The demographic time bomb: How the Arab Gulf countries could cope with growing number of youngsters entering the job market

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The demographic time bomb:
How the Arab Gulf countries could cope with growing number of youngsters entering the job market

News

The six states of the Gulf Cooperation Council (GCC) – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) – have by now largely weathered the effects of the 2014 oil price collapse. The economic outlook for the region is relatively positive for the coming five years. This situation provides some relief from the austerity policies applied in 2015 and is an opportunity to pursue structural and fiscal reforms to disarm what the Vision Kuwait 2030 development plan describes as the three “time bombs” of high demographic growth; fiscal unsustainability under current spending patterns; and unpredictable oil revenues.

This paper discusses what is considered ‘the’ major challenge facing the Gulf economies namely, how they will cope with absorbing the growing number of consecutively better-educated youngsters into the labor force over the coming years.

Summary

This article explores the demographic challenge as it exists in the Gulf countries today. Figures are presented and an estimated 500,000 new entrants to the working age groups pr. year is the reality facing these countries. The public sector cannot absorb these and so it becomes the private sector. The policies of localization and technology upgrade is meant to make way for employment of nationals in this sector. However, in the transition period other means are necessary. The World Bank suggests that basically the state pays the citizens a compensation so that the total income from is equated between the public and the private sector.

Key Words

Demography, labor force, Saudi Arabia, Women, cash grants

About the Author

Martin Hvidt is Associate Professor at the Centre for Contemporary Middle East Studies at the University of Southern Denmark. He is specialized in the economic and social development of the Arab Gulf countries, and served as a Professor at Zayed University, Dubai, 2013-2016.
Analysis:

The Demographic challenge

The most noteworthy features shown in Figure 1 are that approximately half of the current population are nonnationals, and that the size of the national population varies considerably among the six countries. Saudi Arabia has 20 million, while the national populations in the remaining five countries are diminutive. Among the many consequences this has for the smaller GCC states is that it makes it difficult at any time to attain economies of scale in economic undertakings.

Figure 1: GCC population, nationals and nonnationals, 2010 and 2017

<table>
<thead>
<tr>
<th></th>
<th>Nationals</th>
<th>Non-nationals</th>
<th>Total population</th>
<th>% Non-nationals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>664,707</td>
<td>759,019</td>
<td>1,423,726</td>
<td>53.3</td>
</tr>
<tr>
<td>Kuwait</td>
<td>1,337,683</td>
<td>3,073,431</td>
<td>4,411,124</td>
<td>69.7</td>
</tr>
<tr>
<td>Oman</td>
<td>2,488,755</td>
<td>2,110,296</td>
<td>4,599,051</td>
<td>45.9</td>
</tr>
<tr>
<td>Qatar *</td>
<td>243,073</td>
<td>1,456,362</td>
<td>1,699,435</td>
<td>85.7</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>20,064,970</td>
<td>11,677,338</td>
<td>31,742,308</td>
<td>36.8</td>
</tr>
<tr>
<td>UAE **</td>
<td>947,997</td>
<td>7,316,073</td>
<td>8,264,070</td>
<td>88.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>25,747,195</td>
<td>26,392,519</td>
<td>52,139,714</td>
<td>50.6</td>
</tr>
</tbody>
</table>

* World Development Indicators set total population at 2,639,211.
** Data from 2010. World Development Indicators set the total population at 9,400,145 in 2017.

However, populations are set to grow significantly over the coming decades. The population pyramid for Kuwait depicted in Figure 2 is characteristic of the GCC states. The pyramid is expansive, which characterizes countries with fast-growing populations, in that the size of each age cohort gets larger than the size of the previous year. In the case of Kuwait, there are 50,000 more nationals in the 0–4 year cohort than in the 20–24 year cohort.
The median age of the national population falls within the 20–24 year cohort in all Gulf countries. As a reference, in Germany the median age is 47.1 years, Canada 42.2 years, America 38.1 years and Denmark 41.9 years (CIA World Facts Book). In this perspective, the GCC states have a extremely young population.

