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Labor Market Integration in the GCC Countries

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Introduction

Economic and/or political integration among countries is perhaps one of the most studied issues. This is true in the context of the Middle Eastern countries too. However, analyzing the issue from the labor market/migration perspective is relatively uncommon, and more so for the Gulf Cooperation Council (GCC) countries.[1] In this paper we hope to achieve just that. That is, we would like to start off with an analysis of the current status of the labor markets in the region, and then try to make the case that it is in the best interest of these countries to seek common ground in their labor market policies. Our geographical focus is on the Gulf region that includes the six GCC countries, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE). Established in 1981, the GCC is one of the most successful integration/cooperation efforts in the Arab world.

Integration Efforts around the World

The twentieth century, especially in its second half, witnessed frantic efforts toward union among countries with political and economic commonalities. The most

1. There are similar groupings of countries in the region with economic or political ties such as the Maghreb (Algeria, Libya, Mauritania, Morocco, and Tunisia), and the Mashreq (Iraq, Jordan, Lebanon, Syria, and West Bank and Gaza). Egypt may also be considered as part of the Mashreq group.

successful attempts toward union have been among relatively developed countries[2] such as European, North American and Asian countries, but the same cannot be said of less developed countries or Muslim majority countries in general.[3] The low technological development in the less developed countries has been identified as the main reason for the lack of cooperation among them in the context of production and export of primary products to and import of finished commodities from the developed countries.[4] Lack of trade among these countries, therefore, hampered the chances to build a union.[5]

In the early to mid-1900s, several countries sought closer trade and political relations to cope with the growing challenges of the time following the devastating experience of the Great Depression and the two world wars. That directly translated into higher volumes of international trade largely due to cheaper transaction and transportation costs and a relatively freer trade environment. The General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO), the European Union (EU), the North American Free Trade Agreement (NAFTA), the Greater Arab Free Trade Area (GAFTA), Mercosur, the Association of Southeast Asian Nations (ASEAN), and the Asia-Pacific Economic Cooperation (APEC), for example, are all products of this development.

The crudest form of integration is the Free Trade Agreement (FTA) where tariffs among member states are abolished, though they can still maintain tariffs against non-member nations. A more sophisticated form of integration is a customs union which abolishes all internal tariffs among members while maintaining a common external tariff against non-members. A common market, on the other hand, keeps the characteristics of a customs union, combining them with the freedom of mobility of production factors. The so-called complete economic integration unifies fiscal and monetary policies, indicating a certain degree of political integration as well (similar to the EU).

2. S. Kalaycioglu, "Regional Economic Co-Operation in the Middle East," *Working Paper,* Center for Strategic Research (September -November 1996), available at http://sam.gov.tr/regional-economic-co-operation-in-the-middle-east/. Accessed on June 12, 2014.
3. L. Raimi and H. I. Mobolaji, "Imperative of Economic Integration among Muslim Countries: Lessons from European Globalization," *Humanomics* 24, no. 2 (2008): 130-144.
4. K.M. Hassan, "An Empirical Investigation of Economic Cooperation among the OIC Member Countries," Working Paper 0212, ERF Working Paper Series, Egypt, 2011.
5. Testas, "The Significance of Trade Integration among Developing Countries," 117-130; Testas, "The Advantages of an Intra-Maghreb Free Trade Area," 99-108; B. Hoekman and K. Sekkat, "Arab Economic Integration: The Missing Links," Working Paper, Groupe d'Economie Mondiale, Sciences Po, Paris, April 2010.

Despite differences among countries regarding the degree of cooperation, there are certain characteristics which make regional integration possible. For example, geographical proximity is an important reason for economic integration. This is the reason why most such integration efforts tend to be among neighboring countries. As the distances are shorter, and a common history possibly exists (which may work against cooperation at times thanks to historical animosities among neighbors), the customer base in geographically closer countries may yield larger markets with similar tastes, thus allowing large scale economies for producers.

Irrespective of why and how they are formed, international bodies pursuing economic and/or political cooperation can have political, social, and economic effects. That is to say, some degree of sovereignty has to be sacrificed to jointly manage such an organization. Cultural or economic interaction may produce more or less tolerance for "others," i.e., foreigners. Nevertheless, economically speaking, consumers in member countries may benefit from the variety and affordability of goods and services. This automatically means that the so-called trade creation/destruction phenomenon becomes unavoidable. This is because more trade opportunities will be available for all producers in all member countries; the less efficient ones among them will disappear from the market whereas others will flourish. If one wonders why many cooperation efforts have so far failed, it would be wise to look into the inefficient mechanisms for distribution of gains obtained from integration, leading to cheating in the system, and the reluctance to relinquish some features of sovereignty related to economy or politics. These points are visible in most of the integration efforts in the Arab world as explained below.

