



Gulf Research Centre Cambridge
Knowledge for All

Workshop 6
GRM 2021

Nationalization of GCC Labor Markets: The Changing Role of Higher Education in the Era of the 4th Industrial Revolution

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Abstract

The aim of this workshop is to compare and contrast: the outcomes of investment in human capital on nationalization of GCC labor markets in the last decades, the current state of the labor markets with a special focus on the educational preparedness, i.e. employability, of the GCC nationals to enter the fourth industrial revolution; and future prognoses related to the labor market evolution and human capital development. The

latter is based on qualitative education, training, knowledge, technology and innovation; and encompasses a breadth of non-tangible skills that a population possesses such as organization, leadership, work habits, initiative, problem solving, confidence, trustworthiness, etc. (Abdullah, 2010).

While the region's young people have attained higher education levels than their parents, they have not been able to translate their education attainment to greater income opportunities. Furthermore, the era of the 4th Industrial Revolution offers new opportunities but also presents new challenges. The potential for technology to disrupt the GCC labor market is powerful. According to the World Government Summit 2019, 45% of existing work activities in the GCC labor market are potentially automatable today which cuts across both public and private sector. This automation potential could translate into significant economic value, but it also places pressures on education systems to produce graduates with a new set of skills which is beyond academic attainment. According to the IBM Institute for Business Value Report 2019, the shortage of skilled workers by 2030 is expected to reach more than 85 million workers globally. Today the half-life of a learned skill is expected to be five years and even shorter for technical skills. Skills required today take longer to learn because of the focus on behavioral skills and soft skills. Other new technology related skills also take more time as they are highly technical and changing rapidly. The role of education is primordial to prepare graduates to fit in within these new labor market conditions. As the region moves into the 4th Industrial Revolution, the workshop will investigate the intersections of policy making, education and technology in the region.

Description and Rationale

Objectives and Scope

The economic growth of a country is closely linked to the human capital of its population (Denison, 1962; Romer, 1987). GCC countries are at a stage where the transformation of their labor markets remains of utmost importance. The beginning of the 21st century marked a turning point as it brought an awareness that major social and economic reforms are a must to avoid future economic decline (Shochat, 2008, p. 6). So far, the GCC economies have relied heavily on oil profits; the rentier economic model (Luciani & Beblawi, 1987) has worked with oil surplus distributed among citizens in form of free services and subsidies (Hertog, 2010, p. 4). Yet, reliance on oil resources has proved a double-edge sword for the GCC economies. Although oil brought prosperity in the 1970s, in the 1980s the GCC economies suffered from falling oil prices, growing financial strain due to the Iraqi invasion of Kuwait and rising expenditures on arms, security and defense (Luciani & Beblawi, 1987). Subsequently, high demographic growth, developing infrastructures, rising unemployment, and inflation combined with a growing consciousness of a decline in oil supplies have caused further strain on the GCC economies. In addition, having grown accustomed to extensive social welfare measures, rentier state societies entertain high expectations of their governments. The scenario seems to have repeated itself in 2015 with oil barrel prices plunging almost 50% on a year to year basis. The situation has not improved much until today causing deficits in GCC budgets. Indeed, IMF and Deutsche Bank estimated that Saudi Arabia requires prices to remain at 104 USD per barrel, UAE at 81 USD, Qatar at 77 USD and Kuwait at 78 USD to balance their budgets.

Consequently, economic constraints and current demographic pressures linked to a rapid population growth call for a holistic strategy to transform the GCC economies at a faster rate. As in the near future the possibly dwindling oil wealth will have to be divided among a larger population, there will be considerable pressure on states' budgets to maintain the same level of social welfare (Gause, 1997, p. 67) or to rethink fiscal policy, in particular increase taxation. These demographic considerations are combined with a long-term need for economic diversification and gradual shift away from oil dependency (World Bank, 2004, p. 42).

The drive towards a greater sustainability requires substantial economic contributions of the society. However, within a rentier context, majority of citizens display “low societal capacities” (Hertog, 2010, p. 5), which translates into low productivity and high expectations from state resources. Moreover, population of GCC presents specific characteristics compared to the rest of the world. More than 40% of the region's population are under 15 years of age (de Boer & Turner, 2007, p. 10). As these youth enter the labor market, the GCC national workforce is expected to increase by 30% in 2020 (Shediac *et al.*, 2010, p. 2). In the past, national workers would be easily absorbed in the public sector where their jobs would be secured indefinitely. At present, they are already forced to compete for jobs in private sector as the public sector is already saturated with nationals. This poses a problem for GCC labor market since foreign workers who dominate the private sector offer better skills and have lower wages expectations (Kapiszewski, 2006, p. 13). Data from Ernst&Young Report (n.d.) suggests that lack of appropriate skills, among others, becomes a major deterrent in a broader participation of nationals in the skilled workforce. Moreover, students prefer humanities than technical fields of study that are most needed on the job market. Data from LinkedIn, for instance, shows that among GCC university graduates in 2017 only 7% of GCC digital professionals studied locally. Thus, those who graduate do not possess adequate skills to compete with expatriates in the private sector. There is also insufficient initiative for startup businesses among nationals. On the other hand, the public sector is saturated. In UAE, public jobs account for 80% of national employment (WEF, 2017, p. 4). Such dependence on public employment leads to major distortions such as: the private sector offers employees greater returns on education in terms of wages; yet, the educational system remains disconnected from the requirements of the private sector employment (*ibid.*, p. 9).

