

The Gulf Cooperation Council States (GCC)¹

Modern International Labor Migration Patterns

While much of modern international migration is brought about by political factors due to both civil and international wars, the vast extent of international migration following World War II is comprised of labor migration, legal and illegal alike. Although the current global recession led many developed countries, particularly those of the EU, to tighten control over the inflow of migrant workers, in effect, it did not change the trend of the steady increase of international labor migration. By 2010, the number of international migrants worldwide was estimated at 214 million - representing 3.1% of the global population - compared to 178 million in 2000 (UN, International Migration Stock). Their remittances amounted to \$440 billion in 2010 compared to \$132 billion in 2000 (IOM, 2012; World Bank, 2011:xi). These figures point to the fact that workers' remittances not only substantially surpass official global development aid but surpass the GDP of many countries as well. According to World Bank estimates, workers' remittances will increase to \$536 billion in 2013 (ES-CWA, 2012:16).

"There is a striking paradox in Saudi Arabia's labor market. Expatriates working in the Kingdom send home more remittances than those living in any country in the world apart from the U.S. Yet youth unemployment among Saudi citizens is higher than [in] every country in the Middle East and North Africa, except Iraq."
John Sfakianakis (2011)

Following World War II, four main international labor immigration patterns have emerged:

(1) International labor migration as a fundamental tool for state building

In the English-speaking industrialized countries, namely, the U.S., Canada, Australia and New Zealand, the process of state building itself was, and still is, based on massive labor immigration. As such, the emphasis of the demographic policy of these countries is not natalist-based², but rather one which keeps labor immigration in line with labor market demands.



(2) Labor migration as a "no choice option"

This group is mainly comprised of the developed EU countries that have labor shortages. This situation has come about mainly due to prolonged low fertility rates which led to the rapid aging of the population and the "living without work" option as part of the "welfare states." As these countries are "nation states" which strive to conserve their traditional cultural-religious nature, they try to find solutions for their labor shortage first through pro-natalist measures and maximized labor force participation rates and then through the labor immigration option. However, since these countries are democracies, many of the labor immigrants and their accompanying family members eventually succeed in becoming citizens of the host countries (Winckler, 2009:129-131; Winckler, 2010:9). The result is that the percentage of the first and second generation of immigrants of the total population of these countries is steadily increasing. Due to the continuation of the extremely low fertility rates - much below the replacement-level (PRB, 2012:12-13) - these countries are steadily becoming labor immigration countries quite similar to the countries of the first category.

(3) A "near total ban" on labor immigration

The leading countries in this small group are Japan and South Korea. However, due to their prolonged extremely low fertility rates, even lower than in the EU countries (PRB, 2012:12), these countries started to gradually alleviate their

strict labor-immigration policies in order to prevent a substantial deterioration of their dependency ratio. In the case of Japan, in 2010 the migrant workers numbered approximately 650,000, that is, 1.7% of the total workforce (IOM, 2012). In the case of South Korea, the number of foreign labor grew even more rapidly, increasing to more than 1 million in 2010, representing almost 5% of the total workforce (Michell, 2010).

(4) The unique GCC rentier labor-immigration pattern:

Although labor immigration is not new to the Arabian Gulf oil-exporting countries, dating back to the beginning of the oil era in the late 1940s, following the October 1973 “oil boom” a unique labor migration pattern developed in these countries: not only did the nationals rapidly become a minority in the workforce (with the exception of Oman) but in Qatar, the UAE and Kuwait, the foreigners constitute a substantial majority of the total population as well. In this regard, Fargues and Brouwer (2012:231-232) noted: “The reluctance of the GCC governments to use the term ‘immigrants,’ preferring terms such as ‘foreign workers’ and ‘expatriates,’ also facilitates the classification of the GCC countries as unique.”

The Arabian Gulf prior to the “Oil Era”

Political and economic situation

Historically, the Arabian Gulf region was comprised of city-states, called *Shaykhdoms*, each ruled by a dominant family. The current Gulf oil states are an expansion of these city-states with the historical ruling families in power until the present. This is the case with the Al-Khalifa family which has ruled Bahrain since 1870s; the Al-Thani family in Qatar since 1820s; the Al-Sabah family in Kuwait since 1718; the Al-Sa’ud family in all the three historically Saudi states; the Al-Bu Sa’id family in Oman for over 250 years; and the ruling families of the *Shaykhdoms* which make up the UAE. Hence, the GCC countries are new states with traditional long-life regimes.

With the exception of the two holy Muslim cities in the Hejaz region, Mecca and Medina, from both economic and geo-political points of view, the Gulf region was marginal to the Ottomans. Consequently, they never implemented a direct rule in the area. Neither did the British, which ruled much of the area following World War I. Hence, prior to the beginning of the oil era - first in Bahrain in 1932, then in Saudi Arabia and Kuwait in 1938, in Qatar in 1940, in the UAE in 1952 and lastly in Oman in 1967 - the Gulf region was one of the poorest areas worldwide, with its economy mainly based on pearl diving, subsistence agriculture in the coastal areas, international trade in the coastal cities and a traditional nomadic economy in the interior areas. In the early 1930s, the economic sit-

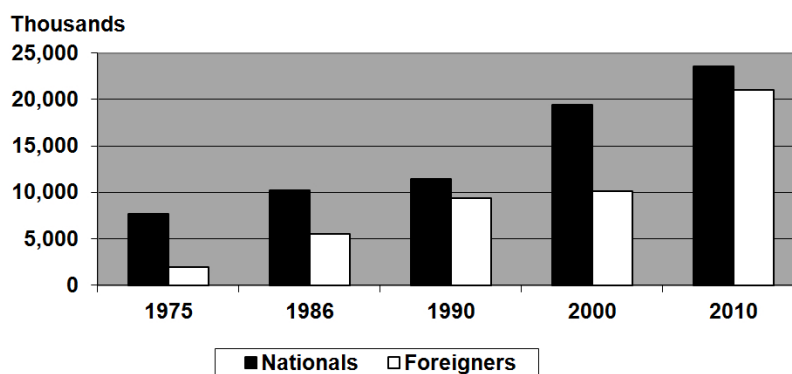
uation in the Gulf region became even worse due both to the collapse of the pearling industry and to the Great Depression.

Population development

As a result of its poor socioeconomic condition, the Gulf region was sparsely populated prior to the beginning of the oil era. At the end of World War I, the population of the area of present day Saudi Arabia numbered approximately 1.5-2 million, the population of Bahrain, Qatar and Kuwait together numbered approximately 175,000, about half a million people lived in present day Oman and another 80,000 in the present day UAE (Owen and Pamuk, 1999:76). The only foreigners who were present in the Gulf prior to the beginning of the oil era were merchants from the neighboring Gulf regions and from India who traded with the Gulf merchants. In addition, there were some workers from neighboring areas who came to work on a seasonal basis in the fishing and pearling industries (Baldwin-Edwards, 2005:4).

Following the discovery of oil, however, the marginality status of the Gulf disappeared at once. One of the immediate results was the beginning of rapid population growth. This was brought about mainly by increasing the number of foreign labor in order to fill the professional occupations in the oil industry and later in the rapidly expanding public sectors. In the case of Bahrain - the first among the Gulf states to extract oil - as early as 1941 the foreign population amounted to 15,930, representing 17.7% of the total population (Bahrain, CIO, SA-2000:table 2.01). Kuwait’s population in 1949 (both nationals and foreigners) numbered approximately 100,000 compared to only 60,000 in 1930 (Ismael, 1982:117; El-Shalakani and Al-Sabah, 1993:107). In the other Gulf oil states, the same pattern of rapid population growth occurred. Overall, in the early 1970s, prior to the “oil boom,” the number of foreigners in the Gulf oil states was estimated at between 800,000 and 1.25 million, including both workers and their accompanying family members (Winckler, 2009:134).

