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Meeting the Employment Challenge in the GCC

The Need for a Holistic Strategy



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EXECUTIVE SUMMARY

Unemployment is one of the biggest challenges in the Gulf Cooperation Council (GCC)¹ region: It has the potential to depress per capita standards of GDP, jeopardize standards of living, and breed economic inequality. Although some of these consequences have been avoided due to the GCC's provision of welfare for its citizens and, in recent years, by high oil revenues, these are sources of income that will likely prove unsustainable at current levels. GCC policymakers would like nothing better than to shift more of their workforces away from government jobs and into fast-growing new industries outside of oil, but they have had a hard time doing so; despite recent efforts at diversification, few non-energy businesses are really thriving in the GCC.

And it is not only unemployment that is a problem. Underemployment (overstaffing or mismatching of skills) is an issue, the result of governments being the primary employer of citizens who often do not have the qualifications to be competitive in the private sector; because of guarantees of public employment, the region's workers are not motivated to seek such qualifications or develop critical skills. It is no wonder that expatriates constitute so large a part of the GCC's private-sector workforce—significantly, in some important technical fields.

The root causes of the GCC's employment problems are many: a system of education that is not competitive in the sciences and not well aligned with the needs of modern industry; a culture of citizens conditioned to expect that government will always take care of them; and often-ineffective policies in areas such as immigration and retirement. The region must effect changes in the culture, in the government, and in private industry if its problems of unemployment are to be reversed.

KEY HIGHLIGHTS

- Although expatriate workers can be a boon to a region, bringing much-needed labor and talent, in the GCC the prevalence of foreign workers is a symptom of the region's limited success in developing critical skills internally and instilling a strong work ethic among its citizens.
- Education failings are the cause of a lot of the GCC's employment problems. Vocational training, science curricula, and alignment with industry all need to be improved.
- Too many of the GCC's nationals are employed by their governments. The private sector needs to play a bigger role in job creation.
- Few governmental policies in the GCC have proven effective in managing employment issues. These policies need to be reassessed, and many of them need to be changed.

DECONSTRUCTING THE PROBLEM

The major challenge facing the GCC in the next decade is finding employment for the millions of people looking to enter the labor market. According to recent World Bank projections, the GCC's labor force will exceed 20.5 million by 2020—an increase of almost 30 percent from the current estimated labor force of 15.6 million. This data suggests that the GCC will need to generate hundreds of thousands of jobs annually.

Although the specific challenges vary, most GCC countries are wrestling with double-digit unemployment and high inactivity rates among nationals as well as high underemployment in major economic sectors. The region's reliance on a large expatriate workforce is an additional challenge; expatriates often have skills GCC nationals lack, making them hard to replace.

Without changes, unemployment among nationals will persist and become an even bigger problem, causing per capita GDP levels to fall, standards of living to decline, and economic inequality to grow.

Common Unemployment Challenges

Despite variations in their labor market structure, GCC countries face similar hurdles: lack of employment opportunities for nationals that should be addressed through economic development; the need to substitute expatriates with qualified nationals; and populations that generally view vocational jobs as undesirable.

Just how bad, statistically, is unemployment in the GCC? In 2008, national unemployment in Saudi Arabia and the United Arab Emirates (UAE) was estimated to be close to 13 and 14 percent, respectively, and 15 percent in both Bahrain and Oman, despite the rapid growth in those countries' economies since 2003.² The employment picture is better in Qatar, with 3.2 percent unemployment in 2007 (down from 11.6 percent in 2001). The precipitous decline in unemployment in Qatar, however, may point to a looming problem that is characteristic of the GCC, where governments serve as the employer of first and last resort. If the time comes when hydrocarbon revenues decline, governments will not have the same flexibility to add to their payrolls.

What is clear is that GCC countries need to shift toward more proactive social and economic policies to upgrade the skills and talents of their workforces. That is the only way to ensure continued development of human capital in the GCC and meet the demand for employment among nationals.

THE STATE OF EMPLOYMENT IN THE GCC

The employment picture comes into even better focus when broken into two population categories. The first category consists of the economically active, which includes the working-age unemployed and employed. The second consists of the economically inactive, which includes the portion of the population not actively seeking work.

Economically Active But Unemployed —The Most Obvious Problem

The unemployed represent the segment of the active population most at risk. Because they are young, on the whole, there is a social cost to their unemployment: Discouraged youngsters don't become productive members of society. Their long unemployment stints are another problem, increasing the amount of training and education needed to return them to the workforce. The fact that many

of the unemployed are women with relatively high levels of education is an additional problem, or perhaps it is a symptom of a problem: an educational system that is not aligned with the needs of the business sector.

Digging into the details, we find the following characteristics among the economically active but unemployed in the GCC:

Most are younger than 30: Figures for Bahrain, Qatar, and Saudi Arabia show that, in this group, those 20 to 24 and 25 to 29 are substantially affected by unemployment. Forty-eight percent of Saudis between the ages of 20 and 24 are unemployed, as are 31 percent of Saudis ages 25 to 29. In Bahrain, 32 percent of those in the 20 to 24 age group are unemployed, as are 33 percent of those ages 25 to 29. A similar situation prevails in Qatar, where 40 percent

of the unemployed are in the 20 to 24 age group, as are 22 percent of those ages 25 to 29 (see *Exhibit 1*).

They have low education levels: A large number of the unemployed—especially males—in GCC countries do not have university degrees. The latest available figures for countries across the GCC show that the majority of the unemployed (ranging from 53 percent in Saudi Arabia to 69 percent in Kuwait) had a high school diploma or lower (see *Exhibit 2*).³

The unemployed are disproportionately female: Although the employment challenges in the GCC affect everyone, women have it the worst (see *Exhibit 3*).⁴ This is noteworthy because—unlike earlier periods—governments in the region are now encouraging women to participate in the labor force. The unemployment rates appear to be worst for educated women with the most years of education. For example, in Saudi Arabia and the UAE, the unemployment rate for women with first-stage tertiary education (including complementary programs that provide qualifications for advanced research and/or practi-

cal professions) reached 30 and 24 percent, respectively, in 2008. Men's unemployment rate for the same category was 7 percent in both countries. Similarly, 2007 figures for women's unemployment rate in Bahrain show 19 percent unemployment for those with second-stage tertiary education levels (leading to an advanced research qualification). Men's unemployment rate for the same category stood at 2 percent.⁵

Their periods of unemployment tend to last a long time: It is hard to be specific about this point because of a dearth of data about unemployment duration. However, one clue to the extent of the problem is found in Bahrain's census figures from 2001. At the time, 13 percent of unemployed Bahrainis said they had not worked in eight years⁶—suggesting they had been relying on their families for support. The lack of effective communication channels between employers and the unemployed have contributed to these protracted out-of-work periods.

