Authoritarianism and labor market : preference of labor policies in the Arab Gulf countries

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journal or publication title	IDE Discussion Paper
volume	514
year	2015-03-01
URL	http://hdl.handle.net/2344/1425

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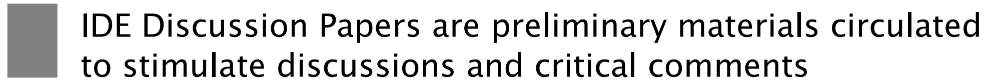

IDE DISCUSSION PAPER No. 514

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Masaki MATSUO**

Abstract

Migrant and labor issues are a primary concern in the Arab Gulf countries. With focus on the economic and political conditions that influence actors' decisions when framing labor policies, this study analyzes how preferences of such policies are formed and explains why the governments of the Arab Gulf countries attempt to implement less economical policies. The findings suggest that governments avoid concessions for enterprises required to implement more economical policies and chose uneconomical ones to maintain authoritarian regimes.

Keywords: labor market, migration, authoritarianism, Arab Gulf countries
JEL classification: F22, F66, J31, J61, N35.

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* This work was based on the presentation at the International Symposium of CMPS Utsunomiya University & IDE-JETRO entitled "Changing the Arab Gulf States: Monarchy, Expatriate, and Economic Outlook in the Gulf" on 17 September 2014 at JETRO, Tokyo.

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CHIBA 261-8545, JAPAN

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Authoritarianism and Labor Market: Preference of Labor Policies in the Arab Gulf Countries

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Migrant and labor issues are a primary concern in the Arab Gulf countries. With focus on the economic and political conditions that influence actors' decisions when framing labor policies, this study analyzes how preferences of such policies are formed and explains why the governments of the Arab Gulf countries attempt to implement less economical policies. The findings suggest that governments avoid concessions for enterprises required to implement more economical policies and chose uneconomical ones to maintain authoritarian regimes.

Key Words:
labor market, migration, authoritarianism, Arab Gulf countries

1. Introduction

The Arab Gulf countries (hereinafter AGCs)[1] house a significantly large number of migrants, which often exceeds the native population. In fact, migrants account for the highest proportion of workforces in all the AGCs (Table 1). Unfortunately, the rapid population growth of nationals has brought new entrants into the labor market, causing labor problems. Thus, there has been an increasing need in the recent decades to control the inflow of migrants and create new jobs for nationals; however, almost all attempts show no positive results. Many studies have predicted such unemployment issues and attributed them to the inefficient nature of labor policies. Why have the governments of the AGCs failed to control the labor market and decrease

[1] Here, the Arab Gulf countries (AGCs) include Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (UAE).

the unemployment of nationals?

This study attempts to explain how this ineffectiveness occurs. Although the governments of the AGCs chose measures rationally, many scholars criticize on the grounds of being ineffective. Moreover, disregard of the AGCs' economic and political conditions that influence actors' decisions have led to their labor market policies being misunderstood. Focusing on conditions typical to the AGCs, such as enormous oil wealth, authoritarianism, and vast migrant workers, this study analyzes the preference of labor policies and explains them as rationally formed outcomes.

The remainder of this paper is organized as follows. Section 2 presents the hypothesis that explains the preference of labor policies in the AGCs. Section 3 analyzes this hypothesis by referencing the historical realities of the AGCs' labor markets. Section 4 discusses the reasons underpinning the governments' decisions to implement uneconomical measures. Section 5 concludes the paper.

2. Hypothesis

To study the process of how preferences are formed regarding the implementation of certain policies, it is necessary to consider actors that shape these preferences and the conditions that influence actors' decisions. Generally, in democratic countries, there are four actors: governments and the mass, the former must hear the voice of the latter to win an election; political elites who support and then influence the government; and enterprises that influence the implementation of economic policies. In comparison to democratic countries, the political process in the AGCs is completely different. The AGCs function under authoritarian regimes that restrict the political participation of these actors, and hence, the governments tend less to hear their voices.

As for economic and political conditions, it is important to focus on conditions that have shaped the basic features of the political economy in the AGCs. The economic growth in the AGCs can be attributed to the development of the oil industry. This economic structure influenced the components of human resources, resulting in present labor market problem in the AGCs. In general, the size of a country's economy develops along with that of its *domestic* economic activity. However, in the AGCs, the size of each country's economy grew beyond that of domestic economic activities, along with *exogenous* capital inflows generated by oil export. This inevitably led to labor shortage, a problem that was then resolved by importing migrant workers. Until now, since the size of the AGCs' economies has been larger than that of

domestic economic activities, the Gulf economy could not manage without migrant workers.

Politically, all the AGCs function under authoritarian governments. In some countries, such as Kuwait, Bahrain, Oman, and the UAE, the parliaments are formed through elections; however, since they do not have parliamentary democracy, the governments have little incentive to cater to the masses[2]. On the other hand, countries such as Saudi Arabia and Qatar do not hold elections to form parliaments. They are, as indicated in M. Herb (1999), dynastic monarchy. In these countries, royal families constitute the main body of each government and attempt to occupy political power. They do not want concession to any other actors outside their family, such as enterprises and citizens because such concession may invite their participation in the decision-making process, and this is harmful for authoritarian governments, particularly in occupying political power.

Since the primary goal of regimes, democratic or authoritarian, is to stay in office, they try to reduce taxes as much as they can because this is one of the most effective ways to gain support from their electorates. Ross (2012) studies this phenomenon in the context of political budget cycles. Especially for authoritarian regimes, decreasing budget dependence on tax revenues can be an effective survival strategy as taxation provokes accountability, and such accountability can translate into the claim of political rights, which then can evolve into movements for democracy. Nevertheless, the massive exogenous oil income has freed the AGCs' governments from taxation and, thus, accountabilities. Once governments escape such accountabilities, they can tame democratization and prolong their authoritarian regime. The AGCs, therefore, maintain such unique state revenue characters as the absence of taxation.

In Bahrain, Kuwait, and Oman, tax revenues, including taxes imposed on companies and international trade, account for less than 1% of the total government revenue in each country (Table 2). According to IMF, in Qatar, the amount of corporate tax revenue, excluding oil and gas companies, was QR 14.5 billion or 9.3% of the total revenue in 2010/11. Similarly, IMF reports that in Saudi Arabia, non-oil corporate tax revenue comprised only 0.9 % of the total revenue in 2010.