Figure 1: Nationals and Foreigners in the GCC Populations, 1975-2010



Source: See note in the bibliography.

Fertility Rates and Natalist Policies of the GCC Oil States

Following the October 1973 “oil boom,” the Gulf oil states’ ruling families implemented the most extreme pro-natalist measures known worldwide, which included: the initiation of public housing projects; encouragement of early marriage through large marriage grants; full governmental subsidies for education; and generous child allowances. Although since the mid-1990s, Oman and Saudi Arabia have started withdrawing their previous pro-natalist policy, even in these countries the pro-natalist socioeconomic environment has basically remained in force. However, in recent years, in each of the GCC countries, even in those countries which continue to implement direct pro-natalist measures, such as Qatar and Kuwait, the total fertility rates among the indigenous women have rapidly declined to about 3.5 children per woman compared to 6 to 8 children in the 1970s and early 1980s. This decline is mainly attributed to the sharp improvements in the educational level of women, particularly the high percentage of Gulf women at the tertiary educational level. The most dramatic fertility decline has occurred in Oman where the rate was reduced from more than 7 children per woman in the 1970s and early 1980s to only 3.7 in 2010. In Saudi Arabia as well, fertility rates have sharply declined. Although the Saudi authorities do not publish fertility rates along with other related data, from what is available it appears that in 2007 the crude birth rate of the Saudi indigenous population was 25 per 1,000 people compared to almost 50 in the 1970s while the total fertility rate declined from 7.3 to 3.3 during the corresponding period (al-Najjar, 1993:212; Winckler, 2009: 198-199; Fargues and Brouwer, 2012:238-240; Oman, MNE, SY-2011:table 6-2; KSA, CDSI, 2008; Shah, 2012:140). However, despite the sharp fertility decline, due to the current wide-based age pyramid, the GCC indigenous populations will continue to rapidly increase at least in the future two generations - a consequence of the “demographic momentum” phenomenon³.

Stages in GCC Labor Immigration Patterns and Policies

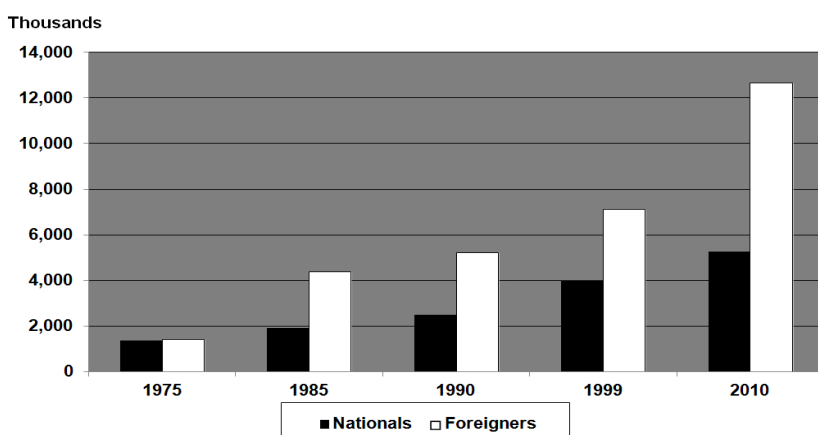
The unprecedented scale of development projects in the Gulf oil states following the October 1973 “oil boom” led to an extremely rapid increase in the demand for labor, both skilled and unskilled, that could not be supplied domestically. This was due to the small national workforces as well as the inadequate professional levels of the indigenous workforces due to the inexistence of modern educational and professional training institutions. By 1975, the total national workforces of the six Gulf oil states amounted to only 1.36 million. Therefore, in order to confront these two basic limitations, the policy adopted by the authorities of the Gulf oil states in the short-run was to import the needed labor while the policy adopted for the longer-run was comprised of two basic elements: implementation of an extreme pro-natalist policy in order to maintain high fertility rates and huge investments in

education and vocational training in order to enhance the quality of the indigenous workforces.

As a result, during the bonanza “oil decade” (1973-1982), the number of foreign labor in the Gulf oil states rapidly increased, reaching 4.4 million in 1985. At that initial development stage, the extremely liberal labor immigration policy enabled the foreign labor, mainly Arabs at that time, to be accompanied by their family members. Therefore, already in 1975, almost 30% of the foreigners in these countries were accompanying family members of the foreign workers. Following the end of the “oil decade,” there was a sharp decline in oil revenues.⁴ However, despite this development, the number of foreign labor continued to increase, albeit at a slower pace compared to that which prevailed during the “oil decade.” By 1985, the foreign labor in the GCC countries numbered 4.4 million and reached 5.2 million in mid-1990, while the overall number of foreigners amounted to 9.4 million.

The Iraqi invasion of Kuwait in August 1990 had the most important effect on migration to the GCC states following the October 1973 “oil boom.” As a result of the invasion, a large-scale departure from the GCC countries occurred, particularly from Kuwait and Saudi Arabia. However, following the liberation of Kuwait in February 1991, the number of foreign workers in each of the GCC countries rapidly increased, despite the prolonged low oil prices on the one hand,⁵ and the rapid increase of the indigenous workforces on the other. By 1999, foreign labor in the GCC countries numbered 7.1 million, an increase of 36.3% compared to their number in mid-1990.

Figure 2: Nationals and Expatriates in the GCC Labor Forces, 1975-2010



Source: See note in the bibliography.

The Emergence of Structural Unemployment and the Ensuing Policies

During the 1990s, particularly in the second half of the decade, a new phenomenon emerged among the GCC national workforces - structural unemployment. In the mid-1990s, the unemployment rate among the national workforces was above 10% in each of the GCC countries (Dito, 2008:11; Harry, 2007:135; Winckler, 2009:153). It became clear to the GCC authorities that their traditional labor force nationalization policy⁶, which aimed at reducing dependence on foreign labor (see, e.g., Randeree, 2012), although a success in the public sectors, almost totally failed in the private sectors mainly due to the wide salary gap between the nationals and the foreign workers and strong opposition from the private employers themselves to employ nationals in place of foreigners (see, e.g. Kapiszewski, 2006:5; Forstenlechner et al., 2012:408). Hence, it appeared that the unemployment level among the GCC nationals was not a consequence of the supply/demand balance in the whole labor market, but rather a result of the public sector's ability to absorb additional national employees.

Strategies to create jobs in the private sector

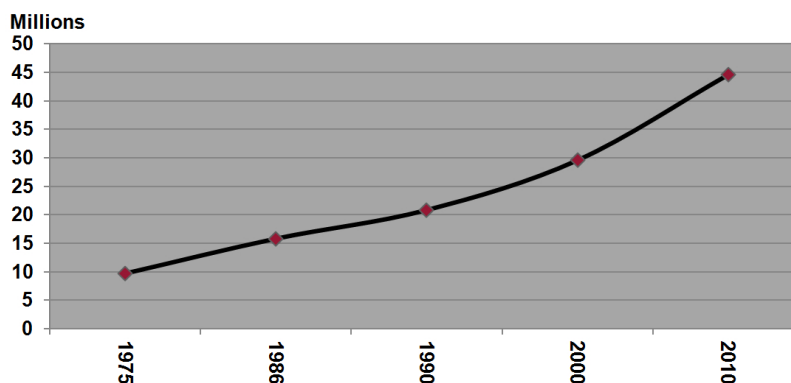
Consequently, since the mid-1990s, increasing work opportunities in the private sector for nationals rather than reducing dependence on foreign labor has become the top priority of the GCC employment policies. The following are the five major strategies which were adopted by the GCC authorities in order to create suitable employment opportunities for nationals in the private sector:

- (1) Restricting certain occupations to nationals only.
- (2) Imposing quotas for nationals in private sector companies.
- (3) Heavily subsidizing wages of new nationals employed in the private sector.
- (4) Improving the professional skills of the national workforce in order to correspond to the needs of the private sector (Hertog, 2012:91-92).
- (5) Adopting the "Dubai Development Model" (Foley, 2010:144-147; Hvidt, 2009:401-402) which promotes economic diversification through the development of non-hydrocarbon sectors - mainly tourism, banking and insurance services, maritime transportation and trade, and electronic and high-tech industries - which although demanding the recruitment of massive foreign labor also produce large-scale employment opportunities for nationals.

