

GCC labor and migration policy: some evidence and many questions

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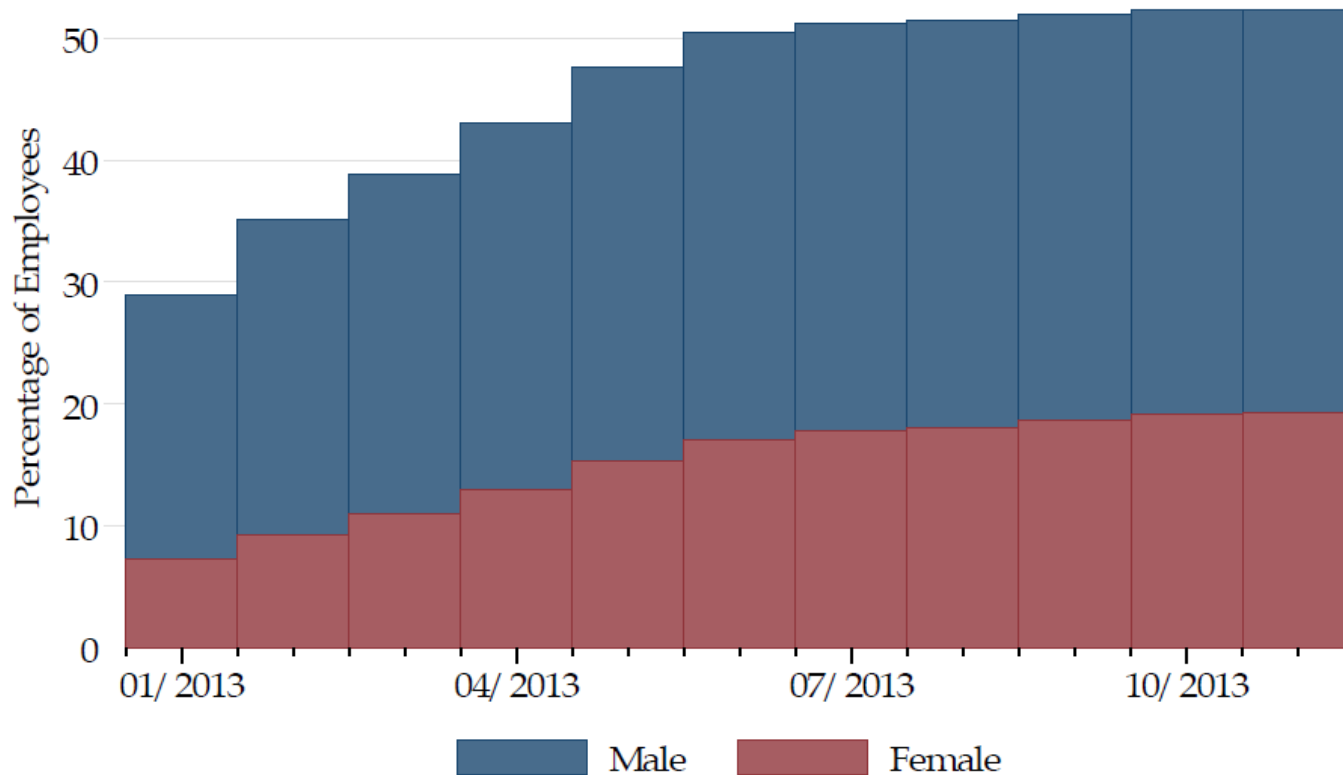
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Some questions

- How useful are private sector employment quotas for nationals?
- Is there a way to “get the prices right” to incentivize national employment in the private sector?
- How much can reforms to labor mobility for foreign workers contribute to national employment?
- How important are “soft” factors - skills and attitudes?
- What is the “absorptive capacity” of private sectors for national job-seekers?
- Is public sector employment policy reformable?

How useful are quotas – do they generate real employment?

Over 50 percent of Saudi nationals working in the private sector were earning the minimum wage

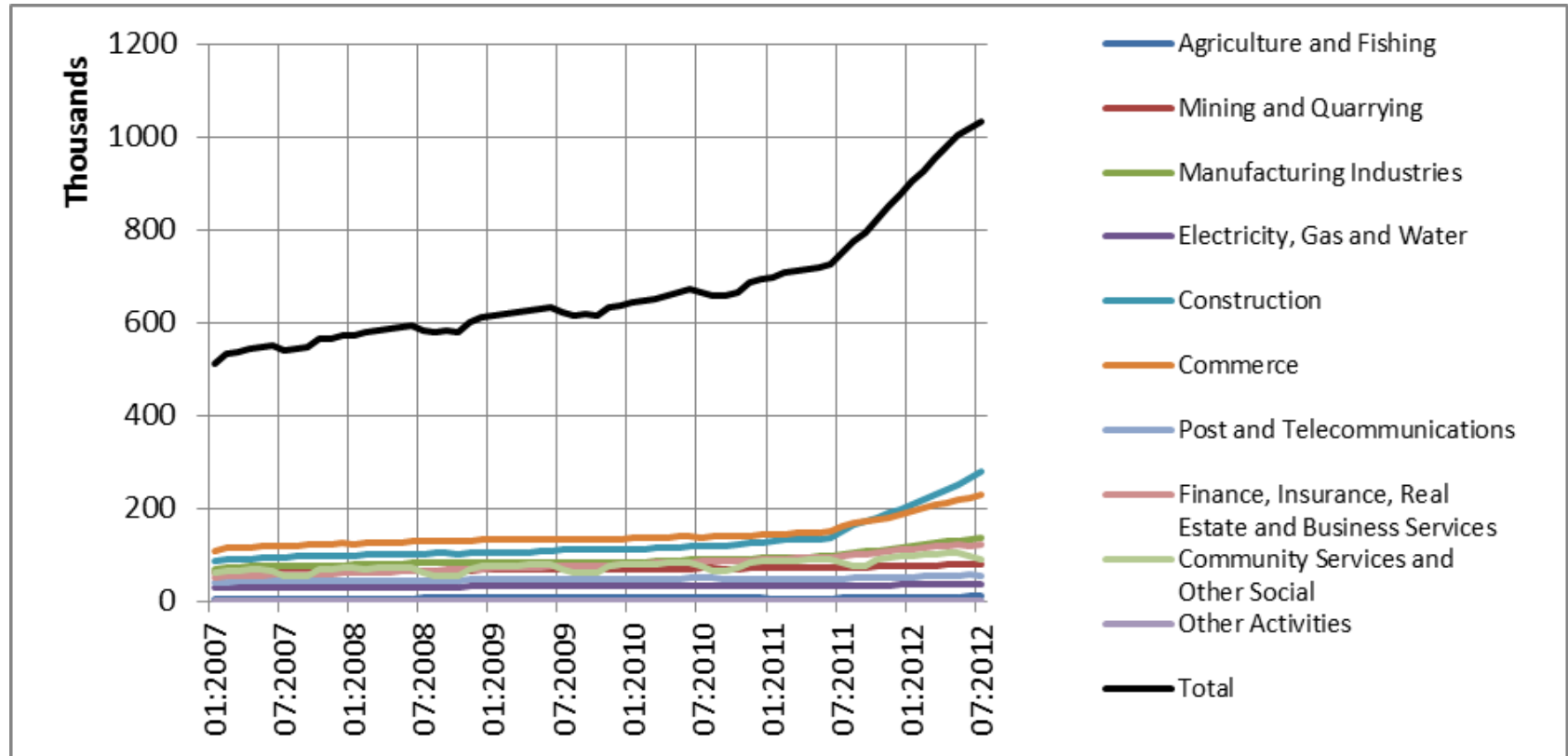


Source: GOSI Database, 2013

Suspicious pattern, given that wage levels for Saudis in many sectors have in fact increased due to stronger competition for talent?

Nitaqat: are the construction jobs genuine?

Employment levels for Saudis in the private sector (2007-2012)

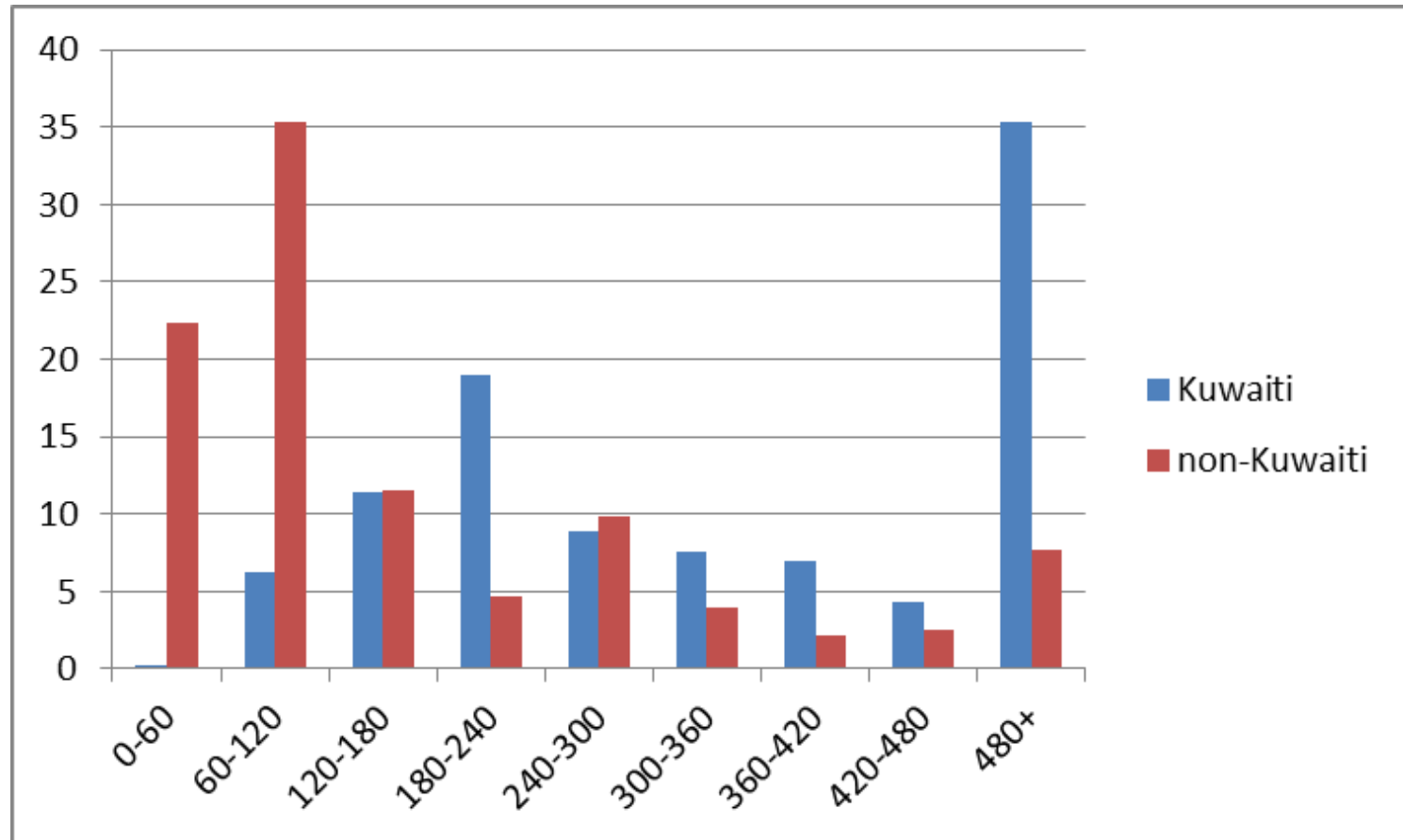


Why are quotas manipulated?

