

# International Affairs

Working Paper Series # 20 | November 2013

## Employment and Entitlement in the GCC: A World-systems analysis of disrupted development

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## **Employment and Entitlement in the GCC: A World-systems analysis of disrupted development**

The Issam Fares Institute for Public Policy and International Affairs (IFI) at the American University of Beirut (AUB) aims to harness the policy-related research of AUB's internationally respected faculty in order to achieve several goals: to raise the quality of public policy-related debate and decision-making in the Arab World and abroad, to enhance the Arab World's input into international affairs, and to enrich the quality of interaction among scholars, officials and civil society actors in the Middle East and abroad.

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# Contents

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<b>Introduction</b> .....	<b>4</b>
<b>Part I: World-Systems and the GCC Semi-Periphery</b> .....	<b>5</b>
a) Core-Like Industries of the GCC .....	5
b) Peripheral Industries of the GCC .....	9
c) Exploitation in Core-Peripheral Relations.....	10
Kafala, Labor Exploitation, and International Labor Law.....	12
<b>Part II: Institutional Obstacles to Core-Like Development</b> .....	<b>15</b>
a) Labor Imbalances and Inefficiency .....	15
b) The GCC Employment Welfare State .....	17
c) Absent Educational Incentives .....	18
<b>Part III: Regional Review</b> .....	<b>20</b>
a) The Global Oil Market .....	20
b) The Arab Uprisings.....	21
<b>Works Cited</b> .....	<b>22</b>

# Introduction

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Much has been written about the ingenuity of the states of the Gulf Cooperation Council, from their physical and economic growth since the 1970s, to their political weathering of the Arab Uprisings that began in 2011, and to their ever-increasing political power in the Arab World. Conversely, human rights groups have criticized the GCC for human rights abuses, particularly in regard to migrant workers and enforcing international labor laws. Development in the Gulf has been praised for its impressive speed and seeming proficiency, while simultaneously condemned for the very practices that aim to transform the region into a global economic hub.

The reality is that behind the steel, glass and capital transfers of the Gulf's development lies the labor force that solders the steel and staffs the growing service industry. The majority of these employees are migrant workers, immigrating for both white and blue-collar positions in the GCC's few major industries. Whereas some researchers have examined the growing economies of the Gulf, and others the myriad human rights abuses that occur there, few have analyzed entitlement programs and labor migration patterns of the Gulf from a theoretical standpoint. This paper serves as a starting point for theoretical analysis of Gulf economic and social development from the perspective of Immanuel Wallerstein's World Systems Theory. The paper posits the states of the GCC as semi-peripheral and characterized by a mix of capital and labor intensive industries. The unique combination of surplus capital and a labor deficit epitomizes the GCC's challenging path towards the global core. GCC labor and state policies collectively foster a dependence on unproductive labor that, on one hand, produces short term profits, while on the other perpetuates the region's labor crisis and inhibits the GCC's transition to a majority core-like economy dominated by capital intensive industries.

The paper is organized as follows:

**Part I** provides an overview of World-Systems Theory while proving the GCC's status as a semi-peripheral group of states:

- a. Core-like Industries of the GCC
- b. Peripheral Industries of the GCC
- c. Exploitation in Core-Peripheral Relations  
—Kafala, Labor Exploitation, and International Labor Law

**Part II** identifies the three main institutional obstacles to core-like development:

- a. Poor labor migration policy
- b. The GCC Employment Welfare State
- c. Absence of educational incentives

**Part III** concludes the paper by giving an overview of the GCC in light of recent regional and global developments:

- a. The global oil market
- b. The Arab uprisings

# Part I: World-Systems and the GCC Semi-Periphery

Immanuel Wallerstein (2004) identifies the capitalist world-economy as the foundation for the modern world-system; this foundation “is *not* bounded by a unitary political structure. Rather, there are many political units inside the world-economy, loosely tied together in our modern world-system”.<sup>1</sup> From the perspective of World-Systems Theory we can understand both the GCC and its individual member states of Qatar, Bahrain, Kuwait, Saudi Arabia, Oman and the United Arab Emirates (UAE) as a loosely collected group of political units. The “glue” that holds these states together and positions them within the world-economy and world-system is then neither the Westphalian conception of statehood, geography, culture or history, but rather the “axial” and hierarchical division of labor that “divides production into core-like products and peripheral products.”<sup>2</sup> The hierarchical division is social rather than geographic and “reproduces the notion of an (evolving) historical continuum, whereby states [...] move up or down the hierarchy” depending on their productive processes.<sup>3</sup> Wallerstein (2004) categorizes states as core-like, peripheral, or semi-peripheral based on the ratio and relationship between their core-like and peripheral industries. States with majority core-like economies are considered core-like states whereas states with majority peripheral economies are considered peripheral. States with a relatively equal mix of core-like and peripheral processes are considered semi-peripheral states.<sup>4</sup> We can use this framework to understand and analyze state economic development and industrial transition.

Part I will establish the GCC as a collection of semi-peripheral states while discussing a) core-like industries of the GCC, b) peripheral industries of the GCC, and c) the exploitative nature of the core-peripheral relationship.

## a) Core-Like Industries of the GCC

“Core-periphery is a relational concept”, writes Wallerstein in *World-systems Analysis: An Introduction*. “What we mean by core-periphery is the degree of profitability of the production processes.”<sup>5</sup> Core-like processes are then those with high degrees of productivity and are situated higher in the labor hierarchy; they are capital rather than labor intensive and are often “controlled by quasi monopolies” in a few states and make up the majority of those states’ productive activities.<sup>6</sup> The most well known core-like industry in the GCC is the hydrocarbons industry. The Gulf hydrocarbon industry effectively fits Wallerstein’s definition of core-like production. The states of the Gulf hold a collective monopoly over a significant portion of the world’s oil supply—Saudi Arabia and the small emirate of Abu Dhabi possess nineteen and seven per cent of the world’s proven oil reserves respectively.<sup>7</sup> Some Gulf states are expected to maintain this monopoly into the mid-term—Qatar, with proven oil reserves surpassing 25 billion barrels, is expected to maintain its current output for nearly 60 years, not taking into account its position as the holder of the world’s third largest natural gas reserves, topping out at 25 trillion cubic meters.<sup>8</sup> Natural resources have left the Gulf with an effective regional monopoly over the hydrocarbons industry.

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1 Wallerstein, Immanuel. *World-systems Analysis: An Introduction*. Durham: Duke UP, 2004. Print, p. 23.

2 Ibid, p. 28.

3 McMichael, Philip. “World-System Analysis, Globalization, and Incorporated Comparison.” *Journal of World-Systems Research* 6.3 (2000): 668-90. *JWSR.Org*. Journal of World-Systems Research. Web. 18 June 2013, p. 670.

4 Wallerstein, p. 28-29.

5 McMichael, p. 28.

6 Ibid, pp. 28-29.

7 Hvidt, Martin. *Economic Diversification in GCC Countries: Past Record and Future Trends*. Publication no. 27. The London School of Economics and Political Science, Jan. 2013. Web. 24 June 2013, pp. 29-30.

8 “Qatar.” *CIA World Factbook*. US Central Intelligence Agency, 10 July 2013. Web. 10 July 2013.