Labor migration after the turn of the millennium

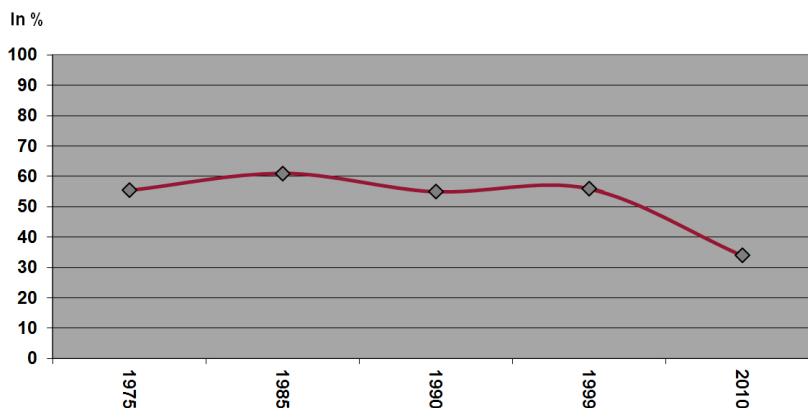
The "price" of this massive creation of suitable job opportunities for nationals was to increase the dependence on foreign labor. Thus, during the 2000s, particularly since 2004 when the economic situation markedly improved,⁷ due to the increased oil price⁸ and the rapid development of the non-hydrocarbon sectors, the number of foreign labor in the GCC countries rapidly increased to almost 12.7 million in 2010, compared to 7.1 in 1999. This means that in a decade only, the number of the foreign labor in the GCC countries increased by almost 80%. The total number of foreigners in the GCC countries increased from 10.1 million in 2000 to 21.0 million in 2010, an increase of more than 100%. Overall, in 2010, the total population of the GCC numbered 44.6 million compared with 9.7 million in 1975 (cf. Figure 3).

Figure 3: Development of the total GCC Population, 1975-2010



Source: See note in the bibliography.

Figure 4: The Percentage of Saudi Foreign Workers of the total GCC Foreign Workers, 1975-2010



Source: See note in the bibliography.

Labor migration to Saudi Arabia

Traditionally, Saudi Arabia - the largest among the GCC countries in both, oil production and population - had the highest number of foreign workers among the GCC countries. In recent years, however, due to the slow expansion of the Saudi non-oil sectors, the number of labor migrants in the Kingdom has stagnated. Consequently, while until the early 2000s, more than half of the total foreign workers in the GCC countries were in Saudi Arabia, since then the share of the foreign workers in Saudi Arabia among the total GCC foreign labor has markedly declined to 34% only, as one can see in Figure 4.

Labor migration to Qatar, Kuwait and the United Arab Emirates

The greatest increases in foreign labor in the GCC countries occurred in Qatar, the UAE and Kuwait - countries which during the past decade benefited not only from the sharp increase in oil and gas rental revenues, but also from the massive expansion of their non-oil sectors, mainly in tourism, banking, insurance and the real estate and construction industries. The rapid economic growth also led to a sharp improvement in living standards which led to an increase in the employment of domestic workers - all of whom of course for foreign labor. The Qatari economy, which enjoyed the highest GDP growth rates among the GCC countries,⁹ absorbed the highest rate of foreign workers accordingly.

The development of the oil price and its effects on labor migration to the GCC states

It should be noted however, that as opposed to various expectations the sharp decline of oil prices following the onset of the global recession only had a minor and short-run influence on the number of foreign labor in the GCC countries.¹⁰ In fact, only in Dubai and to a lesser extent in Oman was there some reduction in the number of foreign labor. However, with the recovery of oil prices in the second quarter of 2009, the number of foreign labor in these two economies returned to the former trend of a steady increase.

As opposed to the previous global economic recession of 2008/9, the current recession in both the EU and in the U.S. did not bring about a sharp cut in oil prices. Thus, while most of the countries in the world are negatively affected by the current recession, in the GCC countries, the economic situation continues to be solid. Consequently, the steady increase of foreign labor has continued as before.

Why is the employment situation in the GCC countries so different from other rich economies? Why have their labor and immigration policies failed to decrease dependence on foreign labor? The answer to these questions lies in the unique socioeconomic political structure of the GCC states, namely their "*rentier* nature."

The "*Rentier State*" and "*Rentier Mentality*" in the GCC Oil States

The term "rent" relates to "income derived from the gift of nature" or in other words "rent as pure luck." The term "*rentier state*" refers to a situation in which the rental incomes, which largely dominate the governmental revenues, are external to domestic production. Although some rental income exists in any country, in the GCC oil states, rental income - stemming predominantly from oil revenues - amounts to at least 80% of total direct governmental revenues. The fact that the rent is external is crucial as it enables the economy to exist without a strong internal productive sector. Consequently, in a rentier economy, the scale of the national income does not reflect the performance of the domestic economy, but it is rather a function of the price of the *rentier* resource in the international market. Thus, a "*rentier government*" does not deal with the redistribution of internal resources through taxes on income and commodities on the one hand and supplying various social services, subsidies and allowances on the other, in return for political participation. It rather mainly deals with the distribution of the external rental incomes among the indigenous population in the most beneficial political manner. Consequently, in the GCC countries, "a *rentier mentality*" emerged in which the government was not a political representative body, but rather a supplier of allowances, subsidies and various services which were free of charge in exchange for concessions regarding political participation on the part of the citizens. Hence, citizenship in a *rentier state* became a source of direct and indirect financial benefits. A major tool to distribute the rental wealth among the citizens is through employment in the public sector which offers to its national employees high salaries and luxury work conditions without any work-reward causation. A highly rewarded job in the public sector is the key component of the "social contract" between the GCC royal families and their citizens. These are jobs for life. In addition, nationals do not have to pay income taxes. In return, the state, namely, the ruling family, expects citizens to be totally loyal. The political implication of a *rentier state* is thus "no taxation and no representation" (Beblawi and Luciani, 1987; Beblawi, 1990: 85-98; Ayubi, 1995:251-252; Gause, 1994: 42-77; El-Katiri et al., 2012: 168-181; Niblock and Malik, 2007:14-21; Ross, 2001:325-361).

The Consequences of the GCC *Rentier* Nature on the Labor Markets

Overall, there are five main characteristics indicating how the *rentier* nature distorts the GCC labor markets:

(1) Near total dependence of nationals in public sector employment

With the exception of Oman in which many of the nationals are self-employed in agriculture and fishing, in the other GCC economies, the vast majority of the national workforce is employed in the public sector while foreign workers are the almost solely source of employees for the private sector. Qatar is the most extreme example: In 2011, nationals comprised a mere 0.5% of the total private sector workforce (Qatar, SA, LFSS-2011:11). In the cases of Kuwait and the UAE, in 2010 more than 90% of the national workforce was employed by the public sector (Baldwin-Edwards, 2011:15). Forstenlechner and Rutledge (2010:42) note in this regard: "The main reason nationals do not seek private-sector careers is that those in the public sector are so much more attractive - better paid and less onerous." As noted by al-Dosary and Rahman (2005:500), the GCC public sector has become "a vast social welfare system."

