. According to Dr Neil Partrick of the Partrick Middle East consultancy, who has taught at the American University of Sharjah, the expansion of co-educational institutions will improve the range of options available to women. The educational segregation traditionally practiced has typically meant unequal access.

Overall, however, Dr Partrick says, “For the employment of nationals in the private sector to significantly expand, there need to be far more radical steps in education reform at the earliest stages... The state needs to promote different social attitudes and different socio-economic expectations from childhood onwards.”

Women in the workforce

The recent and ongoing expansion of education for women, and their generally high levels of educational attainment, suggest that female employment will continue to rise in the medium to long term. The creation of international universities in the Gulf has given more young women access to tertiary education, particularly in cases where families are reluctant to send their daughters to



universities abroad. In many GCC universities, women now outnumber men significantly. In turn, more high-quality female graduates are joining the job market. In general, female employment is likely to become more socially acceptable, especially as new role models emerge, although there will be some opposition from traditionalists. A 2008 survey of Arab and Western youth by Asda'a Burson-Marsteller found that 73% of Arab women and 58% of Arab men believe that women should have equal opportunities for professional advancement.

Governments are likely to remain broadly supportive of an expansion of women's employment, which they associate with modernisation and which ultimately means that more citizens are contributing to the formal economy. They could do more, for instance by providing pre-school education or childcare. However, there is a risk that if a sharp economic slowdown were to intensify competition for jobs, attitudes towards women's employment would change.

There is considerable variation in the rate of women's employment between the GCC countries—and between regions within countries—reflecting different cultural norms. Traditionally, the Gulf public sector employs a higher proportion of women than the private sector. This is partly because of the hours worked; public-sector employees can typically leave in the early afternoon, allowing them to collect children from school. Also, the government sector tends to offer better maternity benefits. If private-sector employment growth outstrips the expansion of jobs in the public sector, women's employment could potentially suffer. Alternatively, if large numbers of women entering the workforce are not absorbed by the private sector, this may place pressure on governments to absorb them into the public sector (depending on the government's ability to afford this, which will vary between the states).

Formal "positive discrimination" or quotas for women are highly unlikely in the private sector, but may operate formally or informally in the public sector (as is the case, for instance, in Jordan). Pat Luby, managing director of Manpower Middle East, a recruitment agency, notes that government policies on nationalising the workforce and reducing dependency on foreign workers are also likely to encourage the employment of female nationals.

The range of jobs held by women is likely to expand gradually. Traditionally, many women have focused on jobs in medicine and education that reflect traditional conceptions of gender roles, but there are also successful women in finance, journalism and other professions. Over the next decade, it is likely that more GCC women will enter politics; most GCC states have now had at least one female minister and two have female MPs, while some royal women have taken on active public roles. Mr Luby says, "Anecdotally, we have seen that many women are now choosing traditionally 'male' subjects such as engineering, IT and electronics," at universities and colleges. In addition, data show that, in at least some GCC countries, women now outnumber men at universities.

Some barriers will persist for Gulf women. "Different, or non-existent, career expectations from a young age, segregated higher education, and family and wider societal assumptions all impact on job opportunities and aspirations," says Dr Partrick. In a 2008 survey by Bayt.com and YouGovSiraj, 50% of employed female respondents from the GCC thought they had lower chances of promotion than their male counterparts, compared with 38% of other Arabs and 33% of Western women working in the region. However, 59% said they were more ambitious than their male colleagues, compared with 55% of other Arabs and 32% of Westerners.



The combination of ambition with an expectation of disadvantage is likely to translate into a strong work ethic—as is anecdotally noted by many employers who recruit Gulf women. For Amer Zureikat, regional manager of Bayt.com, a Lebanon-based employment website, a combination of ambition, work ethic and “a growing prevalence of feelings of gender equality in the Middle East workplace” imply that GCC women’s employment will continue to rise until 2020, “without a doubt”.