All in all, there is little incentive for nationals to seek jobs in the private sector. Consequently, the GCC have already begun facing the problem of youth unemployment (Kabbani & Kothari, 2005, p. 4) and structural unemployment, which is unemployment “by choice” (McKinsey&Company, 2007, p. 6). In addition, the policies of nationalization often led to employment of nationals in areas other than those they are qualified for and to job creation of jobs for the sake of the employment of nationals; both leading to decreasing productivity coupled with high costs. Ultimately, a failure to satisfy the population demands, especially in economic terms, threatens the social stability of the region.

In the past, economic reforms undertaken by the GCC had usually limited results. They lacked a comprehensive and holistic approach based on economic policy, sound

regulatory frameworks and education and training reform that would combine transformation of “private sector participation, labor markets, financial markets and human resources” to yield significant results (Shochat, 2008, p. 6). They also lacked political will (Sick, 1997, p. 12). Contrary to the past undertakings, the packages of through economic reforms adopted in the late 2000’s by the GCC governments, branded usually as “Visions”, offer a holistic approach. The extensive expenditure on healthcare, education and training ought to increase the human capital in the GCC region. Indeed, within the context of transformation of society, education reforms are a key concern in lights of digital disruption. Education and innovation could pave the way to the region’s sustainability by promoting a shift from oil to knowledge-based economy (Hvidt, 2011, p. 51). However, the region’s human capital assessment falls significantly behind the world average. UNDP’s Arab Human Development Reports and the two Arab World Competitiveness Reports (2002-2003 & 2005) stressed that education, research and development are weak in the region, and that education systems lack relevance through systems focusing on inputs rather than outcomes. This serious shortage “exacerbates other problems associated with importing both foreign workers and technologies” (Davis & Hayashi, 2007, p. 2). The World Bank’s report, “The Road Not Traveled: Education Reform in the Middle East and North Africa” highlights the fact that despite major investment, the MENA region achieved minimal results in the education. The latter were witnessed in international educational assessment tests such as TIMSS, PISA and PIRLS, whilst at higher education graduate employability is a key metric often cited. In such context, the policies of nationalization of GCC labor markets need to be assessed even closer. Former studies concluded that labor market nationalization in the Gulf has been mostly achieved by “quotas and prohibitions” (Hertog, 2012, p. 1).

Contribution to the Gulf Studies

The workshop intends to largely contribute to the growing multidisciplinary and The role of education in preparing the nationals to take on jobs within the new era that is technology driven should be examined in detail. Strengthening the educational system is primordial following the criteria established by WEF (2017, p. 9): 1) expanded access to early-childhood education; 2) ensuring the ‘future-readiness’ of curricula; 3) investing in developing and maintaining a professionalized teaching workforce; 4) early exposure to the workplace and career guidance; 5) investing in digital fluency and ICT literacy skills; 6) providing robust and respected technical and vocational education and training (TVET); 7) creating a culture of lifelong learning; and 8) openness to education innovation. The transition to a new economy fueled by technology rather than oil has the potential to create millions of new jobs in the Gulf region. Despite the fact that World Economic Human Capital Index measuring the extent to which countries and economies optimize their human capital potential through education and skills, finds that the Gulf countries overall fair well against global average of 65% ranging from 68% to 73%; three common themes characterize the Gulf labor markets: low but increasing workforce participation of women, high rates of underemployment; and large but decreasing share of public sector employment.

In a number of Gulf countries dialogue around crowdsourcing, crowdfunding, virtual work and changes to cyber regulation is well underway and moving ahead at pace. Nonetheless, there is scarcity of scientific research on the preparedness of the GCC educational systems with regards to the opportunities and challenges posed by the 4th Industrial Revolution. There has been also little assessment on how to improve employability of national workers in light of the technological change. The discussion on this topic is, however, vital for the future of Gulf economies. This workshop will fill in an important research gap providing opportunities for assessment of the current state of affairs, learning from best practices as well as providing practical solutions.

Anticipated Participants

Looking to the future, the workshop aims at assessing the following themes, among others:

- Educational reforms carried out: How have the educational institutions and curricula changed in the few years to match the current and future needs of the labor markets? With what results? What further steps should be taken to improve the employability of graduates given the changing nature of jobs
- How should the school systems and early year education be changed to meet the demands of the 4th Industrial Revolution and the increasing need for creativity, higher order cognitive thinking, critical thinking and problem solving?
- How does the potential automation of jobs impact nationalization policies - How can the GCC national be ready to work in in a workforce that requires far more than educational attainment such as higher order cognitive thinking and soft skills? - What strategies should universities adopt in light of shifting skills needs and to prepare young people and adults for work rather than a specific job?
- What strategies should governments adopt for tertiary education to prepare the workforce for a rapidly changing job market and how can employers be part of an integrated solution?
- What are the strategies to improve female workforce participation given the changing nature of work?
- How can the education sector build skills and capability within the teaching workforce to ensure they have the attributes to deliver a contemporary education? - How should teaching, learning, curriculum design and student assessment be reformed to match the changing requirements of employers in the 4th industrial revolution - What

is the role of universities in upskilling and reskilling employees and wider society as skills become obsolete?

- What can universities do to translate female higher education attainment into economic impact in the 4IR?
- How are university strategies shifting away from a credential's equilibrium to a skills equilibrium and what policy changes are required by civil service and employers to support this transition?
- How can technology be used effectively to enhance learning and skills development given the constraints of regulatory environments given online learning?
- Does higher education need a new type of leadership given the challenges of the 4th industrial revolution?
- How should the relationship between higher education and the k12 sector evolve to deal with the challenges of the 4IR? - What are the outcomes of labor market nationalization strategies in the GCC?

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