Highly Skilled Migrants. How and how much do they contribute to the economic development of the Arab Gulf countries?

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News

This paper aims to discuss the impact of highly skilled migrants on the Arab Gulf economies and asks if the framework for regulating the inflow of highly skilled migrants, the so-called *Kafala* system, in fact provides the migrants with the right incentives to maximize their contribution to the economies.

Summary

In recognizing that the policies regulating the inflow of migrants have an impact on the economic contribution of migrants to the receiving economies, this paper analyzed the potential impact of the *Kafala* system which is the general framework regulating the inflow of migrants in the Gulf economies.

It is pointed out that while the system facilitated speedy entry to the job market, the lack of inclusion in the Gulf economies of the migrants, the lack of long-term prospects of residing in the countries and the highly asymmetric power balance between sponsor and migrant, provides few incentives for the highly skilled migrants to fully contribute to the Gulf economies.

Key Words

Highly skilled migrants, Gulf States, *Kafala* system, sponsorship

About the Author

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Analysis:

Potentially high skilled migrants, e.g., researchers, business leaders, top accountants, engineers, entrepreneurs, doctors and professional administrators, can have a significant impact on the growth of an economy. From an economist point of view, what differentiates highly skilled and low skilled workers are their potential ability to affect economic growth. With reference to the Solow growth model, growth is mainly understood to be a result of advances in technology, as such, the highly skilled workers who are likely to be carriers of technology, entrepreneurship, innovative capabilities and knowledge (Bodvarsson and Van den Berg, 2009:231).

Phrased differently, highly skilled migrants make the economies more competitive. The benefits of highly skilled migrants to an economy should therefore be assessed within the context of neoliberal economic ideology, where countries and cities compete with each other on a global scale to attract investments and job, thus leading to an increased competition for 'the best minds.'

The Arab Gulf countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) make extensive use of migrants in their economies, i.e., migrants with all types of educational background and from almost all over the world. A total of 15 million migrants currently work in the region, of which an estimated 5 million are highly skilled.

As pointed out by Papademetriou and Sumption (2011:3) "… [migration] policies can facilitate *or* detract from immigration's contribution to economic growth and prosperity, depending on how effectively and how strategically they are designed."

The aim of this paper is to discuss the present sponsor system, the so-called *Kafala* system, which is the broader framework through which migrant flows to all Gulf countries have been managed since the mid-1970s, in order to analyze whether or not this system facilitates or detracts from immigration's contribution to economic growth in the Gulf countries.

In this paper I will only focus on the highly skilled migrants. A basic premise of this paper is that the contribution of these migrants to the economy depends on the ability of a given country (or firm) to 'unlock' the work/innovative/entrepreneurial potential embodied in each migrant. One obvious issue is that a migrant will need to obtain a job that matches his or her capacities and qualification level in order to benefit society most.

The *Kafala* system

The Arab Gulf countries all apply a common system to handle immigration, namely the so-called *Kafala* system (*Kafeel* = sponsor).[1] In response to the booming oil incomes in the early 1970 the *Kafala* system emerged to accommodate two realities; firstly a very limited state capacity to undertake the regulation of the migration flows, and secondly, a manifest need to bring in all categories of migrant labor in support of the ongoing development drive spurred by the oil incomes. The basic feature of the system is the institutionalized employer-employee relationship. Every migrant entering a Gulf country is tied to a local sponsor, either a business owner or a head of a household; a sponsor for a foreign private firm or a public institution e.g. a ministry or a university. Despite attempts at reforms and a succession of minor adjustments, the *Kafala* system in its basic form, continues to provide the legal framework for the handling of migration flows in the Gulf countries. For a detailed account of the system see (Zahra, 2015, Baldwin-Edwards, 2011, Longva, 1997:77-107)

The sponsor undertakes three fundamental tasks: To declare in writing that a given migrant works for him or her; that the employer informs the Immigration authorities of the labor contract and changes to that, e.g. expiry, renewal, cancellation, and not least to repatriate the migrant after the contract is terminated. On behalf of these filings, the Immigration authorities issue a resident permit for the migrant (Longva, 1997:79).

Thus the sponsorship system delegates to citizens the daily administration of the migrants system, a function that in other countries usually belongs to state institutions (Longva, 1997:100). One could say that while the Immigration Authorities is the overseer of the system, the individual sponsor serves as the executing agency.