Private-sector employers may need to rethink the way they structure jobs, offering part-time work, job-sharing, flexible working hours or home-working options, given that traditional gender roles are still fairly entrenched in the GCC and women are usually responsible for childcare. In the US and UK, the structure of jobs has been slow to change following the large-scale expansion of women’s employment in the last century. It is possible that the high value placed on family life in the GCC will encourage employers to move more quickly. So far, however, few employers seem to take childcare needs into account. Bayt’s survey found that only 14% of respondents in the GCC said their employers offered day care facilities. Just one in four had approached their company about working from home or working flexible hours, and of these, only one in five received a positive response. As Mr Zureikat comments: “The availability and length of the maternity leave and childcare options are a primary concern for working mothers. This is definitely an issue to be looked into more diligently by employers.” However, he also notes that this is a global concern; maternity provisions in the US are also suboptimal, for example. For Mr Zureikat, GCC women will be able to reach senior positions in a wide range of economic sectors by 2020, and will be most attracted to sectors that allow them a work-life balance.

Access to business credit is still more difficult for women, who typically have less collateral and credit history. This is a barrier to growth of female-headed enterprises. Perhaps surprisingly for a region perceived as very affluent (and relatively highly banked), microfinance has been growing in parts of the GCC in recent years to plug the gap in credit to small and micro enterprises. This could well expand further with government support.

Expatriate workers

Rapid immigration will help to provide the skills and manpower required for economic growth, but will also lead to some political and social strains.

GCC governments face the challenge of balancing public concerns over unemployment and the cultural impact of rapid immigration, on the one hand, with businesses’ desire to maintain the inflow of low-cost foreign labour, as well as high-end expertise, on the other. Accounts of worker abuse and non-payment of salaries are increasingly being publicised by local human rights groups as well as foreign media. This has already prompted some response from GCC governments, in terms of new legislation that offers some limited improvements to workers’ rights. However, this response will remain limited owing to resistance from a business community accustomed to low-cost labour with few rights. For their part, governments of source countries will also press for better working conditions for their expatriates, yet ultimately their main interest will remain the continued flow of remittances and they will not want to take action that might jeopardise their nationals’ employment.

There will be a few tentative steps in parts of the GCC to make employing expatriates more flexible.



The expatriate/national mix (Population, m)



Source: Economist Intelligence Unit.

Some countries are already moving to weaken or abolish the so-called sponsorship system. Dr Neha Vora, assistant professor of anthropology at Texas A&M University in the US and author of a forthcoming book on South Asian communities in the Gulf, says long-lasting changes in migration policy may be on the horizon, “but it has yet to be seen if this will change the day to day lives of many migrants, because the social and cultural systems of the Gulf are still very hierarchical.”

It is likely that governments will take some further steps to address the gaps in pay rates and in employment rights between expatriates and nationals, although these will face resistance from local businesses. These policy efforts will show some results towards the end of the forecast period, but changing the structure of the labour force will be a longer-term effort. In 2020 it appears likely that the private sector will remain largely dependent on expatriates.

As a result, at least some of the GCC states may still enforce quotas for the employment of nationals, despite complaints from businesses about such policies. It may be easier to enforce policies that are disliked but already in place (such as quotas) than to institute new policies (such as higher taxes for the employment of foreign workers, or a minimum wage for expatriates) that would help to address the cost gap. Asked if nationalisation quotas would still be in place by 2020, Professor Hertog of Sciences-Po commented: “If they can shift to a price-based regulation of foreign labour they won’t need [quotas] anymore, but the business resistance could prove too strong. It’s a question of leadership and snubbing the contracting lobby.”

Each GCC country is likely to have a different approach depending on the size of the national population, the proportion of expatriates, the sectoral structure of the economy, and the extent to which it is able to continue absorbing nationals into the public-sector workforce. It will be difficult to develop any common GCC labour policy, and expatriate workers are unlikely to have free movement within the GCC.

Increasing differentiation between expatriates in terms of skills

There is likely to be increasing differentiation between expatriates in terms of skills. Policymakers currently talk of “skilled” and “unskilled”, but these terms are vague and sometimes misleading. Some are considering adopting a points-based system to distinguish more precisely between levels and types of skills.



As the global economy recovers, the competition for talent seen in 2007-08 is likely to resume. Better education should help to increase the proportion of nationals working in high-earning, skilled occupations, for instance in financial services (where nationalisation is already fairly high) and in managerial positions in manufacturing and trading companies, among others. At the same time the small size of the population in most GCC states will limit the pool of available talent despite educational improvements. Businesses will continue to compete for skilled professionals from overseas, and will thus need to improve their offerings to both foreigners and nationals—especially if expatriate labour gradually becomes more mobile. Manpower MENA argues that businesses should use a mix of “old” (personnel and payroll) and “new” human resources (HR) policies, such as those which offer an “employer value proposition” through incentives and long-term career opportunities.