The integration idea is not new to the Arab region. As a matter of fact, the region has all the right and necessary ingredients for successful integration. That is, it has a common language and culture, a shared history and geographical proximity, in short the aforementioned factors for a successful integration arrangement. Arab integration efforts started early in the 1950s with very ambitious plans. Unfortunately, the speed and enthusiasm of the initial days were not maintained over time, as the Arab countries' efforts to form an economic union were slow as compared to that of other countries involved in EU, NAFTA, and other regional trade agreements. Regional integration policies in the Arab region have generally been partial, lacking an integrated strategic vision for human development and regional prosperity. Institutional arrangements to support such a unification effort were not considered ahead of time and consequently never developed. Zineldin[6] considers the lack of

6. M. Zineldin, "Globalisation and Economic Integration among Arab Countries," The Fourth Nordic Conference on Middle Eastern Studies: The Middle East in Globalizing World, Oslo, (August 13-16, 1998), available at http://org.uib.no/smi/pao/zineldin.html (accessed on June 9, 2014).

mutual trust among member states, which is the reason why most of the previous attempts among unions have failed in the Arab region, as the biggest hurdle against a successful integration arrangement. On the other hand, Hassan[7] finds that the intra-bloc trade in the Organization of Islamic Cooperation (OIC) countries is low; Testas[8] contends that this is the very reason that the efforts for such cooperation are doomed to failure. Raimi and Mobolaji,[9] however, believe that cooperation among these countries is not only possible, but definitely essential, in the face of international competition.

All in all, integration/cooperation efforts have always been on the Arab agenda. At different times in history, there were agreements purportedly seeking eventual full unification among Arab countries while also, at the same time, securing agreements with non-party countries for defense or other reasons ultimately undoing the impact of the agreements seeking Arab unification. Some examples of Arab unification agreements are:

The Greater Arab Free Trade Area (GAFTA) which was founded in 1997; the Gulf Cooperation Council (GCC) which was established in 1981 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates; and the Arab Maghreb Union which was founded in 1989 by Algeria, Libya, Mauritania, Morocco and Tunisia, aiming at the eventual free movement of goods and services and factors of production movement across international borders, though without much success due to mainly political reasons. Additionally, the Agadir Agreement which was signed in 2004 (and entered into force in 2006) by Egypt, Jordan, Morocco, and Tunisia representing the Arab countries with some similarities with EU, is not too successful either.[10]

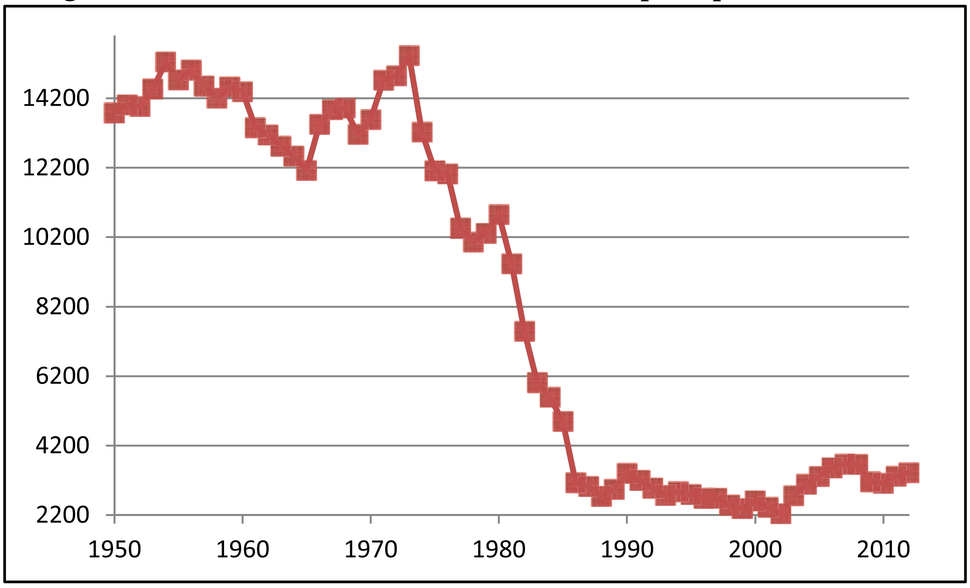
The GCC Labor Market

The GCC economies are hydrocarbon-based and their citizens are among the richest in the world. Geographically and culturally, the GCC countries have a lot in common. In 1950, they were poor, undeveloped countries, yet they developed rapidly thanks to exploitation of natural resources. The development path they took made these countries more like each other. In the broadest macroeconomic sense, the per capita