[2] Irrespective of elections being held, the ruling families mainly constitute the AGCs' governments. Only the monarch (king, emir, or sultan) can nominate a prime minister, who then appoints the cabinet members from the ruling family who are not parliament members. Hence, the elections do not serve as a mechanism that can change the government.

Enterprises, as a source of tax revenues, are not as important as in tax-dependent countries; thus, the AGCs' governments seem to disregard them when framing policies. However, enterprise owners, especially those of large-scale companies, are sometimes part of royal families who supposedly influence, to a certain extent, the government's decision. More importantly, the governments themselves need their support to stabilize the dynastic monarchy[3] (Peterson 2007). Given these conditions, the influence of enterprises should be assessed not only by their contribution to the economy and state budget, but also as a component of royal families. This also means that the influence of enterprises varies by each AGC.

Labor is one of the main actors in democratic countries; however, in the AGCs, they are the least protected and empowered. Labor is divided into national and migrant workers and the share of the latter exceeds that of the former. Even though the workforce in the AGCs primarily composes of migrant workers, the *kafala* system[4] illegally tethers them to their sponsors and deprives them of their rights. Undoubtedly, migrant workers are vulnerable given their low wages in comparison to national workers (Table 3) and are less integrated in host societies. Ironically, their vulnerability creates price competitiveness. Migrant workers are preferred by not only enterprises as they can be hired at low costs, as opposed to national workers, but also governments because they can be easily deported in the case of labor problems.

By contrast, national workers have a weak market. Since their expected wage is much higher than that of migrant workers—owing to the economic differentials between the less developed sending countries and the oil-rich countries, and well-established social welfare—national workers have less price competitiveness. In addition to these factors, national workers cannot change their status politically, given

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[3] Field (1985) and Carter (1979; 1984) studied in detail about the historical relations between ruling families and merchants in the Gulf. According to Peterson (2007), functions of them were clear until the beginning of the oil era; rulers were in charge of politics and merchants were of commerce and the formers protected the latters and the latters provided the formers capitals. After the oil era, the relation changed as some ruling family members started their businesses, however, some merchants has affected government through joining the government as ministers or high ranking officials.

[4] The term *kafala* derives from Arabic word "*kafil*" or a sponsor. Under this system, migrant workers cannot change their job without consents of *kafils* who take passports away from migrants and kafils have discretions to cancel and extend work contracts. See Khalaf and Alkobaisi (1999); Baldwin-Edwards (2011). In many AGCs *kafala* is not official system. In Oman and Bahrain it was abolished as discussed in this paper and under consideration of the abolition in Kuwait and the UAE.

their exclusion from political processes, or participate in trade unions since they are rendered inactivate by the governments[5]. Furthermore, the share of national workers in the total work force is so small that they are incapable of creating effective movements to voice their demands, which consequently, are often neglected by the governments and enterprises.

These circumstances create competition between the two groups of workers, leading to widespread criticism of the governments by the citizens. Thus, governments must tackle labor and migrant issues to keep their authoritarian regimes alive.

Options to labor market issues

The AGCs' governments have the following four options that can help settle migrant issues:

A. National division of labor

B. Quota system

C. Reduction of the price competitiveness gap between national and migrant workers

D. Redistribution of profits generated by importing migrant workers

Option A: National division of labor

It is well known that in some migrant-receiving countries, there are ethnic or racial divisions of labor. These ethnic or racial divisions can be defined as the allocation of jobs in a specific industry or occupation to specific ethnic (or racial) groups. It also means that workers from ethnic or racial minorities are assigned to industries in which majorities prefer not to participate and, as a result, are restricted in their jobs or occupations despite de jure or de facto. However, in the AGCs, labor is not divided along ethnic lines but on the basis of whether they are national or migrant workers; this phenomenon can be more accurately referred to as the national division of labor. In the AGCs as well, the number of migrant workers far exceeds that of nationals, making it is impossible to restrict them. To tackle this issue, governments impose citizen-priority employment systems in specific fields. However, because enterprises prefer cheaper labor to reduce costs, it is difficult to achieve positive results in the national division of labor in the private sector. The governments of the AGCs enacted laws that obligates

[5] Cammett and Posusney (2010) reports that during the first decade of 2000s labor codes are revised and even migrant workers were allowed to join unions. However, all labor unions are inactive and no labor dispute was reported in these decades.

private enterprises to hire nationals prior to migrants, however, these are ignored. Thus, the national division of labor could be implemented only in the public sector.

Option B: Quota system

The split labor market divides the market into groups and allows the payment of different wages (Bonacich 1972; 1976). E. Bonacich, who originally proposed the split labor market theory to elucidate the US labor market conditions in the late 19th century—when the Blacks were legally allowed to enter the labor market, subsequently causing the market to split between Whites and Blacks workers—explained how this system was despaired. Bonacich focused on three actors: (1) enterprises that tried to hire cheap Black workers and decrease wages for White workers to reduce costs and eventually, abolish this system (2) White workers who wanted to maintain the split labor market to protect themselves, and (3) the government that has to weigh the power of the White workers against the enterprises and then decide whether to enact this type of market. She concluded that only when the White workers' power is stronger than the enterprises would the government enact the split labor market. However, this was rarely the case because strikes by White workers, which were the only tactic they could use, were easily broken through means of strikebreaking. As a result, the split labor market was dissolved.

Bonacich's model can be applied with some modifications. First, in this study, groups are differentiated not by race, but by nationalities. Group A consists of the AGCs' national workers, group B comprises workers from less developed country such as India, and group C has workers from lesser developed country such as Bangladesh. Group A receives much higher wages than those in group B, and group C earns the least wages. In this case, most migrant workers try to maintain the split labor market *within migrants*, fearing that dissolving of that will cause decreasing their wage. Since they are not concerned with the wage decrease of national workers, they do not try to implement the system *between nationals and migrants*. Second, national workers have much less power than the White workers of Bonacich's model and, as mentioned, sometimes the owners of large-scale companies are members of ruling families and may be one of the factors proving detrimental to the split labor market. Hence, in the AGCs, expensive national workers are easily substituted by migrant workers split labor market.

Maintenance of the split labor market warrants strong government interventions; one of them is the implementation of a quota system. The quota system obligates enterprises to hire national workers, who in turn demand much higher wages.