Getting the prices right

- *Across the GCC, there is a persistent gap in labor costs* differ between nationals and expatriates.
 - National's expectations are determined by the availability of well-paid, secure and often low-effort public sector jobs.
 - Expatriate expectations are shaped by low-wage labor markets in countries of origin migration
 - Higher reservation wages of nationals
 - Nationals have more demanding expectations regarding work hours and conditions
 - Private sector has incentives to manipulate quota schemes that mandate national employment

Wage gap: percentage distribution of wage brackets for Kuwaitis and foreigners (KD/month)

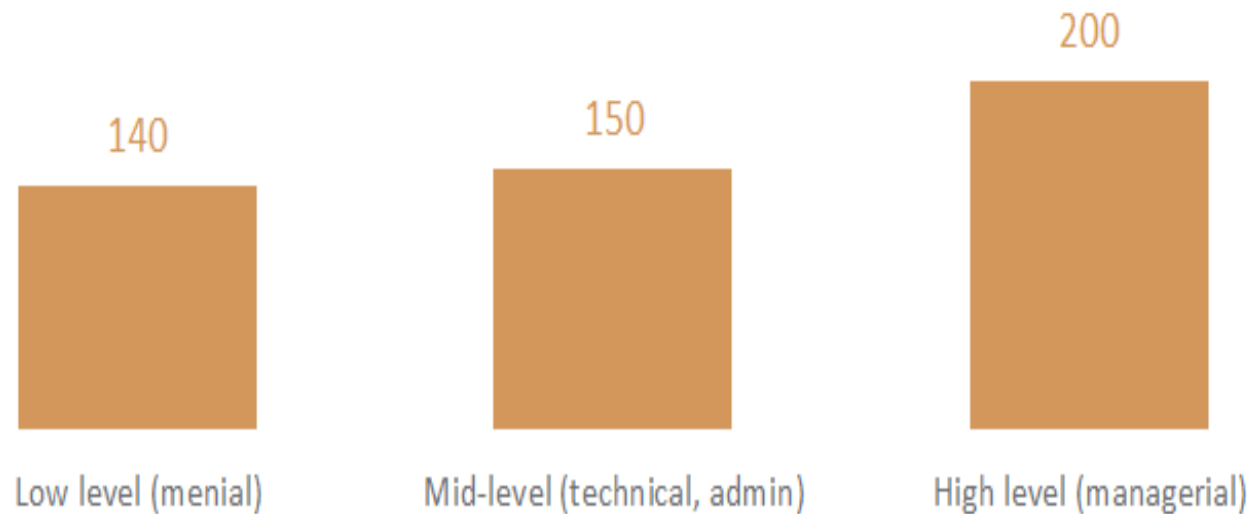


- Employers need to pay a large premium to nationals

Labor cost differential holds even if skills, age, experience, non-wage costs etc. are controlled for

Reported costs of Saudi employment in private sector (2014 survey)

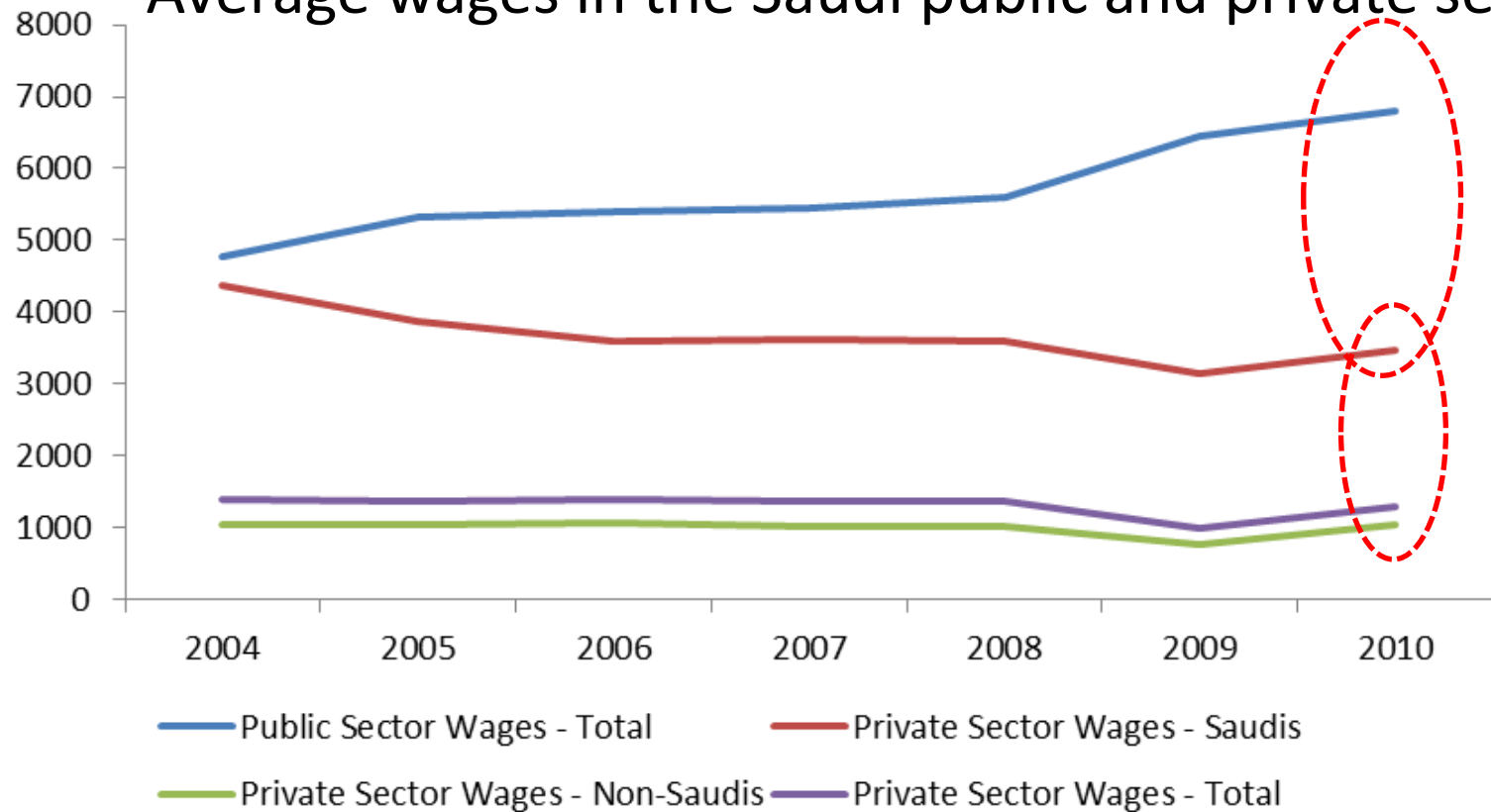
*If the cost for the expat is set
at 100, the median cost of a
Saudi worker would be..*



Base: respondents who answered on each category (n=136 / n=137 / n= 138)

Double labor price gap: public sector employment makes private sector Gulfization more difficult

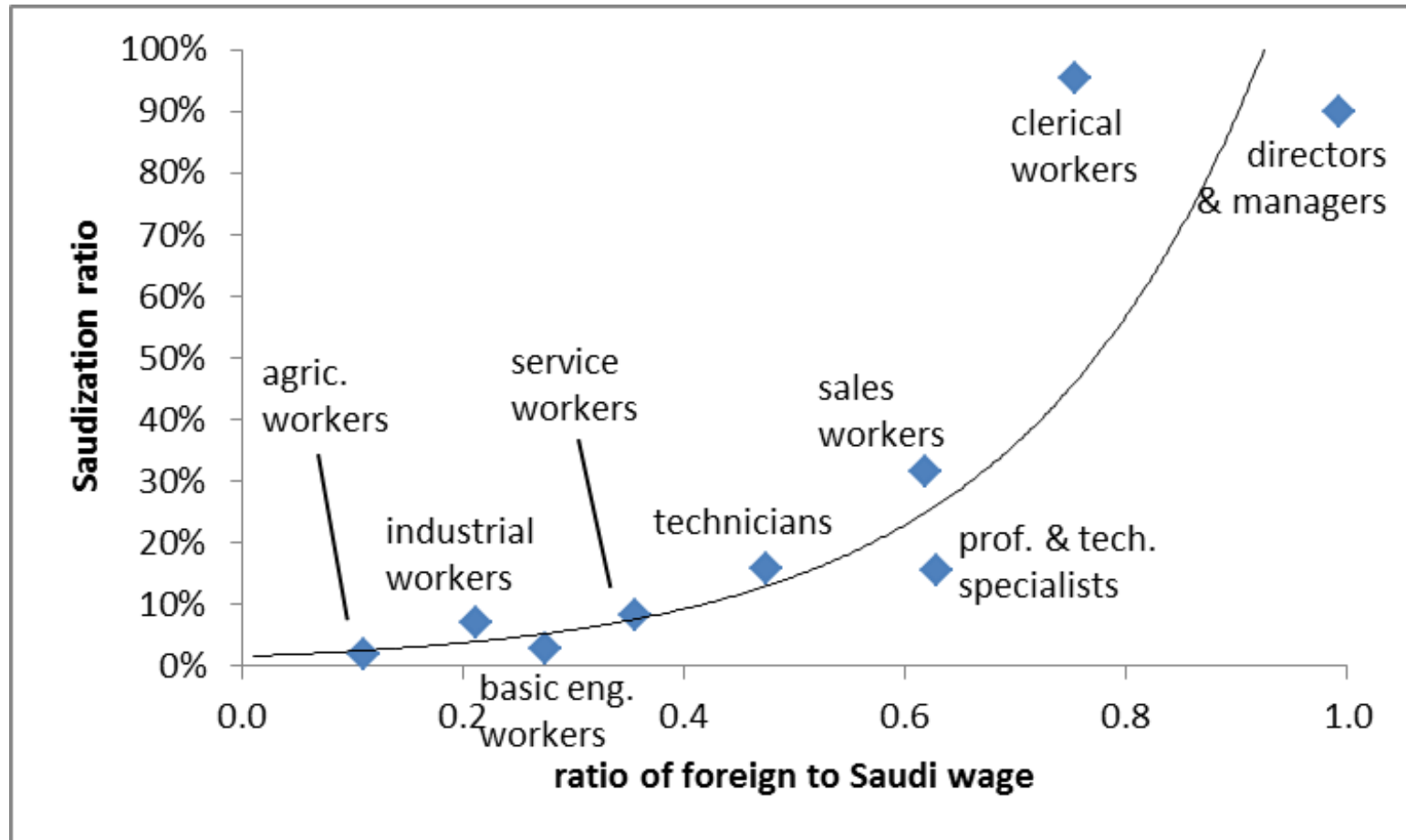
Average wages in the Saudi public and private sectors



- *Incentives to prefer government employment*
- *Strengthened by higher job security, shorter working hours etc. (further factors of segmentation)*