The vast majority of GCC nationals employed in the private sector work in "clean" white collar occupations. In the Saudi case, for example, by 2010, among the 62,574 persons employed as administrative and business directors in the private sector, 89.9% were Saudi nationals. In the field of clerical jobs, among the 179,331 employees, 171,033, that is, 95.4% were Saudi nationals. In total contrast, in the agricultural sector, from among a total workforce of 492,440, only 8,880, a mere 1.8%, were Saudi nationals. Although we do not have official data, it is quite reasonable to assume that the vast majority, if not all Saudis employed in the agricultural sector were self-employed. In all, by 2010 Saudi nationals comprised only 10.4% of the total private sector workforce (SAMA, AR-2011:207-217). After subtracting the total of the self-employed and ghostworkers¹¹, the figures reveal that the contribution of the Saudi National employees to private sector production can at best be qualified as minor.

(2) Extremely low labor force participation rates

One of the prominent characteristics of the GCC *rentier* state since the "oil boom" has been extremely low labor force participation rates (Kapiszewski, 2001:74; Saif, 2009:16-17). In the Saudi case, for example, by 2009, while the Saudi working age population (20-64) numbered 8.45 million (KSA, MEP, ASY-2009:table 2.2), the workforce numbered only 4.29 million. However, those who were actually employed numbered only 3.84 million - 3.333 million males and 505,340 females (SAMA, AR-2011:203). This means that less than 40% of the Saudi working age population were actually employed and their share of the total Saudi national population (17.49 million) was only 21.9%, a dependence ratio of 1/5 – one of the lowest worldwide. In the case of Qatar, in 2011, the national working age population, both males and females, num-

bered 159,000, of whom 77,000 (or 48%) actually worked. Thus, in the Qatari case as well, the dependency ratio was 1/5 (Qatar, SA, LFSS-2011: 9).

Reasons for low labor force participation rates

Three main factors led to these extremely low labor force participation rates of the GCC national populations: The first and the most important is an extremely low female labor force participation rate. Officially, with the exception of Saudi Arabia, none of the GCC countries have explicit legislative restrictions on women's employment. Yet, in practice, a wide variety of occupations are considered "not suitable for women." Although recently the GCC authorities have become more open toward the option of the employment of indigenous women, in practice, even in Bahrain and Oman - the least *rentier* among the GCC economies - female labor force participation rates remain very low, less than half of those which prevail in developed economies (Scott-Jackson et al. 2010; Rutledge et al., 2011:186; Harry, 2007:138; Zovighian, 2012:186).

The second reason is early retirement in the public sector which enables the GCC authorities to absorb new national employees and thus increase the number of the citizens who enjoy public sector high salaries and pensions. In the Saudi case, for example, the official retirement age in the public sector is 55 years (Wilson et al., 2004:97). In Kuwait the situation is similar with early retirement for males after 20 years and females after 15 years of employment (Longva, 2000:183).

The third reason is the wide-based age pyramid as a result of prolonged high fertility rates on the one hand and low crude death rates on the other. Thus, the percentage of the population under age 15 of the total national population in each of the GCC countries, although somewhat reduced since the early 1980s, remained more than a third in 2010 (Oman, MNE, 2011; UAE, CBS, 2010; KSA, CDSI, 2008).

(3) Low productivity levels

Due to the actual availability of unlimited cheap foreign labor, productivity rates throughout the GCC economies are on a downward spiral (Al-Kibsi, Benkert and Schubert, 2007:22-23; Mashood, Verhoeven and Chansarkar, 2009:5; Al-Awad, 2009:6; Forstenlechner et al., 2012:408; Hertog, 2012:75-77, 88-89). The Saudi authorities themselves recognized this problem of low productivity and noted in the current five-year plan (2010-2014) that: "...despite the efforts made to promote productivity of Saudi workers, it is still relatively low" (KSA, MEP, 2009:175). Thus, as long as the private sector has the option of employing an unlimited number of cheap foreign workers, even at the price of absorbing a certain percentage of nationals because of the quota regulations, private employers have no incentive to take on nationals. At any professional level, it is always cheaper to employ foreign labor at the expense of national employees. Hence, for the private employers, the quota for national employees is no more than a tax, namely, sharing the overall cost of providing employment for nationals. Consequently, as rightly claimed by

al-Kibsi, Benkert and Schubert (2007:20), the availability of cheap foreign workers “has delayed the formation of a skilled national workforce and prevented the development of a diversified and productive private sector that could help absorb new entrants into the workforce.” From the point of view of the nationals themselves, they either have no incentive to be employed by the private sector, unless of course if they are self-employed. In many cases, nationals work in the private sector for a limited period only, until they succeed in getting a public sector job.

(4) *Inappropriate educational and professional skills*

Four decades following the “oil boom” foreign labor still occupy the positions in the vast majority of the professional occupations, in both the public and private sectors. The reason for this is the shortage of indigenous professional workers. Many claim that the heart of alleviating the unemployment problem of the nationals is through changing their educational and professional training which would enable them to replace the professional foreign labor. However, the concentration of GCC students in the humanities and social sciences (see, e.g., Baldwin-Edwards, 2011:50-51) is only a reflection of the GCC current segmented labor market structure. In practice, as long as the GCC nationals are forced to compete in the private sector with much cheaper foreign labor, they will always lose at any professional level.

(5) *A huge number of domestic service workers*

A major reason for the huge number of foreign workers in the GCC countries is the widespread phenomenon of domestic service employees (Awad, 2009:4). According to Qatari official figures, by 2011, from among the 1,196,394 foreign workers, 131,515, that is 11%, were employed in domestic services (Qatar, SA, LFSS-2011:37). In Kuwait as well, the number of domestic service workers is extremely high - reflecting the high level of family income. In 2007, 24% of all foreign workers in Kuwait were employed in domestic services (Shah, 2007:7). In fact, the GCC countries are the only countries worldwide in which the public sector middle-class employees employ domestic services. The number of domestic servants one has is a status symbol. In some cases their number is higher than that of family members.

Impact

The result of these “five *rentier*-distortions” is that the number of foreign workers steadily increases regardless of the employment situation among the national workforces. This is the true nature of the GCC segmented labor market. In 2010, the total number of unemployed Saudis reached approximately 500,000 (al-Sulami, 2011), while unemployment among the Saudi youth amounted to 30.2% (de Kerros, 2011). In the UAE the unemployment rate in 2010 amounted to 7.8%, but

The *Kafala* System and its Implications for Labor Immigration to the GCC Oil States