7. Testas, “The Significance of Trade Integration among Developing Countries,” 117-130; Testas, “The Advantages of an Intra-Maghreb Free Trade Area.”
8. Testas, “The Significance of Trade Integration among Developing Countries,”117-130; Testas, “The Advantages of an Intra-Maghreb Free Trade Area,” 99-108.
9. L. Raimi and H. I. Mobolaji, “Imperative of Economic Integration among Muslim Countries,” 130-144.
10. For more on Arab integration efforts, see Kalaycioglu (1996) and UN ESCWA (2014).

real Gross Domestic Product (GDP) converged to a common average over time in the region. As seen from Figure 1, the standard deviation of the GCC per capita real GDP (GDP per capita, in 1990 GK$) has declined over time. This is a sign of income convergence among the GCC countries.[11]

Figure 1: Timewise standard deviation of the real per capita GDP of GCC



GDP data used are Total GDP, in millions of 1990 $ (converted at Geary Khamis PPPs). For population, we employ the midyear population (in thousands of persons).

Data Source: The Conference Board Total Economy Database™, January 2013, http://www.conference-board.org/data/economydatabase/

Another macro indicator is the trading partners of the GCC countries. As we can see from Table 1, the GCC countries trade with the same set of countries as they practically only export natural resources and import finished products.

11. Also confirmed by Genc, Darayseh and Abu Al-Foul (2011). I. Genc, M. Darayseh and B. Abu Al-Foul, "The Nature of Trends in the Per Capita Real GDP of GCC Countries: Some Evidence and Implications," *Journal of Developing Areas* 45, no. 1 (Fall 2011): 19-33.

Table 1: Major trading partners of GCC countries (%)

Export	Share	Import	Share
Japan	38.00	US	23.83
South Korea	23.10	Japan	19.07
China	10.49	Saudi Arabia	13.10
US	10.01	Germany	11.44
Thailand	6.67	China	9.07
Singapore	5.73	UAE	8.48
South Africa	2.65	India	5.21
India	1.53	France	4.78
Saudi Arabia	1.03	Italy	2.86
UAE	0.79	UK	2.16

Source: EIU. Calculations are based on data for years 2003-2007 except for Oman which is for 2006 only.

The great economic success of the GCC countries, however, has not been achieved solely by the participation of the indigenous labor force. On the contrary, the GCC is one of the most diverse regions in the world. As shown in Table 2, the GCC countries rank in the top ten among the countries with the highest foreign born populations.

Table 2: Estimated percentage of a country's population that is foreign-born

Rank	Country	1990	2000	2010	2013
1	*United Arab Emirates*	72	81	87	84
2	*Qatar*	78	79	83	74
3	*Kuwait*	77	79	63	60
4	*Bahrain*	35	37	53	55
5	Singapore	24	35	43	43
6	Jordan	34	40	42	40
7	Hong Kong	38	39	39	39
8	*Saudi Arabia*	31	26	31	31
9	*Oman*	23	28	36	31
10	Switzerland	21	22	27	29
11	Australia	23	23	27	28
13	New Zealand	15	18	23	25
16	Canada	16	18	21	21

Table 2, continued

24	United States	9	12	14	14
28	United Kingdom	6	8	11	12
31	Germany	7	11	12	12
34	France	10	11	11	12

Source: Pew Social Trends, available at http://www.pewsocialtrends.org/2013/12/17/migration-tables/ (accessed on June 14, 2014). The ranking is based on 2013 data.

The GCC has always been an attractive destination for foreigners. As shown in Table 3, the percentage of the expatriate population in the GCC has steadily increased and reached almost half of the total population by 2010.[12]

Table 3: Share of expats in GCC

Periods	% expats
1970 - 1975	20.6
1990 - 1995	35.6
2000 - 2005	37.3
2010	47.3

Source: GLMM Database - Demographic and Economic Database, available at http://gulfmigration.eu/total-population-and-percentage-of-nationals-and-non-nationals-in-gcc-countries-national-statistics-latest-year-or-period-available/ (accessed on May 24, 2014).