To this effect, some studies identify a quota system as a form of taxation (Hertog 2014); however, this is not entirely correct. It is true that the quota system is a type of taxation *for enterprises* because they are forced to contribute a certain amount of their profits to the social welfare of nationals. On the other hand, this is not the case *for governments* because they do not collect and redistribute taxes, and therefore, are not subject to accountability. Thus, the quota system allows the governments to not only escape the cost of redistributing enterprise profits but also benefit from the redistribution. This fits the AGCs' condition to secure financial sources that are independent of tax revenue and possibly escape accountability to tax payers.

Option C: Reduction of the price competitiveness gap between national and migrant workers

In addition to the national division of labor and quota system, reducing the price competitiveness gap between national and migrant workers can solve, or at least ease, competition. Theoretically, this can be realized by increasing national workers' price competitiveness or decreasing that of migrants, separately or simultaneously. However, increasing the price competitiveness of national workers is unrealistic because it requires that their wages be decreased. Further, certain national workers choose voluntary unemployment and become eligible for unemployment benefits, which then increases government expenditure. This only negatively impacts the budget burden, unemployment, and opposition from national workers. In addition, it may raise criticisms against the governments and instigate anti-government movements.

By contrast, the cost of decreasing migrant competitiveness is borne not by the governments but by enterprises since it would include increasing the cost of hiring migrants, raising visa fees, charging enterprises with a "hiring migrant fee" per migrant worker, and abolishing the *kafala* system to promote the mobility of migrant workers (Hertog 2014). Hence, option C can be implemented by decreasing the price competitiveness of migrant workers.

Option D: Redistribution of profits generated by importing migrant workers

Generally, governments depend on the redistribution of profits from importing migrants for their tax revenue. Borjas (1995) shows that a decrease in workers' wages in a receiving country, because of an influx of low-wage migrant workers, generates profits for enterprises, leading to an increase in the governments' tax revenue. Governments then redistribute this newly generated revenue to national workers who

are faced with wage reduction. However, this is not possible in the AGCs because they collect little tax from their national economy, and thus, are unable to redistribute tax revenue.

Governments' preference of the four options: A >B > C > D

It can be assumed that the preference of the AGCs' governments is A > B > C > D. At first glance, this preference seems to be irrational because it means that the governments prefer less economical measure. For example, under option A, governments must hire national workers and continue to pay wages regardless of oil reserves and prices, which eventually will increase the budget burden. Thus, governments should avoid implementing it.

Option B will generate ghost employees, especially in industries that are neither prestigious nor favorable for national workers, such as constructions, services, and wholesales. In these industries, to meet the quota system, enterprises must hire national workers regardless of their merits and pay them wages independent of their actual working hours and efficiency. Thus, it is often the case that national workers earn wages without doing much work and reporting for a mere few hours, once or twice a week. Although this is not seriously harmful for enterprises, because they can absorb such wasted costs by decreasing the wage of migrant workers, it can prove detrimental for overall economy in terms of national workers' limited acquisition of skills and inability to produce added value. The quota system may solve the unemployment problem of national workers; however, at the same time, it can be harmful in that it hinders the governments' realization of the fundamental goal of nationalizing its workforce and increasing national productivity in preparation for the future of an oil-independent economy.

Why and how does this preference emerge? When governments are authoritarian in nature, they try as much as possible to reduce tax dependence and concessions for national workers and enterprises. This makes it impossible to redistribute profits, although they can distribute oil revenue. Enterprises prefer to hire cheap migrant workers to expensive national workers who have less price competitiveness and are less empowered. Migrant workers are also less politically empowered but retain price competitiveness. Under these circumstances, the emergence of this preference is explained as follows.

A > B: No cost except budget costs for the government

The choice of the national division of labor is not economically rational, as mentioned above. On the other hand, when the government chooses option B, national workers' wages are paid by enterprises. Then, why do the AGCs' governments prefer option A to B?

The factor that affects this choice is typical to the AGCs. It is rational for governments to prefer option A to B because to implement option A governments require only a financial base, whereas option B warrants concessions to enterprises. Enterprises that are obligated to hire expensive national workers will refuse to do so unless they receive a concession. On the other hand, the AGCs' authoritarian governments that strive to occupy their political power avoid granting such concessions. Thus, the governments have less incentive to implement a quota system than the national division of labor.

Since enterprises prioritize their business over budget affairs, they neither object to the national division of labor nor willingly promote the quota system. In addition, national workers prefer A to B because they want a more stable and higher paying occupation. As a result, the AGCs' prefer A to B.

B > C: Cost of concession

Governments incur less cost to achieve C rather than B because they do not bear the costs of visa fees or hiring migrants. However, this does not mean that a government will always introduce C more easily than B. The reason is almost the same as that discussed for option B.

In comparison to B, it may be more difficult for enterprises to implement C because they bear certain costs, considering the number of migrants is much higher than that of national workers. Thus, as long as enterprises bear the cost, governments must concession to them. In addition, the governments may sometimes work in the interest of enterprises when they are owned by royal family members.

C > D: Impossible

Option D is the least possible because the AGCs' governments have to escape fiscal democracy and in fact, they do not collect taxes. It is worth mentioning that this lack of taxation does not mean that the AGCs' governments are unable of collecting taxes. Some studies argue that the authoritarian governments of oil-exporting countries lose their capacity to collect taxes and they heavily depend on non-tax revenue and thus, tend to miss signs of an anti-government movement, until the matters become serious,

because such governments have no ability to collect information useful to identify signs of anti-government movements such as income, family size, and occupation, which were once drawn from data collected along with taxes (Smith 2007; Chaudhry 1997).

Nevertheless, social security systems are now well organized and functional in the AGCs. Using this system, the governments collect the abovementioned information from national workers whose employers must register them as subscribers of social security. Thus, the governments retain the ability of taxation but do not use it.

3. Analysis

Preference of A > B

At first, the AGCs' governments implement option A. Fig. 1 shows changes in the national division of labor (share of national workers employed in the public sector) in the AGCs, excluding the UAE because it does not disclose details of national workers. From the 1960s to 1970s, Kuwait and Saudi Arabia are almost on the same track. In 1980, when the oil prices drastically dropped, the value for Saudi Arabia declines and since then till the 1990s, it is shown to recover. However, after the 1990s, the share of national workers in Saudi Arabia does not recover; instead in 2010, it plunges to a value less than that in the 1970s. The share of national workers in Oman is also shown to decline since 1990, for when data were available. As for Kuwait and Qatar, data from 1985 to 2010 are almost identical and maintain high rates. Bahrain also shows an increase in share from 1970 to 1990; however, during this period, it reported slow growth, after which it has not increased.