The *kafala* (sponsorship) system provides the legal basis for residency and employment of migrant workers and their accompanying family members in the GCC countries. According to the system, any migrant worker (not tourist) is tied to a specific employer (*kafil*) who is responsible for his/her entry visa, monitors him/her during the stay in the country and even approves the exit visa at the end of the employment contract. In the public sector, the *kafil* is the specific agency/ministry which plans to employ the worker; in the private sector the specific employer is the *kafil*. In the event that the *kafil* withdraws sponsorship, there is no legal basis for the foreign worker to stay in the country and s/he must leave immediately. Consequently, migrant workers are contractually bound to their employers (Baldwin-Edwards, 2011: 37; Ruhs, 2009:19; Shah, 2009:7). The rights of the foreign labor mainly depend on two elements: The first is the professional uniqueness of the worker and the possibilities of the employer to replace him/her. The second element is the nationality of the worker. Naturally, western professional workers, such as engineers and top managers in big companies enjoy vast rights and are not subject to exploitation and abuse. Those at the bottom, mainly Asian women employed as domestic workers, not only earn an extremely low wage, \$100-\$200 per month, but are often subject to exploitation and abuse by their employers. Some embassies of countries that send large numbers of domestic service employees to the Gulf even maintain safe houses for their nationals who flee from their employers due to nonpayment of wages and physical abuse (U.S. Department of State, 2008:2152). These employees cannot change jobs without permission from the employer, have restrictions on their physical mobility and in many cases receive inadequate housing and healthcare treatment. In many cases, the *kafil* even holds the passport of the foreign labor as an insurance that the foreign workers will not run away (Okruhlik, 2011:127; HRW, 2011). The original intention of the *kafala* system was that foreign workers could rapidly be imported in periods of economic prosperity and expelled during periods of recession. In reality, however, many migrant workers stay in the GCC countries for many years. Recently, however, the GCC countries have realized that the *kafala* system has largely failed as it did not bring about better control on the foreign labor but rather a steady increase in their numbers due to the profits of the private *kafil*s from the current system. Thus, in 2009, Bahrain alleviated its *kafala* regulations by allowing a foreign worker to switch employers without the prior consent of the current employer. The migrant worker is only required to give notice to the employer three months before resigning (Al-Hasan, 2012:109-110). In the UAE, although the *kafala* system has not changed, the authorities have recently implemented wage protection by requiring private employers to pay the wages of foreign labor directly into their bank accounts in order to better monitor non-payment claims (*Migration News*, January 2012). In any case, as noted by Naufal (2011:310), “foreign workers may stay for a short term, long term or even be born in the Gulf but they cannot live in the GCC countries without a local sponsor.”

it was as high as 17.9% among first-time male job seekers (ESCWA, 2011:17). Overall, in early 2010 approximately 435,000 GCC national graduates were unemployed (Salama, 2010). Forstenlechner and Rutledge (2010:38) draw a clear connection between the increasing unemployment among the GCC young nationals and their *rentier* mentality: "...nationals choose to remain unemployed until they obtain a government job." Thus, the huge difference in the unemployment rate between nationals who are first time job seekers and older nationals is that once public sector employment is achieved, unemployment is extremely rare.

In practice, the *rentier* system created a situation in which the national workforces have become almost irrelevant for the private sector. In many respects, Foley (2010:198) rightly claimed that: "Despite the Gulf states' massive investments in education, job creating, and programs that favor indigenous male workers, Gulf men are in no better position to play a tangible role addressing the region's labor needs than they were in the 1970s." Only in the public sector has there been a massive replacement of Arab foreign workers by nationals. This, however, was and still is quite a simple affair. This is because in the public sector nationals do not have to compete with foreign workers and the number of new national employees in the public sector is mainly determined politically even if it means increasing hidden unemployment and inefficiency. Thus, it could be stated that as the per capita rental revenues are higher, the labor force participation rates of both males and females are lower and the percentage of nationals employed by the public sector of the total national workforce is higher.

Changing Nationality Composition of the GCC Foreign Labor

1940s to 1980s: labor migration from Arab countries

During the first stage of the development process in the Gulf oil countries, namely, from the late 1940s until the early 1980s, the vast majority of the foreign labor came from the other Arab countries, mainly from Egypt, Yemen, Jordan/Palestine (the occupied Palestinian territories) and Syria, Lebanon and Sudan to a lesser extent. The Arab foreign workers were needed in order to establish the new government bureaucracy, the educational system, the legal system and other public sector services. They were needed not only because of their professional qualifications but also because they were the only available workforce which could establish all of these institutions and systems in Arabic. One major reason for the rapid development of the GCC state institutions and public services, in addition of course to their huge financial resources, was the high availability of skilled and professional Arab workers.

In addition to the Arab speakers being irreplaceable due to their language skills, the labor laws of the Gulf oil states privileged non-Gulf Arabs over non-Arab labor migrants. However, non-Gulf Arabs could only be employed if there was no Gulf citizen available to do the job. The employment of non-national non-Arabs was limited to cases in which no suitable

Gulf citizens or non-national Arab worker could be found. Hence, until the early 1980s there was a kind of mutual dependence between the non-oil Arab countries and the Gulf oil states. The first were badly in need of employment opportunities due to their bulging workforces, while in the Gulf oil states there was no other choice but to employ Arabs in their rapidly expanding public sectors.

Moreover, the employment of millions of workers from the non-oil Arab countries strengthened the Gulf oil states in the inter-Arab political arena. It "ensured" that the non-oil Arab countries would, in effect, "abandon" their "Arab unity" ideas which had previously jeopardized the position of the Gulf ruling families, especially that of the Al-Sa'ud family. Thus, employing Arabs served the Gulf oil states from both socio-economic as well as political points of view.

Late 1980s until today: labor migration from Asia

However, following the end of the "oil decade" a gradual replacement of Arabs by Asian workers began even in Kuwait which constituted the "fortress" of Arab foreign labor. Thus, while in 1975 the percentage of Arabs of the total foreign workforce in Kuwait was 69% (ILO, 1980:137) this percentage radically declined to less than 40% in 2007 (Shah, 2007:14). In the Saudi case, the percentage of Arabs of the total foreign population declined from more than 90% in 1975 (ILO, 1980:137) to 37% in 1992 (Birks, Sinclair & Associates Ltd., 1992:103) and to little more than 30% in the early 2000s (Kapiszewski, 2006:9). In Oman, although Asian workers have constituted the vast majority of the foreign workers since the beginning of the oil era due to the traditional relationship between Oman and the Far East, particularly India, still in 1975 Arabs constituted 12.4% of the total Sultanate's foreign workers (ILO, 1980:137). In 2008, however, with the exception of less than 11,000 Egyptian workers (1.4% of the total foreign workers) there were no other Arab foreign workers in the Sultanate while those from India, Bangladesh and Sri Lanka constituted almost 88% of the total Sultanate's foreign labor (Oman, MNE, Statistics Online). Overall, in 2004, the total number of non-national Arabs (including both workers and accompanying family members) in the GCC countries amounted to 3-3.5 million. In the early 2000s, Indians alone outnumbered non-GCC Arabs (MEI, 21 January 2005:23). In 2010, almost three-fourths of the migrant workers in GCC countries were Asians (*Migration News*, January 2012).

Economic reasons for the replacement of Arab labor

This gradual replacement of Arabs by non-Arab labor in the GCC countries was due to both economic and political reasons: from a purely economic point of view, the Asian workers were much cheaper than the Arabs and much easier to lay-off (see e.g., ESCWA et al., 1993:7; Kapiszewski, 2006:6-7). In addition, in contrast to the Arab workers, the Asian workers usually came to the Gulf alone, leaving their family members behind, thus reducing the cost of subsidized goods.

Furthermore, due to massive investments in education, in many governmental offices and in the educational system, nationals indeed replaced many non-national Arabs. In the private sector, mainly in construction and agriculture which have become the largest employers of foreign labor, knowledge of Arabic is not relevant so that Arab workers were gradually replaced by non-Arab labor. Moreover, many of the infrastructure projects in the Gulf were implemented by Asian companies which brought their own workers with them.

Remittances

In the late 1990s, when oil prices were extremely low and reached the bottom of less than \$10 per barrel, workers' remittances sent from the GCC countries constituted a substantial percentage of their oil revenues. In the Saudi case, for example, in 1999 the workers' remittances sent from the Kingdom amounted to \$14 billion (Looney, 2004:8), representing more than a third of the Kingdom's total oil export revenues that year (OPEC, 2000:5). Overall, during the 1970-2008 period, the workers' remittances sent from the Kingdom alone reached the inconceivable amount of \$327 billion (Ramady, 2010:31).