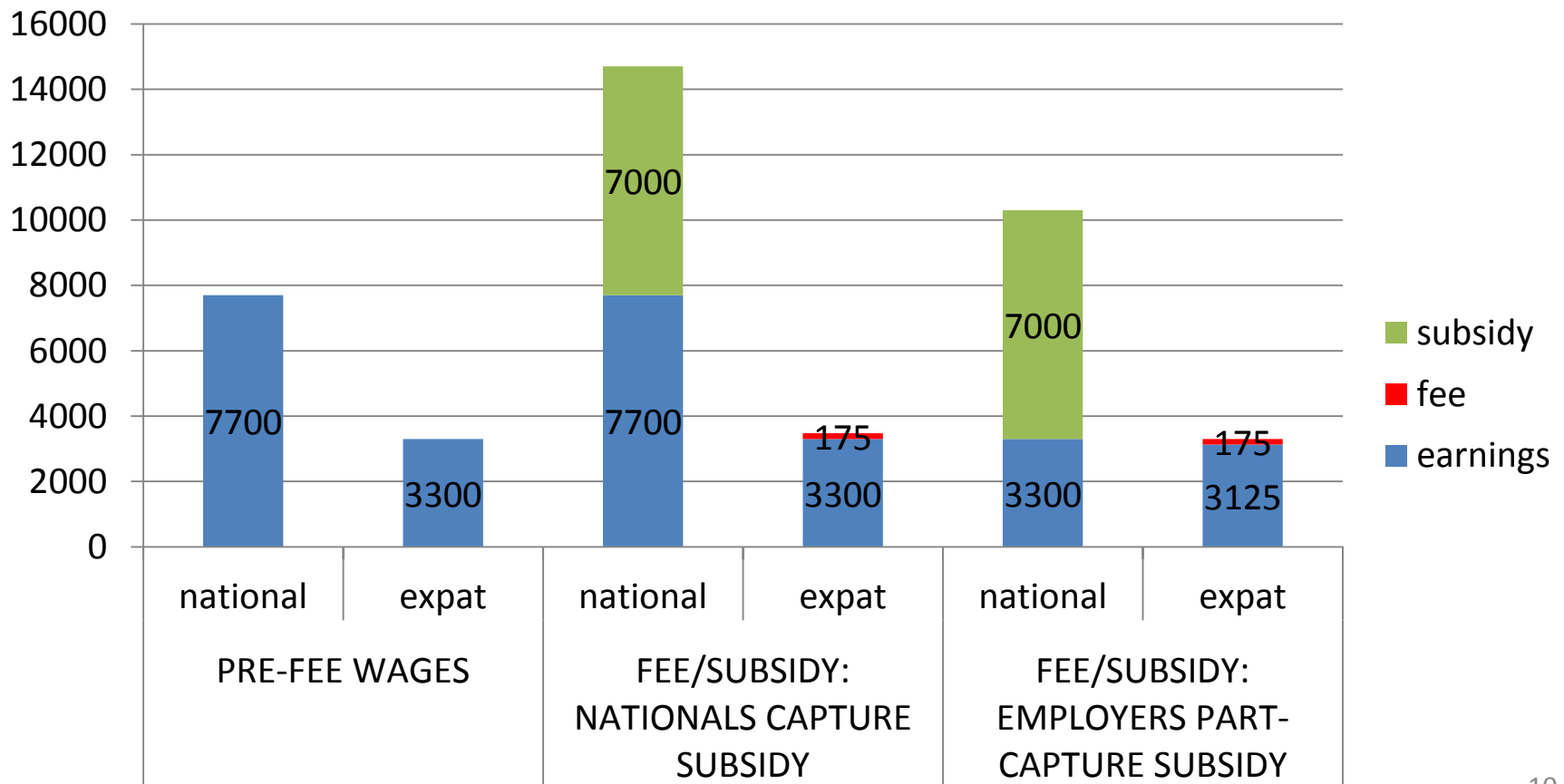
Smaller wage differentials do help nationalization

Saudization ratios vs. wage ratios of different professions



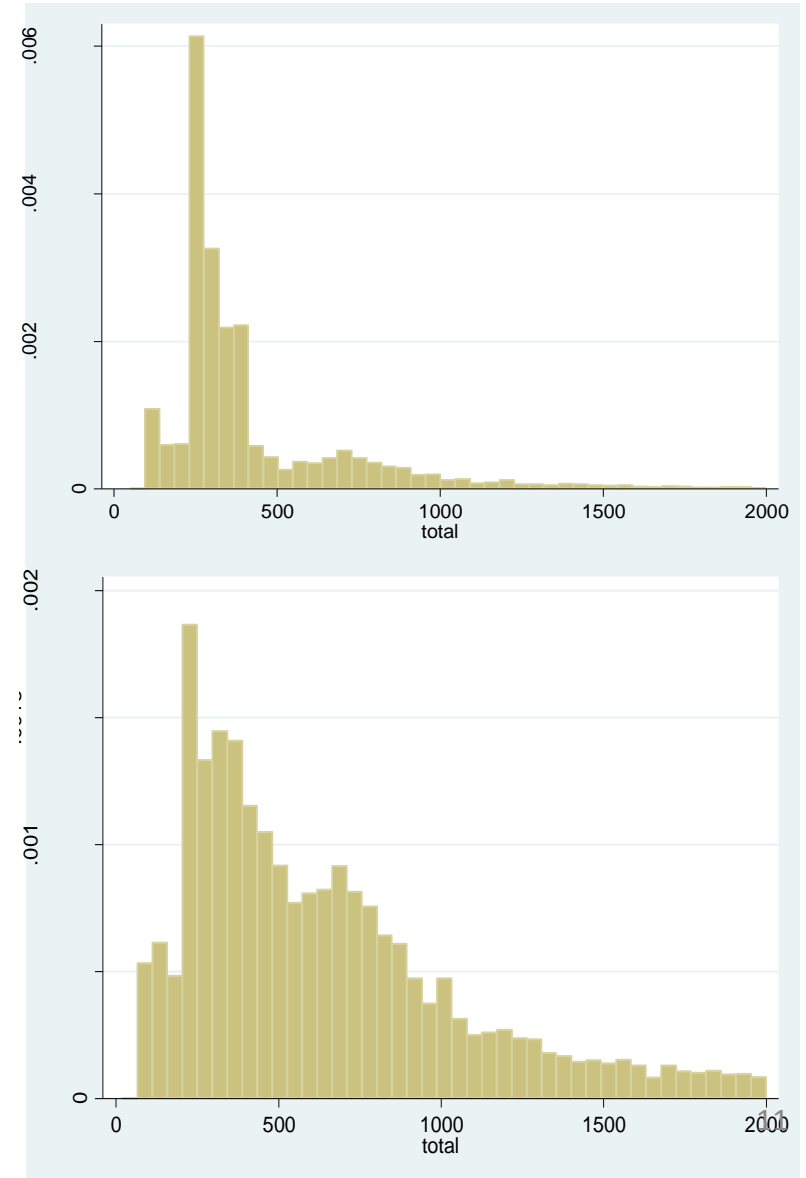
Can fees and subsidies fix the price gap?

Potential fee/subsidy scenarios for the UAE:
illustration for the high semi-skilled segment
(assuming 4 million expats, 100,000 national workers)



Implementation problems with subsidy schemes: Kuwait's “da'm al-'amala”

- Abuse: suspicious patterns in wage distribution of female vs. male recipients – peak exactly at threshold where employees qualify for subsidy
 - Both employees and employers have incentives to manipulate
- Incentive function potentially undermined by high civil service pay rises in 2011
- Yet, much higher national employment in private sector than Qatar and UAE!



Prices also aren't the whole story: differences in labor conditions for expats and nationals

- Foreigners often willing to work longer hours and put up with more difficult working conditions
 - While nationals' expectations shaped by public sector benchmark (survey e.g. shows that majority would prefer 6 or less working hours/day)
- Foreigners' **mobility** restricted through sponsorship systems
 - Domestic turnover of foreign workforce typically below 5% (and usually following dismissals, not quits), while 15% and more for nationals (and usually result of quits): citizens can easily switch jobs
 - At the same time, nationals usually harder to dismiss than foreigners

→ *Another (non-wage) reason for employers to prefer expats*

Kuwaiti sponsorship transfers by sector (2013)

mining	0.7%
industry	2.3%
utilities	0.8%
construction	1.0%
transport and communications	2.5%
hotels, restaurants, commerce	2.9%
social services	3.4%
real estate and business services	2.4%
agriculture	1.1%

(breakdown by quits vs dismissals not available)

- Total average mobility 2.4%
 - External mobility (country entries/exits of foreign workers) about five times higher!
- Sponsorship reform discussion continues, but limited steps to date

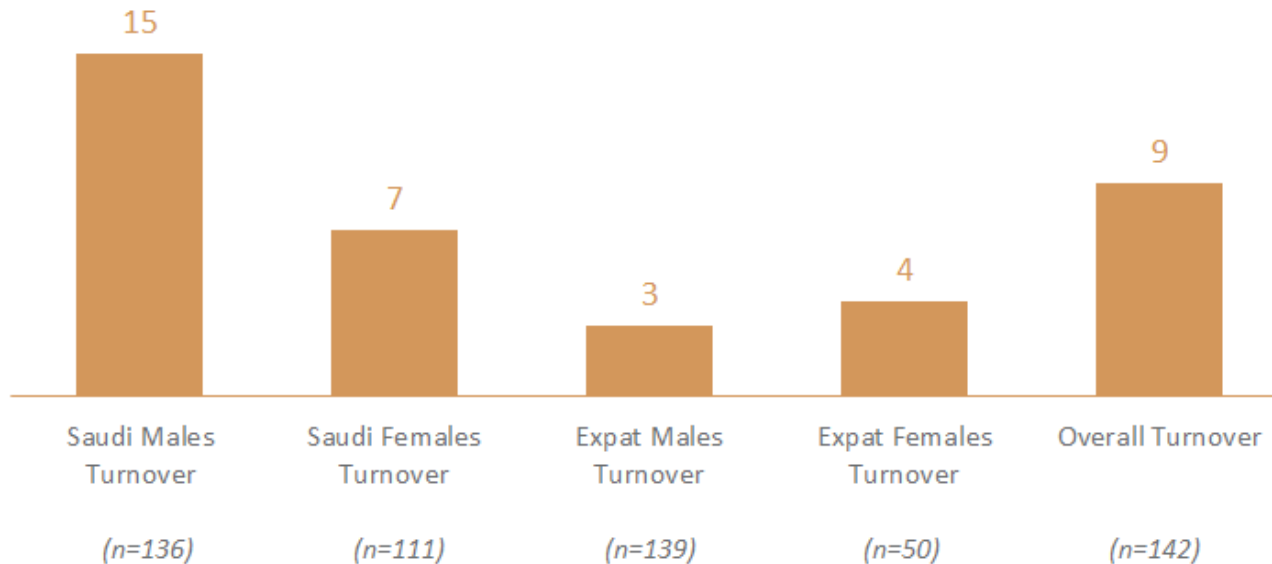
External mobility > internal mobility

UAE foreign workforce turnover statistics

	2011	2012	2013
total labor force	3,875,821	4,011,876	4,026,764
new arrivals	1,000,863	1,076,955	1,057,197
arrivals/total	25.8%	26.8%	26.3%
transfers	118,526	141,021	157,647
transfers/total	3.1%	3.5%	3.9%

Despite high transaction costs of foreign recruitment (recruitment, relocation, acquisition of local skills etc.)!

Average turnover of Saudi private sector employees



Turnover is calculated based on the information provided by the respondents on the Number of employees (Saudis / Expats) currently employed by their company, the Number of employees (Saudis / Expats) who joined the company in the past 12 months and the Number of employees (Saudis / Expats) who left in the past 12 months.

$$\text{Turnover(past 12 months)} = \frac{\text{Number employees who left}}{[\text{Number of employees} + (\text{Number of employees} + \text{Number of employees who joined} - \text{Number employees who left})/2]}$$

→ *Mobility differential*

Saudi employers are worried about retention of nationals (Accenture survey)

Concern of retention of Saudi males as compared to their recruitment



■ Retention Much less difficult ■ Retention Less difficult ■ About the same ■ Retention More difficult ■ Retention Much more difficult

Concern of retention of Saudi females as compared to their recruitment



■ Retention Much less difficult ■ Retention Less difficult ■ About the same ■ Retention More difficult ■ Retention Much more difficult

Given that recruitment in the age of Nitaqat is already difficult, the similarly large worry about retention is significant

“Sticky” national employment (Accenture data)

Employer survey: How much of an issue has it been for you to dismiss Saudis as compared to foreigners?