The AGCs can be classified into two groups, high- (Kuwait and Qatar) and low- division countries (Bahrain, Oman, and Saudi Arabia) on the basis of financial strengths. In the low-division countries, the share of public sector wages in the government budget consistently grew and in Saudi Arabia and Bahrain, it was more than 40% after 2000. On the other hand, in the high-division countries, the highest share of public sector wages was about 40% in Qatar and 36% in Kuwait and after the 1990s, it further decreased to 17% and 22%. In addition, the low-division countries continuously recorded deficits during the 80s and the 90s[6], whereas high-division countries generated surplus, with the exception of Kuwait during the 1990s, when it was being reconstructed after the Gulf War (see Fig. 2).

[6] In 2005, Saudi Arabia recorded a huge surplus, however, this will be dissolved due to a slump of the oil price since late 2014.

This trajectory also explains why the governments of Kuwait and Qatar do not implement a cogent quota system: it appears to be a matter of necessity. The governments of Kuwait and Qatar do not need to implement the policy strictly to create jobs in the private sector. For these governments, such policies are simply palliative measures to tame the immediate dissatisfactions of the citizens, such as temporary inflations or economic depressions. Thus, the "failures" of a quota system in the private sector are not actual failures. This is not proof of the governments' inability but of their strength to maintain the national division of labor.

These facts elucidate that the AGCs' governments implement a national division of labor as long as their budgets allow it, and when their budgets cannot sustain this policy, the division weakens, and consequently, the policies need to be changed.

Preference of B > C

According to Hertog (2014), many governments are now trying to implement "'second generation' of labor policies, which are based on market incentives." For example, the government in Oman abolished the *kafala* system. This improved the mobility of migrant workers and diminished their competitiveness because now it is relatively easy for them to change jobs and thus, employers must improve their working conditions, such as wage and working hours, to ensure that they do not leave. A positive outcome confirmed as a result of this policy is an increase in national workers in the private sector. Similarly, the government in Bahrain abolished the *kafala* system and implemented measures to diminish the competitiveness of migrants, such as increasing the fees for a working visa to BD 200 (US $530) per head and imposing a cost of BD 10 per hired migrant every month on employers (Hertog 2014). However, these second-generation policies seemed to be unsuccessful. According to my hypothesis, governments should prefer B to C. However, why did the governments in Oman and Bahrain implement C not B? In addition, why did option C fail in spite of its success before 2011? We discuss these questions in the following section.

The only effective alternative to A at present is *nitaqat*, option B. *Nitaqat* is a system implemented in Saudi Arabia since 2011 for the purpose to decrease promote nationalization of the workforce by combining quota system and raising minimum wage of national workers. Some studies have questioned the effects of *nitaqat* by referring to similar policies being implemented by the Saudi government in vein; however, there is evidence in statistical data that indicates positive effects.

Within a decade, the Saudi labor force increased almost two times, from about

5.3 million in 2004 to 11 million in 2013. The growth of the labor force in the private sector was almost identical (from 4.5 million to 9.7 million) (Fig. 3). However, during 2009–2010, the growth rate of labor force was stagnant due to global financial crisis. This significantly affected the national workers in Saudi's private sector more than it did the migrants. The number of Saudi national workers in the private sector decreased by nearly 18%, while that of migrant workers marginally increased. In addition, in the public sector, the number of Saudi national workers grew at the same pace as that before the crisis.

These changes in the Saudi labor force can be attributed to the wage cut in the private sector. Fig. 4 shows that, in this stagnant period, the average wage in the private sector plunged by 35%. This change clearly demonstrates the vulnerability of the workers in Saudi Arabia—that is, in the case of a shrinking economy, it is the national workers who lose their jobs and not the migrants. Because they come from comparatively less developed countries than Saudi Arabia, migrants are less affected by wage cuts, as their income would still be higher than that in their home countries. Saudi nationals, on the contrary, who were already suffering from the pressure of decreasing wages owing to the influx of low-wage migrants, struggled with the wages that were lower than the expected level, and eventually, gave up their jobs and chose to be unemployed. Soon after the crisis, the average wage rate recovered and Saudi's national workers returned to their jobs. By 2012, they reported a growth rate as that before the crisis, which then exceeded the expected level in 2013. This upward movement was a result of *nitaqat*, which includes the revision of the minimum wage to SR 3,000.

Table 4 shows the positive effects of *nitaqat* on the employment rate of Saudi's national workers. To confirm the effects, we compare the growth rates of private sector workers for 2004–2013 between the pre-*nitaqat* (2004–2008) and post-*nitaqat* period (2011–2013) and focus on three occupations in which the national workers were concentrated the most: manufacturing, construction, and wholesale and retail trade. To control for exceptional economic fluctuation, the crisis period (2009–2010) is excluded. The aggregated (Saudi nationals and migrants) effects of *nitaqat* in each category are not significant, except in the wholesale and retail industry, although when we compare effects between the Saudi nationals and migrants, the significance is clear. For example, in the manufacturing and construction industries, the differences in growth rates of the Saudi nationals between the two periods are 8.4 and 15, while that of migrants are −2.9 and −0.9. In addition, in the private sector, the growth rate of Saudi national workers changed 10.3 points, while that of migrants was −0.8. This means that *nitaqat*

exclusively affected Saudi's national workers. In the wholesale and retail industry, *nitaqat* affected both Saudi nationals and migrants; this is probably because of the industry's growth rate as a whole.

This raises the two questions. Why did only *nitaqat* have a positive outcome? If it can bear positive results, why did Saudi Arabia not implement *nitaqat* until 2011?

4. Discussion

Why did Oman and Bahrain implement option C and Saudi Arabia option B?

The reason Oman and Bahrain could implement more economical measures lies in their labor markets. First, Saudi Arabia has the lowest share of national workers in the private sector (Table 5); hence, it is easier to implement B in Saudi Arabia than in Bahrain and Oman. Second, the wage gap between the national and migrant workers in Saudi Arabia is the widest among the three countries (Table 3). Again, increasing migrant costs (i.e., option C) is more expensive in Saudi Arabia than in Oman and Bahrain. It is not as difficult to implement option C in Oman and Bahrain as compared to Saudi Arabia.