Although unemployment durations have likely declined given the eco-

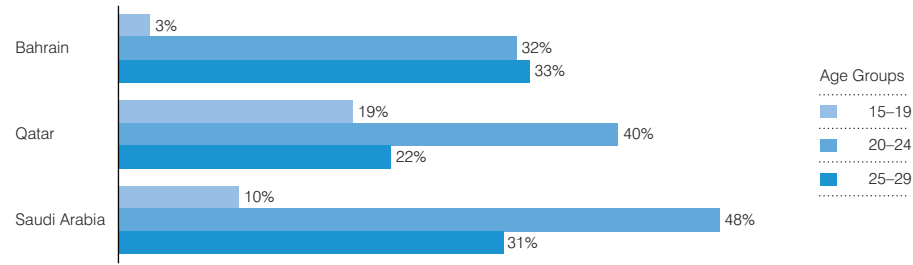
nomical growth and increased government hiring in recent years, they may still present a challenge in GCC labor markets. In particular, when a large number of people experience lengthy unemployment, it degrades the overall skill level and experience of the workforce, creating downward pressure on future earnings. People who are unemployed for long periods may also stop looking for work altogether and thus contribute to an increase in the inactive workforce.

Economically Active But Underemployed: The Hidden Problem

Employed workers represent the other part of the active population. The majority work in government sectors, which account for more than 50 percent of GDP in most GCC countries, while a small fraction works in the private sector. Yet, in many cases, employed nationals are underemployed; and because overstaffing and underutilization of skills—both forms of underemployment—have similar economic implications as unemployment, such as low economic productivity, they are really a form of masked unemployment.

Exhibit 1
Young People in the GCC Show Higher Rates of Unemployment than the Average

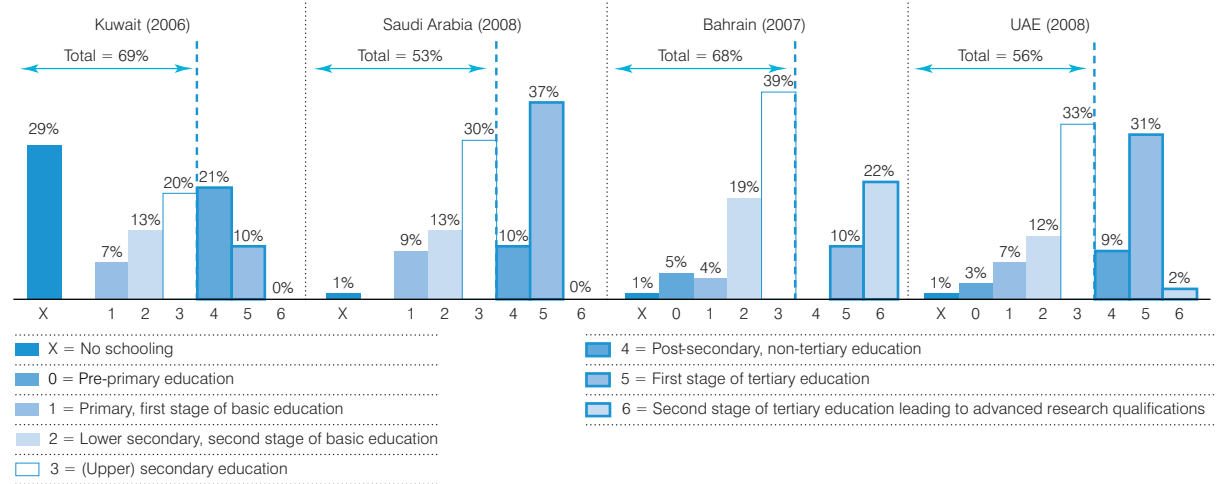
GCC NATIONALS UNDER 30 YEARS OF AGE, 2006/2007 (PERCENTAGE OF TOTAL UNEMPLOYED)



Note: Bahrain and Saudi Arabia figures are for 2006, Qatar figures are for 2007; all figures are rounded off.
 Source: LABORSTA, ILO database on labor statistics (<http://laborsta.ilo.org>); Qatar Statistics Authority, Labor Force Survey 2007; Booz & Company Ideation Center analysis

Exhibit 2
The Unemployed in the GCC Have Low Levels of Education

PERCENTAGE UNEMPLOYED, BY LEVEL OF EDUCATION

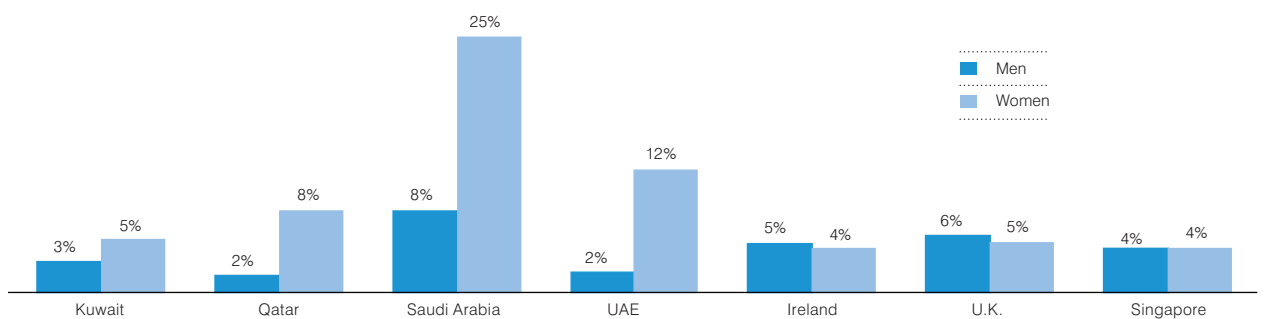


Note: Levels of education are classified according to the International Standard Classification of Education, 1997. Level 5 for Bahrain comprises subcategory levels 5A and 5B. Level 0 is not available for Kuwait and Saudi Arabia, level 4 is not available for Bahrain. Totals may not add up to a hundred as figures are rounded off, and non-stated levels of education are not included.

Source: LABORSTA, ILO database on labor statistics (<http://laborsta.ilo.org>); Booz & Company Ideation Center analysis

Exhibit 3
Women in GCC Countries Show Higher Rates of Unemployment than Their Male Counterparts

UNEMPLOYMENT RATE BY GENDER, SELECTED COUNTRIES, 2006-2008



Note: The figures for the UAE include both nationals and non-nationals. For other GCC countries, the figures are for nationals only. Figures for Kuwait and the UAE are for 2006 and 2008, respectively; the remaining figures are for 2007. All figures are rounded off.

Source: LABORSTA, ILO database on labor statistics (<http://laborsta.ilo.org>); Qatar's General Secretariat for Development Planning, 12 September, 2008; UAE's Ministry of Economy, Central Department of Statistics, Labor Force Survey 2008; Saudi Arabian Monetary Agency (SAMA), "Forty-Fourth Annual Report," August 2008; Kuwait's Statistical Review 2007; Booz & Company Ideation Center analysis

Some unemployment is masked by overstaffing: The region's ability to depend on oil revenues has resulted in the creation of a welfare system in which the government is the largest employer of nationals. As a result, the public sector has become overstaffed, often resulting in the ineffectiveness of many government services. Indeed, this phenomenon can be seen in government-owned companies, such as utilities services, where overstaffing has resulted in suboptimal deployment and utilization of nationals. With such vital economic sectors increasingly facing international competition as a result of liberalization, the comparatively high cost structure of the current situation may not be sustainable, bringing to the fore the challenge of underemployment.