Country	Proven Reserves (bbls in billions)	Proven Natural Gas Reserves (Trillion Cubic Feet)
Bahrain	0.12	3.25
Kuwait	104	63.5
Oman	5.5	30
Qatar	25.38	890
Saudi Arabia	262.6	287.84
United Arab Emirates	19.8	215.025

**Figure 1: Proven Oil Reserves by Country (2013)**

Source: U.S. Energy Information Administration

The desire to capitalize on oil and natural gas resources has led to the vertical diversification of the hydrocarbons industry. Martin Hvidt (2013) writes about vertical diversification in the Gulf—where the hydrocarbons industry has moved beyond extraction of raw material to the manufacturing and retail levels of industrialization—in his paper, *Economic Diversification in GCC Countries*. Large portions of the oil and gas industry are now devoted to “processing crude oil (refining) and using gas as feedstock in petrochemical plants”<sup>9</sup> in addition to production of such downstream products as plastics, petrochemicals, and fertilizers.<sup>10</sup> Due to vast local resources, these downstream sub-industries have greatly contributed to the profitability of the GCC’s hydrocarbons industry.

The profitability of the hydrocarbons industry in the Gulf has proved its core-like nature several times over. Many Gulf states have chosen to place the profits from their capital-intensive and highly lucrative hydrocarbons industries in Sovereign Wealth Funds (SWFs). The Sovereign Wealth Fund Institute (SWFI) defines a SWF as “a state-owned investment fund or entity that is commonly established from balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, governmental transfer payments, fiscal surpluses, and/or receipts resulting from resource exports.”<sup>11</sup> In the case of the GCC, SWF revenue is primarily generated by oil and natural gas exports. The country with the oldest SWF (and coincidentally the first to begin oil production), Kuwait, dates back to 1953 and collects 10% of Kuwaiti oil revenue per annum.<sup>12</sup> The largest SWF in the Gulf (and second largest in the world) belongs to Saudi Arabia; according to SWFI, Saudi Arabia’s SAMA Foreign Holdings Company boasts a remarkable US\$675.9 billion, followed by the Abu Dhabi Investment Authority with US\$627 billion.<sup>13</sup> According to SWFI’s list, “Largest Sovereign Wealth Funds by Assets Under Management”, the only Gulf state whose primary SWF does not originate from oil or gas is Bahrain’s Mumtalakat Holding Company, founded in 2006 and with collective assets of US\$7.1 billion.<sup>14</sup> SWFs are both a clear indicator of the Gulf hydrocarbons industry’s profitability and core-like nature, and also serve the purpose of feeding and supporting other burgeoning core-like industries in the region.

Profits from the hydrocarbons industry, collected and distributed via SWFs, have produced other core-like industries in the GCC, primarily in the form of services. Looking at the GDPs of GCC countries, the core-like industries of finance, real estate, education and health now make up the second largest category of state GDP

9 Hvidt, p. 7.

10 United Nations. Economic and Social Commission for Western Asia. *Economic Policy in the ESCWA Region and Its Impact on Employment*. By Steffen Hertog. Economic and Social Commission for Western Asia, 26 Mar. 2012. Web. 24 June 2013, p. 55.

11 “What Is a SWF?” *Sovereign Wealth Fund Institute*. N.p., n.d. Web. 5 Aug. 2013.

12 Hvidt, p. 9.

13 “Fund Rankings.” *Sovereign Wealth Fund Institute*. N.p., n.d. Web. 5 Aug. 2013.

14 “What is a SWF?”

following utilities and mining.<sup>15</sup> The growth of these private sector industries has been heavily criticized because of their dependence on government financial support. The Economic Commission for Western Asia (ESCWA), a subsidiary organization of the United Nations, found in its report, *Economic Policy in the ESCWA Region and Its Impact on Employment* that “Although GCC economies are more diversified, growth patterns in the private sector still broadly follow State spending”.<sup>16</sup> The acknowledgment that oil and gas are limited resources and will one day run out, along with their immense government surpluses, has driven Gulf states to invest in core-like industries while supplies last. In the *The Revised Long-Term Comprehensive Development Strategy for the GCC States*, published in 2011, the nations of the Gulf state the following:

It is also evident in laying down foundations of human development as reflected in high-quality services such as (housing, education, health and social care), and with onward heading to build up social intelligent smart society and knowledge-based economy. Along the same lines, various sectors of the economy, other than oil, have been promoted. This is in order to begin the process of a balanced development based on diversification of the sources of income as well as by ensuring active participation of the GCC states in international markets, investment and international aid.<sup>17</sup>

The vague concept of a knowledge economy is expected “to create a regional hub for knowledge and high-value industrial service activities.”<sup>18</sup> True to Wallersteinian theory, states will endeavour to transition from a peripheral economy to a majority core-like economy in order to increase productive output.<sup>19</sup>

GCC states have devoted considerable resources to modernizing technology and developing a “knowledge economy”. States such as Qatar, the UAE and Bahrain are now well known for their booming finance industries. The GCC can be most said, however, to have a quasi-monopoly in the sub-industry of Islamic Financial Services (IFS). IFSs have become popular among individuals, small business owners, and major investors because of their interest-free financing.<sup>20</sup> Rather than profiting off of interest from loans like traditional banks, Islamic banks collect deposits from clients which they in turn use to finance investment projects; returns on investments then serve as the institutions’ profits.<sup>21</sup> Islamic finance and Gulf development have gone hand in hand; before the crash of the Dubai real estate market in 2008, the government of that emirate openly “encouraged Islamic home financing through its participation in real estate giants Nakheel and Emaar Properties.”<sup>22</sup> Although the Dubai Islamic Bank, founded in 1975, is considered the first Islamic bank to finance industry, agriculture and real estate, Manama is now “the undisputed Mecca of the IFS sector” with seven out of twenty eight globalized IFS firms.<sup>23</sup> Considering global industrial figures, the IFS industry now has an annual growth rate around twenty five per cent and a total estimated worth of US\$639 billion, though with Manama as IFS’s Mecca, it remains clear that the Gulf is “the cradle of the contemporary IFS sector.”<sup>24</sup> Concerted Gulf efforts to carve out a niche in the global financial industry reflect the desire to diversify and modernize the economy in the direction of capital intensive, core-like production.

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15 *Economic Policy in the ESCWA Region*, p. 22.

16 *Economic Policy in the ESCWA Region*, p. 27.

17 Gulf Cooperation Council. Economic Affairs. Commerce and Industry Department. *The Revised Long-Term Comprehensive Development Strategy for the GCC States (2010-2025)*. N.p.: n.p., 2011. Print, pp. 11-12.

18 Hvidt, p. 27.

19 Wallerstein, p. 29.

20 Roy, Delwin A. “Islamic Banking.” *Middle Eastern Studies* 27.3 (1991): 427-56. *JSTOR*. Web. 31 July 2013, p. 428.

21 *Ibid*, p. 431.

22 Bassens, David, Ben Derudder, and Frank Witlox. “Searching for the Mecca of Finance: Islamic Financial Services and the World City Network.” *Area* 42.1 (2010): 35-46. *Wiley Online Library*. Web. 31 July 2013.

23 *Ibid*.

24 *Ibid*.