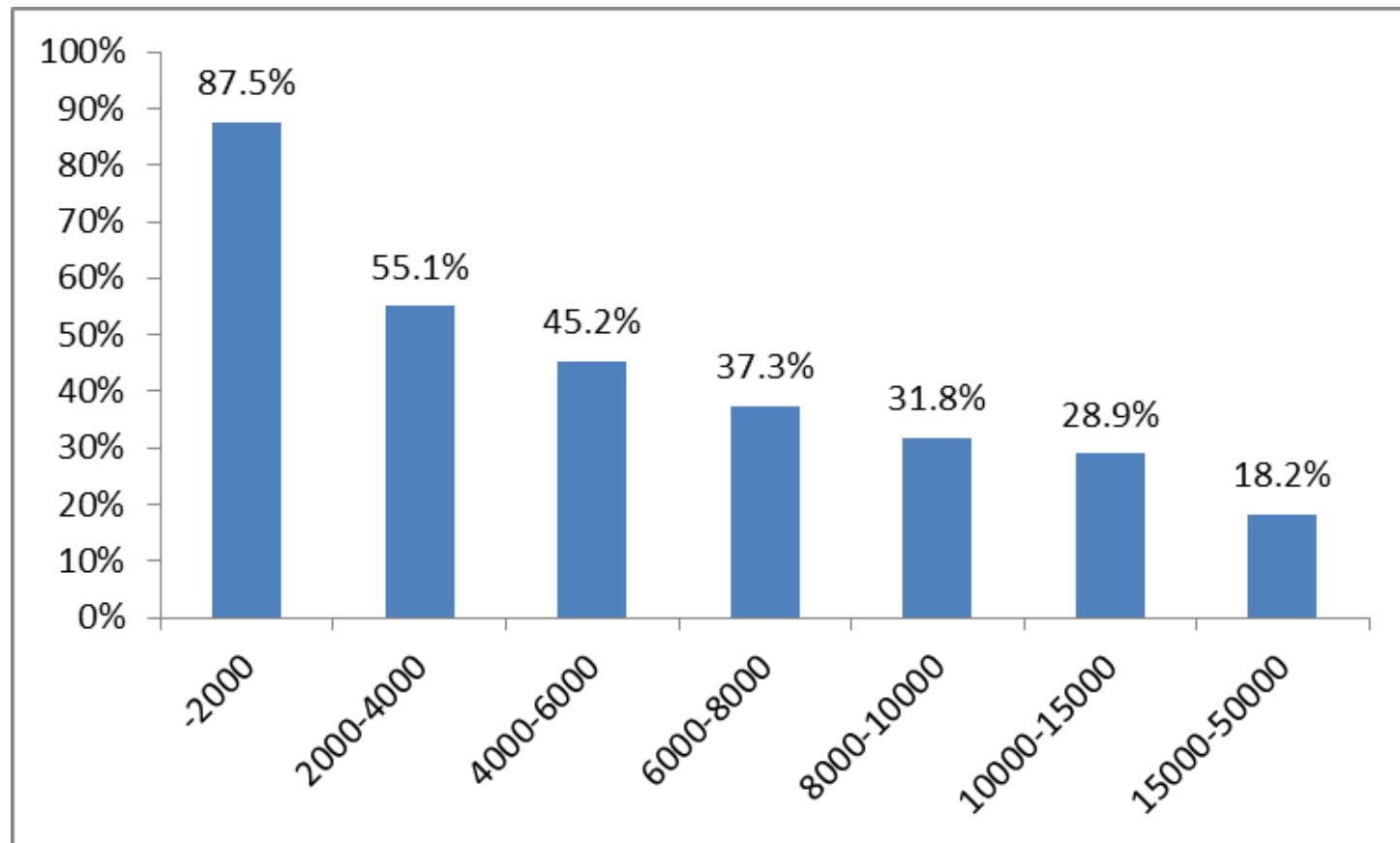


→ Nationals are more difficult to hire, leave jobs more easily, and are harder to fire than foreigners

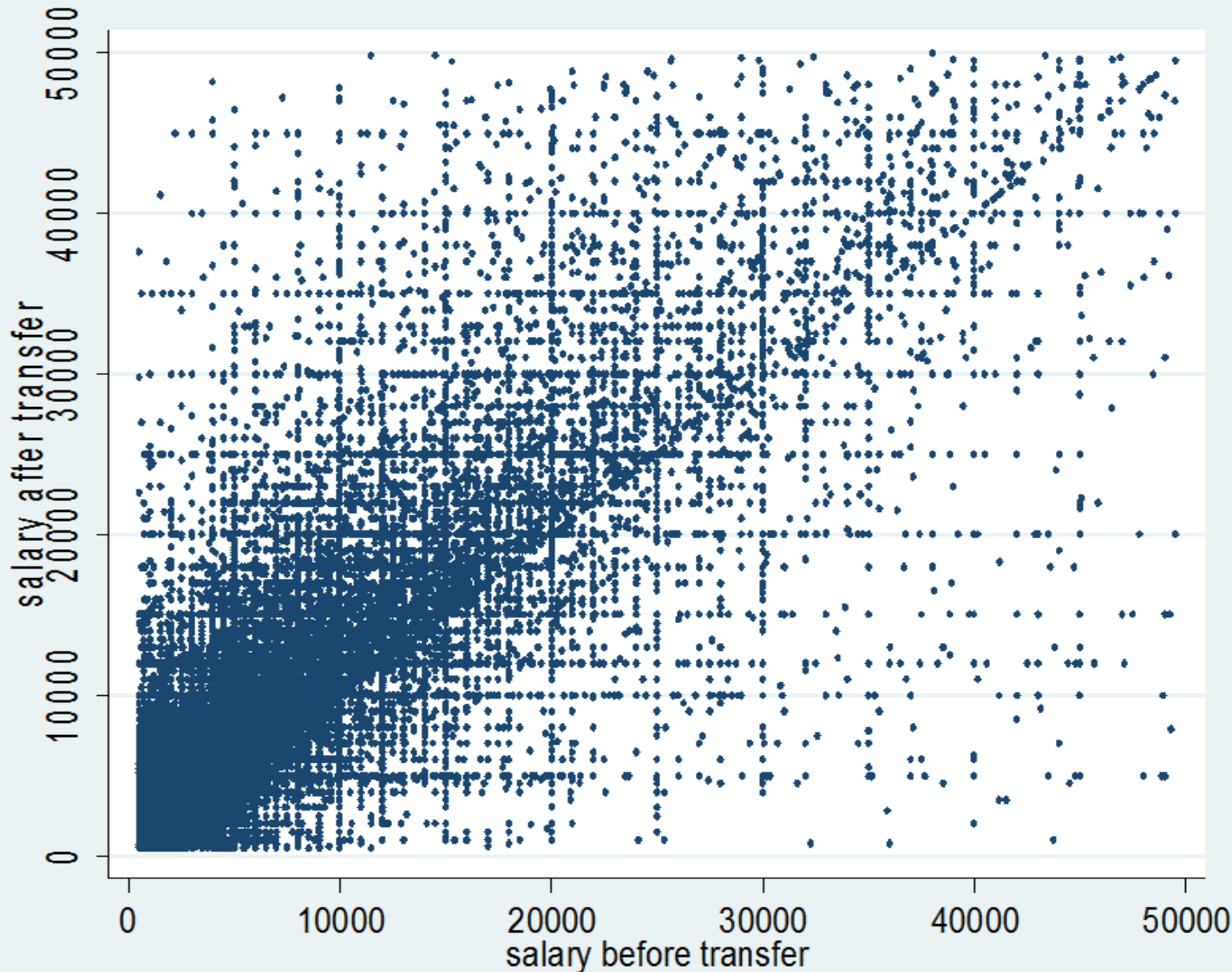
→ Mobility gap

Mobility improves wages: UAE evidence

Wage gains of foreign workers who changed employers in 2013, by wage bracket (Dh/month)



Salaries before and after transfers in 2013

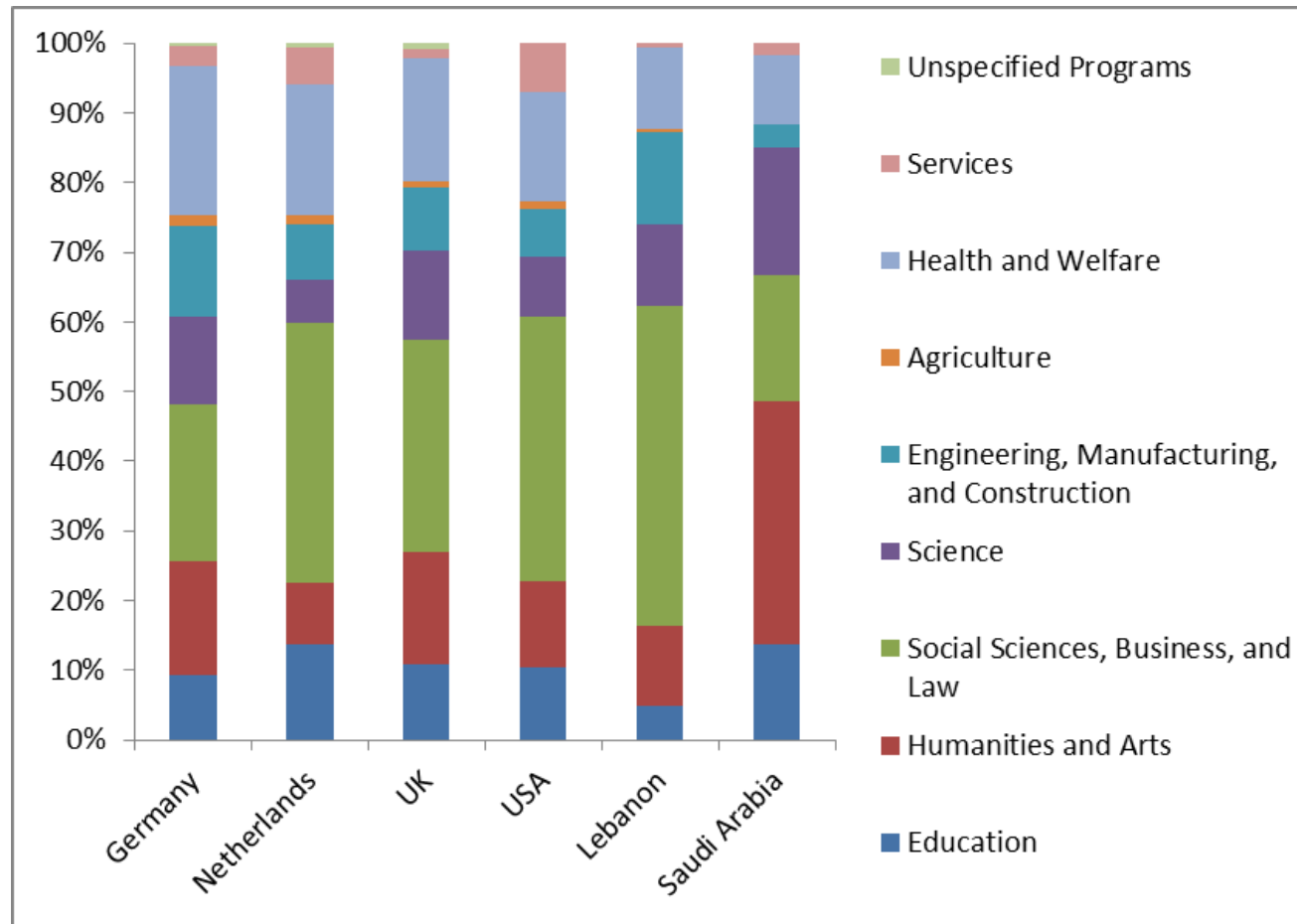


Particular
gains for
less paid
workers!

