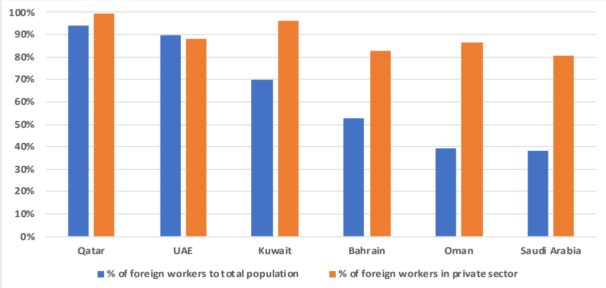
GCC labour market restructuring

Florence Eid-Oakden, Ph.D, Chief Economist
Ghalia Al Bajali, Analyst

- **The effects of 2020 have prompted layoffs and an outflow of foreign workers from expat-dependent GCC countries. Overall, foreigners account for 50% of the regional economic group's total population.**
- **This presents the GCC with a complex outlook. It is an opportunity to accelerate their worker-nationalisation programmes, but the rapid departure of foreign labour, including skilled professionals, is expected to slow recovery, at least for the short-to-medium term.**
- **GCC employment and immigration laws are undergoing significant changes. Kuwait and Oman are doubling down on nationalisation reforms, while the UAE and Saudi Arabia are seeking to make life easier for expatriates.**

Figure 1 – GCC Expat Labour Market[1]



COVID-19 accelerates nationalisation

The accelerating shift in the GCC labour market and the rising labour shortages, mainly due to the exodus of expatriates in 2020, are likely to be a drag on recovery. We do not expect the vacuum left by the departure of foreign workers to be fully filled by domestic labour, at least not for a few years.

- Due to the large migrant outflow in 2020, the GCC's population is estimated to have shrunk by 4% on average from a total of 57.6 million in 2019. The 50% share of foreigners relative to citizens in the GCC countries is set to drop further through 2023.
  - Foreign workers make up over 90% of the labour force in the GCC's private sector, on average.
  - With cuts in state budgets, coupled with the onset of skilled professionals leaving, the GCC economies are expected to experience rising labour shortages which will weigh heavily on recovery, particularly in making up the lost private sector output of 2020.
  - However, given that the majority of roles filled by expatriate workers in the GCC countries are skewed towards low-income positions, the long-term effect of the outflow could be limited.
- Some expatriates will likely return or be replaced by other expats as the Gulf countries' economic wheels start to turn to pre-COVID levels, but we expect that the proportion of foreign workers will not reach pre-pandemic levels again.
  - Key factors weighing on this include the overall weaker economic environment and the acceleration of labour nationalisation policies, particularly in Kuwait and Oman.
- Foreigners in the GCC account for more than 10% of total migrants globally, with Saudi Arabia and the UAE hosting the world's third and fifth-largest expatriate populations, respectively.
  - In 2019, Saudi Arabia was home to 10.5 million expatriates, which is around 34% of its total population.
  - According to the General Authority for Statistics, by Q3 of 2020 over 260,000 foreign workers had left Saudi Arabia, with the 19,000 having left in the previous quarter.
- Reforms to Saudi Arabia's Kafala (sponsorship) system, coming into effect this month provide foreign workers with more flexibility as they will no longer need to seek employer permission to change jobs or leave the country.
  - This legislative change could help reverse the migrant outflow in the coming months and attract more talent to Saudi Arabia. But the full effect on the structure of the labour market remains to be seen.
- With more labour mobility, we expect lower-skilled migrant wages to increase in the long-run. However, this could result in a shift towards recruiting more highly-skilled workers and could create a labour shortage with a vacuum that is difficult to fill with local workers.
  - A continued expatriate exodus could, in turn, put pressure on the kingdom's diversification plans and human capital productivity as foreign workers account for 80% of jobs in the private sector.
- Meanwhile, Oman is witnessing the highest paced expatriate exodus. The number of expatriates living in the sultanate declined by 16% YoY in 2020 as over 230,000 workers left.
  - By the end of December 2020, foreigners made up 1.4 million of Oman's total population of 4.8 million. This compares with the 1.8 million foreigners in 2019.
  - The decline was mostly seen in the construction and agriculture sectors, with South Asian worker numbers taking the biggest hit.
  - Workers from India, Bangladesh, and Pakistan represent over 80% of the total number of expatriates in Oman.
- Increased Omanisation initiatives look set to continue throughout 2021 and are expected to intensify the exodus. The outflow of foreign workers could surpass numbers following the 2008/09 financial crisis.
- The Ministry of Manpower has issued a new decree under Ministerial Decision (MD) 47/2020, which came into effect on 30 January 2020, banning the hiring of non-Omani nationals for sales and purchase representative positions.
  - Such roles include finance, commercial and administrative jobs in insurance companies and car dealerships.
  - Non-Omani nationals who have already been given work permits in these roles will be allowed to remain in place until their permits expire. Permits will not be renewed.
  - While the previous bans on hiring expatriates were temporary, with a number of extensions granted, the latest MD announced will be permanent and applies to all private sector entities.
  - Previous measures introduced include a six-month ban on expats in 87 sector-specific occupations, imposed in January 2018, and extended again in July 2018 and then again in January 2019 for a further six months.
- An increase in the labour clearance fee has also been introduced by the ministry. This means that the fee Omani companies need to pay for employing foreigners is no longer flat at USD 780.
  - The increase will mostly apply to senior (USD 5,200), middle level (USD 2,600) and specialised roles (USD 1,560).