GCC efforts to acquire a core-like knowledge economy are also evident in state investment in education. In most GCC states, such as Qatar, primary education is now publicly available to all citizens (while this is impressive considering Qatar's recent history as an independent state and its very modest beginnings, it is important to note the comparably palpable ratio of Qatari citizens to residents).<sup>25</sup> Maroun et. al., however, find in their paper, *How to Succeed at Education Reform*, that Gulf public primary education does not adequately prepare students for the technological knowledge economy that the core-minded states desire; GCC primary education, the authors argue, is "a mixture of religious/moral and secular education" and that although "religious studies are paramount for maintaining and reinforcing religious heritage, [...] other subjects such as math and science are equally important for a knowledge-based economy".<sup>26</sup> The report finds that the current Gulf educational structure may overemphasize subjects other than science and discourage students from studying it at the tertiary level.<sup>27</sup>

Despite still pending issues of quality at the primary and secondary levels, Gulf states have invested heavily in university and tertiary education levels in order to develop knowledge economies. Since 2006 and 2010, Abu Dhabi has hosted campuses of the Paris-Sorbonne and New York University (NYU) respectively;<sup>28</sup> once completed, the permanent NYU Abu Dhabi campus on Saadiyat Island will neighbor branches of the Guggenheim and Louvre museums, which developers and UAE officials hope will create a "cultural and scientific environment".<sup>29</sup> Qatar likewise sees higher education as a prerequisite to a majority core-like economy.

Qatar has an explicit focus on creating a knowledge economy as a means to create a regional hub for knowledge and high-value industrial and service industries [...] Qatar has therefore invested large sums in establishing a cluster of well-known international universities, primarily American—the so-called Education City.<sup>30</sup>

Lying on 1000 hectares of land outside of Doha,<sup>31</sup> Education City is home to branch campuses of Stenden University Qatar, Virginia Commonwealth University, Weill Cornell Medical College, Texas A&M University, Carnegie Mellon University, and Georgetown University.<sup>32</sup> All construction, overhead costs and staff salaries are funded by the Qatar Foundation for Education, Science, and Community Development. Qatari leaders have additionally supported education development as a path to economic and social advancement via the "Well of Knowledge", a research fund established after Sheikha Mozah, head of the Qatar Foundation for Education Science and Community Development, "dedicated the proceeds from an entire oil well—as much as \$80 million per year".<sup>33</sup> Qatar continues to invest heavily in higher education while emphasizing the inseparable link between production of the Gulf knowledge economy and the extremely lucrative oil industry. The examples of the UAE and Qatar in the education field serve as some of the most extreme in emphasizing the Gulf's drive to transition into majority core-like economies based on technology, services, and academic achievement.

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25 Barrebi, Claude, Francisco Martorell, and Jeffrey C. Tanner. "Qatar's Labor Markets at a Crucial Crossroad." *Middle East Journal* 63.3 (2009): 421-42. *JSTOR*. Web. 5 Aug. 2013, p. 424.

26 Maroun, Nabih, Hatem Sammam, Chadi N. Moujaes, and Rabih Abouchakra. *How to Succeed at Education Reform The Case for Saudi Arabia and the Broader GCC Region*. Publication. Booz&Co. Ideation Center Insight, 2008. Web. 31 July 2013, p. 16.

27 Ibid, p. 16.

28 Wilkins, Stephen, and Jeon Huisman. "The International Branch Campus as Transitional Strategy in Higher Education." *The International Journal of Higher Education Research* (2012): n. pag. *Springer Link*. Web. 5 Aug. 2013.

29 Maroun et al., p. 18.

30 Hvidt, p. 27.

31 Frank, Lone. "Qatar Taps Wells of Knowledge." *Science* ns 312.5770 (2006): 46-47. *JSTOR*. Web. 5 Aug. 2013, p. 46.

32 Barrebi et al., p. 440.

33 Frank, p. 47.

## b) Peripheral Industries of the GCC

Until the 1980s, the combination of raw materials, expendable capital, low energy costs, and government subsidies made cement production the leading industry in the Gulf.<sup>34</sup> This highly competitive industry contributed to the Gulf economy and remains active today in the majority of GCC states. The fact that cement and concrete are easily produced in a myriad of other countries means the industry is highly susceptible to international competition and thereby peripheral. The advent of big oil in the 1970s nonetheless gave the cement and construction industries a significant boost. GCC countries have thus invested in physical infrastructure just as they have in the institutional; “more than half of total spending in the *Eighth Five-Year Plan*” for economic development in the Sultanate of Oman “is allocated to the construction of airports and roads and another 26 per cent is allocated to seaports, water and housing”.<sup>35</sup> The physical infrastructure that makes the Gulf suitable for conducting core-like production—office buildings, roads, bridges, hotels, apartment complexes—rests and relies on a strong peripheral sector in the same way that the periphery relies on regular capital injections from the core to drive production. This demonstrates the necessary symbiotic relationship between core and periphery.

A second major peripheral industry in the GCC is the domestic service industry. The domestic service industry is highly competitive and incredibly globalized, meaning in order for industry suppliers to be profitable, they must either be highly efficient or able to expend as little capital as possible on production; being that domestic service is entirely physical human labor it is a) by nature not technologically advanced and thus lower on the social hierarchy of labor as defined by Wallerstein and b) highly inefficient and factor intensive, requiring minimal labor costs in order to compete and ensure profitability. These restraints and realities have not impeded the growth of the domestic service industry in the GCC.

According to the International Labor Organization (ILO), the United Nations entity charged with protecting workers around the world, there are an estimated 52.6 million domestic workers globally—83% of whom are women—performing tasks such as cooking, cleaning, caring for children or the elderly, gardening, chauffeuring, or providing security services.<sup>36</sup> Some scholars now estimate that the GCC hosts over five million migrant workers “engaged in domestic work, retailing and leisure industries and other service industries”.<sup>37</sup> Population statistics on the number of specifically domestic workers in the GCC vary widely, however, due to the industry’s significant presence in the global “shadow economy”, the lack of regulation in which helps to minimize labor costs.<sup>38</sup> Data gathered by different organizations reflects these wide variations; the *Qatar Population Status 2012* counted 55,167 domestic workers in Qatar in 2011,<sup>39</sup> whereas LABORSTA—the statistical authority of the International Labor Organization—puts the number at 72,780.<sup>40</sup> The high number of domestic workers in the GCC indicates the region’s wealth and hints at the heavy peripheral foundation that the Gulf economies are built on.

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34 Idris, Khalid H. “The Gulf Co-operation Council (GCC): Industrial Co-operation in “A Gulf of Difference”” *GeoJournal* 13.3 (1986): 245-50. *JSTOR*. Web. 24 June 2013, p. 249.

35 Hvidt, p. 24.

36 United Nations. International Labor Organization. *Effective Protection for Domestic Workers: A Guide to Designing Labour Laws*. International Labour Office, 2012. Web. 30 June 2013, p. 1.

37 Harry, Wes. “Employment Creation and Localization: The Crucial Human Resource Issues for the GCC.” *The International Journal of Human Resource Management* 18.1 (2007): 132-46. *Taylor & Francis Online*. Web. 31 July 2013.

38 Schwenken, Helen, and Lisa-Marie Heimeshoff, eds. *Domestic Workers Count: Global Data on an Often Invisible Sector*. Publication. International Center for Development and Decent Work, 2011. Web. 5 Aug. 2013, p. 10.

39 Qatar. Permanent Population Committee. *Qatar Population Status 2012: Three Years After Launching the Population Policy*. N.p., Oct. 2012. Web. 19 July 2013, p. 14.

40 *Ibid*, p. 28.