Some unemployment is masked by quotas: Similarly, the nationalization of the labor force in the private sector through quotas, especially in small establishments, has often

resulted in another form of masked unemployment: nationals who are added to payrolls but not deployed productively in their organizations. Thus, inadvertently, quotas may be dealing a blow to the efficiency of the private sector and its ability to grow and compete effectively in increasingly more open economies.

Some unemployment is masked by the mismatch of skills: Oil windfalls and a pervasive government presence in GCC economies have also resulted in the underdevelopment of human capital—a critical input for economic growth, which leads to job creation. The promise of well-paid government employment has encouraged waves of students to apply for public jobs with minimal skill requirements. As strategic government enterprises contend with the increasing pressures of privatization and global competition, which demand specialized and talented workers, the dearth of expertise has resulted in a mismatch in the supply and demand

of skills. This hinders the potential for economic growth and higher national employment, and increases the dependency on foreign labor.

Government dominance of the economy has also resulted in a big gap between the skills required by the private sector and those actually available in the workforce, and has brought to the fore the challenges of substituting nationals for expatriates—and other related complications such as high remittance rates. This skill gap is evident in the share of professionals in the working population. In 2006, for example, professionals (such as doctors, engineers, lawyers, and economists)⁷ accounted for approximately 6 percent and 8 percent of private-sector workers in Saudi Arabia and Bahrain, respectively. Moreover, these professionals were overwhelmingly expatriates—80 percent of the professional population in Saudi Arabia and 50 percent in Bahrain.⁸

UNEMPLOYMENT IN THE GCC: THREE CONTRIBUTING FACTORS

- Limited Private-Sector Base: In many economies, private-sector development and growth are significant catalysts for employment. Governments in the GCC have encouraged this activity through subsidies (including soft loans and subsidies for electricity, water, and gasoline), but these efforts have had limited success. The private-sector companies that are indigenous to the region continue to depend on government support, and have, with few exceptions, been unable to expand beyond domestic and regional borders. One indication of the limited private-sector base is the minimal share of small and medium-sized enterprises in the economic output of the GCC region. By comparison, SMEs in developed countries account for a majority of firms and are responsible for a significant amount of employment. In the GCC, the static private sector and an increasing number of job seekers have combined to create a worsening employment picture.
- Low Skill Levels: The link between the education sector and the economy has been tenuous and has lacked coordination. The result has been a mismatch between the supply and demand for skills in labor markets throughout the GCC. This disequilibrium has hampered labor nationalization because it is so difficult to substitute nationals for skilled foreign workers. In particular, there is a deficit in much-needed science and engineering graduates, and an excess of social science graduates.
- A Segmented Labor Market: The GCC labor markets exhibit segmentation along gender and wage lines. In the case of the former, although women are willing to work, as witnessed by a rise in their participation rate over the past several years, work opportunities for them continue to be limited, for instance, in fields such as engineering and manufacturing. Accentuating this is the labor market segmentation along wage lines between national and expatriate workers. Higher reservation wages (the lowest wage rate at which a worker would be willing to accept a particular type of job) often make it more difficult for nationals to compete with expatriates, especially those that are highly skilled.

The region's ability to depend on oil revenues has resulted in the creation of a welfare system in which the government is the largest employer of nationals.

These masked unemployment phenomena have manifested themselves in economic ills such as low labor productivity (*see Exhibit 4*). With the exception of the oil sector, which traditionally exhibits high GDP contribution per employee, this measure varies widely across other sectors. A comparison with benchmark countries shows that the region's labor productivity is indeed subpar. For example, in 2005—a year of torrid economic growth—labor productivity in the GCC was less than one-third the level of Norway, another oil-producing nation. Such results hinder the GCC economies' ability to effectively compete in a globalized world and further exacerbate the unemployment problem by limiting growth.

The Economically Inactive: Another Lurking Problem

“Economically inactive” generally refers to those members of the working-age population who are not

looking for work because they are ill, studying, looking after family, or have taken early retirement. There are two important economic implications for countries with high inactivity rates: First, an inactive population represents an opportunity cost for the economy in terms of its potential GDP. Second, there is a strong likelihood that over time, inactive labor (e.g., discouraged workers) will either add to the number of the unemployed or will require a significant investment in training to bring them back within the ranks of the economically active.

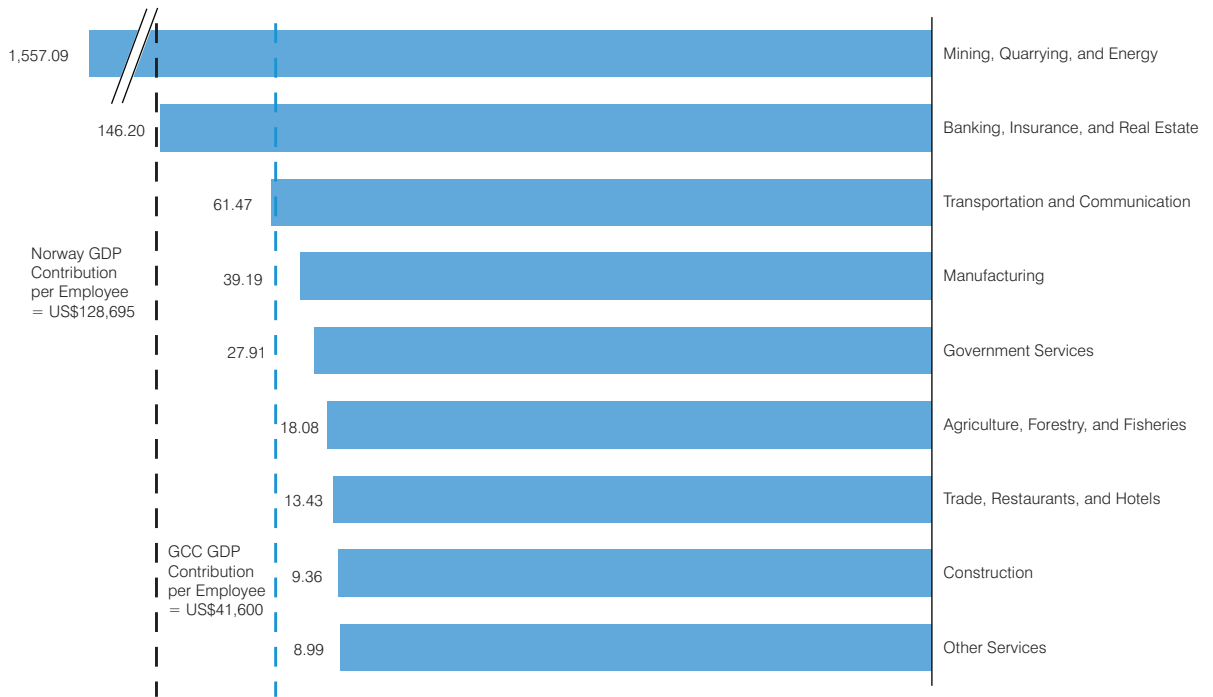
In the GCC, the economically inactive population is considerably larger than international benchmarks. In several countries in the GCC, the inactive populations in recent years have averaged well over 40 percent of the total active population in each country. By contrast, the inactive populations in European countries were much lower—in the U.K., for instance, it was just 19.2 percent in 2003.⁹ The demographic makeup of the GCC,