Third, the governments are characteristically different. As discussed, when a government tries to implement option C, it needs to provide more concessions to enterprises that object option C stronger than option B. In addition, it must also consider family members who own enterprises. If a ruler has greater political power and can maintain distance from such family members, so far as such impediments decrease effects to a degree that he can choose C at least as equally as B, he may chose C not B. In this respect, Oman is more an absolute monarchy and its ruler would be less cooperative with the ruling families than any other countries in the AGCs (Valeri 2013). On the other hand, in Bahrain, following the enthronement of the new king, a new constitution was approved through a referendum. Encouraged by the expectations from the reform, King Hamad introduced an innovative labor system that included the establishment of the Labor Market Regulation Authority in 2006 and a decrease in price competitiveness of migrant workers, that is, option C. However, soon after, conflicts emerged within the ruling elites and Hamad gradually lost his influence within the government. Finally, the regulations were abolished with the backing of Khalifa, the prime minister and the head of old guards. Saudi Arabia, which is not an absolute monarchy as Oman, is more a dynastic monarchy and is not undergoing a period of reformation like Bahrain.

Why did Saudi Arabia not implement effective measures until 2011?

The issue of unemployment in Saudi Arabia, caused by competition between national and migrant workers, has been an important one since the mid-1980s; for example, the term "Saudization" officially appeared as one of objectives in the fourth development plan (1985–1990) (Ministry of Planning (Saudi Arabia) 1985). The Saudi Arabian government, however, could not achieve this goal and provided its reasons in the fifth development plan:

> The achievement of Saudiization (sic) in the private sector depends upon the extent to which employers' perceptions are positive with respect to the quality of Saudi new entrants. At the same time, it remains true that these perceptions may be influenced by easy access to cheaper and more experienced non-Saudi workers. While this provides a competitive advantage for employers, and therefore, has a positive effect on the process of diversification, it can become an impediment to the employment of Saudi nationals if the issue if left entirely to market forces for its solution (Ministry of Planning (Saudi Arabia) 1990).

In reality, as the development plan reports, the employment of Saudi nationals was "left entirely to market forces" for almost a quarter of a century.

From the mid-1980s, when the unemployment of nationals was officially noticed as a problem, to 2011, when *nitaqat* was implemented, several critical issues jolted Saudi Arabia, such as the Gulf War in 1990, the Iraqi War in 2003, and the financial crisis of 2008; however, all these incidents did not push it to implement effective alternatives to option A. Considering such historical courses, the only incident that appeared to have changed the situation is the so-called "the Arab Spring."

The Arab Spring spread throughout the region as rapid as a forest fire and the fear of regime change or political and economic disorders the Arab Spring brought to Tunisia, Yemen, and Egypt were gradually being felt in the Gulf and finally, ignited Bahrain, where anti-governmental protests broke out and several people were killed, injured, and arrested. As the main body of the Gulf Shield Forces, the Saudi government dispatched its forces to Bahrain to contain the movements. At the time, the Saudi government stipulated that all enterprises agree to implement the quota system. The kind of concession offered to the enterprises remains uncertain, although it is obvious

that the enterprises accepted to incur costs of introducing the new system to prevent protests and protect their properties and collaborative relationship with the government. Thus, it was not until the grave fear of a crisis, such as the Arab Spring, that both the Saudi government and enterprises came to agree on the quota system.

Why did C fail and B succeed? Another effect of the Arab Spring

The Arab Spring is also the primary reason underpinning the failure of the Oman and Bahrain's labor-migrant reform. In Oman, as mentioned above, the abolition of *kafala* system produced positive results, although according to Hertog (2014), in 2011, the Omani government decided to raise the minimum wage of national workers in response to protests against the government, which occurred as a result of the Arab Spring; this decision decreased their price competitiveness. In Bahrain, for the same reasons, the government created 20,000 new public jobs and decreased the monthly fee of BD 10 per migrant workers to BD 5. In addition, to create a coalition between the government and enterprises, it introduced new a regulation that prohibits migrant workers from changing their job within a year of joining. As a result, the price competitiveness of migrant workers was restored, and matters went back to square one.

On the other hand, the *nitaqat* system was more effective. It protected national workers by raising their minimum wage and introducing a quota system and provided functions to penalize companies that could not effectively meet the conditions. Raising national workers' minimum wage and decreasing migrant workers' price competitiveness can be futile when both policies are implemented at the same time, because the former is a type of market intervention and the latter a form of market opening; in other words, they will offset each other. While the Omani and Bahraini governments refused to advance policies on the basis of market mechanisms in response to the Arab Spring and failed to reform the labor market, the Saudi government did not rely on such mechanisms and instead chose intervention.

The Saudi government implemented *nitaqat* using the social security and visa application systems for migrant workers. The social security system helps the Saudi government with information on national workers, such as wages and occupations, and the visa system managed by the Ministry of Interior provides information on the number of migrant workers each company is hiring (at least legally). The government can also implement a *nitaqat* system that categorizes companies by share of national workers in the total number of employees, without relying on information supplied by the companies because it may be not always be correct, and impose penalties on such

companies that do not meet conditions under nitaqat by restricting the number of visas they issue to migrant workers, which is controlled by the Ministry of Interior. Furthermore, each company should disclose every year to the public progress made owing to *nitaqat*, which also allows nationals to identify which company tends to hire more migrant workers.

5. Conclusion

This study analyzed the AGCs' labor policy preferences and tested the hypothesis that their preference can be defined as A > B > C > D, and almost confirmed it. The only preference that is not distinguishable is B > C because a government can choose C if the circumstances allow it.

The economic dependence on oil and the authoritarian natures of the governments explain the formation of this preference. When the growth of the national economy exceeds the proportion of the national workers because of the influx of exogenous profits from oil exports, this leads to labor market problem such as labor shortage and the subsequent importation of migrant workers. The most economical, market-based policy that can solve this problem is the redistribution of profits generated by importing cheap labor to national workers subject to low wages, given the growing number of migrants. However, authoritarian governments may refrain from such measures as they do collect taxes and fear the emergence of a financial democracy. Thus, the governments will implement policies that have distortionary effects on the labor market.