At the other end of the spectrum, change for domestic workers is likely to lag behind as they are typically not covered by labour laws. However, there will be some international pressure, notably from source countries (primarily the Philippines) and from the International Labour Organisation, to extend legal protection to these workers. If domestic workers are not dependent on a sponsor—for example, if they are free to change jobs, or if they are sponsored by an agency—live-in maids could potentially be replaced by workers who serve a number of clients.³ In a more liberalised market, rising wages for servants would also put pressure on employers to provide childcare.

Citizenship will remain tightly restricted

The GCC has conducted a long-running internal debate about the social impact of immigration, but in practice the integration of expatriates into local societies tends to be limited. Expatriates often do not learn Arabic, and typically live in separate areas to locals. Some nationals are pressing for more formal “zoning” to further segregate the single men who make up the bulk of the expatriate workforce from residential areas for local families. This appears to reflect a fear of crime—not borne out by actual crime statistics but hyped up by local media—and of possible cultural influence.

Some groups also call for a cap on the duration of expatriate residency (probably at around six years), to be introduced throughout the GCC. This is comparable to Singapore’s policy of having a revolving population of foreign workers, officially to address temporary labour shortages—although in practice, shortages of labour for menial jobs, domestic servants and construction work have proven long-standing. At the same time, however, over the past two to three decades some GCC countries have taken steps to make citizenship slightly more attainable. Blood lines remain the dominant factor, but in some cases citizenship can be obtained through long-term residence (sometimes comprising more than one generation). The clearly delineated lines between nationals and non-nationals are less than 100 years old, with citizenship laws and passport requirements having been introduced in the 1920s and 1930s. Yet despite some recent easing, citizenship remains very hard to obtain.

Will the expatriate population remain largely transient? Some recent easing of restrictions on property ownership—varying by country and region—could encourage wealthy to middle-class migrants to put down roots. The main source countries for expatriates have long-standing economic and cultural links with the Gulf, and there is already a long history of Asian merchants living in Gulf port cities. As more professional jobs are created in the services sector, in engineering, and in research

³In the UK, the number of live-in servants dropped sharply after world war one when more job opportunities were opened up for women, giving servants more options for higher-paid alternatives.



and development, the expatriate middle class is likely to expand and to press for more rights. They are likely to seek not only the low-tax lifestyle offered by the GCC, but also enhanced social status and an improved legal position.

This pressure could intensify in particular if new taxes are introduced. If oil revenue declines, GCC governments could face increased pressure to diversify their revenue streams, for instance by introducing taxes. It is possible that income or sales taxes could, at least initially, be levied only on expatriates—just as many subsidies are available only to nationals. However, tax-free income is one of the GCC's attractions to expatriate workers; if expatriates are taxed, they might require compensation in the way of other benefits, or at least an easing of other restrictions.

A change in source countries?

Over the long term, rising growth and better job opportunities in some of the traditional Asian source countries could reduce the supply of labour from these countries to the GCC. However, our interviewees generally felt that cheap, expatriate labour would still be in plentiful supply by 2020 given the high level of global inequality. Jean-Francois Seznec, a Gulf specialist at Georgetown University in the US, commented, "Unfortunately, even if India improves and stops sending so many labourers, there will be no shortage of other poor people. The sources may change to more Bangladeshis, more Filipinos, more Africans, etc." Another interviewee, an investment analyst who wished to remain anonymous, noted that "the region has survived large outflows of expat labour in the past It remains very attractive to Muslims, and Indonesia and parts of Africa offer potential alternative sources of labour." Jaimal Shergill, CEO for the Middle East and South Asia at United Bank Africa in Nigeria, thinks that GDP per head in existing Asian source countries will have to surpass US\$2,500 before recruiters shift substantially towards Sub-Saharan Africa.