[1] Arabia Monitor; World Bank, National Agencies of respective countries.

The ongoing Kuwaitisation drive and the fall in expatriates driven by the pandemic has led Kuwait's population to record its largest decline in 30 years, with over a 5% fall in the number of foreign workers last year.

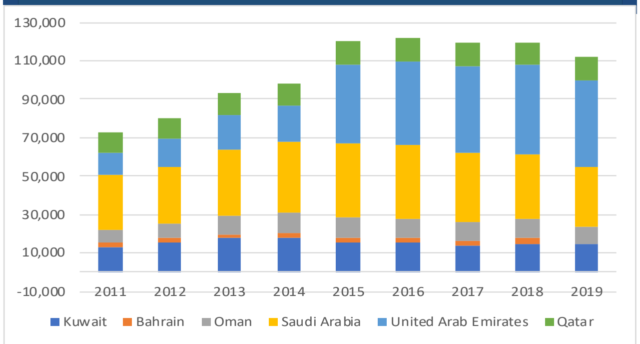
- Available data reveals that over 160,000 private sector foreign workers had left Kuwait by July 2020, with the number of expatriate dependents falling by 0.4% YoY in 2020 after a drop of 0.3% a year earlier.
  - The sharpest decline in expatriate employment last year was seen in the construction (-12.9% YoY) and real estate (-6.3% YoY) sectors due to the weaker project activity and muted demand for housing.
    - Foreign workers account for over 96% of Kuwait's private sector labour force.
  - The Public Authority for Manpower revealed that nearly 11,000 expatriates had left the country between January and February 2021.
- With new labour laws being passed, including the proposed changes to the residency law, the fall in foreign workers is expected to keep rising this year.
  - Kuwait's foreign workforce is estimated to make up 70% of Kuwait's roughly 4.2 million population.
  - Earlier last year, the National Assembly approved a quota which aims to reduce expatriates to 30% of total population and terminate 50% of public sector foreign workers.
  - Indians make up the largest expatriate community in the country, and according to the bill, they should not exceed 15% the population. This could result in 800,000 Indians leaving.
    - Kuwait is a top source of remittances for India, providing over USD 5B in 2018, around 8% of the country's total incoming remittances.
- Moreover, under the new law which bans granting work permits to expatriates aged 60 or over and holding pre-university degrees coming into effect on January 1, Kuwait is expected to lose more than 70,000 foreign workers this year.
- With a small local population, the Kuwaiti government will need to innovate to maintain private sector output levels following the departure of such a large number of foreign workers. We do not preclude reversal of some nationalisation measures.

The new expat revolving door

As some GCC countries tighten their rules on expats, others are opening their doors wider.