Another interesting feature of the GCC labor markets is that it is largely male dominated. This is because a large demand for foreign workers comes from the construction sector where the salaries are below the legal income thresholds needed to sponsor family members. Table 4 shows the number of men per 100 women. As expected, the sex ratio of the local population alone is about 50-50 between male and female. But among the expatriate community, this ratio is highly skewed. In Oman, Qatar, and the UAE, the ratio is the highest whereas in Kuwait it is the smallest, but in the GCC region in general, the ratio is still 326 men for 100 women.

12. Foreigners in the GCC are also a security concern. The recently introduced ID programs aim at security enhancement to better manage immigration along the economic aspects of the migration. See A.M. Al-Khouri, "The Challenge of Identity in a Changing World: The Case of GCC Countries," Conference Proceedings, 'The 21st-Century Gulf: The Challenge of Identity,' University of Exeter, UK (30 June - 3 July, 2010).

Table 4: Men per 100 women

Country	Date/ period	Locals	Expats	Total
Bahrain	April 10	101	293	186
Kuwait	Dec. 13	97	187	151
Oman	mid-2013	102	569	220
Qatar	Q4 2013	99	493	393
Saudi Arabia	Jan. 13	102	287	145
United Arab Emirates	mid-2010	100	420	357
GCC Total		101	326	183

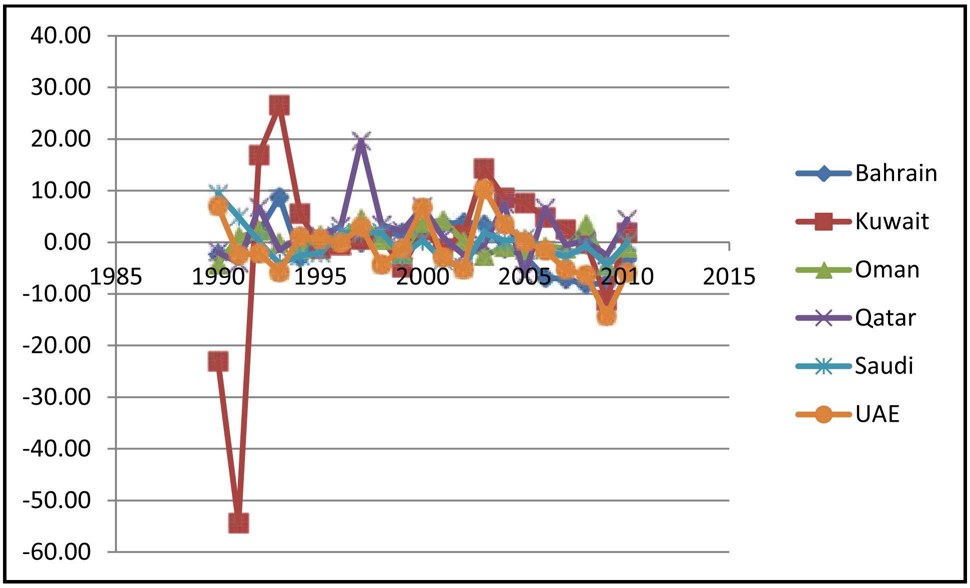
Source: GLMM Database - Demographic and Economic Database, available at http://gulfmigration.eu/total-population-and-percentage-of-nationals-and-non-nationals-in-gcc-countries-national-statistics-latest-year-or-period-available/ (accessed on May 24, 2014).

Relatively speaking, the large labor force does not necessarily yield immense productivity.[13] As shown in Figure 2, the GCC economies have comparable overall productivity levels that are not impressive in general when one considers all inputs of production such as labor, capital, and others. The low productivity may have something to do with the source of the imported labor in the GCC. The UAE and Saudi Arabia are the most desired destinations of the GCC for migrants.[14] Also according to Gallup (nd),[15] based on a survey which was carried out between 2007 and 2009, people from the Middle East and North Africa (MENA) and other non-GCC Arab countries expressed interest in moving to the GCC region whereas Europeans and people from the American continent are not all that enthusiastic about moving to the region. Western expatriates tend to choose other western or developed countries to move to. The latter category of countries attracts more skilled labor force in comparison to

13. In its broadest sense, productivity shows the ability of producing commodities by using inputs (factors) of production such as labor and capital. The labor productivity in the macroeconomic sense is measured as the ratio of total production in the country (GDP) to the total employment (usually quantified with the total working hours). The total factor productivity is a more comprehensive concept which considers not only labor but all other inputs of production, and via a much more complicated procedure it computes the contribution of all factors of production to GDP in a country for a given period of time.
14. Gallup (nd), *Potential Migration and the GCC*, available at http://www.gallup.com/poll/ 157058/ potential-migration-gcc.aspx (accessed on May 24, 2014).
15. Ibid.

the GCC. In a similar manner, the UN (2007)[16] observed that people from South Eastern Asia, especially from Bangladesh, India, Indonesia, Pakistan, the Philippines, and Sri Lanka, prefer the Gulf region as the first destination for work.