Political reasons for the replacement of Arab labor

From a political point of view, the GCC rulers were afraid that the Arab foreigners would spread republican anti-monarchy ideas. Moreover, some of the GCC countries were shaken by strikes led by Arab foreign workers (Kapiszewski, 2006:6). Finally, following the Islamic Revolution in Iran in early 1979, the GCC rulers were afraid of the spread of Islamic radicalism to their own countries, particularly following the takeover of the Grand Mosque in Mecca by Juhayman al-Otaybi and his followers on 20 November 1979. The Asian workers, in contrast to the Arabs, were treated by the GCC rulers as "passive observers" (Choucri 1986:252) and thus were neither considered as a threat to the "intimate nature" of the GCC societies nor to their political regimes. It should be noted that the events of the "Arab spring" did not change this situation. In each of the GCC countries Asian workers continue to be preferred over Arab foreign workers.

The Gender Composition of the GCC Foreign Population

The switch from Arab to Asian foreign workers has had an immense impact on the gender distribution of the GCC foreign population mainly due to the fact that the Asian workers tend to come alone to the Gulf. Thus, there is a high correlation between the percentage of the Asian workers of the total foreign workers and the percentage of females among the total non-national population.

Qatar

In the case of Qatar, in which the vast majority of the foreign workers are Asian, in 2011 females constituted a mere 17% of the total foreign population aged 15 years and above (Qatar, SA, AA-2011). According to Qatar's 2010 census results, females represented only 24.4% of the total Qatari population, including both nationals and foreigners (Qatar, SA, 2010:table 1).

United Arab Emirates

The gender composition in the UAE is similar, showing an extremely high percentage of males in comparison to females due to the high percentage of male foreigners among the total population. Thus, by mid-2010, females constituted only 22.3% of the UAE foreign population and 25.4% of the total population, including both nationals and non-nationals (UAE, NBS-2011).

Saudi Arabia

In contrast, in Saudi Arabia where the percentage of the foreign population of the total population is much lower and the percentage of Arabs of the total foreign population is much higher, females constituted 29.7% of the total foreign population and 43.0% of the Kingdom's total population (KSA, MEP, ASY-2010:table 2-1). Due to the continuing rapid increase in Asian immigration which is predominantly male, it seems unlikely that the gender composition in the GCC countries will be more balanced in the near future.

The GCC Labor Markets Compared to the Labor Markets of the Developed Economies

One can find five main differences between the GCC labor markets and those of the developed economies:

- (1) In the developed economies, in most cases, educated and skilled employees first prefer to find employment in the private sector while the public sector is only a second choice. In the GCC countries, private sector employment, in most cases, is not relevant to nationals.
- (2) The most lucrative economic advantage of the developed economies is their highly skilled workforce; in the GCC countries many nationals are only a burden on the economy as the authorities in order to prevent high open unemployment have no choice but to absorb them into the public sector.
- (3) While the unemployment rate in the developed economies is a function of economic performance, in the GCC countries the unemployment of nationals is a function of the ability of the authorities to absorb additional nationals into the public sector. Although the GCC economies grew much faster than the workforce during the last decade, unemployment among nationals did not

decline, since the vast majority of additional job opportunities were created in the private sector.

- (4) While in the developed economies foreign labor is predominantly employed in the DDD (dirty, difficult, dangerous) jobs, in the GCC countries foreign labor fills all positions from top managerial and professional positions to DDD jobs.
- (5) In the developed economies many immigrants strive to be naturalized while in the GCC economies the vast majority of them do not want to be naturalized and prefer to return to their home countries after having saved enough money. Also, in contrast to the situation in other developed countries, the GCC states do not offer the possibility to acquire citizenship and become a member of their society (cf. chapter on citizenship).

The “Arab Spring” and the GCC Labor Markets

The onset of the “Arab Spring” and its spread to the Gulf in early 2011, mainly to Bahrain and Oman, led the GCC authorities practically, although not officially, to withdraw from their previous labor force nationalization policies. Instead, they decided to concentrate on reducing the unemployment of their educated youth and improving the living standard of the nationals, whatever the longer-run implications on the labor market might be. On March 18, 2011, Saudi King ‘Abdulla announced the implementation of new socioeconomic reforms which mainly include: immediate payment of two months’ salary to all governmental employees as compensation for the rise in living costs; monthly payment of SR2,000 as an unemployment allowance; setting a minimum wage of SR3,000 for all governmental employees; and adding 60,000 positions in the Interior Ministry (de Kerros, 2011; IMF, 2011:11; *MEED*, 10-16 February 2012:33). However, raising public sector salaries and generous unemployment allowances, as noted by the IMF (2011:19) “[...] provide a disincentive for nationals to seek private sector employment.”

In general, the Saudi “*rentier*-reaction” to the risk of spreading the Shi’i uprising which occurred in Bahrain to the Saudi Kingdom amounted to \$129 billion (Gray, 2011:22). The Omani authorities also reacted with a massive increase in governmental expenditures, mainly by raising the minimum wage from \$364 to \$520 for the 150,000 public sector employees (*MEED*, 2011 Economic Review:12; *MEES*, 16 January 2012:20-21). The reaction of the other four GCC authorities to the “Arab Spring” was quite similar and concentrated mainly on: improving living standards, increasing public sector wages and reducing unemployment among youths through massive absorption into the public sectors. Thus, to a great extent, the “Arab Spring” altered the former policy of steadily narrowing the “*rentier* umbrella” to the indigenous population due to the fear of an uprising on socioeconomic grounds.

Citizenship, Nationalism and the Non-Assimilation of Migrant Workers in the Gulf Oil States

“Despite their sizable numbers, migrants can only have temporary residency, they have no access to citizenship, and they have limited membership in society, conditions which are unique to the Gulf states as destination countries.” Philippe Fargues (2011:273)

The form of nationality development of the Gulf oil states was the result of three major events which had occurred almost simultaneously: the first was the withdrawal of Britain from the Gulf; the second was gaining control over oil production from the “oil majors,”¹² and the third was the transformation from poor traditional economies into rich *rentier* states following the October 1973 “oil boom.”

Continuity of traditional forms of belonging

Through the *rentier* formula, the GCC ruling families succeeded in maneuvering the political identity of the indigenous populations toward the traditional forms of tribal, religious and family identity, thus preventing the development of a modern political identity, based on secular nationalism, which might risk their continued rule. Indeed, in none of the Gulf oil states has a nationalist or any other sort of modern ideological party or even political movement ever been established and opposition to the ruling families, if it exists at all, remains mainly in the traditional forms of Sunni/Shi’is revivals (in Bahrain and Saudi Arabia) and Islamic fundamentalism (mainly in Saudi Arabia).

In order to preserve the traditional socio-political forms, based on an “intimate society” in which the individual is not regarded as an autonomous being but rather as part of a certain tribe, an urban extended family or a religious sect, the Gulf ruling families, from the onset of the oil era, treated foreign labor as a temporary phenomenon soon to be replaced by nationals. Thus, although many foreigners are, in fact, second and sometimes even third generation and have lived in the Gulf their entire lives, they still continue to be treated as “temporary.” The most extreme example of this “temporariness” was the deportation of the Yemenites from Saudi Arabia and the Palestinians and Jordanians from Kuwait following the support of their alleged leaders for the Iraqi side in the Kuwait Crisis of 1990/91.