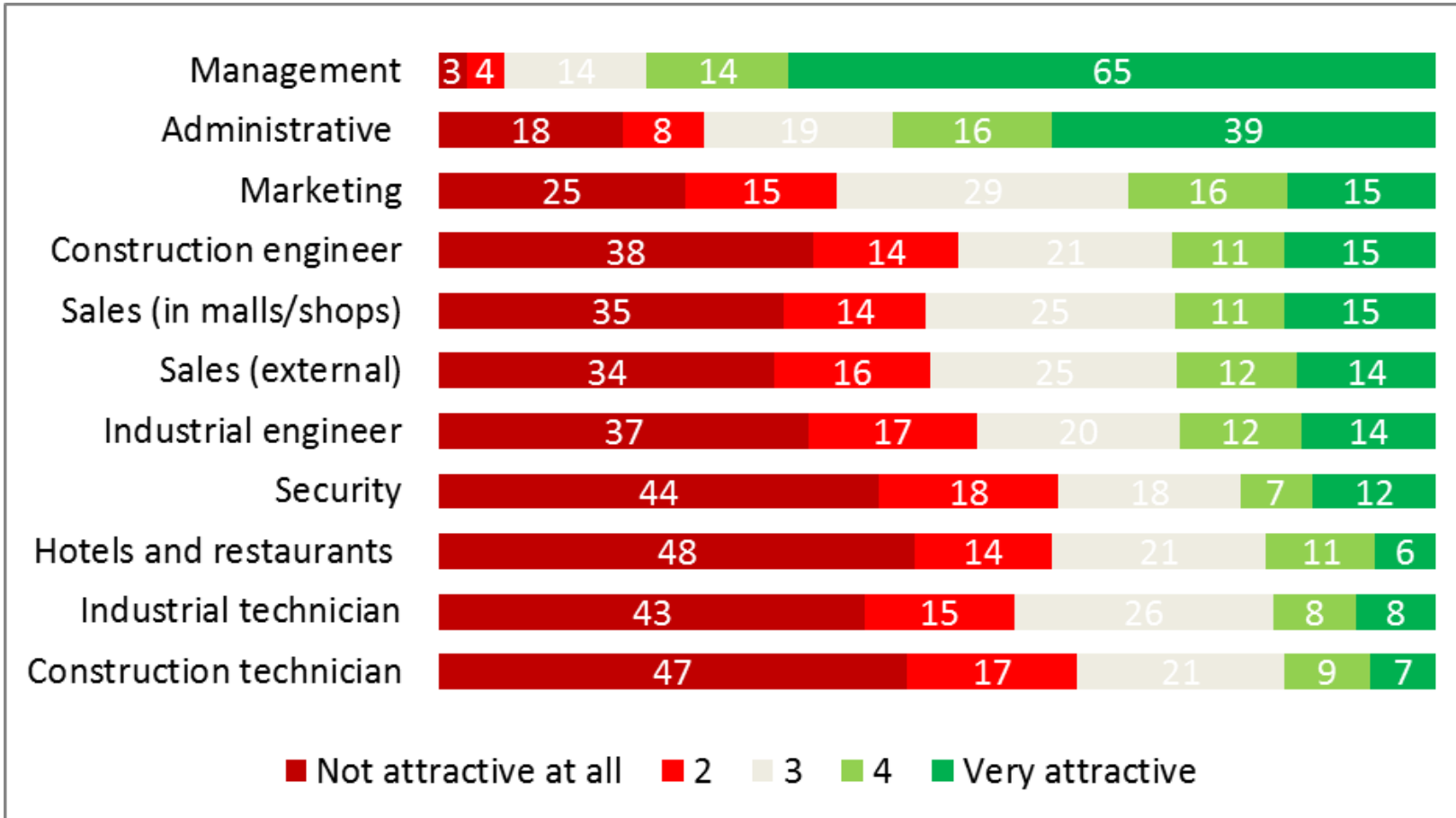
*Narrowing
the labor
price gap?*

Even if prices and mobility are fixed, what about skills and attitudes?

Saudi graduates according to field of study (UNESCO, 2010)



Job preferences of Saudi job-seekers (Yougov survey)

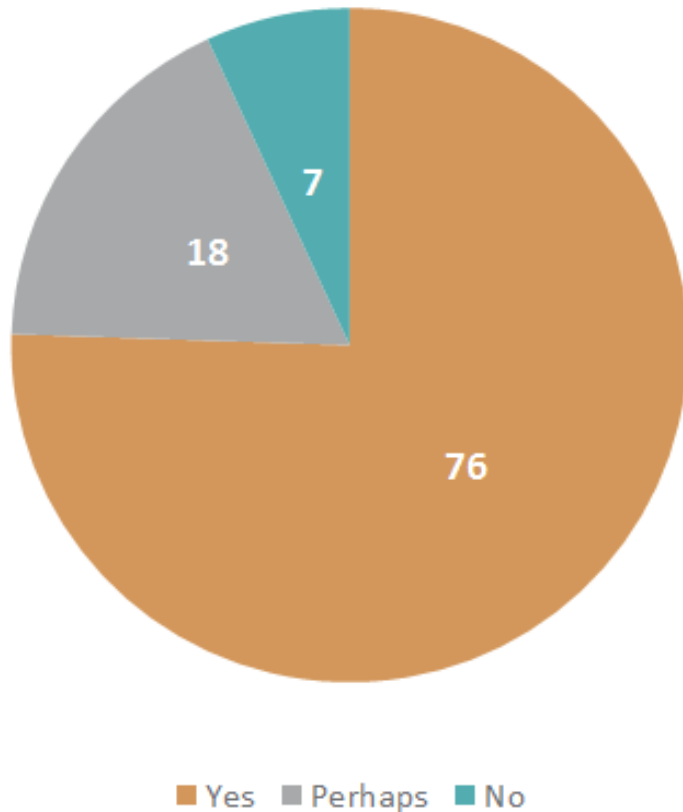


→ Limited supply where it might be needed

Survey of current Saudi private sector employees: Would you accept a government job with similar salary, higher job security and working hours from 7:30 to 2:30? (% , Accenture)

- How many do you think would say yes?
- How many would say yes even if the working hours were the same as in their current private job?

Survey of current Saudi private sector employees: Would you accept a government job with similar salary, higher job security and working hours from 7:30 to 2:30? (% , Accenture)



In fact, 71% would prefer a government job even with the same working hours as they currently have!

- ➔ “Waithood” and queuing for government jobs
- ➔ Labor market segmentation makes it difficult to define who is really “unemployed” in the private labor market and who is just inactive and waiting for a government job

Saudi employers: is government the main competitor in recruitment for your company?



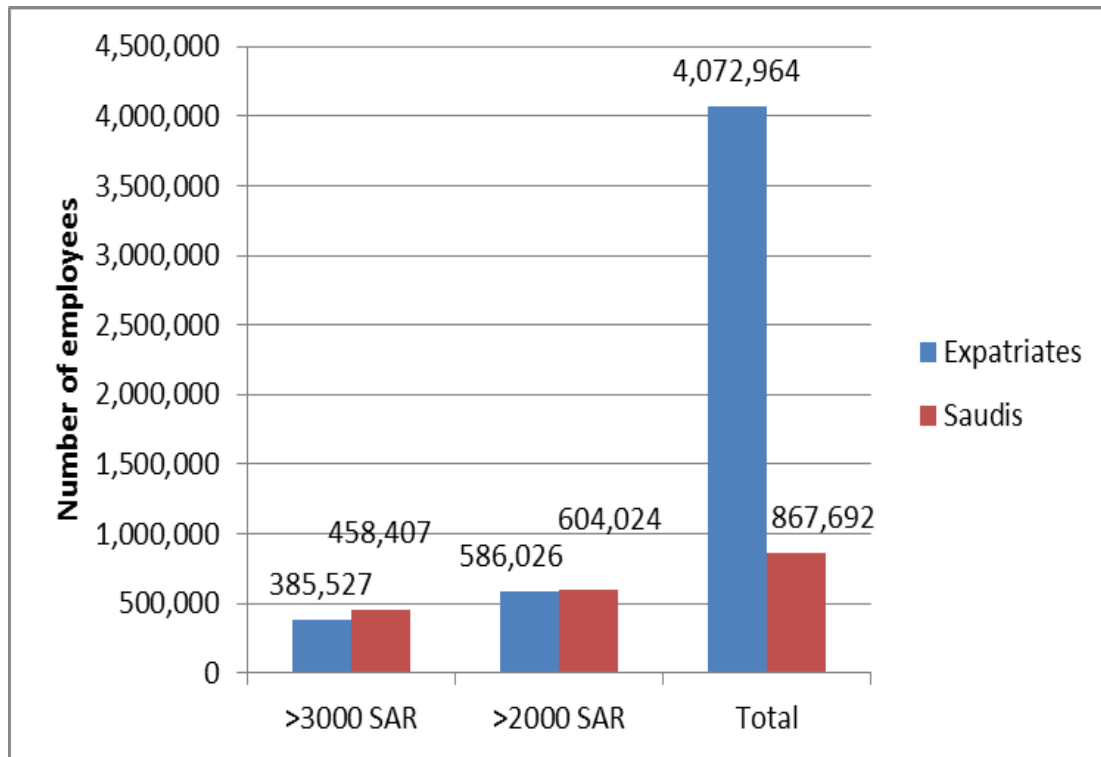
Base: All respondents (n=148)

- Asked in early 2014, a time when competition for Saudi employees *within* the private sector was already strong due to Nitaqat quotas!
- Many employers concerned that job applicants might be on the waiting list for a government position
 - A further incentive to prefer foreign recruits

Absorptive capacity: how many nationals could private businesses really employ?

- The private market employs almost 2 million individuals in Kuwait,
 - but most of these jobs are not candidates for Kuwaitization under current circumstances
 - only 16.2% of all jobs held by expatriates in 2008 paid more than 300 KD per month (~250,000 jobs)
 - Many of these are of a technical nature, no supply of specialized Kuwaitis (job seekers tend to be lower-skilled)
 - only 38% of Kuwaitis working in the private sector in 2008 had more than secondary education
- In the long run, wages, productivity and quality of national labor supply need to improve; in the short run, capacity for economically feasible Kuwaitization is limited

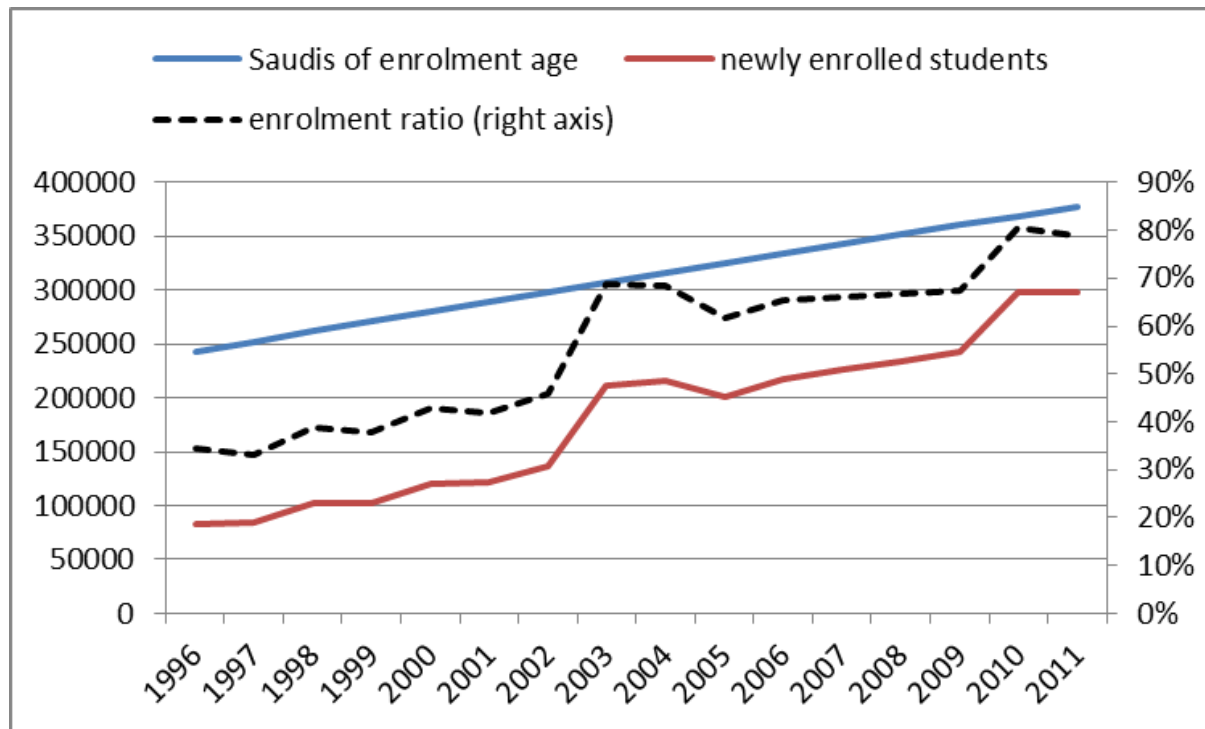
Number of private sector jobs in different monthly wage categories in Saudi Arabia (2011)



- Limited provision of jobs for Saudis that pay a living wage
 - recently changing with Nitaqat, but not clear how quickly the private sector can generate the required number of well-paying jobs given its structural reliance on low-cost labor
- One consequence of competition with low-cost foreigners: quite high levels of inequality (Gini coefficient for Saudi private sector wages in 2011 was 0.51, among the highest worldwide)

And if anything, aspirations of young job-seekers are increasing...