Using the terminology applied by van de Ven and Voitchovsky (2015:1), the *Kafala* system represents a demand-driven model, meaning that the selection of specific migrants and their skill levels is done by the individual employer who has been granted permission to import a certain number and categories of migrants.[2] In other words, a migrant only enters the destination country, if he or she has a job and a sponsor who has agreed to pay the salary agreed upon in the job contract and what fees the local governments have decided to levy on the import of labor. The *Kafala* system thus in

[1] Similar systems are found in Lebanon, Jordan and Iraq.

[2] The demand-system stands in contrast to supply-driven systems, usually associated with Canada, Australia and New Zealand where prospective migrants apply for work permits / visas without having a job in the receiving country. Each applicant is filtered through a points based system and quotas within each point category are allowed into the country.

principle ensures that a balance is struck between demand and supply in the job market, not only for the quantity of laborers, but also the quality expressed as skill levels.

In addition, since the Arab Gulf countries grant neither citizenship nor permanent residency to migrants it implies that market forces, the continuous adjustment of the migrant labor to economic activity, can take place unhindered. In other words, the migrant labor force is scalable, meaning that migrants are brought in in large numbers when the economy is growing or if special professional skills are needed, and reduced when the economy is contracting or certain skill categories are in low demand.

In this way, the *Kafala* system – and that is perhaps one reason why it has survived over the years – has appeased the tiny local populations by showing that it is both feasible and manageable to rely on such a large influx of migrants. The *Kafala* system fundamentally ensures the locals that all migrants are there on a temporary basis and thus can be repatriated if needed. Furthermore, the *Kafala* system accentuates that the public budgets are not burdened since all expenses related to a migrant are the responsibility of the employer, and not least, that unemployment among the migrants supposedly is non-existent, because a migrant is repatriated to his or her country of origin after termination of their contract. And finally, the *Kafala* system is nested in a demographic reality that renders one of the most fundamental problems associated with migration in the developed world superfluous, namely the worry that 'migrants take jobs from the local workforce.' With tiny populations, except in Saudi Arabia, and low labor force participation among locals, the local population does not take up many jobs. In Qatar and Dubai the proportion of locals in total employment is 6 and 8 % respectively, while in Kuwait, Oman and Bahrain it is between 20-30%. In Saudi it is 47% (Baldwin-Edwards, 2011:47). In addition, the labor market is highly segmented where generally locals obtain jobs in the public sector, while expats work in the private sector and high skilled jobs in the public sector. This segmentation is reinforced by policies to secure attractive jobs for locals in the public sector. So, there is no indication that the local population feels that migrants are taking their jobs.

So how does the *Kafala* system affect the potential contribution of highly skilled migrants in the Arab Gulf countries? First, we must assume that the selection of migrants for the jobs in the Gulf is based on merit, since both private firms and public agencies will aim to get the most for their money. In this way, the pre-selection of more entrepreneurial individuals as the migration process entails, is supplemented by a formal selection process. Both processes are likely to enable the Gulf countries to get the most able and entrepreneurial workers for what they pay (for a further discussion of the consequences of such selection processes, see e.g. Bodvarsson and Van den Berg (2009:Chapter 4).

Second, the *Kafala* system ensures that the migrant worker has a job before leaving his or her home country with a salary package which is negotiated and agreed upon by both parties.[3] Furthermore, at least in UAE, the government requires all sponsors to draw up health care insurance for their migrant labor force. So, compared to a migrant that applies for a visa to Europe or the US who arrives without a job and a place to live, the *Kafala* system probably creates a more secure entry to the destination country. Furthermore, the *Kafala* system might entail a faster hiring process.

Third, when it comes to the actual working conditions the *Kafala* system implies that the sponsor has a say in many aspects of the life of a migrant, e.g. minor things like extending permission for opening a bank account, getting internet access, signing a rental contract for housing, obtaining or converting a driver license, etc.