### c) Exploitation in Core-Peripheral Relations

The relationship between core-like and peripheral products, although having extreme social implications, is largely economic. Wallerstein explains the socioeconomic relationship between core and periphery using his concept of a hierarchical system of labor; “When exchange occurs” between core and periphery, “competitive products are in a weak position and quasi-monopolized products are in a strong position. As a result, there is a constant flow of surplus-value from the producers of peripheral products to the producers of core-like products.”<sup>41</sup> Wallerstein calls this process “unequal exchange” and hints at a system of exploitation. Unequal exchange serves to further fortify the core while marginalizing the periphery and ensuring its competitive and factor-intensive nature; whereas we earlier saw the necessary symbiotic relationship between core and periphery, we can now also understand it to be parasitic. Unequal exchange and exploitation are distinct processes in GCC migrant labor policy. The following paragraphs will discuss GCC migrant worker policy as it relates to peripheral industries.

The GCC labor market and subsequent unequal exchange are driven by the region’s unique demographic makeup, namely its small national population and increasingly large non-national population. With the exception of Saudi Arabia and Oman, “foreigners form a majority of the population in all of the GCC states”, and make up about 90% of the population in Qatar and the United Arab Emirates.<sup>42</sup> Even in Saudi Arabia, a nation of 27 million, 8.4 million residents are non-nationals (see Figures 2, 3).<sup>43</sup> The extreme imbalance between nationals and non-nationals is attributable to two different types of labor shortages. The first, an absolute shortage, means that the state’s indigenous population is too small to realize its full productive potential and to meet human resource needs.<sup>44</sup> The states of the GCC have sought to ameliorate this problem with relatively open immigration policies for migrant workers.

The second category of labor shortage characteristic to the GCC is known as a relative labor shortage, under which unemployment exists alongside job vacancies; vacancies persist because the wages, occupation, or geographic location of the job make it undesirable.<sup>45</sup> In 2010, the World Migration Report found that the “situation in the GCC suggests a mixture of both absolute and relative labour shortages, which may lead to a stronger demand for migrant workers,” and produce “negative consequences on social cohesion and on the segmentation of the labour markets in the region.”<sup>46</sup> The diverse population of workers in the GCC reflects these fears; social division is blatant not only between the many unskilled workers employed in peripheral industries and those with more advanced skills employed in core-like industries, but also between nationals and non-nationals.

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41 Wallerstein, p. 28.

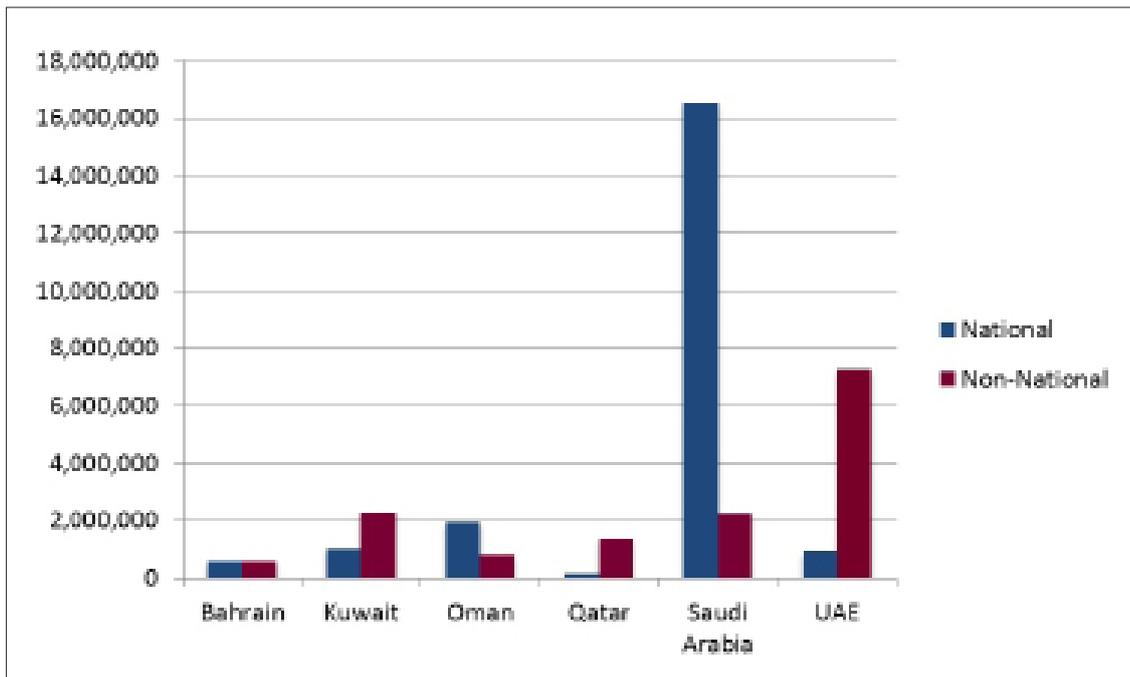
42 *Reform of the Kafala (Sponsorship) System*. Issue brief no. 2. Migrant Forum in Asia, n.d. Web. 30 June 2013, p. 2.

43 Hvidt p. 28.

44 Dito, Mohammed. *Background Paper WMR 2010: Building Capacity to Manage Labour Mobility in the Gulf Cooperation Council (GCC) Countries*. Publication. International Organization for Migration, 2010. Web. 2 July 2013, p. 8.

45 *Ibid*, p. 9.

46 *Ibid*, p. 9.



**Figure 2: National to Non-National Populations in the GCC**

*Data conglomerated from most recent government data.*

The 2010 World Migration Report found that 38.6% of the population of the GCC was non-national, with 60-70% of the non-national population originating in Asia and immigrating for employment in peripheral industries that don't require extensive skills or training, such as construction or domestic service.<sup>47</sup> The peripheral nature of their work, however, means that profits and salaries are limited by intense inter-industry competition. In order to keep production costs as low as possible, workers' wages are heavily restrained, causing them to compete against one another in an international human resource market of supply and demand that greatly benefits the employer. GCC migration policy, most notably the kafala system, encourages the acquisition of cheap labor and the flow of surplus capital from peripheral workers to those higher in the labor hierarchy.

State	National	Non-National	Total
Bahrain (2011)	584,688	610,332	1,195,020
Kuwait (2011)	1,164,448	2,467,561	3,632,009
Oman (2009)	1,957,336	816,143	2,773,479
Qatar (2012)	166,013	1,390,526	1,556,539
Saudi Arabia (2004)	16,527,340	6,150,922	22,267,262
UAE (2009)	933,381	7,266,616	8,199,996
GCC (2012)			45,900,000

**Figure 3: GCC Population by State, Nationality**

*Data conglomerated from most recent government data.*

<sup>47</sup> Shah, Nasra M. *Background Paper WMR 2010: Building State Capacities for Managing Contract Worker Mobility: The Asia-GCC Context*. Rep. International Organization for Migration, 2010. Web. 2 July 2013, p. 5.

## Kafala, Labor Exploitation, and International Labor Law

The *kafala* system developed in the 1950s as a means of regulating labor immigration to Arab states with the “economic objective” of providing “temporary, rotating labour that could be rapidly brought into the country in economic boom and expelled during less affluent periods.”<sup>48</sup> Labor needs are determined on an individual sponsorship basis, whereby the employer, or *kafeel*, recruits workers to serve his or her specific needs. “A migrant worker’s immigration status is thus specifically tied to an individual sponsor for their contact period”, rendering them “more vulnerable by the lack of autonomy in relation to their employers.”<sup>49</sup> The balance of power that heavily favors the *kafeel* turns the worker into a disposable commodity, simultaneously facilitating exploitation and enabling the violation of international human rights laws.