Number of students enrolled in universities in Saudi Arabia
(male and female)



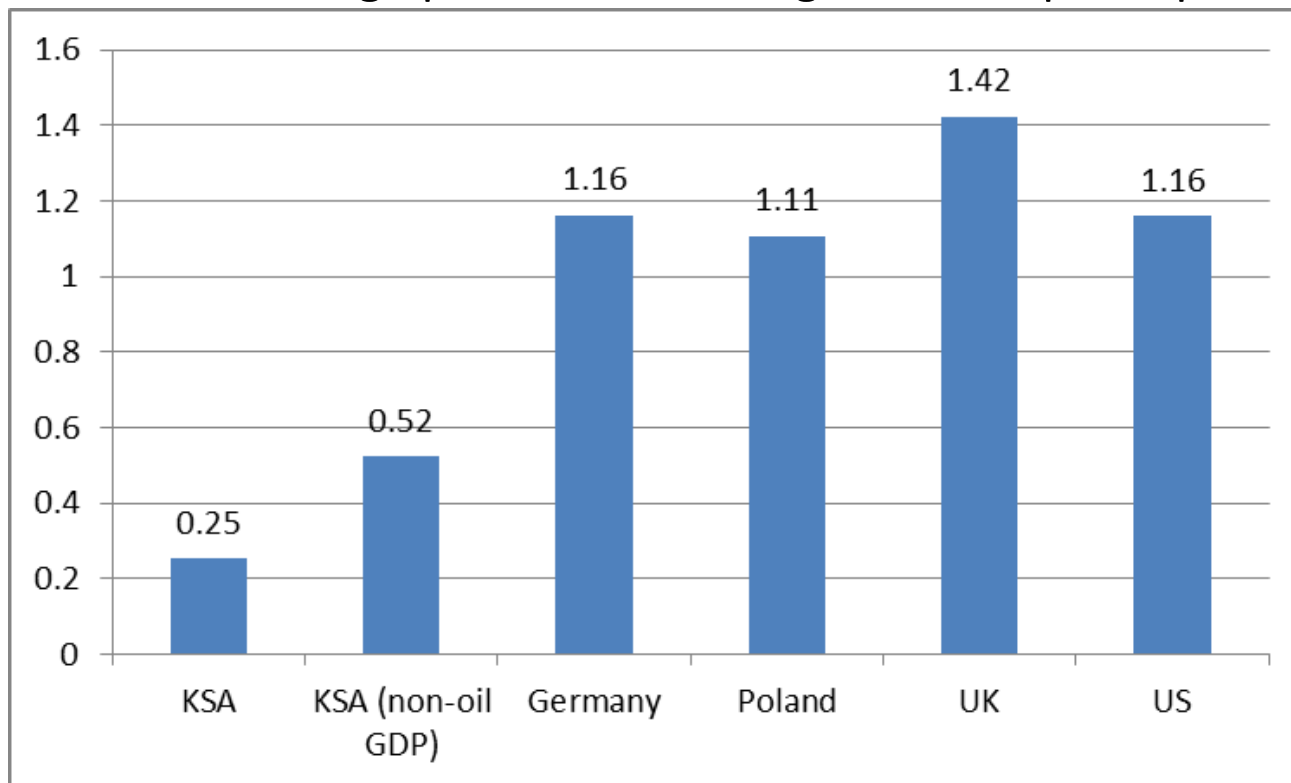
Reservation wages and expectations regarding job quality going up?

Macro-economics of GCC labor markets

- Share of private sector wages in total Saudi GDP is about 6%, of which only 3% go to Saudi employees
 - Compared with 40-50% in non-oil economies
 - Even as share of private sector GDP, wages only account for about 25%
 - Similar shares in other GCC economies
- While public sector wages constitute 10-16% of Saudi GDP
- And high “leakage” of state-generated demand: large imports of good and services
- *What does this mean for the private sector’s contribution to economic growth and job creation?*
 - Little private demand generation (especially as foreigners’ earnings are remitted abroad)
 - Consumer demand remains mostly state-driven
 - Even private jobs dependent on state demand
- *Is private-driven job creation possible in an age of austerity?*

Macro-economics of GCC labor markets

Ratio of average private sector wages to GDP per capita



The very low wage share in the private economy indicates that there is leeway for higher wages (albeit this is likely to also affect price levels)

A wild idea: sharing wealth through a citizens' income

- Make public sector hiring more selective, competitive, and based on the actual needs of the Kuwaiti administration.
- Provide all Kuwaiti adult nationals with an unconditional monthly cash grant in return
 - But not for incumbent public servants
- Can be used to “top up” private sector earnings
 - making less well-paid jobs more attractive
 - Especially given the absence of a public employment guarantee
- Would make “phantom employment” disappear
 - No need to manipulate the system
- Could unleash a wave of entrepreneurship
 - basic security
- Could lead to an immediate reduction in public employment
- Could be a great political gesture

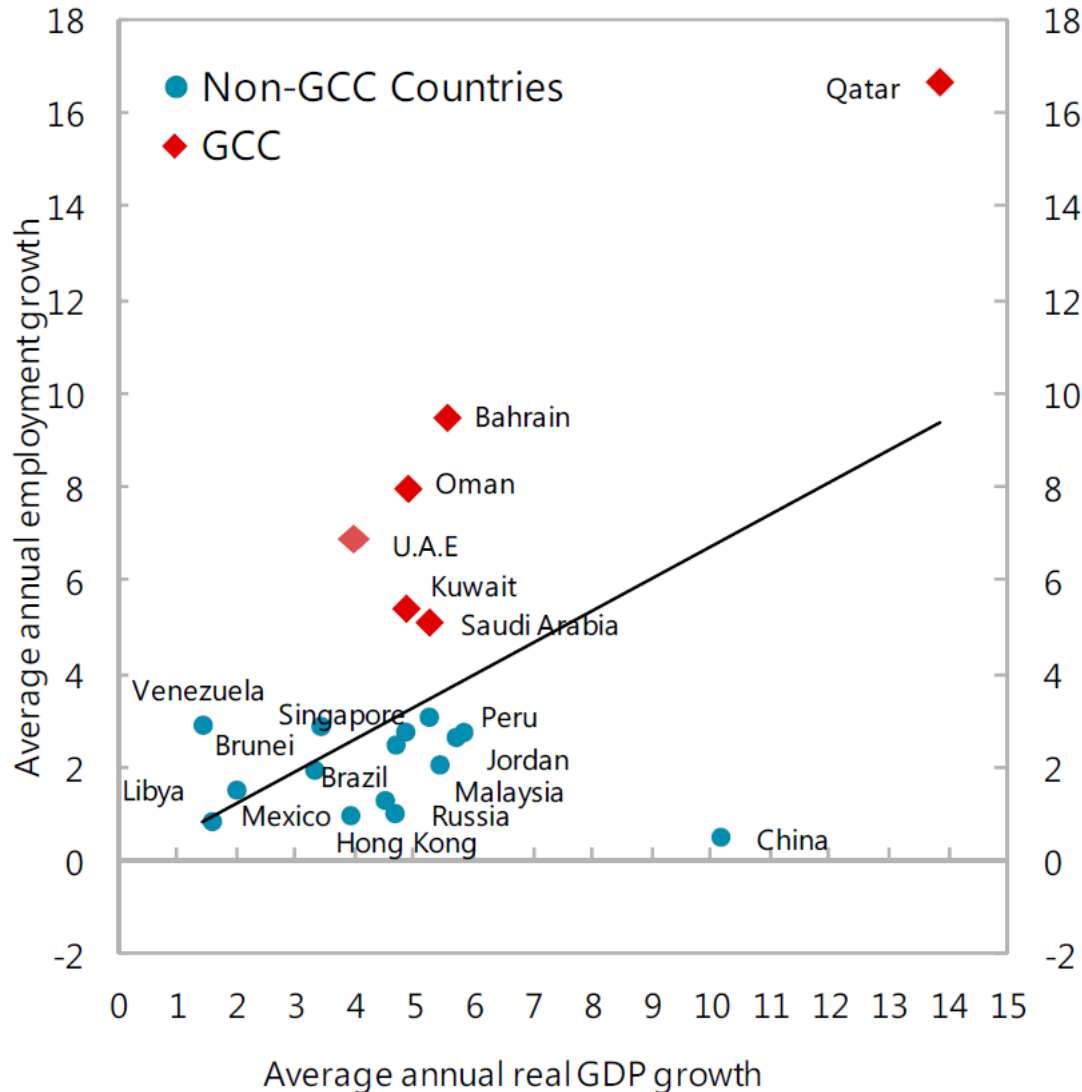
A citizens' income: some arithmetic

- potential pool of about 575,000 (adult) recipients in Kuwait.
- in October 2011, however, 290,000 Kuwaitis were publicly employed, leaving only about 285,000 recipients.
- A citizens' income of 300 KD per month would mean costs of a bit more than 1 billion KD per year.
 - the total state budget in 2011-12 amounts to 19.4 billion KD, of which already some two thirds consists of salaries
 - Modest costs – could pay for itself within a few years