with a large inactive youth population (e.g., students) may help somewhat explain this large disparity (as well as signal increasing pressure on the GCC economies as students enter the labor market). However, there are three other factors responsible for the large share of economic inactivity among the working age populations in GCC countries.

Women's participation in the workforce is low: Although the region has witnessed an increase in the number of female workers since 2000, the percentage remains low by international standards. For example, the GCC's average workforce participation rate for women was 33 percent in 2005 and ranged from 18 percent in Saudi Arabia to 50 percent in Kuwait. Worldwide, by contrast, women's participation rate in the workforce was almost 56 percent.¹⁰ Traditionally, women in the GCC have faced economic and social constraints and their participation has been limited to certain economic

Exhibit 4
Low Labor Productivity Is a Symptom of Unemployment

GDP LABOR PRODUCTIVITY BY ECONOMIC SECTOR, 2005 (IN US\$ THOUSANDS PER EMPLOYEE)



Note: GCC figures are based on a sample of GCC labor productivity data subject to availability.
 Source: UAE Ministry of Economy; SAMA; Central Bank of Kuwait; Oman Ministry of National Economy; Central Bank of Bahrain; Qatar's General Secretariat for Development Planning, 12 September, 2008; IMF World Economic Outlook 2006 (<http://www.imf.org/external/pubs/ft/weo/2006/02/pdf/weo0906.pdf>); Booz & Company Ideation Center analysis

sectors, mostly the services sector. There have been few incentives for women to participate in other economic sectors, such as manufacturing. Moreover, women's traditional social role as homemaker has discouraged them from taking outside work.

A significant portion of nationals are unwilling to participate: A second reason for economic inactivity is the hesitation—especially on the part of the young—to participate in the workforce. Nationals are willing to forgo the “going wage” in the private sector and become inactive or voluntarily unemployed. In particular, GCC nationals, especially those who have not made it to college or even gotten through high school, are reluctant to accept jobs in the private sector for

two main reasons. First, some jobs are perceived as menial by both job seekers and their parents, who often provide them with financial support. Second, and more important, the effective wage (i.e., the real wage plus benefits such as medical insurance or leisure time) is relatively low compared to government jobs. Indeed, nationals invariably elect to forgo good work opportunities in the private sector because those jobs often require long hours that they are unwilling to work.

Both of the above factors (women's low participation rate and unwillingness to work) represent an opportunity lost (higher potential income) for the GCC economies as well as an increasing cost burden in terms of

providing the required training and adjustments necessary to bring them back into the fold of the economically active population.

Some people have jobs but aren't part of the official workforce: A third main reason for the large share of inactivity in the formal job market is the burgeoning informal sector. Data constraints do not allow for a comprehensive analysis, but the basic structure of the informal job market is well known.

On the expatriate side, the substantial presence of foreign household labor (house cleaners and drivers, among others) constitutes a significant part of the GCC's informal economy. These laborers tend to send money

back home to their families—a form of economic leakage that depletes the GCC’s GDP (see Exhibit 5) and therefore undermines growth opportunities and the potential for increased jobs for nationals.

To be sure, the amount spent locally by household labor does contribute to GCC economies by generating demand for local products, especially from the private sector. However, given the latter’s preference for hiring expatriates, this translates into a rise in demand for foreign, mostly low-

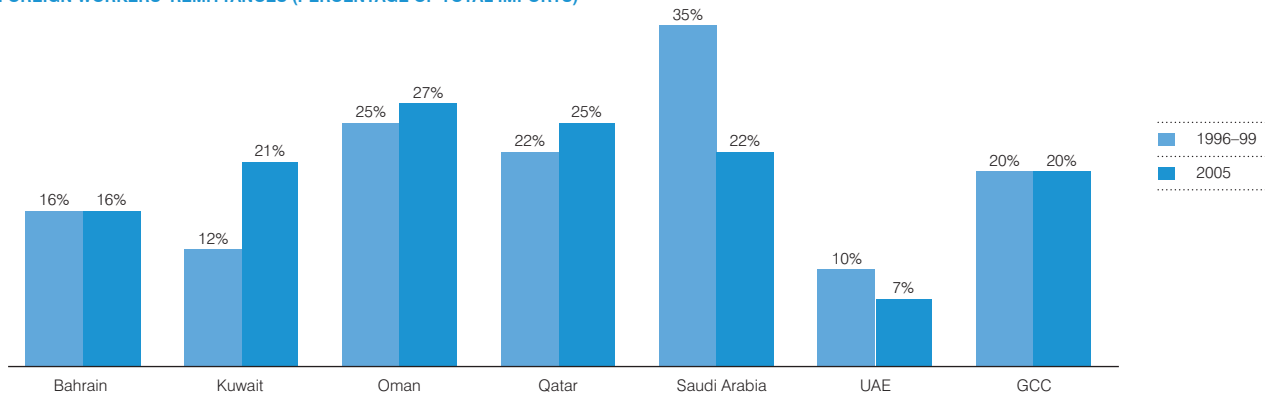
skilled labor, creating a vicious circle and expanding the informal sector.

Among nationals, because governments are having difficulty absorbing newcomers, job-market entrants are increasingly seeking informal means of work, including self-employment. This is especially true for women who conduct businesses from their homes. In Bahrain and Oman, between 1990 and 2000, self-employment as a percentage of non-agricultural

employment reached 5 and 4 percent, respectively. In Saudi Arabia and the UAE, the informal sector is estimated to have reached 18.4 and 26.4 percent of gross national product, respectively, in 2000.¹¹ These estimates paint a picture of another potential challenge facing the labor market in the GCC—the fragmentation of the labor market into formal and informal, which can lower the average wage, especially during economic slowdowns, thus exacerbating the unemployment problem.