But more importantly, the sponsor has much room to manoeuvre when it comes to job changes and termination of contract. If a migrant worker gets the opportunity to be employed in a more favorable job with another employer, it is the sponsor who decides whether or not he or she will be freed from the sponsorship, and the sponsorship transferred to the new employer. In many instances the sponsor would be inclined not to do so if, for example, the migrant intends to move to a company which is competing with the sponsor. If the economy slips into recession or the firm does not fare well, workers can be laid-off. While this is a fact of life in most capitalist economies, the Kafala system adds a twist to this, namely that the sponsor has sole discretion to decide whether or not he will send the migrant back to his country of origin or allow the migrant to transfer to another job.

For many highly skilled migrants this inflexibility in the job market is felt as a significant problem. People with talent and ambition would certainly exploit opportunities to rise in status and income, which is probably one reason why a highly skilled person migrated in the first place. This is made very difficult in the present system. In fact, the *Kafala* system provides incentives for both public and private sponsors to keep overqualified persons working for them instead of letting them seek opportunities with other sponsors. In January 2016 Dubai enacted amendments to its labor law, improving the possibilities for workers to be freed of contracts in between contract periods in order to address such problems (Ahmad, 2016, Mohre, 2016). Despite these recent changes, it remains the case that because of long processing times at the courts etc., the sponsor continues to have a large say in such job movements. It must also be remembered that the *Kafala* system significantly compounds the consequences of a lay-off to the employee. For if a migrant loses his or her job it is not

[3] Whether or not the sponsor fulfills the contract obligations is another question.

only they, but also his or her family members that will have to leave the country if the migrant does not obtain employment within 30 days.

A final issue, however, is not part of the *Kafala* system but closely intertwined with it. It is the near impossibility of obtaining citizenship or permanent residency in any of the Arab Gulf countries.

Since the mid-1970s, when the Gulf states acquired independence from British influence and at the same time experienced a sharp rise in the number of migrant workers due to the abundant oil incomes, all governments in the region stopped granting citizenships. Notable exceptions are the naturalization of imported Sunni soldiers in Bahrain and more recently the granting of citizenship to a few ‘super talents’ within sports in Qatar, allowing these players to appear on Qatar’s national sport teams (Baker, 2001, Finn, 2016).

So, for ordinary migrants, either low skilled or highly skilled, there is absolutely no prospect for obtaining citizenship or just a permanent residency. While the effect of this cannot be quantified, it is plausible that it has a highly detrimental effect in the long run on the contribution of these migrants to the Gulf economies.

While highly skilled migrants in the US or Europe, for example, can obtain citizenship or permanent residency and thus can stay in the destination country even when they reach pension age, this is not the case in the Gulf, not even after having lived there and served the economy for 20 or 30 years.

This is assumed to have various consequences: First, because all migrants know that they have to leave when they retire at an age of 60 or possibly at 65, this will underscore the temporary nature of their life. First, all along their professional life they have to prepare for retirement someplace ‘else’. The consequence is that savings for retirement are placed outside the country of residence, e.g., by purchasing property in and maybe further investment in the country they will retire to. With an estimated 5 million highly skilled migrants in the region, and a general assessment that each migrant sends out between 20 and 40% of his or her monthly earnings, it is a considerable monetary loss and thus foregone opportunities the Gulf countries encounter in this way.

Second, while highly skilled migrants are allowed to bring their families to the Gulf or to get married while being in the Gulf, many who stay for extended periods of time raise their kids there. The temporary nature of their stay will often mean, that they emphasize that their kids are being sent to tertiary education in countries outside the region where they are likely to stay. In this way, the local economy misses out on the skills and talent of the second generation of highly skilled migrant workers.

A third possible detrimental effect to the economies is the lack of a long-term commitment to the resident country. It is not only the employer in the Gulf countries that can scale the work force up and down. Migrants, especially the highly skilled because of their education and social networks are in a better opportunity than the lower skilled to relocate if they find an attractive job in another country. In other words, the temporary nature of their work, may encourage this group, and probably the best qualified of them, to keep on seeking better jobs elsewhere, and because they live their life on temporary visas and temporary employment contracts and usually do not own property in a Gulf country, they have little incentive to stay specially if a better opportunity arises. As such the resident country might lose the talent embodied in the migrant.

Conclusion

This short paper has discussed the contribution of highly skilled migrants to the Gulf economies. In recognizing that the policies regulating the inflow of migrants has an impact on the economic contribution of migrants to the receiving economies, this paper analyzed the potential impact of the *Kafala* system which is the general framework regulating the inflow of migrants in the Gulf economies.

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