The governments in the AGCs, at first, preferred the worst economical method: hire national workers in the private sector. Although this increased the budget burden, but does not require any concession to any actors instead. As long as the financial strength can support this policy, the governments will try to maintain it. This explains why in Kuwait and Qatar, alternative labor policies such as the quota system did not bear fruit: these governments did not need to pay costs necessary to achieve positive results. In addition, alternatives that can be implemented vary by the nature of the government and labor market. If the ruler is more independent from the actors in political processes, he can implement alternatives with more concessions and if the wage difference between the national and migrant workers is smaller, he can implement more market-friendly measures. If not, he is subject to pressure from the national workers and will repeatedly adopt palliate measures, until the point where national

workers nearly boil over, which eventually leaves the government and enterprises with no choice but to agree on effective alternative policies.

To retain its authoritarianism and solve labor market problems, the governments must rationally choose less economical options. This means that implementing irrational economical measures does not reflect the inability of these governments. As is the case of taxation, the governments can implement more economical policies but authoritarianism does not allow it. However, occasionally, if conditions permit, the governments may implement more market-friendly measures like in Oman and Bahrain (C > B). Such measures that reduce the budget burden must be more sustainable, although authoritarian governments cannot continue with this policy in the face of stormy anti-government movements. Since, in the AGCs, there is no arena (e.g., trade unions and elections) or parliaments where rulers, citizens, and enterprises can reach a consensus, it is only the governments that can, and must, resolve conflicts between the actors. In this case, market interventions are the only viable option for governments to diffuse movements or protests. While this does not achieve the long-term goal of increasing the productivity of national workers, it is rational measure that will allow the governments of the AGCs to live longer.

Table 1

Population and Work Force (%), 2005-2010

	Population (%)		Work Force (%)	
	Nationals	Migrants	Nationals	Migrants
Bahrain (2010)	46.04	53.96	25.20	74.80
Kuwait (2011)	35.55	64.45	15.06	84.94
Oman (2010)	70.57	29.43	24.50	75.50
Qatar (2010)	25.40	74.60	6.60	93.94
Saudi Arabia (2010)	68.84	31.16	20.57	79.43
UAE (2005)	20.10	79.90	20.24	79.76

Source: Central Informatics Organisation (Bahrain)(n.d.); Idāra al-ta‘dād wa al-iḥsā’āt al-sukkānīya (al-Kuwayt)(n.d.); Idāra al-ta‘dād (Sulṭana ‘Umān)(n.d.); World Bank (2015); Ministry of Development Planning and Statistics (Qatar) (n.d.); Saudi Arabian Monetary Agency (2012); National Bureau of Statistics (UAE) (n.d.).

Note: Because Qatar government does not disclose number of population by nationals and migrants except work force, values of populations of Qatar are from World Bank (2015).

Table 2

Dependence on Tax Revenue (%), 2008-2012

Bahrain	0.67	(2011)
Kuwait	0.58	(2008)
Oman	0.81	(2012)
Qatar	9.0	(2010/11)
Saudi Arabia	0.9	(2010)
OECD	23.72	(2012)
World	21.74	(2012)

Source: Values of Qatar and Saudi Arabia are calculated from data of IMF (2014); rest of them are from data of World Bank (2015).

Table 3

Average Wages and Differences in the Private Sector

	Nationals (a)	Migrants (b)	Difference (a/b)
Bahrain (BD) (2010)	677	210	3.22
Oman (OR) (2007/08)	476.4	254.3	1.87
Saudi Arabia (SR) (2012)	4801.43	940.16	5.11

Source: Labour Market Regulatory Authority (n.d.); al-Mudīrīya al-‘Āmma lil-Iḥsā’āt al-Ijtimā‘īya (2010); Wizāra al-‘Amal, al-Mamlaka al-‘Arabīya al-Su‘ūdīya (2012).

Table 4

Effects of *nitaqat*

Industries		Growth Rate (%)		Diff.
		(2005-2008)	(2011-2013)	
Manufacturing industries	Nationals	21.6	29.9	8.4
	Migrants	5.7	2.9	-2.9
	Total	7.6	6.8	-0.9
Construction and building	Nationals	23.3	38.4	15.0
	Migrants	14.3	13.5	-0.9
	Total	15.0	15.4	0.4
Wholesale and retail trade	Nationals	25.2	35.5	10.4
	Migrants	2.8	9.9	7.1
	Total	5.3	13.6	8.2
Total Private labor force	Nationals	21.2	31.8	10.3
	Migrants	9.6	8.8	-0.8
	Total	10.9	11.5	0.6

Source: Calculated from data in Saudi Arabia Monetary Agency (2013).

Table 5

Workers in the Private Sector, 2010

	Nationals	Migrants	Share of Nationals (%)
Bahrain (2010)	83,827	401,865	17.26
Oman (2010)	177,716	955,630	15.68
Saudi Arabia (2010)	724,655	6,266,545	10.37

Source: Central Informatics Organisation (Bahrain) (n.d.); Idāra al-taʻdād (Sulṭana ʻUmān) (n.d.); Saudi Arabian Monetary Agency (2012).