Exhibit 5
GCC Countries Lose Money through Foreign Laborers’ Remittances

FOREIGN WORKERS’ REMITTANCES (PERCENTAGE OF TOTAL IMPORTS)



Note: Numbers are rounded off.
Source: World Bank Statistical Tables (2007); Booz & Company Ideation Center analysis

GCC COUNTRIES' EMPLOYMENT POLICIES HAVE LARGELY BEEN INEFFECTIVE

Public policy plays a critical role in the development and shaping of labor markets: Effective policies can push labor markets to develop in ways that support socioeconomic goals. The effectiveness of these policies also depends, in no small part, on the nature and efficiency of institutions set up to implement them. In fact, economic research and empirical analysis suggest that well-run institutions have been central to economic growth in modern economies and have had considerable positive impact on employment. Cultural values and attitudes that foster consensus and

cooperation among stakeholders can likewise spur economic growth and help the labor market.¹²

There are four kinds of policies that have a substantial impact on employment: education, labor, immigration, and social. Education policies provide the necessary skills for workers, labor policies provide incentives, immigration policies help fill essential gaps in the market, and social policies provide a safety net for those who want, but are unable, to participate in the workforce. All are essential for using labor more effectively.

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EDUCATION POLICY: NOT ALIGNED WITH ECONOMIC GOALS

GCC education policy has yielded disappointing results, starting at the grade school level. Several GCC countries ranked low on the 2004 Education Development Index (EDI), indicating that much progress is still required. For example, between 2000 and 2004, the adult literacy rate in the GCC averaged around 81.8 percent, much lower than East Asia and the Pacific (91.4 percent), and even other Arab countries like Jordan (89.9 percent).¹³ More recent figures show improvement, with the literacy rate rising to 89 percent, but still lagging behind high-income countries (99 percent).¹⁴ Other indicators are also cause for concern. The average gross

enrollment ratio (GER) for tertiary education in the GCC in 2006 was 24 percent, compared with 62 percent in Canada and 93 percent in both Finland and the Republic of Korea.¹⁵ The TIMSS scores for participating countries in the GCC region in 2007 are low in math and sciences compared to the rest of the world, underscoring the lack of adequate analytical and science-related skills among future job entrants.¹⁶

Vocational education has fared little better, for three reasons. First, vocational education policy has not been in harmony with economic development in the region. Vocational schools, many established well after they were needed, could have been better linked to the education system to attract a sufficient number of students prior to the first major influx of immigrants in the 1970s. One problem is that vocational schools face the same shortcomings of the overall education system, lacking adequate physical infrastructure and qualified teachers. In addition, vocational schools have not always linked their

goals to economic strategies, which have been disproportionately focused on the energy sector. That has been a disincentive for students to enroll.

Second, the public perception of vocational occupations is that it is a second-class choice. With no exposure to education campaigns to reshape their thinking about vocational work, and being on the receiving end of oil wealth and generous social welfare programs, new generations of workers have had little reason to train for jobs that they consider beneath them.

Finally, the private sector, including many family enterprises, has tended to prefer cheaper and more dedicated foreign workers. This has sometimes discouraged nationals from pursuing vocational training.

In retrospect, the welfare system policies that encouraged workers to line up for jobs in the government sector, at the expense of vocational vacancies, has exacerbated vocational schools' low enrollment. One exception is Bahrain, where the growth of

the services sector (e.g., finance and tourism), combined with an increase in the number of women working, has driven the demand for technical vocational training. Enrollment figures are much worse, however, in Kuwait and Qatar, and there is negligible enrollment in the UAE (see Exhibit 6).

In looking for ways to improve their approach to vocational training, GCC policymakers would do well to study the improvements made in this area by countries that have faced similar

challenges, such as Singapore (see “Vocational Education: Lessons from Singapore”).

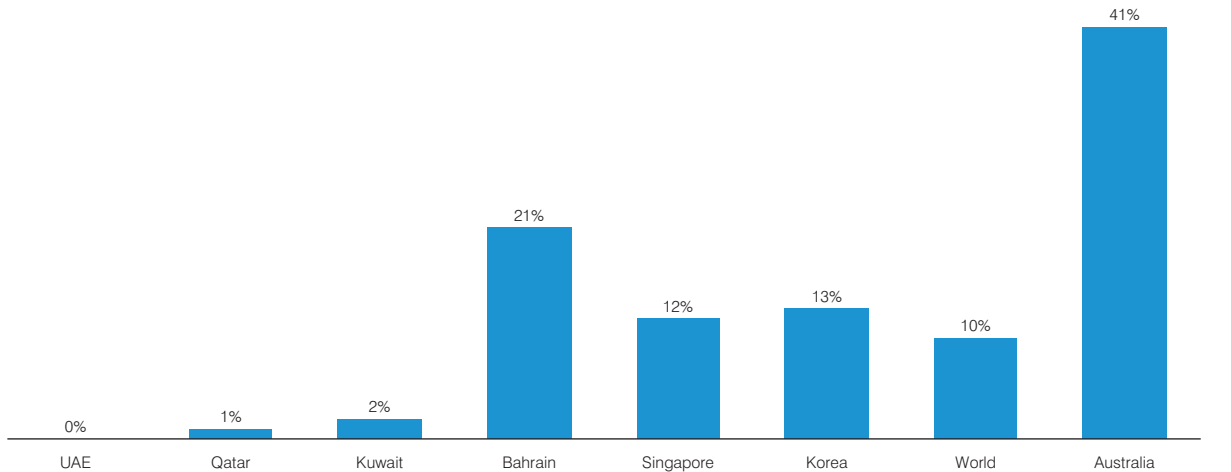
The misalignment of *higher education* policy and labor market requirements (oversupply of majors in humanities and social sciences, and deficits in science and technology) has produced a quantitative and qualitative skill gap. The private sector hasn’t come forward with proposed reforms that would make higher education more relevant to its needs; this is another

area where the GCC can look to Singapore as an example (see “How Singapore Has Linked Socioeconomic and Education Strategies,” page 16). But there have been other problems as well, namely:

- *Limited capacity:* Enrollment levels for tertiary education have grown over the years, but institutes of higher education have not developed at the same pace and schools in many member states of the GCC are close to capacity.

Exhibit 6
GCC Countries Show Low Enrollment in Vocational Programs

ENROLLMENT IN TECHNICAL AND VOCATIONAL PROGRAMS, 2007 (PERCENTAGE OF TOTAL SECONDARY EDUCATION ENROLLMENT)



Note: Bahrain’s and Kuwait’s figures are for 2006. Numbers are rounded off.
Source: UNESCO Institute for Statistics, “Global Education Digest 2008: Comparing Education Statistics Across the World”

VOCATIONAL EDUCATION: LESSONS FROM SINGAPORE

Singapore's vocational technical education ranks among the top in the world and is considered an excellent model. However, Singapore did not achieve its current status without effort. When it set out to improve its system of vocational education four decades ago, the challenges it faced were very similar to those the GCC faces today. Singapore's success offers three main lessons that GCC policymakers would do well to heed.