Rapidly growing populations could mean an economic benefit – a so-called ‘demographic gift’ – if the extra people in the working age are fully employed. However, rapidly growing populations for sure mean significant increases in demand for schools, secondary education, universities, housing, utilities, overarching infrastructure, and ultimately health services and pensions. Above all, a rapidly growing population places pressure on societies to create large numbers of new jobs in order to accommodate the many new working age entrants to the labor market. Lack of jobs is generally
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understood as a destabilizing factor in any society. As such, globally high unemployment rates – particularly among the younger generations – is correlated with social unrest (ILO 2018, p. 58).

Figure 3: Annual number of GCC nationals reaching working age (25 years)

<table>
<thead>
<tr>
<th>Country</th>
<th>Yearly number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bahrain</td>
<td>13,642</td>
</tr>
<tr>
<td>Kuwait</td>
<td>28,434</td>
</tr>
<tr>
<td>Oman</td>
<td>54,360</td>
</tr>
<tr>
<td>Qatar</td>
<td>7,236</td>
</tr>
<tr>
<td>Saudi</td>
<td>402,186</td>
</tr>
<tr>
<td>UAE</td>
<td>n.a.</td>
</tr>
<tr>
<td>Total</td>
<td>505,860</td>
</tr>
</tbody>
</table>

Source: Author’s calculations from GLMM Database, available at: http://gulfmigration.org/gcc-national-foreign-populations-sex-five-year-age-group-2015/

Figure 3 represents an attempt to estimate the number of new working-age members of the population over the next 15 years. In the GCC countries, approximately 500,000 nationals each year will reach working age over the next decade and a half, and even though not every one of these individuals will seek employment (salaried work) this still represents a formidable challenge. For example, the Saudi Vision 2030 estimates that 4.5 million new jobs will need to be created before 2030 which is only 12 years from now, to meet this challenge, while in Kuwait 384,000 jobs are required before 2030 (Tony Blair Associates 2009, p. 199).

Presently, both male and female labor market participation rates are low. For example, among Kuwaitis in the age group 25 to 54, only 64% work – compared to 83% in the United States, 88% in Russia and 93% in China (Tony Blair Associates 2009).

More women to join the work force

The actual number of nationals that will enter the labor force is influenced by the social reality in Gulf societies, and here women play a significant role. First, women as a group are currently joining the labor force in larger numbers than before. Labor market participation rates for women have been very low by international standards (ILO 2018, p. 19), and given that women currently make up the largest category of students in
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universities and generally study more years than their male counterparts, more women are expected to seek employment in the future. Second, all Gulf governments have implemented active policies to bring more women into their labor forces. Both factors lead to the expectation that a higher percentage of young women will seek salaried work in the years to come. A third factor likely to bring more women into the labor force is economic reality. As the social and cultural organization of households changes from extended families living together toward nuclear, city-based families that require double incomes to provide a decent standard of living for their members.

As seen in Figure 4, in 2013 just seven percent of the total labor force was made up of Saudi women. Recalculated, this number implies a labor force participation rate of around 15 percent for all Saudi women above 25 years of age.

Figure 4: Saudi Arabia – Employment by segment, 2003–2030


Saudi Arabia’s Vision 2030 specifically encourages women to enter the labor force and the Kingdom has recently initiated policies to achieve this goal. These include the general relaxation of the religious hold on women in society, the opening up of public sector jobs especially targeting women, a cautious relaxation of the male guardianship system, and the lifting of the ban on women driving in June 2018 (Hvidt 2018). In 2030 Saudi Arabia plans to have 15 million jobs of which 11 million are to be held by nationals, and among them 3.6 million jobs held by women.
Bringing a larger proportion of the national population – both men and women – into the workforce carries significant economic potential. The millions of jobs in the GCC economies that today are occupied by expatriate or migrant workers imply that a sizeable portion of wages leave the Gulf countries as remittances, and as such do not contribute to strengthening the local economy. Furthermore, with significant unemployment or under-employment, especially among young people, it makes extremely good sense both from a political and an economic point of view if the local population increasingly take over jobs now occupied by imported labor.

The major challenge relates to the willingness and ability of the national population to take jobs currently held by non-nationals, which are generally low-skilled and low-paid. It is thought that national women, in contrast to men, will be more inclined to accept such jobs – possibly in the health sector or other service sectors – upon their first entry to the job market. Society will benefit tremendously if educated but hitherto non-employed women – or men – can be channeled into such jobs.