Spare slides

Job-intensive growth

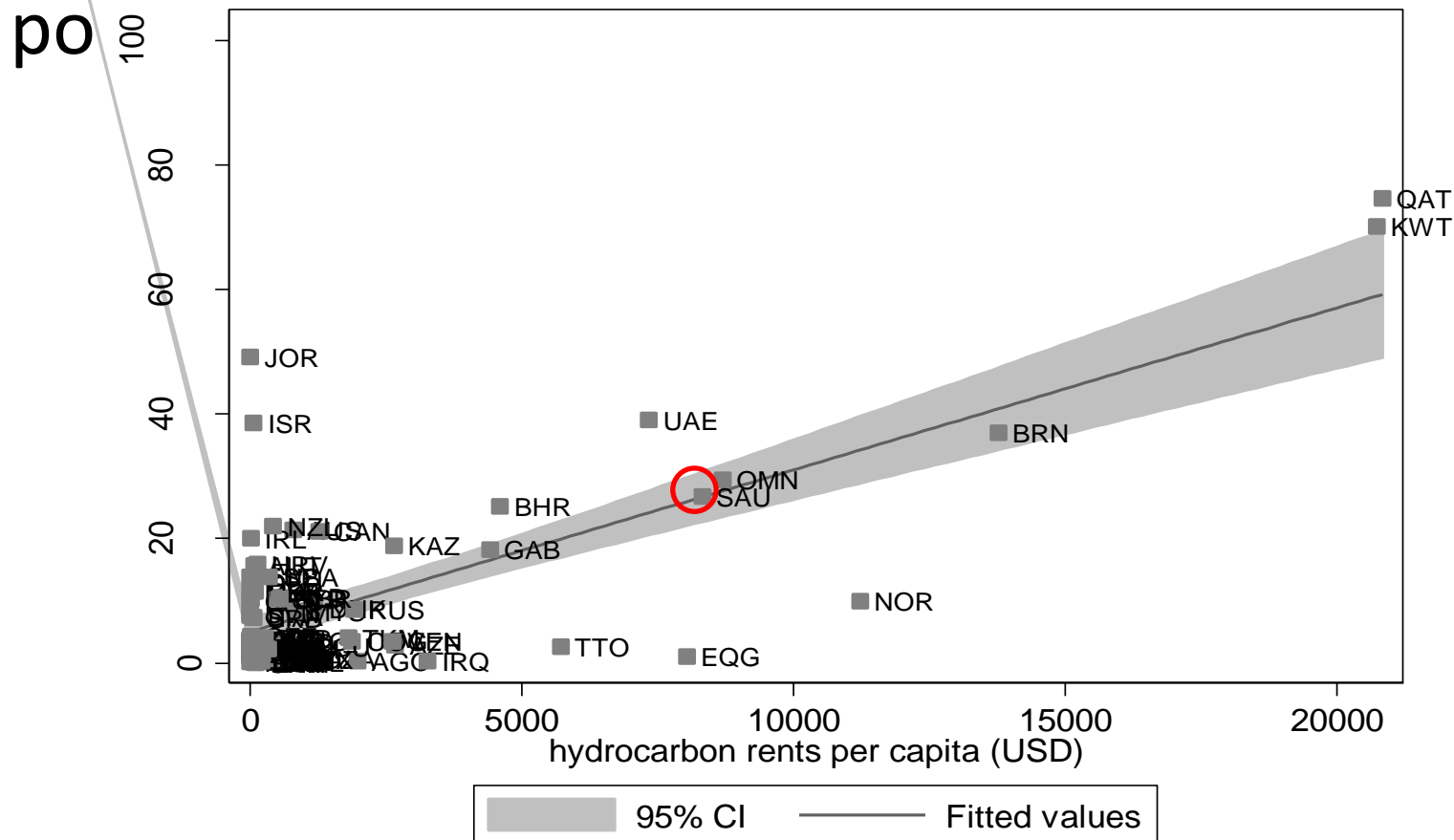
Growth and Job Creation, 2000–12



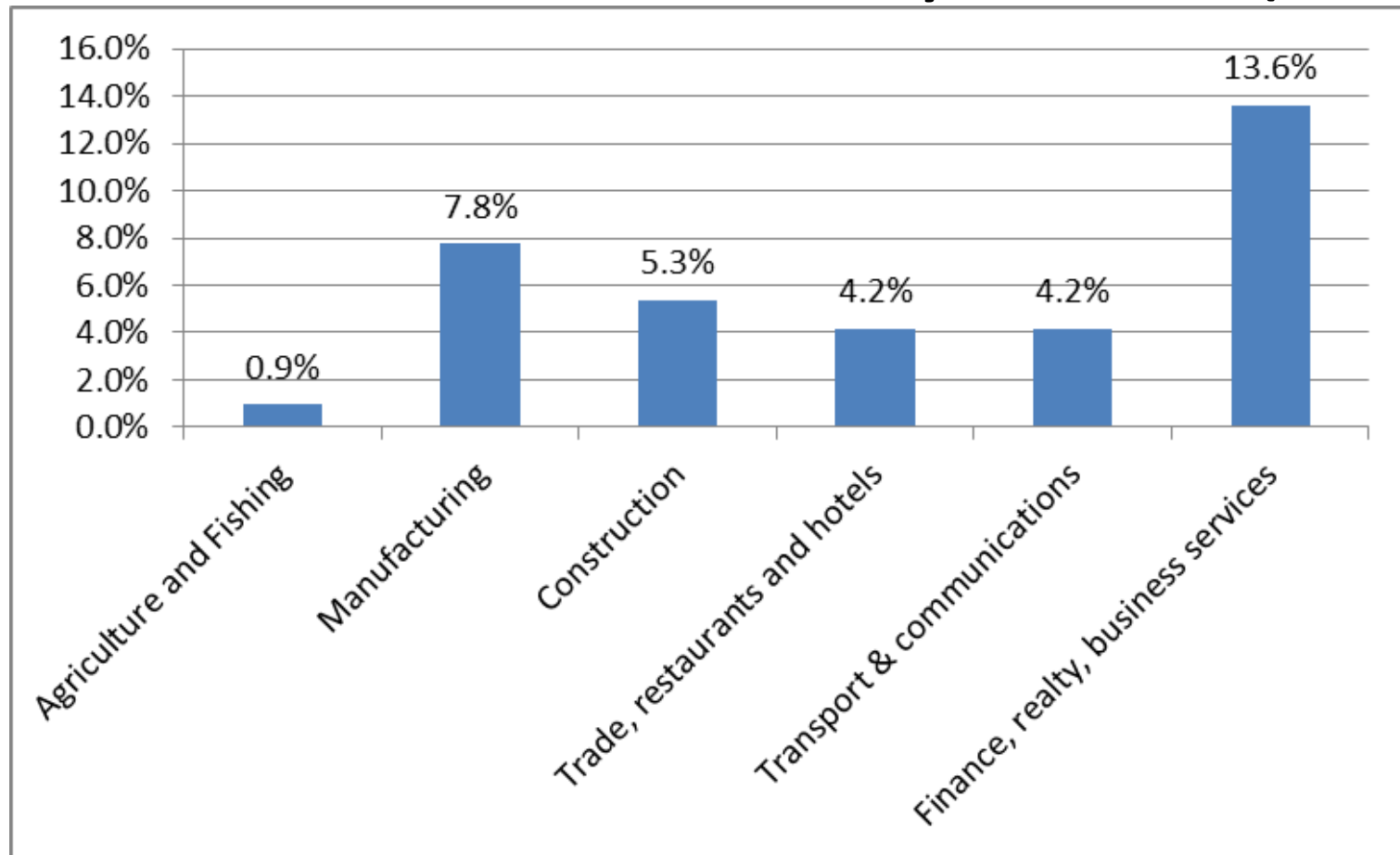
- But means low productivity growth or even decline
- Expats are the main beneficiaries

High hydrocarbon rents seem to lead to migrant dependency, but not in all cases

Hydrocarbons rent per capita vs. migrant



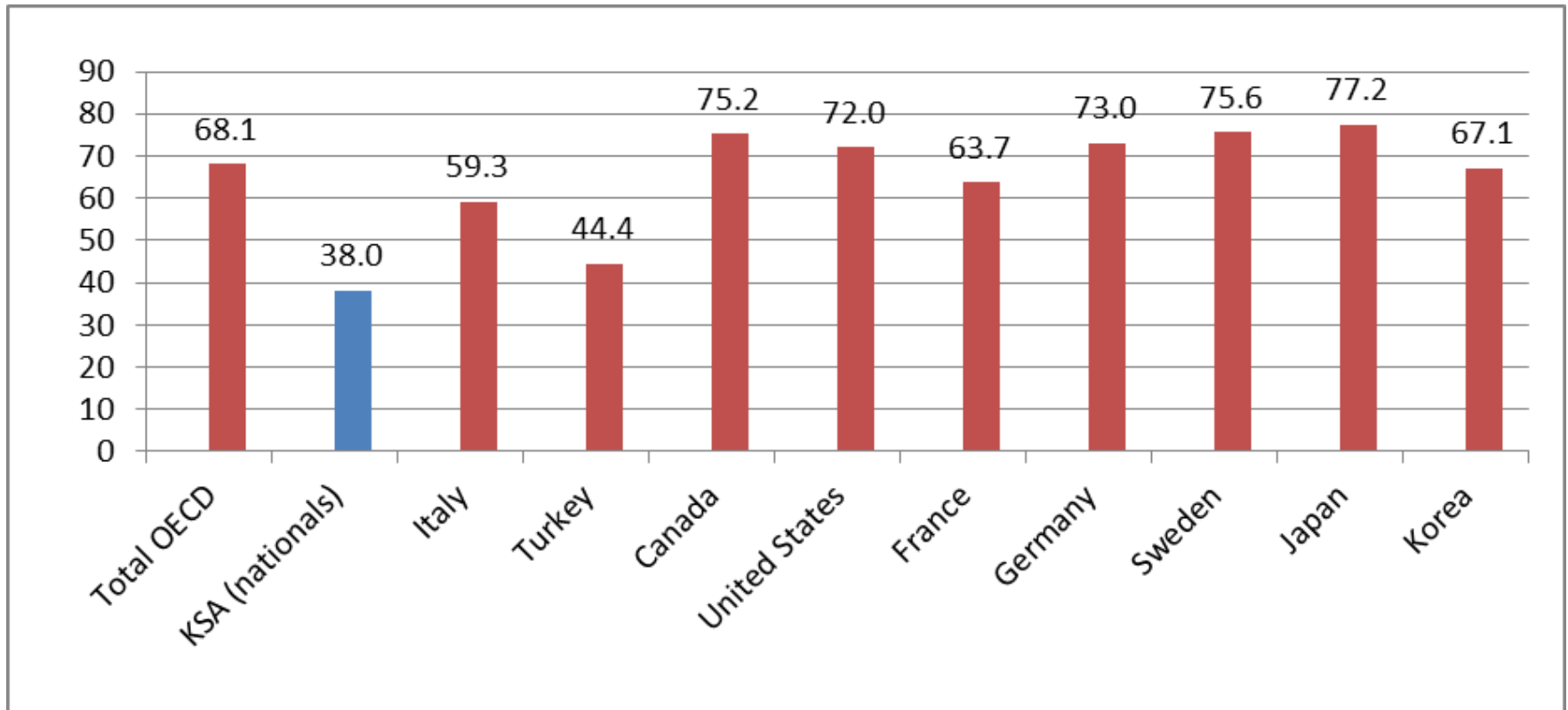
Kuwaitization ratios by sector (2010)



- Results modest and limited to sectors with better pay and productivity

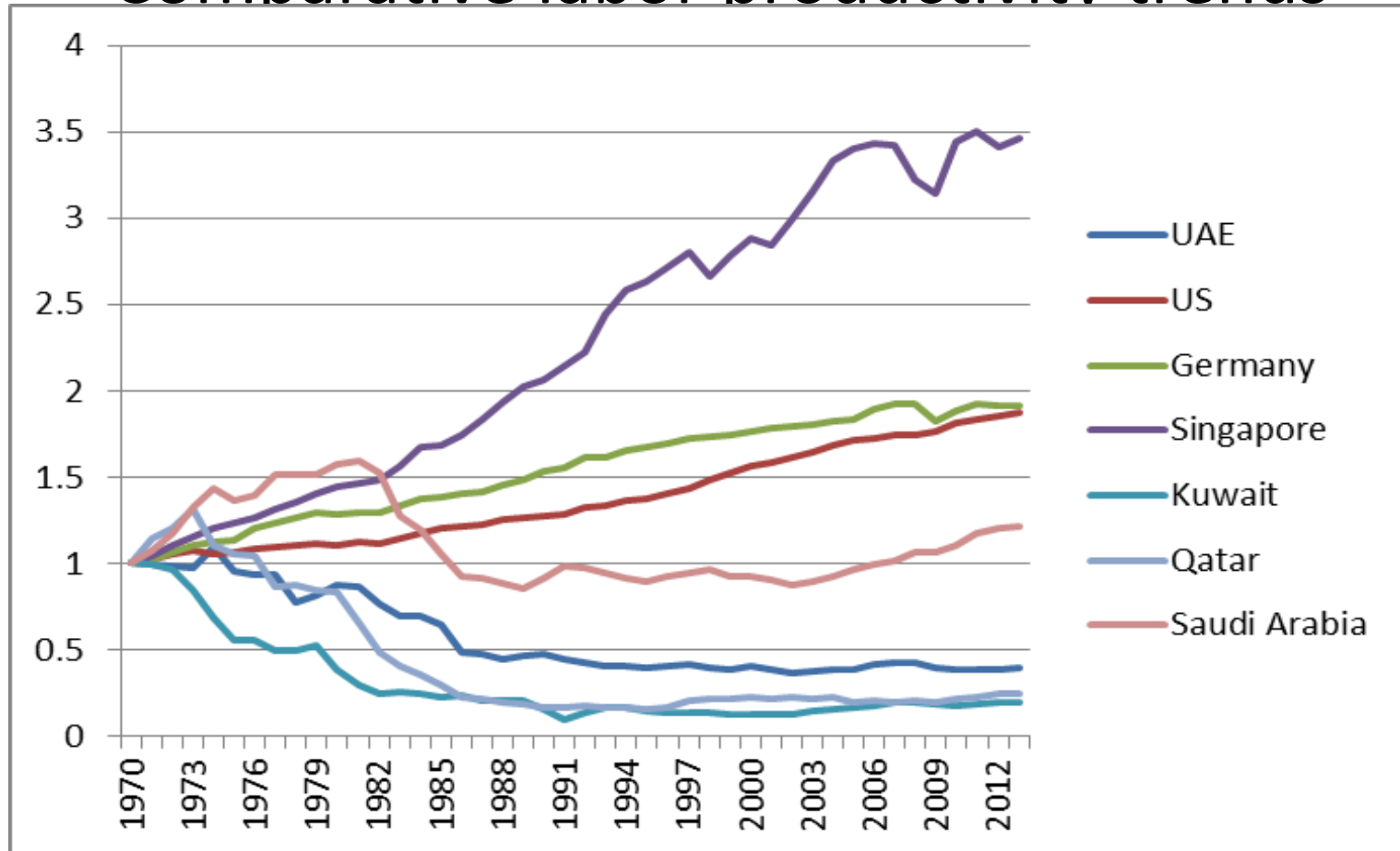
GCC labor market economics: some puzzles