- *Limited funding:* Long-term education funding has tended to be contingent on income from oil, which creates disruptions in education policy. For example, when income from oil stagnated in the 1990s, GCC governments were not able to plow sufficient funds into higher education to address the growing demand for it. The contribution of the private sector to higher education funding (e.g., through research and consultation funds or scholarships) continues to be very limited.
- *Low quality:* The numerous elements that create a poor academic environment for professors—including limited opportunities to publish, an absence of research grants, an unprepared student population, and a narrow curriculum—have conspired to limit the quality of higher education in the GCC. The region also doesn't have the accreditation capacity that exists in other geographies.
- *Ineffective governance:* The higher education system is bureaucratic and rigid, and has thus been unable to evolve and develop.

1. *The importance of matching vocational education objectives with economic policies.* Singapore's focus on alignment began during the industrial phase and has never wavered. The Industrial Training Board (ITB), first established in 1973, was a milestone in Singapore's policy. In conjunction with the ITB's creation, vocational education was formalized as a pre-employment destination for school dropouts. Later, around 1992, vocational schools became increasingly focused on technical education. Organizations such as the Institute of Technical Education (ITE) were established to reposition vocational education from a post-primary to a post-secondary system and meet a growing demand for high-technology education. Although this transformation wasn't easy, the consistent policy of linking education to economic strategy has contributed to a successful vocational education system.
2. *The importance of shaping public perception of vocational education.* In Singapore, as in the GCC today, there was initially a disdain for nonacademic education, which perpetuated the negative image of vocational schools. To counteract this, the government organized public campaigns to promote vocational education and work. In addition, some vocational training and education was made compulsory for all secondary students. There were also national televised awards such as the "Apprenticeship of the Year" award and "Top of the Trade" competition that were initiated to create public interest in vocational education and work.
3. *The desirability of involving the private and industrial sectors.* In the early days of industrialization, Singapore leveraged the expertise and special training (not available in vocational schools) of multinational corporations like Tata and Philips to complement vocational education. Singapore's Economic Development Board (EDB) provided incentives through investment packages that included the establishment of government training centers. Later on, this facilitated intergovernmental cooperation between vocational institutions with countries such as Japan and France.

Source: Law Song Seng, "Vocational Technical Education and Economic Development: The Singapore Experience," *Institute of Technical Education Paper no. 9, 2007.*

HOW SINGAPORE HAS LINKED SOCIOECONOMIC AND EDUCATION STRATEGIES

As the Singaporean economy evolved from labor-intensive manufacturing to higher-value-added activities, education followed suit, with three distinct phases that are easily identified. The “Mass Education” phase (1965–1978) focused on providing sufficient human capital for Singapore’s industrial sector. The education system was also geared, during that time, to helping with social reconstruction and ensuring harmony among the diverse ethnic, cultural, and linguistic groups in the newly independent nation.

The second phase (1979–1990) focused on the “Efficiency of Education.” With citizens already enjoying high income, Singapore wanted to fine-tune the education system to address low English proficiency, poor literacy, and attrition at schools. To that end, the Curriculum Development Institute of Singapore was established to steer education toward science and math, as well as to foster moral and civic education.

In the “Thinking Schools, Learning Nation” phase (1997–present), Singapore is aiming to transform itself into a 21st-century knowledge economy. The main objectives have been to increase the number of higher education degrees, ensure better management of curriculum content and purpose, and focus on the advancement of information technology and citizenship education, geared toward fostering national unity.

Source: Nabih Maroun, Hatem Samman, Chadi Moujaes, and Rabih Abouchakra, “How to Succeed at Education Reform: The Case of Saudi Arabia and the Greater GCC Region,” Booz & Company Ideation Center Insight, 2008.

LABOR AND IMMIGRATION POLICIES: IN NEED OF REFORM

In the 1970s, GCC countries began investing heavily in labor- and capital-intensive sectors such as infrastructure and real estate to support their economic growth. But given small populations and shortages in the number of skilled nationals, many of the jobs that were created ended up in the hands of workers who emigrated to the GCC from poor and more populous Arab or Asian countries.

These temporary-turned-permanent workers have today become a significant minority in most GCC countries, and may already be a majority in Qatar and the UAE. Although this influx of expatriates has helped keep some critical industries running, it has also created problems that cannot be resolved easily. For instance, some Qataris and Emiratis are beginning to feel not just outnumbered but as

though their cultural identities and heritages are being threatened. GCC countries have responded with a barrage of measures, policies, and programs to reduce the number of foreign workers, where possible, and support labor nationalization:

- **Maintain employment of nationals by implementing wage supports,** specifically, financial incentives for the private sector to hire nationals, and to provide benefits equal to those available in the public sector.
- **Apply legal restrictions on foreign workers** through various quota measures—restricting expatriates to non-government sectors, reserving particular economic sectors for nationals, and specifying the number of nationals in other sectors.
- **Increase employment opportunities for nationals** through taxes such as worker visas, work permit fees, and other taxes that are mainly shouldered by employers.
- **Impose ad-hoc measures** such as labor mobility restrictions on expatriate labor and their dependants.

Unfortunately, these measures have done little to curb unemployment in

the region. GCC governments are hampered by a lack of reliable data, by ineffective coordination between governments and private institutions on immigration law, and by the absence of a national workforce-development strategy. For the most part, these measures have sought to influence employers' decisions without introducing greater incentives for employees. Very few countries (Oman is an exception) have found ways to eliminate the stigma surrounding "low status" occupations, including positions in customer service.

To fill the expertise gap, the flow of skilled expatriate professionals and technicians has continued. However, the latest wave of layoffs triggered by the global financial crisis, especially in the UAE, has shaken expats' confidence about the long-term prospects of the countries in the region. With no social safety nets (e.g., unemployment benefits) to rely on, and with immigration rules compounding the problem (GCC countries tend to be lenient about entering and exiting, but rigid about allowing full-time residency), many expatriates have begun to fear for their economic well-being. This is raising questions about the stability of labor systems across the region.

CASE STUDIES: THE NEED FOR HOLISTIC DEVELOPMENT STRATEGIES

Economic theory tells us that in addition to physical capital and technology, human capital is a key determinant of economic growth. The development of human capital, however, needs to occur within the larger context of social and economic development.

Singapore, Norway, and Ireland have all found ways to develop their human capital and push nationals toward new economic sectors. A look at each country's recent economic evolution provides insights that may be relevant to the GCC's efforts.

The Singaporean Model

Singapore is a small country, with fewer than 5 million inhabitants. Despite its small size and scarce natural resources, Singapore has managed to reach the ranks of competitive nations. It is now one of the most talked-about economic success stories in recent history, with GDP growth averaging about 9 percent per year over the past four decades; it also has one of the world's highest living standards. Its growth strategy has revolved around developing advanced working skills in its people and internationalizing its industries.¹

Singapore set up development agencies and worldwide offices to promote itself as a hub for investment and production. This attracted multinational corporations and foreign direct investment, helping the country improve its internal capabilities, acquire management skills, and upgrade its knowledge base.