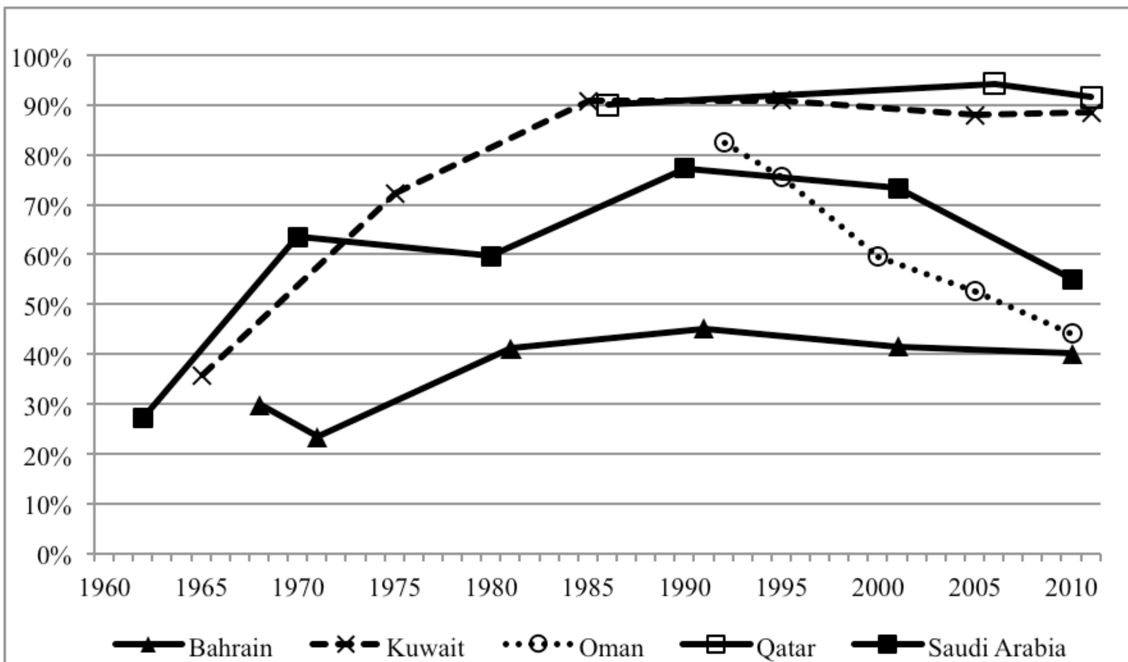

Fig.1 Share of national workers in the pbolic sector, 1960-2010

Sources: Statistical Bureau (Bahrain) (1969); Directorate of Statistics (Bahrain) (1982); Central Informatics Organization (Bahrain); Central Statistical Office (Kuwait); Central Statistical Bureau (Kuwait); Ministry of Development (Oman); National Centre for Statistics & Information (Oman); Central Statistical Organization (Qatar); Ministry of Development and Planning and Statistics (Qatar); Central Department of Statistics (Saudi Arabia); Saudi Arabian Monetary Agency.

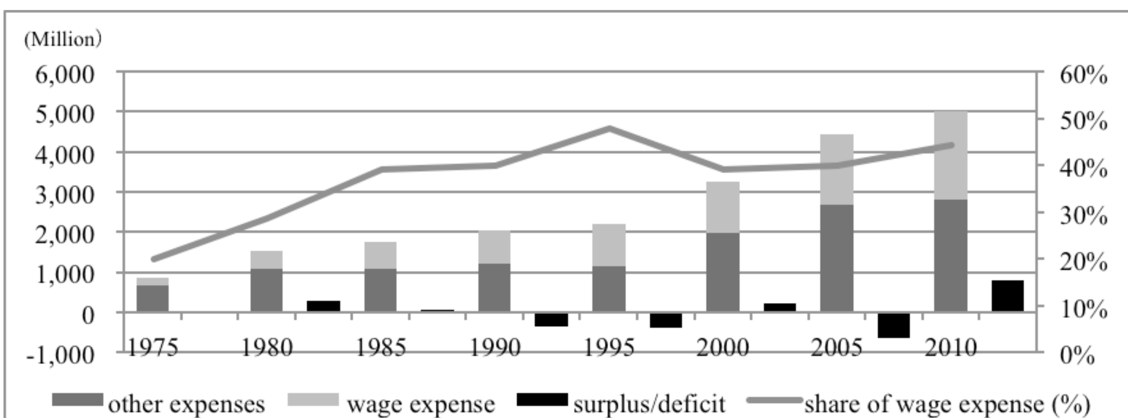

Figure 2.1 Budget and Wage Expense, Bahrain 1975-2010

Source: Calculated from data in the Government Finance Statistics of IMF.
Note: Values are adjusted to constant US dollars (2010) using CPI as a deflator and official exchange rate to US dollar. CPI and official exchange rate are based on World Bank (2014).

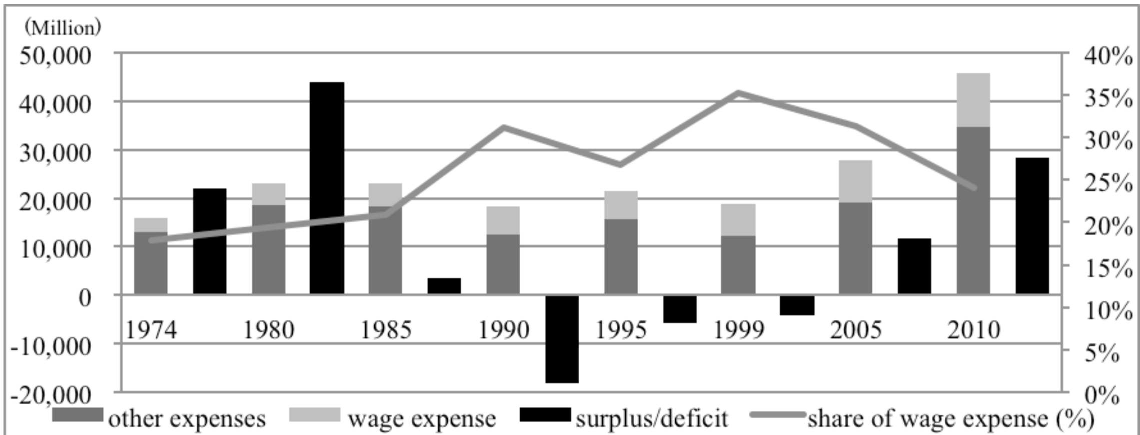

Figure 2.2. Budget and Wage Expense, Kuwait 1975-2010

Source: Calculated from data n the Government Finance Statistics of IMF.

Note: Values are adjusted to constant US dollars (2010) as fig. 2.1.

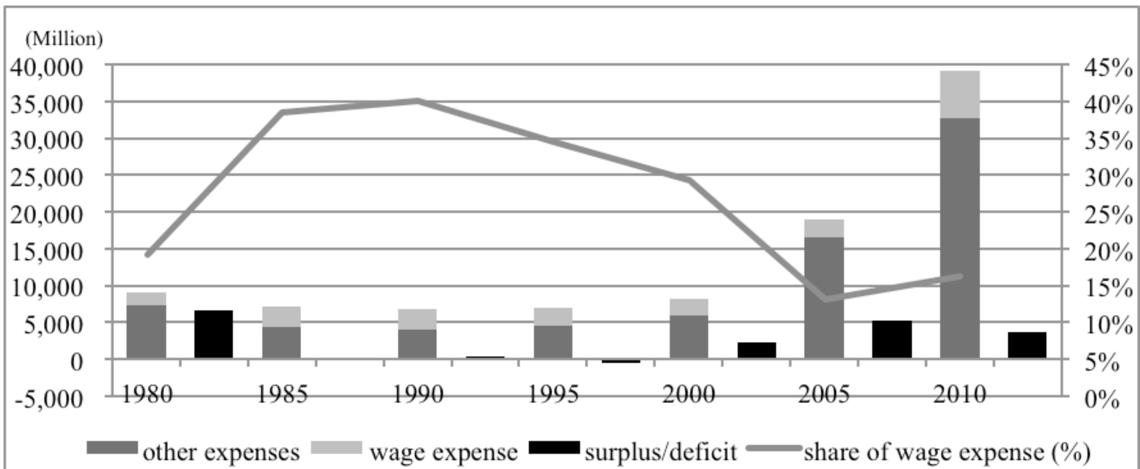

Figure 2.3. Budget and Wage Expense, Qatar 1980-2010

Source: Calculated from data in Qatar Monetary Agency; Qatar Central Bank.