- While the UAE and Qatar have quotas for the hiring of local citizens in the private sector, both countries have relatively less restrictive labour policies compared with their Gulf counterparts.
  - The UAE, in particular, continues to make an effort to attract skilled foreign talent. Nearly 90% of the UAE's roughly 10 million citizens are expatriates
  - In 2019, the UAE's cabinet issued the regulatory framework for long-term residence visas that grants foreign residency for five years to those who invest in property valued over USD 1.3M.
  - More recently, the UAE announced the expansion of its 10-year golden visa to include medical doctors, scientists, data experts and PhD holders.
  - This followed the decision by the Abu Dhabi Department of Economic Development to allow foreign companies 100% business ownership.

Figure 2 - GCC Expat Remittance Outflows (USD, M)[1]



  - Combined with the secular-leaning legal reforms introduced late 2020, these liberalisation moves are part of the country's strategy to offer an environment that is more supportive of expatriates, including foreign investors.
  - A new law was also passed by the cabinet earlier this year to allow foreigners to obtain Emirati citizenship. Eligibility is limited to investors and specialised professionals.
    - Foreigners will not be allowed to apply for citizenship themselves, but rather will need to be nominated by the UAE royals or government offices.

The large expat exodus, nonetheless, represents a double-edged sword for the GCC countries. It helps reduce the immediate cost impact of the current recession, but certain sectors will likely suffer from setbacks due to the reduced supply of skilled labour.

- The gains following the departure of foreign workers are expected to ease the drain on public services and capital flight this year.
  - The Gulf countries are expected to post a deficit between 5% and 17% of GDP in 2021, with only Qatar remaining in surplus at 3.3% of GDP.
- Remittance outflows in the MENA region are estimated by the World Bank to have declined by 8% in 2020 to reach USD 55B, with a further 7.7% decline forecast for this year.
  - Accurate 2020 figures for the GCC are not yet available, but the effects of the pandemic, job losses and lower oil prices are expected to hurt remittance outflows.
  - The falling remittance outflow will have a partial positive impact on recovery by keeping money in the GCC economies.
  - In 2019, the GCC's remittances outflow totalled USD 112M, a 6% YoY decline, with remittances accounting for 12% of Oman's GDP, and over 10% of Kuwait and the UAE's GDP.
- While some Gulf states are implementing measures to cushion the losses that result from the exodus, such as introducing VAT, we see the rapid foreign labour departure having a more negative effect than this offset will cover, at least in the short-to-medium term.
  - The loss of low-skilled workers will likely hit activity in sectors such as retail, hospitality and recreational services where lower-paid expatriates work, and high-earning expatriates spend.
  - The price of labour could also rise in some sectors as locals are paid at higher rates than lower-skilled expatriates.

[2] Arabia Monitor; World Bank.

Disclaimer

The information contained herein does not constitute an offer or solicitation to sell any security or fund to or by anyone in any jurisdictions, nor should it be regarded as a contractual document. Under no circumstances should the information provided on this publication be considered as investment advice, or as a sufficient basis on which to make investment decisions. The information contained herein has been gathered by AM Ltd from sources deemed reliable as of the date of publication, but no warranty of accuracy or completeness is given. AM Ltd is not responsible for and provides no guarantee with respect to any of the information provided herein or through the use of any hypertext link.

Arabia Monitor is an independent research firm specializing in economic and market studies on the Middle East & North African region, which we view as the new emerging market. Our forward-looking perspective allows us to place recent developments in the region within a broader context and a long-term view. Our analysis is based on the macroeconomic and financial balance sheet of Arab countries to deliver unique strategy insights and forecasts to businesses across a wide range of sectors.

Arabia Advisors specialises in portfolio strategy and private placements. It works with firms, family offices and government related organisations that are looking to streamline, re-balance or diversify their asset portfolios. Based in the UAE as an off-shore company, Arabia Advisors services a regional and international client base with interest in the Arab countries.

Arabia Monitor
Aston House| Cornwall Avenue| London N3 1LF
Tel +44 203 239 4518
info@arabiamonitor.com
www.arabiamonitor.com