Singapore also targeted export-oriented sectors, and has become proficient at selling domestic goods in international markets. Finally, the country has placed a great deal of emphasis on optimizing its workforce to meet changing business needs. Among other things, this has meant providing education to unskilled workers (accomplished partly through the creation of the Skills Development Fund, a national agency). It has also meant taking a flexible approach to migration policies, to adjust to different stages of economic development.

The Norwegian Model

Norway is one of the largest oil exporters in the world. At different points in its history, Norway's dependence on oil, like the GCC's, has left it vulnerable to economic instability.

From 1970 to 1990, Norway benefited from intermittent high oil prices but suffered when oil was weak, particularly amid the financial crisis of 1989. The ensuing government strategy was clear: Link human capital development to economic development and increase the supply of social services to boost employment opportunities, especially in rural areas.

After 1990, Norway faced several economic challenges including a relatively high unemployment rate; an imperative to balance the "dual economy" of oil and non-oil sectors; the restructuring of and specialization within industries to meet increasing international competition; the challenge of generating economic

development without overstimulating the economy; and diversification away from oil.

Norway responded with a variety of measures that have given it a much sturdier economic base. It prodded domestic companies to spend more time looking for opportunities in international markets. It created industrial centers as part of a strategy of “clustering,” or building proficiency in selected industrial segments. It made heavy investments in R&D and education, not just in new areas but in areas where Norway was already strong, to ensure the country’s future competitiveness. And in support of all of these initiatives, it invested in strategic parts of the Norwegian infrastructure.

By doing all these things, Norway managed to advance its high-tech industries and economy and reduce unemployment. Notwithstanding the negative effect of the global economic crisis, Norway’s unemployment rate is expected to reach 4.3 percent in 2010, a much healthier level than many other OECD countries.ⁱⁱ

The Irish Model

Despite the problems Ireland has had as a result of the recent financial crisis, the country’s experience in improving its economy in the last two decades is instructive for the GCC.

Faced with high unemployment and dismal economic prospects in the early 1990s, Ireland formulated a set of economic policies that helped it become one of the most prosperous economies in Europe. Foremost among its moves was a decision to adopt a long-term holistic development perspective and ensure sustainable economic growth.

To that end, Ireland put in place an institutional framework for coordinating the different parts of its economy. Among other things, the government created a simpler tax structure, took steps to lower interest rates, and removed unhelpful regulations. It also made major infrastructure investments to increase the capacity and productivity of the nation as a whole.

Ireland’s decision to focus on a few fast-growing industries has been key. It allowed the country to build industry clusters and develop some areas of national competitive advantage, such as ICT.

Education investments have supported these initiatives. Ireland ensured free schooling at the primary and secondary levels; established training centers throughout the country; and reshaped education curricula to better align enterprise needs with education programs.

ⁱ Nabih Maroun, Hatem Samman, Chadi Moujaes, and Rabih Abouchakra, “How to Succeed at Education Reform: The Case of Saudi Arabia and the Greater GCC Region,” Booz & Company Ideation Center Insight, 2008.

ⁱⁱ DnB NOR, “Capital Markets Day 2009: Steering Through Challenging Times,” March 26, 2009 (https://www.dnbnor.com/portalfront/nor_com/nedlast/no/2009/3/1_steering_through_challenging_times_1.pdf); Statistics Norway (<http://www.ssb.no/en/mb/part1/kiifig32e.shtml>); OECD, “Economic Outlook No. 86: Preliminary Edition,” November 2009 (<http://www.oecd.org/dataoecd/6/33/20213253.pdf>).

SOCIAL WELFARE POLICY: IN NEED OF REVAMPING

Given the promise of lifelong government employment in the GCC, there has been little incentive for these countries to establish social safety nets, including wide-ranging unemployment benefits, for those who are out of work.

The social safety benefits that exist (mostly cash handouts) are hampered by a mind-set among policymakers that social welfare is most important as a form of sustenance for the disadvantaged, rather than as a way of getting them to return to the workforce. Not surprising, given this mind-set, government-funded training centers lack resources (including skilled staff and applicable data) and aren't very good at helping the unemployed develop marketable skills. These problems are further exacerbated by few employment-

stimulating opportunities and entrepreneurial incentives, such as microfinance facilities. Thus, a vicious circle ensues; with no real incentive for the unemployed to return to work, the demand for cash assistance grows. Yet the assistance that is available has not kept pace with the rise in the cost of living or with the increasing number of unemployed.

All this suggests that the approach to social welfare is unsustainable—especially given that GCC populations are in effect shareholders of a finite resource (hydrocarbons), and a growing workforce means faster depletion and fewer potential benefits per capita. This is another reason why the private sector needs to play a bigger role in job creation: There is only so much the government will be able to do.

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IMPERATIVES FOR DEVELOPING THE GCC WORKFORCE

Unemployment is a complicated problem in the GCC, and there is no single solution to it. There are structural problems with the economy, with education, and with labor and immigration, and all must be addressed as part of a holistic strategy. Following are some key ideas to help in each area.

Economic Imperatives

Each nation's strategy must incorporate three critical steps to identify and develop the economic sectors that are likely to maximize value-added jobs for nationals:

Develop competitive sectors.

To create job opportunities and help reduce the gaps between the education system and the market,

the GCC needs to formulate a clear economic development strategy and figure out ways to make that strategy work. This may require, for example, supporting special economic zones and economic cities, as well as a knowledge-based infrastructure (e.g., universities, training centers, and R&D centers) around industrial clusters. The success of Ireland's ICT and biotechnology clusters offers examples worth investigating.

Promote the private sector.

GCC countries need to foster entrepreneurship, engender a culture of corporate governance and disclosure, and build up an infrastructure for private business (including entrepreneurial programs and a more competitive financial sector). More entrepreneurship will strengthen the base of small and medium-sized enterprises in the region.

Promote the GCC as a hub for investment. Gulf countries must strengthen their business and economic environments to attract investments from other GCC countries, from foreign multinationals, and from other

sources of foreign direct investment. This will happen only if individual countries' regulatory bodies do a good job of safeguarding strategic sectors that can spur economic activity (such as financial and telecom services), advancing education, and promoting the development of critical skills.

Educational Imperatives

Education reform is critical. Five critical areas must be addressed to make reform successful:¹⁷

Set education strategies based on carefully considered socioeconomic goals. The first thing that's required is a much stronger link between the education system and the market. This means more communication and coordination between stakeholders—the business community, local community groups, human capital development organizations, private and public universities, and government agencies. Formal organizations can help. For example, establishing job-matching and career-building institutions can help the private sector and the government—particularly the

education sector—work together to reduce unemployment. Career counseling can also help change the mind-set of prospective job seekers by instilling a good work ethic and by encouraging them to fill jobs they have historically shunned. To be successful in all of this, transparent mechanisms to measure, assess, and account for results are needed.