From a worker and human rights-minded perspective, the *kafala* is criticized for enabling abuse. The sponsorship component of the Gulf immigration regime is inherently imbalanced, favoring the employer at the expense of the employee. Throughout the employment process, from recruiting and hiring an employee, to their service under the *kafeel*, to returning to their home country, the worker is legally tied to his or her employer. The Migrant Forum in Asia’s second issue brief, *Reform of the Kafala (Sponsorship) System* outlines the legal relationship between worker and *kafeel* throughout the employment process;

The worker must be sponsored by a *kafeel* in order to enter the destination country and remains tied to this *kafeel* throughout their stay. The *kafeel* must report to the immigration authorities if the migrant worker leaves their employment and must ensure the worker leaves the country after the contract ends, including paying for the flight home. Often the *kafeel* exerts further control over the migrant worker by confiscating their passport and travel documents, despite legislation in some destination countries that declares this practice illegal.<sup>50</sup>

All six GCC member states are members of the ILO yet they have yet to ratify in whole or in part key ILO workers’ rights declarations, namely the 1998 ILO Declaration on Fundamental Principles and Rights at Work and ILO Convention Number 189 on Decent Work for Domestic Workers. The *kafala* system in operation facilitates and openly encourages the violation of these declarations where they may impede GCC core-like development.

The ILO’s principle goals are to eradicate forced labor and ensure human rights as they apply to workers. Two pieces of ILO legislation particularly applicable to migrant workers in the GCC are ILO Convention Number 189 and the 1998 ILO Declaration. Article 9 of Convention Number 189 is the most often cited example of abuse under the *kafala* system. Under Article 9 domestic workers “are not obliged to remain in the household or with household members during periods of daily and weekly rest or annual leave” and “are entitled to keep in their possession their travel and identity documents.”<sup>51</sup> In reality however, employers use the *kafala* system to justify passport retention, arguing that they hold legal responsibility over their employee’s residency.<sup>52</sup> Without identity and barred from leaving the place of work, the *kafala* effectively creates forced labor. With forced labor established, the employer can extract more labor hours from the employee than agreed to under contract, thereby increasing surplus value in the absence of wage labor. GCC *kafala* law enables forced labor by legally barring workers from taking up other employment without proper release records from the *kafeel*, often even in cases of contract violation and physical or sexual abuse. The *kafala* system facilitates and encourages exploitation, limiting the expenses of labor-intensive peripheral industries and commodifying human beings.

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48 *Reform of the Kafala*, p. 1.

49 United Nations. International Labor Organization. *Tricked and Trapped: Human Trafficking in the Middle East*. By H  l  ne Harroff-Tavel and Alix Nasri. International Labour Office, 2013. Web. 30 June 2013, p. 20.

50 *Reform of the Kafala*, p. 1.

51 *Effective Protection for Domestic Workers*, p. 45.

52 *Tricked and Trapped*, p. 34.

Mismanagement and corruption within the *kafala* system—particularly the areas of labor recruiting and visa and contract issuing—produce additional economic and social issues. The *kafala*, in line with international law, mandates written contracts and visas prior to immigration, yet in practice the system is corrupt and exploitative. Article 10 of the 1998 Declaration calls for written employment contracts, labor inspection in places of employment, equal treatment with nationals, remedies for workers whose rights have been violated, and legal services for migrants “in accordance with national law and practice.”<sup>53</sup> The imbalanced relationship between *kafeel* and worker undermines Article 10, however, in positioning the *kafeel*, rather than the state, as responsible for the worker’s well being. This mismanaged relationship produces nasty effects in the GCC. *Kafeel* abuse of worker’s rights often begins in the institutionalized process of visa acquisition and contract writing. The former Nepalese ambassador to Qatar told the ILO in its 2013 published report, *Tricked and Trapped*, that workers are “duped by their manpower agencies” when “provided with the visa of one company and the employment contract of another”, meaning that “the employer institution cannot be forced legally to provide salary and other benefits in accordance with the terms specified in the fake employment contract.”<sup>54</sup> In the absence of significant state regulation, the employer is able to pay the worker less or submit them to a form of labor that they did not agree to. The employer can then maximize their human investment and the employee is forced to either accept employment or take up irregular status in their new country of residence. The *kafala* system violates Article 10 in permitting false labor contracts, enforcing the imbalance between employer and employee, and in turning a blind eye to this obvious problem in the absence of sufficient labor inspection. Permitting the *kafala* to function as such encourages unequal exchange and the flow of surplus capital from the peripheral laborer to employers higher up in the social hierarchy of production.

The *kafala* likewise undermines its own stated intent by empowering individuals over the state in identifying labor needs. The most obvious example of this is visa trading, a now multi-million dollar business in its own right specializing in the commodification of human beings.<sup>55</sup> In the visa trading business, “well-connected persons can sometimes procure more visas than required by their company, or obtain visas for a business that does not exist at all.”<sup>56</sup> Extra visas are then sold to non-nationals hoping to enter the country; the Migrant Forum in Asia found that a work visa for an Indian worker could be sold in the UAE for as much as US\$2000, whereas an Iranian could expect to pay \$4000 for a work visa.<sup>57</sup> The result is a high profit with little to no expense for Gulf citizens, while migrants enter the country under irregular status and without employment, contradicting the goal of only allowing in as many foreign employees as labor needs demand. Recently, GCC states have looked into reforming their respective *kafala* systems with varying degrees of actual implementation. In order to limit the number of irregular foreigners without impacting the visa trading industry, the Emir of Kuwait has begun an annual amnesty period for irregular migrant workers, allowing them to regularize their status or return home. However, because many irregular workers are never given release forms from their original employers or returned their passports, they are unable to regularize their status and are forced to return home on emergency passports.<sup>58</sup> Other countries, such as the UAE, have made modest attempts at increasing regulation and improving worker protection; the UAE Ministry of Labor now employs 100 staff members to investigate workers’ complaints throughout the seven emirates.<sup>59</sup> How the millions of migrant workers in the UAE are expected to voice their complaints, receive aid, or even learn of this service with such limited coverage is unclear.

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53 United Nations. International Labor Organization. *ILO Multilateral Framework on Labour Migration: Non-binding Principles and Guidelines for a Rights-based Approach to Labour Migration*. International Labour Organization, 2006. Web. 30 June 2013, p. 19-20.

54 *Tricked and Trapped* p. 93.

55 Shah, p. 11.

56 *Ibid*, p. 9.

57 *Reform of the Kafala*, p. 6.

58 *Tricked and Trapped*, p. 90-91.

59 *Ibid*, p. 118.

Understanding state toleration for *kafala* mismanagement is simple when reminded of its stated aim of providing “temporary, rotating labour”.<sup>60</sup> The typical migrant worker who enters the GCC under *kafala* sponsorship lacks the skills necessary for working in a core-like industry. Thus, as the GCC seeks to transition into an economy dominated by core-like industry, the peripheral migrant worker is only desirable in his or her capacity to construct a new office tower or serve on its custodial staff. “The Kafala system serves a social purpose by emphasizing the temporary nature of a migrant worker’s presence in the country, so that even if the worker is present for a long time s/he doesn’t acquire the rights of citizenship”.<sup>61</sup> GCC state leaders are cognizant of their ideal citizenry and the direction they want their countries to move in; long-term peripheral industry and unskilled labor inhibits transitioning to a majority core-like economy. Having built the physical foundation of this aspiration, the GCC must now address its relative labor shortage, a task made increasingly difficult by state spending and support for a mismanaged immigration regime.