Figure 2: Total factor productivity growth (in difference, percent)



Source: The Conference Board Total Economy Database™, January 2013.

Nevertheless, these productivity figures show tremendous volatility compared to Norway as shown in Table 5, making future planning more difficult for the region.[17] We use here the standard deviation as the measure of volatility. Nevertheless, the range of minimum and maximum values of total factor productivity is also an indication of volatility. Therefore, in the same table we also observe that Oman has the closest volatility level to Norway in terms of both standard deviation and range.

16. UN, "International Migration in GCC Countries," Regional Symposium on Foreign Workers in the GCC: Towards a Common Strategy, Doha, Qatar (April 17-19, 2007).
17. We take Norway as the comparator country as it too relies on natural resource exploitation in its economy.

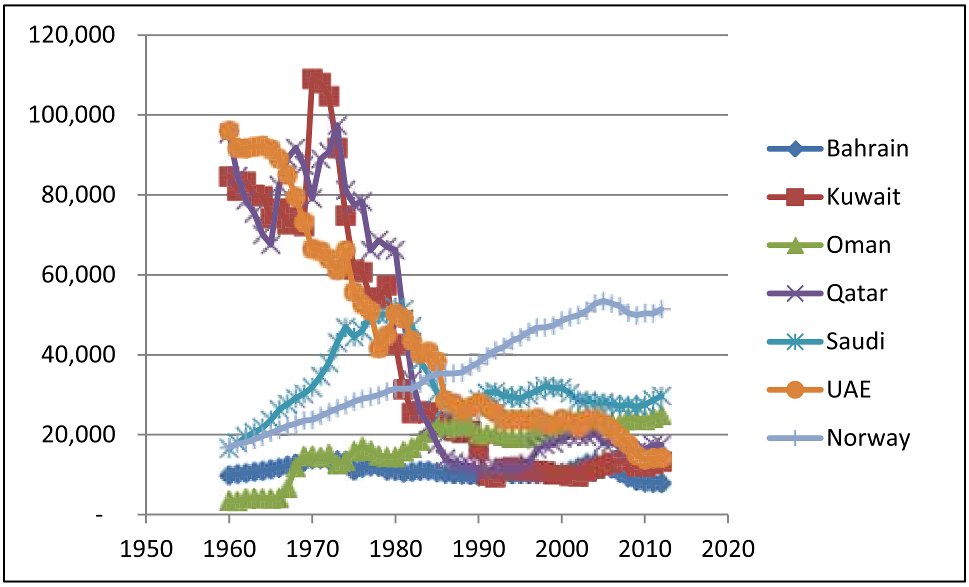
Table 5: Total factor productivity growth (in difference, percent)

	Bahrain	Kuwait	Oman	Qatar	Saudi	UAE	Norway
Average	-0.67	-0.12	0.09	2.10	-0.28	-1.17	0.37
St Dev.	4.44	15.87	2.55	5.52	3.38	5.48	2.31
Median	-0.03	1.51	-0.09	1.09	-0.01	-1.55	0.66
Max	8.73	26.54	4.52	19.65	9.42	10.37	3.73
Min	-8.18	-54.34	-4.52	-6.37	-4.85	-14.24	-4.68
Range	16.91	80.88	9.04	26.02	14.27	24.61	8.41

Source: The Conference Board Total Economy Database™, January 2013.

Turning to labor productivity, we observe that while labor productivity of Norway increased throughout the last several decades, the GCC countries followed a completely opposite route (Figure 3).