Enhance public and private school performance. Continued support for education infrastructure in the GCC will be paramount in achieving quality education and better performance results, especially as measured by international tests such as TIMSS and PISA.¹⁸

This starts with fostering skills at the teacher and administrator levels. Teachers help deliver the curriculum content and are important liaisons between the community and the education system, providing essential feedback on education matters. In addition, developing a diversified curriculum and a wider and more flexible learning environment (e.g., science museums, ICT learning) will increase education enrollment and put GCC students closer to international academic standards. It would also help if parents and communities

took part in the effort to emphasize the value of education and work; governments should reach out with marketing campaigns to increase parents' awareness and underscore the importance of their involvement. That is the only way to turn education into the national priority it ought to be.

Upgrade vocational education. Students need to be exposed at an early stage to vocational and technical skills; vocational schools are one of the best ways to do this. However, the involvement of the private sector is critical—only the private sector can say which skills are most important.

Strengthen scientific research in higher education. There is not enough university-level research and innovation going on in the GCC. This work needs to be done, and at a level that is comparable with best international standards.

There has been some progress on this front. For example, in Qatar and the UAE, renowned international universities have attempted to spur innovation by setting up satellite campuses in science parks that also host national and international technology companies. In Saudi

Arabia, a multibillion-dollar international graduate-level research university has been completed; it will be dedicated to scientific research, with plans to attract faculty from renowned academic and research centers.

Policy incentives will help accelerate these efforts. In particular, incentives that strengthen the link between R&D and the commercial sector are likely to promote innovation, which can result in higher economic growth and more employment opportunities.

Streamline and clarify the government's role, capabilities, and responsibilities. The role of governments in education is indisputable (e.g., as a financing source). However, government agencies can sometimes be highly bureaucratic. Furthermore, there is a need to reform the roles of the GCC's Ministries of Education and Higher Education to limit operational involvement and focus on setting national standards and education policies, coordinate stakeholders, and monitor performance. For example, governments can fund training and education for at-risk workers, making them more productive in the positions they occupy.

Labor and Immigration Imperatives

More effective labor and immigration policies are essential to improving the GCC's unemployment problems. There are three critical areas of need:

Make immigration policies more focused. There is nothing wrong with using foreign labor, as long as it is used selectively. This means, on the one hand, making it easy for companies to fill short- and medium-term labor shortages with expatriates; and, on the other hand, putting in place policies that attract highly skilled foreigners to knowledge-based industries that countries have identified as strategic.

Revisit the idea of *kafalah*. GCC officials may wish to follow Bahrain's example and discontinue this system, resuming the role of directly enforcing and monitoring expatriates' time in their countries. Amending the current sponsorship system would not only decrease the risk of abuse, it could also increase labor market mobility. When government control takes the place of private sponsorship, employees will no longer be required to get "no-objection" letters from their previous employers in order to change jobs. Foreign employees

would be freer to go where their skills took them. That mobility would remove a characteristic that has heretofore prompted some employers to prefer foreign workers over nationals.

Increase focus on labor participation. Quotas are an imperfect solution to the GCC's unemployment problems. One alternative would be to offer incentives on the (at present, largely ignored) employee side. Governments could promote more flexible employment approaches (e.g., telecommuting and part-time or temporary jobs) as a way to address low participation rates—most notably those of women. Indeed, this sort of flexibility could allow homemakers to join the workforce without compromising their household duties.

Another way to increase labor participation is to chip away at the negative attitudes many nationals have towards working in certain sectors (e.g., hospitality) and entry-level positions. This is an idea that has already met with some success. One example: "Aswaq," a retail project launched by the Sheikh Mohammed Bin Rashid Establishment in Dubai, which has sought to provide young nationals

with the opportunity to invest in retail stores, with the purpose of encouraging local entrepreneurship and employment, and giving a much-needed push to the Emirati private sector. Similarly, a program run by a private company, Saudi Arabia's Abdul Latif Jameel Company—with the stated goal of "training ending with employment"—is having some success. Through its wide private- and public-sector network, Abdul Latif Jameel has been able to bridge some of the communication gaps that exist between private businesses, government institutions, and the unemployed. It is also starting to give job seekers the skills they need not only to match private-sector demands but to compete with those of expatriate workers. Other such programs and institutions should be encouraged, expanded, and replicated across municipalities, cities, and states in the GCC.

Finally, delaying the retirement age or making retirement laws more flexible (for instance, allowing retirees to return to work as part-time advisors) can help increase the participation rate for nationals, increase overall economic productivity, and provide young nationals with much-needed mentors in the workplace.

CONCLUSION

The scale and scope of the unemployment challenge facing the GCC countries is well understood by regional leadership. The challenges are particularly pressing for Saudi Arabia, Oman, and Bahrain, because of their current high unemployment levels and the rising number of future job-market entrants. For the others as well, however, these challenges will require attention sooner than later.

In all cases, addressing these challenges requires a holistic approach comprising three fronts. The first is expanding the economic base and creating additional jobs in strategic sectors in which GCC countries have a competitive advantage and can provide sufficient income for nationals. The second is developing the workforce by reforming the education system and upgrading labor skills to create a generation of skilled nationals to match economic requirements. And the third is putting in place effective labor and immigration policies by remaking the system and increasing national labor participation.

With such tools, the GCC will be better able to face the challenges of unemployment that lie ahead.

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Endnotes

- ¹ The Gulf Cooperation Council region comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
- ² U.S. Department of State (<http://www.state.gov/r/pa/ei/bgn/>) accessed May 21, 2009; UAE's Ministry of Economy, Central Department of Statistics, Labor Force Survey 2008.
- ³ LABORSTA, ILO database on labor statistics (<http://laborsta.ilo.org>).
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- ⁵ Education levels are defined according to the International Standard Classification of Education, 1997 (ISCED97), which ranges from level zero (pre-primary education) to level six (second stage of tertiary education leading to advanced research qualifications). Some of these levels have complementary dimensions. For further details, refer to LABORSTA, ILO database, 1998-2009 (<http://laborsta.ilo.org/>).
- ⁶ Kingdom of Bahrain, Central Informatics Organisation, 2007 (<http://www.cio.gov.bh>).
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- ¹⁵ GER refers to the number of students enrolled in a given level of education, regardless of age, expressed as a percentage of population at the theoretical age for the same education level; UNESCO Institute for Statistics, "Global Education Digest 2008: Comparing Education Statistics Across the World."
- ¹⁶ The Trends in International Mathematics and Science Study (TIMSS) is an examination conducted every four years to ascertain the math and science achievements of students around the world.
- ¹⁷ See also Nabih Maroun, Hatem Samman, Chadi Moujaes, and Rabih Abouchakra, "How to Succeed at Education Reform: The Case of Saudi Arabia and the Greater GCC Region," Booz & Company Ideation Center white paper, 2008.
- ¹⁸ The OECD Programme for International Student Assessment (PISA) assesses essential student knowledge and skills that are necessary for full participation in society (http://www.oecd.org/pages/0,3417,en_32252351_32235731_1_1_1_1_1,00.html).

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