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60 *Reform of the Kafala*, p. 1.

61 *Ibid*, p. 1.

## Part II: Institutional Obstacles to Core-Like Development

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Development in the GCC has been quick and impressive. In a number of decades a group of small post-colonial states have developed into some of the wealthiest countries in the world and transformed into global financial and industrial centers. It would appear as if the transition from peripheral to core-like economies is progressing successfully, though as this section of the paper will demonstrate, the GCC has yet to mitigate its relative labor shortage and has in fact instituted policies that further exacerbate the problem and cement its position in the semi-periphery. The GCC recognizes its imbalanced labor force in *The Revised Long-Term Comprehensive Development Strategy*, stating, "This imbalance is due to over-dependence on foreign workers, market imbalances and the relative stagnation of the education and training systems and the system of employment and wages."<sup>62</sup>

Part II examines the three causes of developmental stagnation. They are a) poor labor migration policies, b) state entitlement and employment programs, and c) disincentives towards higher education. Caught between periphery and core, GCC development is hampered by its own economic and labor policies.

### a) Labor Imbalances and Inefficiency

Whereas states of the GCC have been blessed with tremendous oil and natural gas supplies to feed their sovereign wealth funds and spur development, their small national populations and the way the state addresses them has been a curse impeding development. Relatively open labor migration under the exploitative and corrupt *kafala system*, aimed at satisfying the region's absolute labor shortage, has produced extremely unbalanced state populations and labor markets. One of the most extreme cases of the national/non-national labor imbalance and its subsequent effects on the labor market is Qatar; a study performed in 2009 found that nationals constituted only 6 per cent of the labor force in Qatar, "implying that only 75,000 among the national population of approximately 377,000 held a formal job", only 0.3% of whom worked in the private sector of the state's economy (see Figure 4).<sup>63</sup> The population imbalance in the GCC is then not only present in the number of nationals and non-nationals residing in the Gulf countries, but also in their unequal distribution between the private and public sectors.

Social attitudes towards unequal population distribution are often negative. In the article, "Indian Workers in UAE: Employment, Wages and Working Conditions", Zachariah et al. find that "The general feeling is that UAE is in danger of losing its identity because most of the important activities are in the hands of foreigners."<sup>64</sup> With over 6 million more non-nationals than nationals working and residing in the UAE, Emirati concerns are understandable; in small states like the UAE, Bahrain, Kuwait, Qatar and potentially Oman, however, the relative labor shortage means non-national labor will be vital to economic development well into the long term. With limited national populations the states of the GCC simply do not have the manpower to staff their growing peripheral and core-like industries; the number of foreign workers in the GCC increased from 1.1 million in 1970 to 5.2 million in the span of 30 years,<sup>65</sup> with many reports now estimating well over 7.5 million.<sup>66</sup> Foreign workers have proven themselves to be valuable and important players in the field of economic development. Simply lowering the number of foreigners in the GCC would likely lead to a decrease in productive output (this on its own a moniker of the GCC's factor intensive and peripheral foundations).

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62 Gulf Cooperation Council, p. 12.

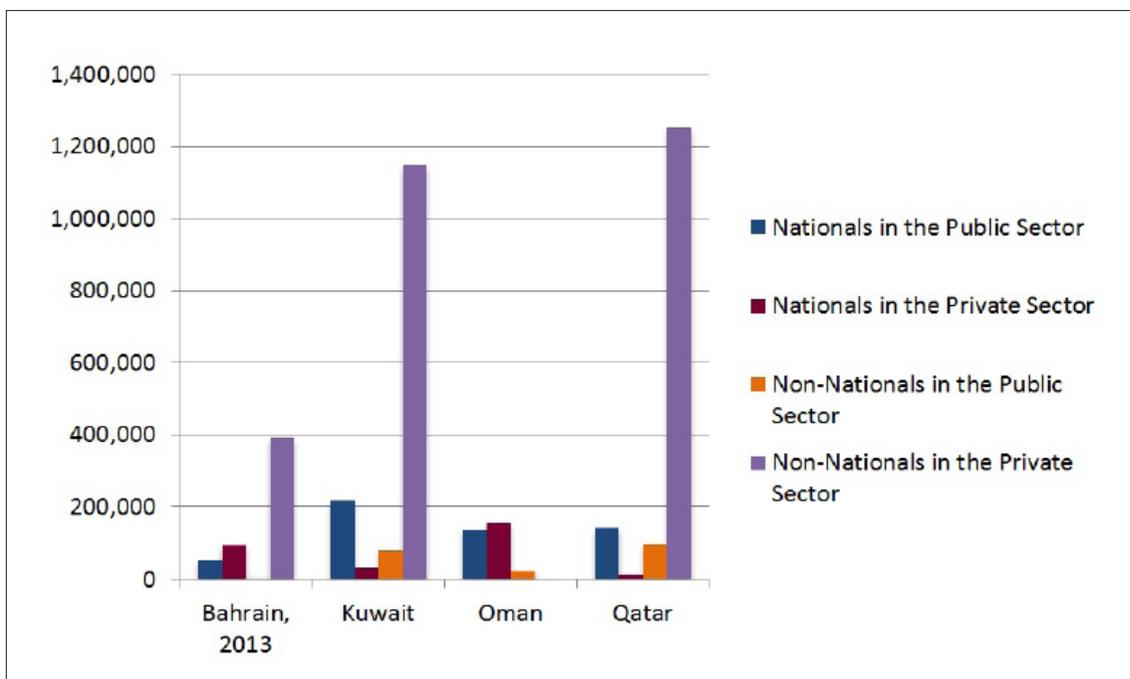
63 Hvidt, p. 28.

64 Zachariah, K.C., B.A. Prakash, and S. Irudaya Rajan. "Indian Workers in UAE: Employment, Wages and Working Conditions." *Economic and Political Weekly* 39.22 (2004): 2227-234. JSTOR. Web. 5 Aug. 2013, p. 2229.

65 Fasano, Ugo, and Rishi Goyal. *Emerging Strains in GCC Labor Markets*. Working paper no. 71. International Monetary Fund, Apr. 2004. Web. 5 Aug. 2013, p. 6.

66 Harry.

Some states have attempted to rebalance their national to non-national population ratios, as well as their distribution between the public and private sectors. Indeed, many GCC states now have programs of Qatarization, Bahrainization, Omanization, etc. Oman serves as a prime example of the dangers of forcing nationals into the private sector. Between 2004 and 2010, Oman doubled the number of nationals employed in the private sector, even as the non-national population grew from 424,000 to 956,000.<sup>67</sup> These numbers must take into account, however, gradual privatization of all major publicly owned industries of the Gulf Sultanate, including electricity, water, and flour mills. As of 2004, Oman has been on a path to privatize the majority of its currently publicly owned industries in order to encourage private sector growth and improve the ratio of nationals to non-nationals employed in that sector.<sup>68</sup> Indeed, more nationals are now employed, though the vast majority “occupy generic white collar jobs that require neither specialized technical expertise nor manual labour”.<sup>69</sup> The ESCWA report that made these findings also noted that the increased presence of nationals in the private sector negatively impacted the quality of employment, proving that simply forcing nationals into the private sector without adequately training them impedes core-like development and hurts national development in the mid to long-term.<sup>70</sup>



**Figure 4: Employment by Nationality, Sector**

*Kuwait: Public Sector Data from 2010, Private Sector Data from 2008*

*At time of writing no data was available for Saudi Arabia or UAE*

<sup>67</sup> *Economic Policy in the ESCWA Region*, p. 36.