Localizing labor

All GCC countries have active policies to diversify income sources and localize labor. These policies (which go under the name of Saudization, Emiratization, Kuwaitization, Bahrainization, Omanization) aim to increase the percentage of nationals that participate in the labor force and to raise the percentage of jobs occupied by nationals.

For some of the GCC states, unemployment has so far not been a pressing issue, since the growth in job opportunities for nationals has been adequate, therefore involuntarily unemployment has been small. However, in Bahrain, Oman and Saudi Arabia, unemployment among nationals poses a significant challenge, inspiring both discontent among the young and active policies to mitigate the problem by government. In these countries quotas for employing nationals exist for various categories of private sector firms (e.g. the Saudi Nitaqat system). Other policies restrict certain job functions to nationals only. For example, in January 2018 the Saudi government announced it would add to its growing list of Saudi-only jobs by including the sale of watches, eyewear, medical equipment and devices, electrical and electronic appliances, auto parts, building materials, carpets, cars and motorcycles, home and office furniture, children’s clothing and men’s accessories, home kitchenware, and confectionery (Young 2018). In addition, the Saudi Vision 2030 aims specifically to increase Saudization in the oil and gas sector from 40 to 75 percent and to localize 50 percent of defense spending, by producing defense equipment domestically but also by making sure that sub suppliers are using Saudi labor. This is done not only to reduce spending but also to stimulate growth in other industrial sectors such as industrial equipment and information technology.
In all development plans and visions published by the GCC governments, it is the private sector which is given the main responsibility for job creation. However, serious labor market reforms are required to ensure national populations are willing and capable to take over jobs in the private sector.

The labor markets of the GCC countries are of a dual nature wherein nationals, as a part of the social contract, primarily seek employment in the public sector, which is better paid, and offers both a higher level of job security and shorter working hours than jobs in the private sector. Private sector employment not only entails lower pay, longer working hours and less job security, but is also more competitive, meritocratic and takes place in a gender mixed environment which might present a cultural challenge to segments of the national population.

**Increasing productivity in the private sector**

At present, private sector employment is less attractive to nationals than public sector employment. In a report titled *The Jobs Agenda for the Gulf Cooperation Council Countries*, the World Bank argued that “to increase private sector employment of their citizens, governments have to increase the attractiveness of private sector jobs while at the same time ensure that citizens are willing and able to accept private sector jobs” (World Bank 2017).

They argue that salaries must be increased in the private sector, and that this should be done through reforms that increase the productivity of the private sector by shifting economic activity to higher value-added sectors, more technology-intensive production, diversified and more sophisticated exports, and technology-driven foreign direct investment (FDI). Increased productivity is the long-term driver of growth and increased living standards. The existing development model in the GCC countries has favored employment of low-wage foreign workers in the private sector instead of productivity-enhancing technologies. As documented by IMF, relative to other countries, productivity gains in the GCC countries have contributed little to growth since 1970. Rather, growth has been attributable to “hiring more hands” and thus neither to capital or total factor productivity (IMF 2017).

As such, the argument is, that there is an urgent need to be transformed the jobs in the private sector to encompass higher skill levels and a higher technology content. However, this process is not an overnight thing, and the question is, how the process of employing nationals in the private sector should be stimulated?
The most promising model I have seen so far, in relation to stimulate nationals to take job in the current low paying private sector comes from the World Bank. They suggest, at least in a transition period, to pay all nationals a so-called 'unconditional cash grant', keep up the social services and in addition pay so-called 'in-work benefits' that rewards people that take private sector jobs. The cash grants and social services would ensure a basic guaranteed minimum income and adequate access to social services for the national population, while in-work benefits would be conditional on having a job and would ensure that GCC citizens can, at least in some sectors, compete with foreign workers and still reap income comparable to current levels (World Bank, 2017)

This strategy could be implemented immediately and would initiate a focus on employment as such, especially on private sector employment. However, in the mid and longer term perspective, the abovementioned upgrading of the skills of the nationals, in combination with policies that encourage increases in private sector productivity would be needed.

References:


1 See, for example, McKinsey Global Institute (2015, Exhibit E3).