Note: Values are adjusted to constant US dollars (2010) as fig. 2.1.

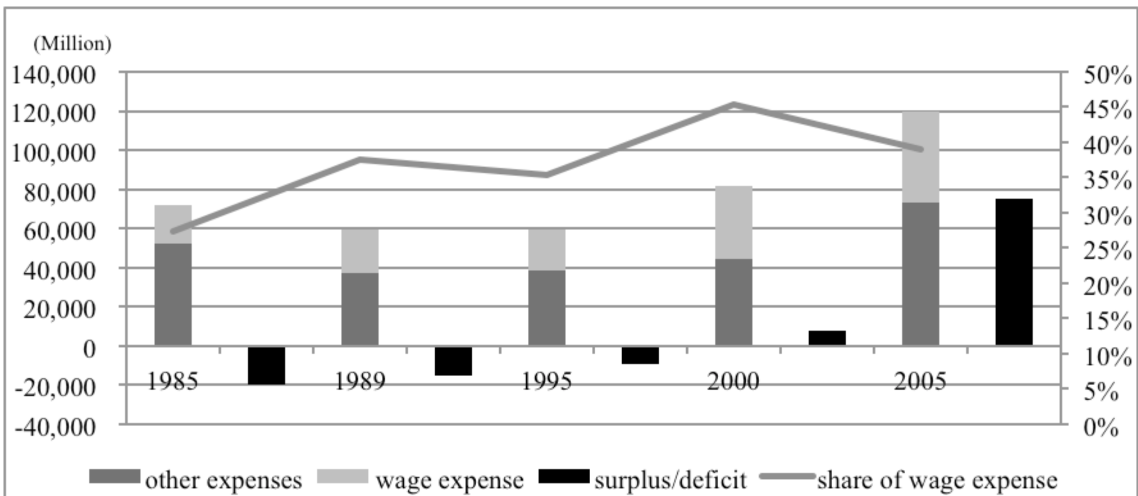

Figure 2.4. Budget and Wage Expense, Saudi Arabia 1985-2005

Source: Calculated from data from Ministry of Finance and National Economy (Saudi Arabia); Ministry of Economy and Planning (Saudi Arabia); Saudi Arabian Monetary Agency (2008).
Note: Values are adjusted to constant US dollars (2010) as fig. 2.1. Because the budget of 1991 was amalgamated with that of 1990, here we refer the budget of 1989 instead of 1990.

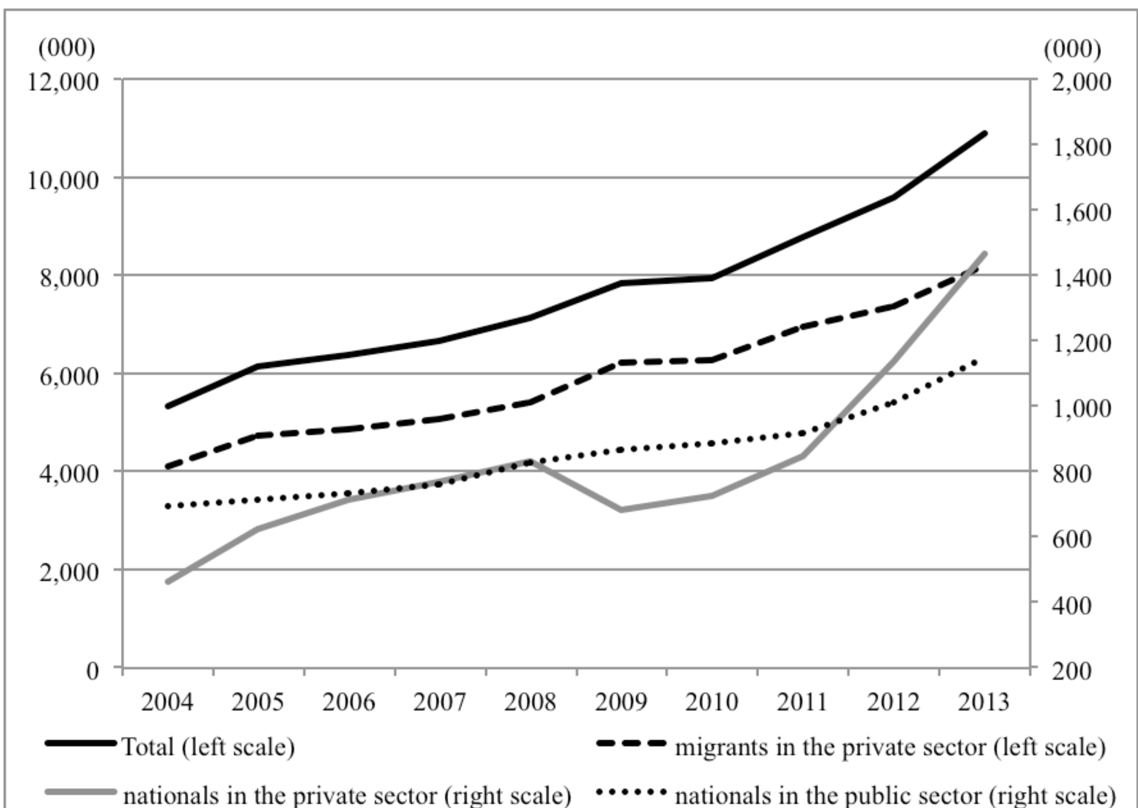

Fig.3 Growth of Workers in Saudi Arabia, 2004-2013

Source: Saudi Arabian Monetary Agency (2013)

Fig.4 Growth of Saudi Workers, 2004-2013

Source: Calculated from data of Saudi Arabian Monetary Agency (2013).

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