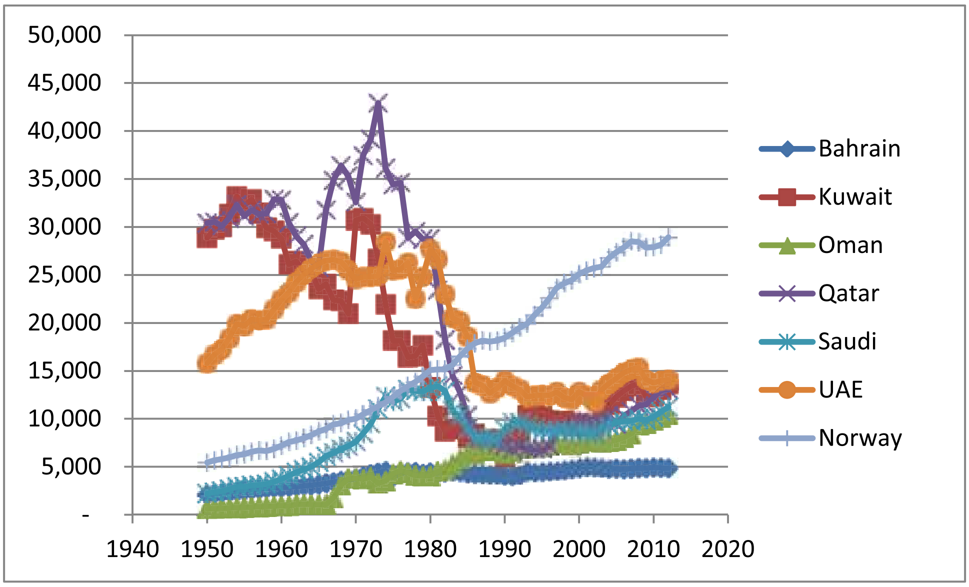
Figure 3: GDP per person employed, in 1990 GK $



Source: The Conference Board Total Economy Database™, January 2013.

As a result of the low productivity growth, one can perhaps conjecture that the GCC economies (measured by standards of living) did not grow as fast as Norway over the same time period (Figure 4).