<sup>68</sup> Sultanate of Oman. National Center for Statistics and Information. *Privatization Strategy in Oman*. N.p., n.d. Web. 5 Aug. 2013.

<sup>69</sup> *Economic Policy in the ESCWA Region*, pp. 36-37.

<sup>70</sup> *Economic Policy in the ESCWA Region*, p. 40.

## b) The GCC Employment Welfare State

Extreme wealth and small national populations have enabled the states of the GCC to provide their citizens with advanced social services and entitlements. Many scholars have labeled the GCC a collection of allocation states, which distribute their wealth to citizens.

The allocation state has pampered its nationals with cheap or free housing, land, low-interest loans, cash hand-outs, free schooling (even abroad), attractive pensions, subsidized water and electricity, and freedom from taxation. In addition it has provided ample jobs for the nationals in the public sector.<sup>71</sup>

Providing ample jobs for nationals in the public sector is now the most common way for the allocation states of the GCC to serve their citizens and gain legitimacy, leaving a number of scholars from the Rand-Qatar Policy Institute to label employment in the public sector as “a form of welfare granted by the ruling elite in the resource-rich Gulf countries.”<sup>72</sup> In 2010, Kuwait employed 218,409 nationals in its public sector, whereas only 31,701 Kuwaitis worked in the private sector. With a national population of 1,038,958 in 2008, we can estimate that more than 20% of Kuwaiti citizens are employed in the public sector whereas only 3% are employed in the private sector.<sup>73</sup> Bahrain likewise employs roughly 10% of its population in the public sector,<sup>74</sup> whereas a startling 86% of the Qatari national labor force is employed in the public sector (complete data available in Figure 4).<sup>75</sup> GCC governments further encourage public sector employment by offering highly competitive benefits; in Qatar, for example, public sector employment most easily provides proof of a steady income, thereby making government employees more eligible for home mortgages than those employed in the private sector. Furthermore, government workers are given a housing allowance and have “between 20 and 40% of their interest-free housing loan forgiven” on top of generous pensions.<sup>76</sup> With benefits like these in common, it is unsurprising that the majority of Gulf nationals prefer to work in the public sector.

Public sector employment in the GCC is also popular because it requires few advanced skills, yet begets salaries higher than that of the public sector—unsurprisingly, the GCC public sector is notoriously underproductive. Labor productivity has in fact declined since the 1980s in Kuwait, Saudi Arabia and the UAE, despite the fact that 44% of Saudi Arabia’s budget is devoted towards paying state salaries and other GCC states are increasing salaries.<sup>77</sup> Higher salaries for less demanding work have produced what ESCWA calls a “private-public wage gap”, a phenomenon that “price[s] nationals out of the private market and weaken[s] incentives to acquire the education that market economies demand.”<sup>78</sup> The labor market of the burgeoning private sector reflects this trend.

Despite impressive growth, most private sector salaries are low and working conditions are poor. Most private employment is intended for expatriates, and job quality has declined since the 1980s, as low-skill labourers (often from Asia) have replaced mid-skill labourers (often from the Arab region). Since the 1980s, the growth elasticity of employment has been high, meaning that for every percentage point of GDP growth, the labour force has grown by more than 1 per cent. This might have to do with a growing role of very labour-intensive sectors like construction and personal services.<sup>79</sup>

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71 Hvidt, p. 42.

72 Gonzalez, Gabriella, Lynn A. Karoly, Louay Constant, Hanine Salem, and Charles A. Goldman. *Facing Human Capital Challenges of the 21st Century: Education and Labor Market Initiatives in Lebanon, Oman, Qatar, and the United Arab Emirates*. Rep. Rand-Qatar Policy Institute, 2008. Web. 19 July 2013, p. 20.

73 Kuwait. Daulat Al-Kuwait Al-Idārah Al-Markziyyah Lili’ḥṣā’. *Al-Lamḥlah Al Iḥṭā’iyyah 2012*. N.p., 2012. Web. 18 July 2013, p. 10.

74 “Dashboard.” *Bahrain Labour Market Indicators*. Bahrain Labour Market Regulatory Authority, 2013. Web. 5 Aug. 2013.

75 *Qatar Population Status 2012*, p. 25.

76 Berrebi et al., pp. 437-438.

77 *Economic Policy in the ESCWA Region*, pp. 28-30.

78 *Ibid*, p. 28.

79 *Ibid*, p. 30.

The private sector has developed and financially profited off of a non-national labor market at the expense of job quality. National attitudes now reflect this trend so that private sector employment is equated not only with lower salaries but also lower prestige. In Saudi Arabia the difference in salary between nationals and non-nationals is drastic; the average Saudi makes US\$800 a month while the average expatriate makes \$270. Furthermore, a Saudi employed in the civil service can expect to make an average of \$2,100 per month.<sup>80</sup> Declining productivity and lack of incentive to participate in the private sector collectively discourage national employment in the private sector, thereby producing dependency on the state and hindering economic and social development.

### c) Absent Educational Incentives

Poor migration policies, employment and entitlement programs have eroded local capacity for technological development by discouraging nationals from pursuing higher education or advanced skills training necessary for private sector employment. With near certain employment in the public sector and refusal to accept lower salaries in the private sector, “students prefer to study religion, literature and arts or social sciences rather than the more demanding courses in engineering, medicine, teaching or business studies which should lead to more job opportunities.”<sup>81</sup> As a result, Maroun et al. found that “there is an abundance of certain specializations that are not aligned with private-sector demand”. Qatar and the UAE in particular are making significant investments in the education of their youth, hoping that in the near future they will achieve relatively balanced labor markets, as well as the long sought after knowledge economy. Saudi Arabia’s King Abdullah University of Science and Technology (KAUST), a graduate level research institution, stands out as the most likely institution to fill the regional deficit of scientists and innovators, however.<sup>82</sup> State funds can support KAUST and other research institutions like it for several years while pulling in the best and brightest students from the Gulf. Without significant government entitlement reform, a shrinking of the public sector, and revision of the public-private wage gap, however, it seems unlikely that GCC nationals will have any incentive to pursue advanced degrees in the technological or scientific fields necessary for satisfying the regional relative labor shortage. The question remains then who will fill KAUST’s classrooms and laboratories.

The combination of all of these factors—cheap foreign labor, national entitlement programs, an untrained labor force—heavily impacts development of core-like industries in the GCC. ESCWA found that “Even banks, which are among the most modern and profitable businesses in GCC countries tend to operate on old technological systems.”<sup>83</sup> Rodney Wilson, in his article *The Development of Islamic Finance in the GCC*, questions the long-term sustainability of Gulf-based Islamic financial institutions. Wilson argues that Islamic banks are still dependent on non-Islamic banks to co-arrange major accounts in an agreement where the Islamic institution ensures that all transactions are compliant with *shariah* law while the secular institution provides the skills and expertise necessary for managing large accounts.<sup>84</sup> Although these relationships are beneficial for Gulf-based IFSs at the moment, they may prove dangerous in the future. In their article “Searching for the Mecca of Islamic Finance”, Bassens et al. find that IFSs in the Gulf have plenty of reason to be wary of London in particular, considered the IFS hub outside of the Gulf:

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80 Ibid, p. 34.

81 Harry.

82 Maroun et al., p. 26.

83 *Economic Policy in the ESCWA Region*, p. 22.