The social hierarchy in the GCC states

The result was that a clear dichotomy between nationals and foreigners created an extreme socioeconomic-political polarization in these countries: The top of the hierarchy includes the ruling families, followed by the most prestigious and established urban merchant families as well as the heads of the Bedouin tribes. The bottom is made up of the other nationals, each of whom related in some way or belonging to a certain

The Policies of the GCC Countries toward Refugees and the *Bidun*

The policies of the GCC countries toward refugees are among the most restrictive in the world. Thus far, none of the GCC countries have signed the 1951 Convention relating to the Status of Refugees or the 1967 Protocol relating to the Status of Refugees. Due to their location near areas with vast numbers of refugees on the one hand, and the high standard of living on the other, the GCC countries naturally fear from a deluge of refugees into their countries. In the case of Oman, for example, besides Somalis, all other nationalities which enter the Sultanate illegally are detained in camps and are usually deported to their countries of origin within one month (U.S. Department of State, 2008:2120). Consequently, the number of refugees in the GCC countries is negligible, ranging from a few tens of people in Qatar and Oman to some tens of thousands in Kuwait (World Bank Data), the vast majority of whom being Palestinians who lived in the country for decades and Iraqis who fled from the war in their home country. These refugees, however, are not recognized as “refugees” but are rather part of the body of foreign workers (U.S. Committee for Refugees and Immigrants, 2001). The main operational area of the GCC countries on the issue of refugees is generously donating to the UNHCR and other international NGOs which help refugees globally, particularly those operating in Islamic countries.

A major problem in the Gulf is that of the *bidun* (*bidun jinsiyah* in Arabic, namely, “without nationality” or “stateless persons”¹⁴) mainly concentrated in Kuwait, Saudi Arabia and the UAE. These people, although having lived in the Gulf their entire lives, are not considered citizens and thus are prevented from free public services and even passports. In the case of Kuwait, the issue of the *bidun* is particularly crucial due to their vast numbers. Although the Kuwaiti authorities granted citizenship to many of them and their number declined from about 250,000 prior to the Iraqi invasion to 113,000 in 2001, they still represent a substantial percentage of the non-foreign population. In Saudi Arabia, according to estimates, the *bidun* population numbered approximately 70,000 persons in 2001 (UNHCR, 2007:4; U.S. Committee for Refugees and Immigrants, 2001). In the case of the UAE, the number of the *bidun* although substantial, is unknown, running from the low governmental official figure of only 10,000, to about 100,000 according to unofficial estimates (ECHR, 2012; Bloomberg News, 30 March 2008).

tribe or an extended urban family. Thus, while in the democratic developed countries, the society is formed by individuals, in the GCC countries the society is formed by extended “kin organizations” which mediate between the “state,” namely the ruling family, and the individuals (Partrick, 2012:51-52).

In Saudi Arabia and Bahrain, the nationals are also divided between the Sunnis, who constitute the socio-economic-political elite, and the Shi'is who constitute the bottom strata of the national population despite the fact that in the case of Bahrain the Shi'is make up the vast majority of the indigenous population.¹³ Longva (2000:190) noted in this regard that: “Everywhere in the Arab Gulf states, the Shi'is suffer from a problem of ascribed disloyalty because of their faith and because of their real or putative connections with Iran.” The discrimination of the Shi'is in all the GCC countries demonstrates more than any other factor the absence of “secular nationality” in its Western-secular meaning and the perception of loyalty according to the traditional forms of religious, family and tribal belonging.

In recent years, however, the GCC ruling families are investing in building a modern nationality identity including a common heritage. One main reason for this is to develop a clear political entity to distinguish between the nationals and the foreigners. In any case, these efforts will only bear fruits, if any, in the distant future.

Among the expatriate workers, the upper stratum is comprised of Western professional workers, such as engineers, medical doctors, and managers of larger companies, banks and insurance companies, hotels, etc. On a lower stratum

there are professional workers from Arab countries such as teachers, lecturers in the higher education institutions and other skilled staff. The bottom of the hierarchy is comprised of unskilled workers from various non-Arab countries, mainly from central and South-East Asia, with those working in agriculture and as domestic workers, particularly Asian women, making up the lowest strata (Naithani, 2010:101; Dito, 2008:12). Hence, the spectrum of rights in the GCC countries runs from “all” at the top level of the ruling families to “none” at the bottom level, the place of women who are employed in domestic services, the vast majority of them are from India, Sri Lanka and the Philippines.

Family reunification and naturalization

Moreover, the right to bring the accompanying family members also depends on minimum wage. Thus, only those employed by the public sector and in the managerial and professional occupations in the private sector can enjoy this privilege while the non-professional employees in the private sector are not entitled to this privilege. In any case, their salary is so low that even if they had the legal right to bring their family members, they would not have the financial ability to support them in the Gulf.

Thus, while it is typical in the “Western-style migration chain” that after some time, in most cases no more than a few years, the migrant workers are joined by their family members and all of them eventually become citizens of the host countries, the situation in the Gulf oil states is in total contrast and the authorities almost entirely prevent the option

of naturalization of foreign workers, even if they are Muslims and Arabs and even if they have lived in the country for decades. It should be noted, however, that even marriage of a foreign male to a Gulf female does not grant citizenship for the groom. A foreign woman who marries a Gulf male, on the other hand, becomes a citizen of the host country. This difference in attitude is because according to the Islamic *shari'a* the religion of the children follows that of the father. Thus, the vast majority of those who did receive citizenship in one of the GCC countries are females who married GCC males. In the case of Oman, marriage of a national, both male and female, to a non-GCC citizen required a prior permission from the Ministry of Interior (U.S., Department of State, 2008:2117).

Birth in one of the GCC countries does not entitle the newborn to citizenship or permanent residence either. Male children of foreign workers are allowed to stay with their parents until the age of 21 years while a female child can stay until she gets married (Shah, 2009:8). Only in exceptional circumstances might the ruler grant citizenship to a foreigner who has "provided outstanding service" to the country. In recent years, however, the strict preventive policy of the naturalization of males has been somewhat alleviated, mainly in cases of professional workers who stay in the country for a long period of time and whose profession is needed in the labor market. In any case, the number of males who are naturalized in any of the GCC countries remains extremely low by any international comparison. As noted by Fargues and Brouwer (2012:245): the "GCC countries try to limit naturalization as much as possible."

Discussion and Conclusions

The development of human capital was and remains the most important official socioeconomic target of the GCC authorities. The Saudi Ninth Five-Year Development Plan (2010-2014) opened the chapter dealing with human resources by declaring that: "Development of human capital is a means and a target of socioeconomic development, for the human element has become the cornerstone of and the most important criterion for the progress of nations" (KSA, MEP, 2009:169). The development plans of the other GCC countries also concentrate on developing human capital, creating job opportunities for their national workforces and increasing their labor force participation rate in order to achieve both reducing dependence on foreign labor and increasing per capita income.

Unemployment

However, there was and still is a huge gap between the official plans and reality. Examining the "rentier level" in each of the GCC countries reveals that the dependence of the national workforce on public sector employment and that of the private sector on foreign labor did not decrease during the past four decades; rather, in many cases it increased. In 2001 unemployment among the Qatari national population was as high as 11.6% (Berrebi, Martorell and Tanner, 2009:428) and it rapidly declined to a mere 0.3% in 2009

(ESCWA, 2011:13). This rapid decline was not a result of an improvement in the economic effectiveness and absorption of many Qataris in the private sector. It was rather a consequence of the ability of the state to absorb the vast majority of the young into the public sector using its bulging oil and gas rental revenues.

It should be noted in this respect that a common mistake among researchers is to evaluate the success of the GCC labor and nationalization policies through measuring the number of nationals employed by both the public and the private sectors. This is a misguided approach for two main reasons: one is that many nationals are employed in the already bulging public sector without making any contribution; the second reason is that many nationals are employed in the private sector only in order to fill the quota percentage. In general, during the past two decades, one can find some kind of pendulum pattern in the enforcement quota regulations: in periods of economic boom, although the regulations are not abolished, the authorities do not enforce them tightly; in periods of economic recession, there is a stricter enforcement of the regulations (Forstenlechner and Rutledge, 2010:43).