Traditional source markets will continue to dominate, according to Zakir Hussein of India's Institute for Defence Studies and Analyses, a foreign relations think tank based in New Delhi. The reason is that the traditional source markets have an abundance of young workers, and even rapid economic growth will not be enough to absorb those workers in the source economies by 2020. "For instance, India has a labour force of over 400 million and every year it needs to generate 12 million jobs, which is not possible by any standard. So, sending labour abroad would be one of its major policies." Mr Hussein identified the Central Asian republics, Nepal, Vietnam and Cambodia as other potential source markets. Mr Hatami of Gulf Talent agreed that it would not be easy to switch source markets for skilled labour or for workers who require English-language skills: "One of the reasons that India has been such a successful source is its good education system. Countries like Vietnam do not have the same surplus of English-speaking graduates."

Some source countries will push for improved working conditions for their expatriates in the GCC, a trend that could be an increasingly important aspect of foreign relations. Moves by the Philippines government to seek to set minimum wages and basic working conditions for their nationals in the GCC were a groundbreaking attempt to set labour standards beyond the government's own territory.⁴ Few such efforts are expected in the short term, as source-country governments lose bargaining power in a period of high global unemployment.

⁴This was not, however, entirely unprecedented; indeed, as the British empire developed its protection relations with the Gulf states in the 19th century, one of the key issues at stake was Britain's desire to protect its nationals, including at that time Indian nationals, working in the Gulf.



In the medium to long term, however, source country governments are likely to continue to seek better working conditions for their expatriates. In particular, as India and Pakistan develop further economic and diplomatic links with the GCC, they may also push for better working conditions for expatriates as part of the evolving relationship. At a global level, the coming years are likely to see a trend of increased engagement between labour-source countries that have large and economically important non-resident populations, and their nationals overseas. India established a ministry for the diaspora, the Ministry of Overseas Indian Affairs, in 2006, having previously liberalised its investment laws to facilitate inward investment by Indian expatriates. It is now discussing legal amendments that would give non-resident Indians the right to vote, which would create further incentives for the government to protect their interests overseas.⁵ Bangladesh and the Philippines similarly have ministries charged with diaspora affairs, which offer support to nationals overseas while also encouraging them to contribute—both financially and in terms of their skills and experiences gained overseas—to the domestic economy. Within the Arab world, Morocco is now making some efforts to strengthen relations with its diaspora by setting up a council to represent Moroccan expatriates and develop networks overseas.

⁵ One of the states pushing for such a move is Kerala, which has around 2m expatriates working overseas, of which an estimated 90% work in the Arab states, mainly in the Gulf.



Conclusion

The rapidly expanding young population of the GCC states has great potential to support further economic growth. This generation will be increasingly well-educated and IT-literate, with a greater proportion of female workers, and should have the potential to help to diversify the GCC economies away from their traditional dependence on natural resources. However, the Gulf economies will remain heavily dependent on expatriate labour for the foreseeable future.

To some extent, this is a function of the small size of the indigenous populations in most of the GCC states. Even though the national skills base is being improved, countries will need to draw on the international talent pool if they are to build world-class professional services and knowledge-based industries.

However, GCC countries are also keen to reduce the extent to which they depend on foreign labour, and to improve employment opportunities for nationals. Efforts in this regard have been under way for around three decades in some Gulf countries—suggesting that the issue will not be fully resolved even by 2020.

Education reforms will remain a focus of government policy, with increasing attention paid to pre-secondary education and to English-language skills, without which nationals will not be able to take full advantage of the increasing number of foreign private universities and colleges in the Gulf. The expansion and improvement of education is likely to have profound social effects. In particular, the widening range of educational opportunities for women is likely to encourage more GCC women to work, taking up jobs in a greater range of sectors than in the past, although there will be heated debates about the extent to which this is culturally appropriate.

Nonetheless, education reforms alone will not be sufficient to make a major change to the structure of the GCC labour force, as skills shortages are not the only reason that private-sector employers generally prefer to recruit expatriates. Issues of cost, productivity, work ethic and the balance between worker and employer rights all contribute to this preference for expatriates. Some of these issues will be tackled by new government policies. But those policies are likely to be resisted by businesses, which tend to prefer the status quo in the labour market and which often enjoy a close relationship with policymakers. Governments will therefore face a difficult balancing act over the coming decade, and no single GCC labour policy is likely to be forthcoming.

While every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in this white paper.

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