Figure 4: GDP per capita, in 1990 GK$

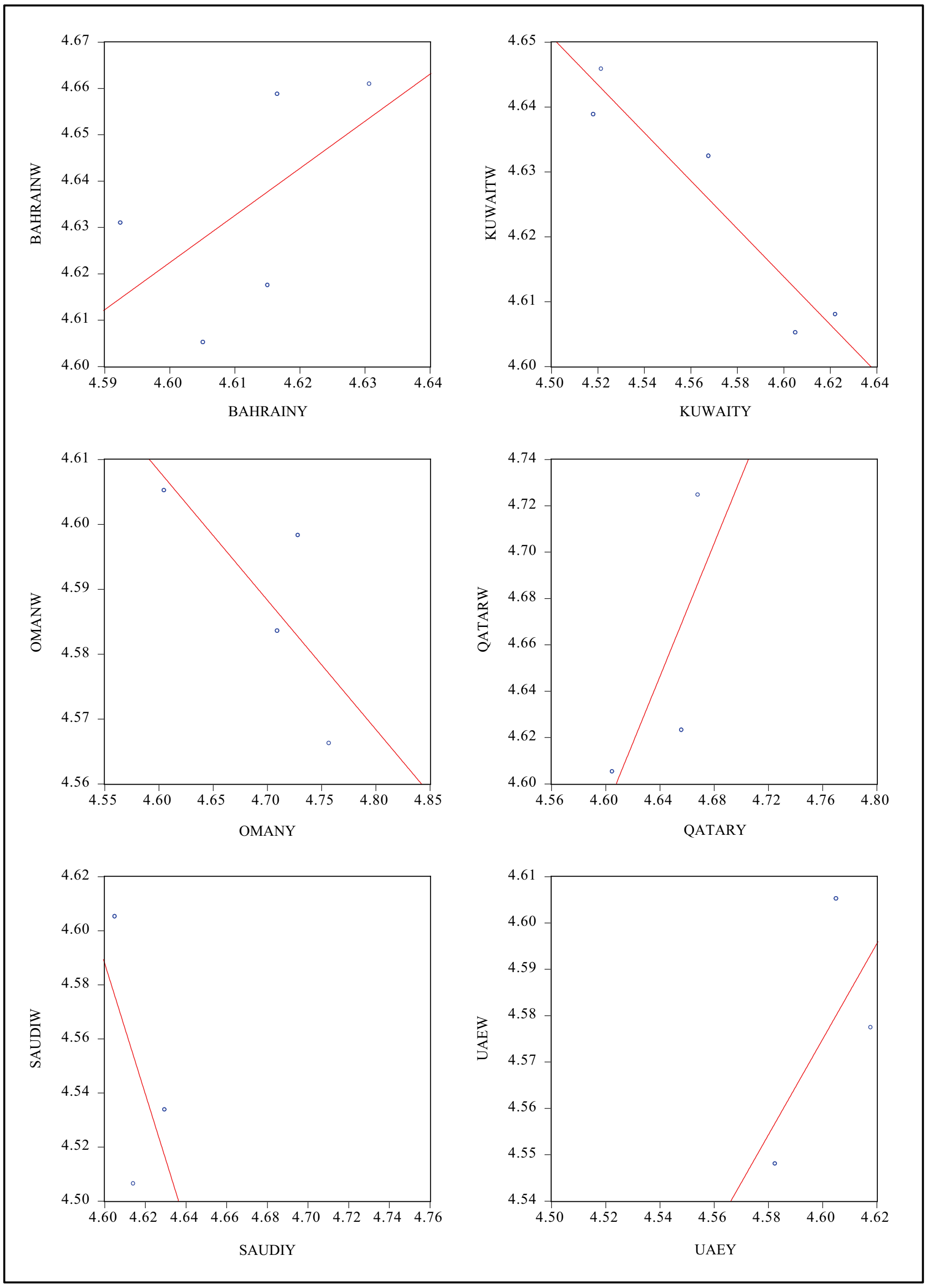


Source: The Conference Board Total Economy Database™, January 2013.

Another important economic indicator is the time movements of wages in the GCC countries. However, one of the challenges for researchers in the Gulf region is the lack of reliable and comprehensive data. That is why it is difficult to make informed judgment about the relationship between wage growth and GDP growth in the GCC even though wages are by far the most important factor in driving international migration.[18] In Figure 5, we normalize the data to 100 in 2007 for both the real wage and real income. Then we plot the log of each variable against the other for each country. While one should exercise caution in interpreting Figure 5 for obvious data concerns, we see that for periods where data are available, in Bahrain, Qatar, and UAE, the income elasticity of wages is positive. In other words, an increase in income would lead to an increase in wages. The opposite happens in the other remaining countries.[19]

18. ILO, *Global Wage Report 2008/09 Minimum Wages and Collective Bargaining: Towards Policy Coherence,* Geneva, International Labour Organization, 2008.
19. In the neoclassical macroeconomic sense, the declining wages should imply declining labor productivity. Once again, due to data restrictions, we are hesitant to make strong statements about wages. Nevertheless, the low productivity is an observed fact in GCC as mentioned previously.

Figure 5: Real wage growth vs. Real GDP growth[20]



Source: Wage data from ILO Global Wage Database. GDP from the Conference Board Total Economy Database™, January 2013.

20. For the year which has data for all years, i.e. 2007, we assume wages are 100. Then all other years are generated as x_t (1+g_t/100)=100.

The Future of the Labor Market in GCC and Some Policy Recommendations

As our analysis so far has shown, the GCC economies are more alike than different as regards geography and culture (economic activity before the discovery of oil), endowments of the economies, the labor markets, the international trade patterns, etc. If the current situation (and also the past performance) is any indicator, the future will not be much different. It then makes sense to coordinate policies across national borders; something which has been in discussion for several years now with the expected GCC monetary union.

With regard to the labor market, Baldwin-Edwards[21] summarizes the characteristics of the GCC labor markets as follows:

- Locals do not participate in the labor market as much as foreigners. But the unemployment among females and youth is increasing.[22]
- The labor market is segmented wherein foreigners go to the private sector, and the locals choose the public sector.
- Kafala (sponsorship) is at the heart of the system which precludes labor mobility.
- Although expatriate workers are assumed to leave after a predetermined time period, they tend to stay longer than anticipated.

One can also add that most of the labor force, especially at the unskilled level, is predominantly Asian. Presuming that migrants are more willing to choose countries where they can find compatriots, it is conceivable to expect that the Asian migrant population will further increase in the region as long as economies do not falter. Also, based on the fact that one of the largest non-oil sectors in the GCC is construction,[23] major infrastructure activities as for the expected World Cup in Qatar and Expo in Dubai will lead to more demand for expatriates. Furthermore, this means that the number of male expatriates will only grow. Therefore, our conjecture is that any future

21. M. Baldwin-Edwards, "Labour Immigration and Labour Markets in the GCC Countries: National Patterns and Trends," Research Paper, Number 15, Kuwait Programme on Development, Governance and Globalisation in the Gulf States, March 2011.
22. I. Genc, G. Naufal and B. AbuAl-Foul, "Chapter 11 – Female Labor Force Participation in Islamic Countries," *Handbook on Islam and Economic Life,* (ed.) M. K. Hassan and M. K. Lewis (Edward Elgar Publishing Ltd., forthcoming).
23. I. Genc and G. Naufal, "Market Overview," in *Encyclopedia of Emerging Markets* (Gale/Cengage Learning, 2013).

labor policy should include expatriates, and especially males. The current employment "localization" policies to substitute foreign laborers with the local ones may be costly for the economy and may also hinder its competitiveness. Although governmental efforts to find/open employment opportunities for locals are expected and make economic sense, it should not be "instead of" the foreign workers, but "together" with them. This complementarity rather than substitution would have better chances for success in the long run. One should never forget that, like commodity markets, markets for factors of production have demand and supply conditions that need to be taken into consideration in making policies.