84 Wilson, Rodney. *The Development of Islamic Finance in the GCC*. Rep. The Centre for the Study of Global Governance, May 2009. Web. 31 July 2013, p. 21.

Although it has only two IFS headquarters of the top 100 firms (i.e. the headquarters of the European Islamic Investment Bank and HSBC Amanah), the city ranks third in terms of site service and total connectivity. This observation is in line with the intentions of the British government and Islamic finance stakeholders to make London the international centre of Islamic finance.<sup>85</sup>

Without the ability to continually modernize and keep up productivity, the IFS sector of the GCC will quickly fall behind and be replaced by more productive competitors in different parts of the world. This demonstrates one of Wallerstein's final points on the core-peripheral labor hierarchy—what is a core-like process today will become a peripheral process tomorrow.<sup>86</sup> A well-educated workforce—in turn reliant on significant educational incentives—is the only way to encourage long-term continual modernization and core-like development.

The obvious conclusion that one arrives at is that the GCC is stuck in a semi-peripheral position in the global labor hierarchy. Despite achieving “considerable mid-range diversification”, productive output is stagnating. There exists little to no internal capacity for advancing the financial and educational fields, leaving the knowledge economy unobtainable. The GCC can restart development and produce a majority core-like economy by tackling three intertwined issues: 1) unproductive labor policy, 2) unsustainable state entitlement programs, and 3) limited incentives for advanced skills training.

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85 Bassens et al.

86 Wallerstein, p. 29.

## Part III: Regional Review

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The GCC has immense potential to develop its core-like industries. Potential is hampered, however, by decades of poor state policy. For social and political reasons, endeavouring to alter these policies, although beneficial for the region in the long-term, will likely be very unpopular. In order to turn around the negative trend of GCC development, the respective member states will have to overhaul their education systems while gradually reducing the number of migrant laborers, shrinking the public sector, and lowering government salaries. These last two suggestions will be highly unpopular reflecting the region's long history of state allocation, though essential in reducing dependency on increasingly over-burdened states. This final portion of the paper will review GCC policy prospects in light of a changing oil market and the Arab uprisings.

### a) The Global Oil Market

The link between state wealth -often in the form of SWFs and generated by oil and natural gas resources- and core-like development has already been expressed above. Development trends show that the region's more advanced industries were built off of and are still dependent on funding from the hydrocarbons industry. This places heightened pressure on the hydrocarbons industry to maintain profitability. "Fluctuations in world prices of petroleum," Melani Cammett writes in "Defensive Integration and Late Developers", "the mainstay of the Gulf economies, coupled with external and internal limitations on regional industrial development schemes rendered the GCC states highly vulnerable to external economic forces".<sup>87</sup> The GCC is thus highly dependent on a relatively unstable and volatile global market. Many analysts agree that "oil prices have reached peaks comparable to those of the 1970s/1980s boom period", meaning prices cannot be expected to increase much more and that the region should soon in fact expect price deflation.<sup>88</sup> GCC states then have reason to fear the near future, if not for the depletion of their natural resources, but for the point at which oil production ceases to be profitable. At a point when the Gulf states are spending more and more, break-even oil prices continue to climb. Whereas it once cost Saudi Arabia US\$30 to break even on a single barrel of oil, the Kingdom now needs more than \$80 to break even; Bahrain and Kuwait likewise require oil prices over \$100 in order to break even.<sup>89</sup> It appears that should the oil and gas market deflate as predicted, GCC state wealth will be unable to support neither continued capital investment in its core-like industries, nor current state entitlement and welfare programs.

In poor economic times the state is seen as responsible for providing for its citizens. The GCC has fulfilled this duty by employing a significant portion of its population, at some times gradually and at other times drastically increasing state dependency at unsustainable levels. State budgets are now disproportionately allocated to salaries: "The government wage bill is over 10 per cent of GDP in most GCC countries (for Kuwait and Saudi Arabia it is over 16 per cent) and is over 22 per cent of total expenditure (for Bahrain and Saudi Arabia it is over 50 per cent)." Wes Harry believes that "governments will not be able to cope much longer", but that is exactly what they are endeavouring to do.<sup>90</sup> As national populations grow, encouraged by the state in order to satiate relative and absolute labor shortages, increasing numbers of people expect the state to ensure their employment. Of the larger states in the GCC, 400,000 Saudis reach working age every year, whereas on a smaller scale Oman requires 50,000 jobs for nationals each year and "Bahrain anticipates that more than 100,000 additional jobs for nationals will be required from 2012-2022 [...] In the mid-term it will be fiscally unfeasible to satisfy this level of demand."<sup>91</sup> For several decades the allocation states of the GCC have supported unsustainable policies off of incredible state wealth and natural resources. As oil production costs increase alongside an insatiable public sector, the services that form the social contract between citizens and governments become steadily more unaffordable.

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87 Cammett, Melani. "Defensive Integration and Late Developers: The Gulf Cooperation Council and the Arab Maghreb Union." *Global Governance* 5.3 (1999): 379-402. JSTOR. Web. 24 June 2013, p. 385.

88 *Economic Policy in the ESCWA Region*, p. 18.

89 *Ibid*, p. 29.

90 Harry.

91 *Economic Policy in the ESCWA Region*, p. 28.

## b) The Arab Uprisings

In the wake of the Arab Uprisings of 2011, Gulf regimes have exacerbated their looming demographic problems by increasing spending allocation and state employment in order to preserve their own legitimacy. The ESCWA report on *Economic Policy in the ESCWA Region* found that “Bahrain approved a two-year budget of \$US16.44 billion, a 44 per cent increase over the 2009-2010 budget”, while Kuwait increased spending by 19% over its 2011/2012 budget, Saudi Arabia by 7% over its 2010 budget, and Oman increased state spending by a remarkable 17%.<sup>92</sup> These policies are unsustainable and increase public dependency on the state and will make it increasingly difficult to shrink the public sector in the future. As most attempts to reduce state expenditure on public services, subsidies and salaries in the past have failed, we can expect even returning to pre-2011 levels of expenditure to be very politically costly.<sup>93</sup> It is unclear in the near-term whether the states of the GCC will feel enough incentive to decrease state spending and risk the security of their regimes.

Gradually shrinking the public sector and getting a better hold of immigration while improving science and technology education are necessary for continuing Gulf development. Peripheral industries will continue to exist, particularly the construction and domestic service industries. Employing a domestic worker is now “socially embedded in the GCC nationals’ lifestyle expectation and provides associated status.”<sup>94</sup> We can only hope that as the region continues to develop it will adopt and enforce international labor and human rights standards. Furthermore, absolute labor shortages will persist into the very long-term in many GCC states, though relative shortages may not. In the case of Qatar, for example, “even if all currently high-skilled Qataris were to assume skilled labor positions it would still fall short of the needs.”<sup>95</sup> Qatar is thereby dependent on foreign labor, both peripheral and core-like. Small states such as Qatar and the UAE could benefit from naturalizing well-trained and highly skilled foreign workers, though such policies would be highly politically unpopular and likely enflame the already sensitive national populations. Nonetheless, the GCC is dependent on foreign labor in both their core-like and peripheral industries. Continued growth and success in the GCC requires delicate political and economic finesse in order to re-establish a balanced system of employment that simultaneously encourages local capacity building and innovation.

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92 *Economic Policy in the ESCWA Region*, p. 29.

93 *Ibid*, p. 30.

94 *Reform of the Kafala*, p. 7.

95 Barrebi et al., p. 436.

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