Lacking economic diversification

It appears that the failure of the labor force nationalization policy of the GCC countries is the consequence of the failure of their economies to reduce the dependence on rental revenues. Although diversification of the economy was and still is the main economic target of the GCC countries, with the exception of Dubai and Bahrain to a lesser degree, none of the other GCC economies have really achieved this paramount aim. Even in the case of Oman - the least *rentier* of all the GCC economies together with Bahrain - in 2010 oil and gas revenues constituted 80.8% of the total governmental revenues (CBO, 2011:8). In the other GCC economies, the oil and gas revenues represented more than 90% of the total governmental revenues at exactly the same rate as in the 1970s. To the direct oil and gas revenues one should add the returns from the huge investments abroad. In the case of Kuwait, for example, in 2011 rental incomes, namely oil exports and investments income, amounted to 95.8% of the total governmental revenues (MEES, 25 July 2012:18). This is also the reason for the rapid fluctuation of government revenues since the "oil boom." The paradox is that inasmuch as the political situation in the Middle East worsens, oil revenues have increased thus improving the economic position of the GCC ruling families. The Saudi oil revenues, for example, increased from \$150.5 billion in 2005 to \$293.3 billion in 2011 (MEED, 10-16 February 2012:32), albeit oil production declined from 9.55 million b/d (barrel per day) to 8.44 million b/d (EIA, IPM).

Dependence on rental income and its consequences

Although the control over oil and gas income strengthened the control of the ruling families on their indigenous populations, it obligated them to supply steady public sector employment, housing and a wide variety of fully or near fully

subsidized goods and services regardless of the economic situation. It should be noted that extremely low energy product prices automatically led to increased oil and electricity consumption, thus steadily increasing government costs on subsidies.¹⁵ In other words, full control on rental incomes obligated the GCC ruling families to be fully responsible for the living standard of their indigenous populations. This is the actual meaning of the GCC unique socioeconomic-political formula of “no taxation and no representation.”

The GCC ruling families were constantly “buying” the loyalty of their nationals, something akin to a “give and take” relationship and not “a common destiny” as it the case of the social-democratic countries. Thus, while in the social-democratic economies the aim of the governmental direct transfers, mainly social security allowances, is to re-distribute the national income, in the GCC economies the main aim of the “rentier system” is to prevent the development of any kind of opposition. Therefore, those who enjoy the highest rental transfers are not those at the bottom stratum of the society but rather the upper classes through the non existence of personal income taxes together with huge financial benefits to the private sector companies. The result is a steady increase of governmental expenditures. In the Saudi case, for example, governmental expenditures increased from \$92.4 billion in 2005 to a projected \$184 billion in 2012 (*MEED*, 10-16 February 2012:32; *MEES*, 28 May 2012:5).

The situation is such that the GCC authorities must constantly increase their rental income in order to avoid taxation on the one hand and high unemployment or living standard deterioration on the other. Indeed, close examination on the 2012 budgets of the GCC economies reveals that each of them is substantially higher than those of the previous year (see, e.g., *MEES*, 16 January:10-12; 26 March 2012:21). The result is that the break-even oil price for balancing their budgets is constantly increasing. In the Saudi case, analysts believe that at the current production level this price is \$90-\$100 per barrel (*MEED*, 20-26 January 2012:7; *MEES*, 16 January 2012:11). In order to preserve high oil prices despite the global economic recession, in January 2012, the Saudi Oil Minister, ‘Ali al-Na’imi, said that “Our wish and hope is we can stabilize this oil price and keep it at a level around \$100” (*ArabNews.com*, 12 January 2012; *MEES*, 28 May 2012:5).

The future of labor migration and therewith associated social challenges

As the GCC indigenous population continues to increase due to their high natural increase rates, so will the foreign labor. This is not only because of the increasing demand for workers in the rapidly expanding GCC industries and services but also due to the steady increase in the number of the domestic service workers. As the number of foreign workers continues to increase, the percentage of males over females will continue to increase accordingly. Today in Qatar, the UAE and Kuwait females already represent less than a quarter of the total population. What will the social situation in these countries be when females constitute 10% of the total population or even less? Is there any society worldwide that can survive with such a gender composition in the long run? Will

this composition encourage crime, particularly that which relates to women? Will this situation lead the GCC authorities to again switch their immigration and employment policies? The answers to these crucial questions are the key to the basic survival of the GCC current socio-political structure.

Notes

¹ The GCC organization was established in 1981 and includes the following states: Saudi Arabia, Kuwait, Oman, Qatar, Bahrain and the UAE (United Arab Emirates).

² Pro-natalist policies encourage reproduction and thus population growth; anti-natalist policies try to slow down population growth by discouraging reproduction.

³ Demographic momentum phenomenon: Even though birth rates may decline to or even fall below the replacement level, the population may still continue to increase for several years before leveling off or decreasing because of the large cohorts that enter their reproductive years.

⁴ In current prices, the price for an oil barrel declined from \$35.5 in January 1982 to \$10.9 in July 1986.

⁵ During the 1990s, the average oil price was about \$17 per barrel (current prices).

⁶ The labor force naturalization policy aims at replacing foreign labor by nationals.

⁷ During the 2002-2007 period, the average GDP per capita across the GCC economies grew by approximately 32% (Saif, 2009:2) - one of the highest growth rates worldwide and certainly the highest among the rich countries. By 2008, Qatar’s per capita income amounted to \$92,000 - the highest worldwide, second only to Luxembourg (IMF, 2009:25). In 2010, however, Qatar became the richest country in the world (Randeree, 2012:19).

⁸ By mid-July 2008, oil prices peaked at almost \$150 per barrel compared with \$29 per barrel at the beginning of 2004. Not only did oil prices sharply increase but the GCC oil production itself increased by as much as 7% compared with the previous year (EIA, *International Petroleum Monthly*).

⁹ Qatar’s GDP increased from \$35.4 billion in 2005 to \$131.8 billion in 2011 (*MEED*, Qatar Projects supplement 2011:4).

¹⁰ Following the collapse of Lehman Brothers in mid-September 2008, oil prices rapidly decreased. By early 2009, oil prices reached as low as \$40 per barrel, a decline of almost \$100 per barrel within just six months.

¹¹ “Ghostworkers” are those who are allegedly employed by a private sector employer in order to fill the quota percentage imposed by the authorities. Al-Kibsi, Benkert and Schubert (2007:25) note in this respect that: “Some companies even choose to pay low-performing [national] employees simply to meet the quota but ask them to stay home.”

¹² The “oil majors,” sometimes called “the seven sisters,” are seven international oil companies (five American and two European) that controlled over 90% of the whole international oil industry outside the U.S. and the Soviet Union from the mid-1940s until the mid-1970s.

¹³ There are no official or other reliable data regarding the religious composition of Bahrain’s indigenous population. However, according to unofficial data, approximately 55% to 60% of them are Shi’is

and the rest, including the ruling family, are Sunnis. See, e.g., *MEED*, 6-12 April 2012:38-39.

¹⁴ The vast majority of the *bidun* in the Gulf are Bedouin who wandered in the western coast of the Arabian Peninsula as there were no borders in this area prior to the establishment of the current Gulf states. Thus, they were not settled in one country at the time when the authorities of these new states granted nationality to their local populations.

¹⁵ Thus, for example, in late 2011 the price for a liter gasoline in Saudi Arabia was \$0.12 – the lowest worldwide following only Venezuela. This huge subsidy cost the Saudi government a loss of approximately \$70 billion in oil export revenues. Since the gasoline price is so low, one should not be surprised that the per capita gasoline consumption in Saudi Arabia is higher than in Germany. In addition, the prices of electricity and water are both extremely low due to massive governmental subsidies (*MEED*, 16-22 September 2011:22). In the other five GCC countries the situation is quite similar to that which prevails in Saudi Arabia.

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