On a similar note, one should also pay attention to the role remittances play for both the GCC (labor destination countries) and the labor sending countries. Termos, Naufal and Genc[24] show that remittances have a significant impact in fighting inflation in the GCC, whereas Naufal and Genc[25] consider remittances as a means for empowerment of the labor in their home countries.

Going back to the skill level of the workforce, policies designed to increase the educational level in consideration with the expectations of the labor market, for both locals and expatriates, would better serve the market participants and the economy overall. A related issue is the extreme segmentation of the labor market as discussed earlier. In other words, locals have almost guaranteed jobs in the public sector with handsome benefits including lavish retirement advantages. Some of them are actually underemployed. On the other hand, expats flow into private sector jobs, usually with low wages. Considering the low productivity in the region, it is possible to think that this segmentation plays a role in the outcome. This is so because productivity and innovation are usually low in the public sector due to lack of incentives, and low in the private sector due to lack of equitable compensation.

And last but not least is the data issue. It goes without saying that without reliable and complete data, policy making is not healthy and the expected outcomes are hard to achieve. The region suffers from this problem, and it needs to be addressed first to be able to go on with the discussion on anything else.[26]

In terms of more policy oriented discussion suited to the needs of the region, we believe the GCC governments should aim to develop labor market integrative

24. A. Termos, G. Naufal, and I. Genc, "Remittance Outflows and Inflation: The Case of the GCC Countries," *Economics Letters* 120, no. 1 (July 2013): 45-47.
25. G. Naufal and I. Genc, "The Effects of Remittances" in *Labor Mobility: An Enabler for Sustainable Development,* edited by Al-Noaimi, Ali Rashid, and Irena Omelaniuk, Emirates Center for Strategic Studies and Research (ECSSR), Abu Dhabi, UAE, 2013.
26. G. Naufal and I. Genc, *Expats and the Labor Force: The Story of the Gulf Cooperation Council Countries* (New York: Palgrave Macmillan 2012).

policies with balance on income inequality as suggested in the literature.[27] Although income inequality may not be an issue for policy makers in the region, it should be kept in perspective to avoid future crises akin to what some European countries such as Greece experienced recently. This line of research calls for labor mobility across borders with little friction. The first step in this direction could start with the elimination of the local sponsorship system (Kafala) to allow free movement of the foreign labor within a specific country. Then, as a natural second step, all GCC countries would allow a foreigner (expatriate) to work anywhere in the bloc to take the maximum advantage of the imported expertise and the workforce. The mobility of foreign workers could potentially cover shortages of certain skills in one country without resorting to further labor import.

Naturally, this means a lot more cooperation and coordination are needed within the GCC bloc such as standardizing labor recruitments – meaning all GCC countries would follow the same recruiting methods and also have similar laws in terms of expatriates' length of stay, job mobility, on top of the sponsorship (Kafala) rules. This could be achieved with the establishment of a specific coordination and policy recommendation committee within the broader GCC policy making bodies. For example, the Schengen countries allow entry to a foreign citizen with a visa from any member country. A similar, and admittedly more complex, system should be worked out for the labor market coordination in our case.

Per data collection issues, we can mention that agreeing on the same definition in terms of data collection is of paramount importance. For example, even with data available on government websites, which are scattered across different agencies, the collection is not in sync; data construct and variable definitions often vary between country making comparison studies very difficult. A committee of academics and policy makers can determine these (and other) definitions to be adhered to throughout the bloc, and thus implemented by the statistics institutes in the region. This is not a particularly trying task at all as most, if not all, such terms have already internationally recognized definitions produced by international organizations. Furthermore, allowing similar data collection and sharing of these databases across the region would allow one to track labor mobility and to prepare policies on labor related issues (and eventually measure their effects).

27. H. Dawid, S. Gemkow, P. Harting, M. Neugart, "Labor Market Integration Policies and the Convergence of Regions: The Role of Skills and Technology Diffusion," Working Paper at http://ftp.zew.de/pub/zew-docs/veranstaltungen/ZEW-ResearchSeminare/Neugart.pdf. (January 2011).

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