Share of working age individuals who were in employment in 2012 (%)



GCC labor market economics: some puzzles

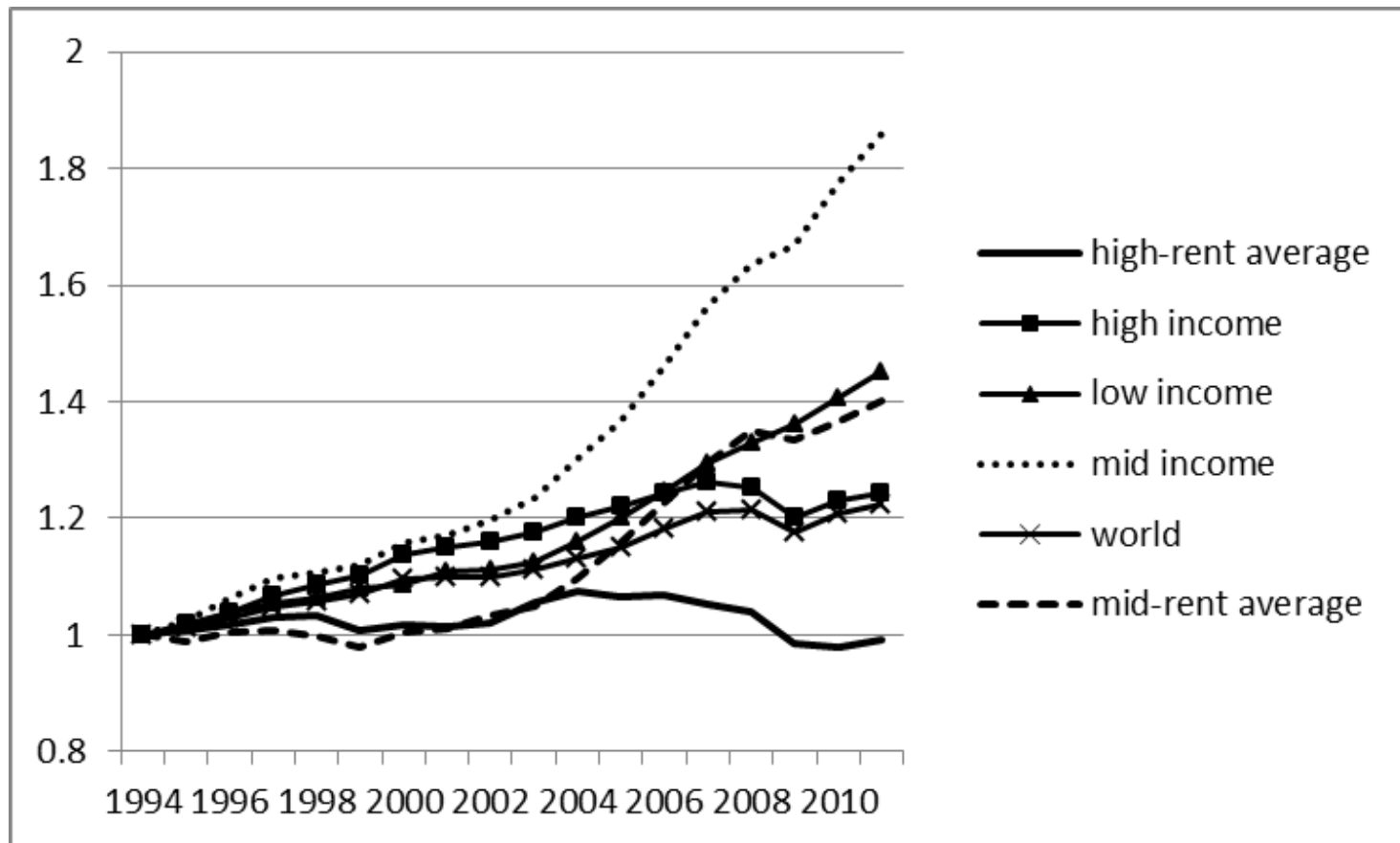
Comparative labor productivity trends



(1970 baseline set at 1 for all cases)

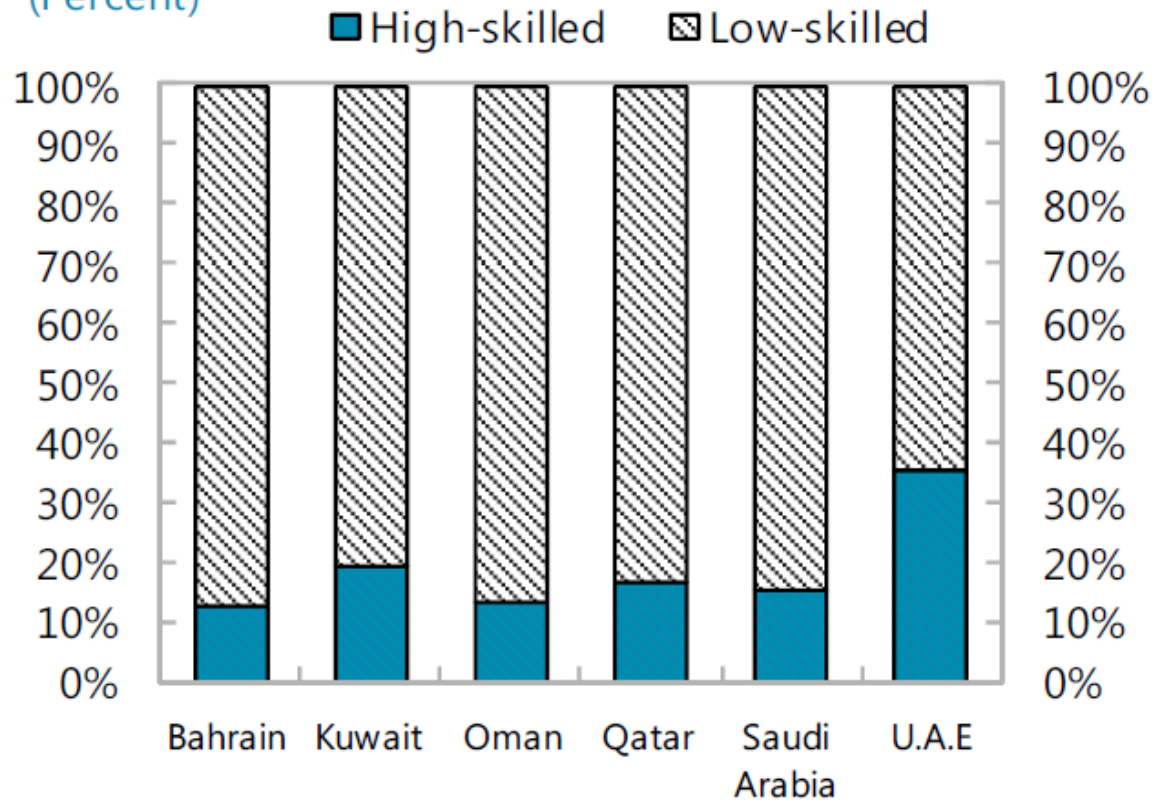
Is there a “productivity curse” for high-rent hydrocarbons exporters?

Output per member of the labor force (constant 2005 USD; 1994=1)



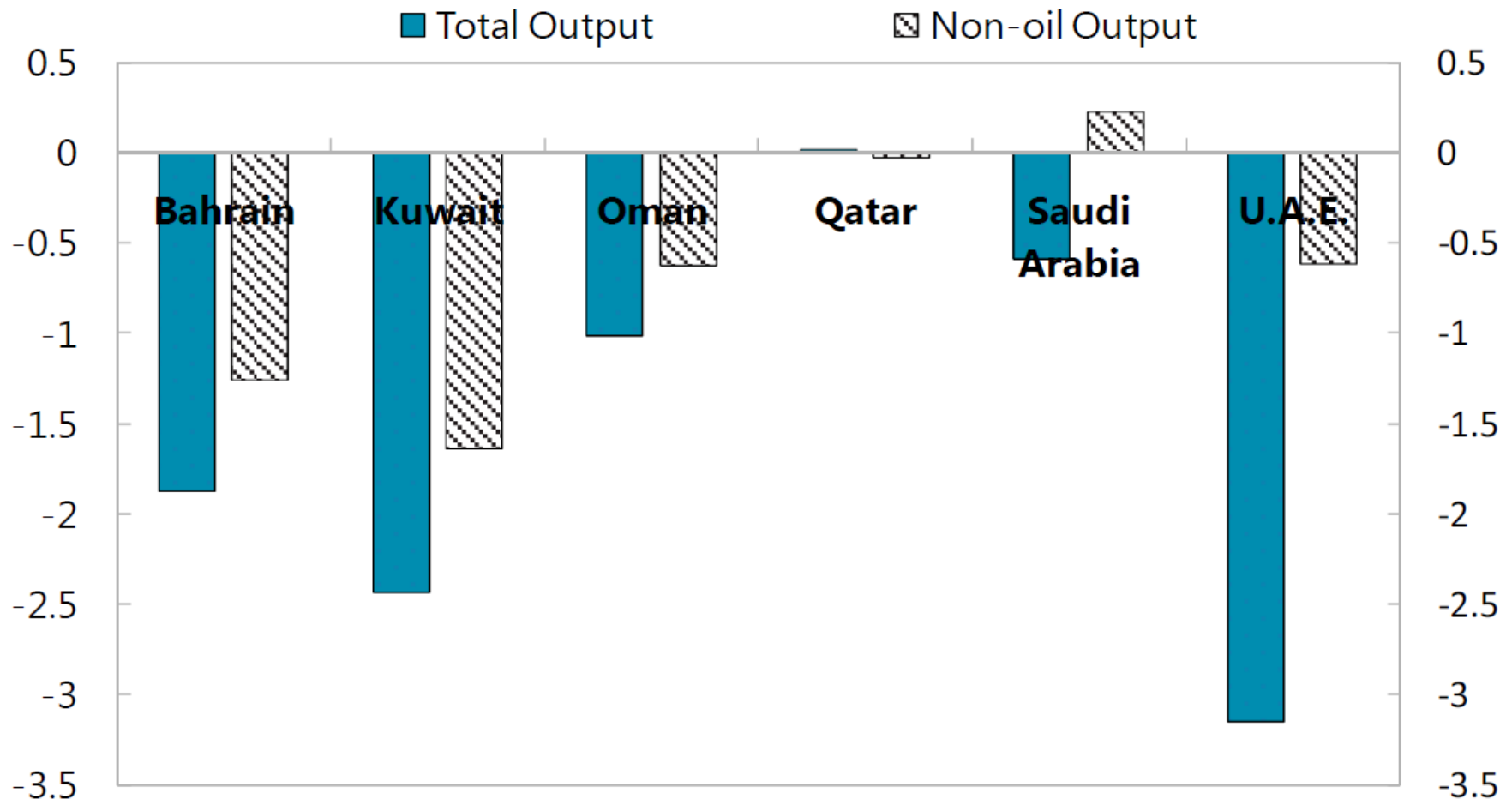
Productivity outcomes in the GCC

Skills of Foreign Workers,¹ 2013 or latest available
(Percent)



Strong preference for low-skilled workers across the region

Total factor productivity trends in the GCC (1990–2012, IMF)



Source: IMF staff calculations.