# Youth Unemployment Remains the Main Challenge in the Gulf States

Gregory Aftandilian

July 11, 2017

Arab Center Washington DC
المركز العربي واشنطن دي سي

All Arab Gulf states have embarked on economic reform and austerity measures over the past few years because of their still heavy dependence on hydrocarbon revenues which dropped sharply as a result of the fall of oil prices since 2014. This situation has led to suggestions that subsidy and wage cutbacks will lead to political unrest. Although public dissatisfaction with economic issues has certainly risen in these states, it is unlikely that austerity, in and of itself, will trigger political upheavals. Rather, persistently high youth unemployment remains the chief domestic (and politically explosive) challenge facing these states, and efforts to encourage the private sector to absorb new entrants to the job market, while well-intentioned, are falling short.

**High Oil Dependency and Government Spending**

Past efforts by the Arab Gulf states to wean their economies away from heavy dependence on oil or natural gas have so far come to naught. Statistics clearly demonstrate this dependence today. In most of these states, oil sales account for 80 to 90 percent of government revenues; hence, when the price of oil drops, government coffers are immediately affected. This has clearly been the situation over the past few years. When the price of oil fell from about $100 a barrel in mid-2014 to about $50 a barrel in September 2016, all of these economies suffered accordingly. As an example, Saudi Arabia's budget registered a whopping $98 billion shortfall for 2015. Although the price of a barrel of oil has inched upward in the past year, it is still far below what it was before mid-2014.

Besides the oil dependency issue, these countries' economic problems are also related to high government spending. This is due to large expenditures on subsidies for electricity, gasoline, water, and food (Saudi Arabia, for example, was spending over $100 billion on energy subsidies alone in 2015); high defense spending (25 percent of the Saudi budget is allocated for military and security purposes); and substantial civil service salaries, pensions, and benefits. In addition, during the boom periods when oil prices were high, government expenses were often extravagant, such as spending on megaprojects that had questionable economic utility, and not enough thought was given to saving revenues for leaner economic times. Furthermore, during the so-called Arab Spring year of 2011, some Gulf Arab countries such as Saudi Arabia and Oman opted to increase civil service salaries by a substantial amount or to hire thousands more of their nationals in the bureaucracy as a way to preclude or minimize protests. Once hired, it is rare for a national to lose a government job, placing additional strains on the budget.

**The Political Bargain under Strain**

Gulf states represent classic "rentier" systems whereby revenues from "rents" (in this case, oil or natural gas sold to the outside world) allow such countries to apply a social contract according to which rulers exchange welfare benefits for the allegiance of the ruled. And because such revenues have generally been high, these governments have not needed to tax their citizens (or tax them very much). Without the requirement of paying income taxes, the populations make less political demands on their governments. This system has served the Gulf states for decades and, for the most part, has generally worked to stave off the political unrest and upheavals that have affected other parts of the region. However, it is no longer sustainable, given population pressures and lower government revenues.

**Economic Reform, Austerity, and Nervous Leaders**

Since the oil price drop in mid-2014, all Gulf countries have embarked on economic reforms that have included cuts to subsidies, which have been traditionally a huge drain on their budgets. All, in fact, have cut fuel subsidies. The Saudi cuts, for example, have caused gasoline prices in the kingdom to increase by 50 percent. Bahrain has also cut subsidies on some food items such as meat. More subsidy cuts throughout the Gulf are planned for the near future, but these might not come to fruition because of Gulf leaders' nervousness over the potential political fallout.

There has already been some political opposition (though not street protests) to further subsidy cuts. In Kuwait, parliamentarians compelled the government to apply increases in the price of water and electricity only to apartment buildings, not houses, because apartments are usually occupied by foreigners and not Kuwaiti citizens. In Saudi Arabia, a number of citizens have taken to social media to complain about rising prices because of subsidy cuts. Perhaps as a result, in April 2017 Saudi King Salman decided to reinstate bonuses and special allowances for civil servants and military personnel which had been cut in September 2016 because of the country's fiscal problems. The Saudi government justified this reversal by citing a "better than expected" increase in the price of oil to $52 a barrel this spring. However, with two-thirds of Saudis in the work force employed in the public sector, and with public sector salaries and allowances accounting for an astounding 45 percent of total government spending, this reversal merely adds to Saudi Arabia's fiscal woes.

The Saudi government, now increasingly under the leadership of Crown Prince Mohammed bin Salman, also plans to implement a VAT (Value Added Tax) in 2018.This tax is expected to add to the economic strains of many ordinary Saudi citizens as VAT is usually considered a regressive tax. The Saudi government is also planning to sell some shares of the government-owned Saudi Aramco in order to generate more revenue; however, this may not come to pass soon because to do an Initial Public Offering (IPO) for Saudi Aramco requires full transparency of company records—something the Saudi royal family has been reluctant to disclose because stipends for Saudi princes are allegedly paid from Saudi Aramco's bank accounts.

**Political Upheavals Are Unlikely over Austerity**

While hurting the disposable income of ordinary Gulf citizens, these subsidy cuts and, in some cases, new taxes, do not necessarily mean that the Gulf states are headed for upheavals, as some may predict. There are several reasons that would obviate such an outcome.

First, Gulf citizens understand that while they are facing a period of austerity, they are still much better off than many of their counterparts in the Arab world. Because of oil, many Gulf nationals have had cradle-to-grave benefits that other Arabs could only dream about.

Second, Gulf leaders have shown that whenever there were political disturbances, they did not hesitate to use force to quell unrest. This fear of government action acts as a deterrent to popular street demonstrations.

Third, the example of so-called Arab Spring countries, with the possible exception of Tunisia, shows that a disgruntled population pressing for an upheaval and regime change may wind up with either a more repressive government with even direr economic conditions, on the one hand, or outright political chaos and civil war on the other. These examples do not inspire confidence among educated Gulf citizens that democratic change can be attained.

Fourth, some Arab Gulf states have played and can continue to play the sectarian card to their advantage. Both Saudi Arabia and Bahrain used the fear of a Shi'a uprising during demonstrations in 2011 to scare off Sunnis who had grievances and who had initially joined the protestors (or were contemplating doing so). Given that Sunni-Shi'a tensions have only increased since 2011, fear of sectarian unrest and violence acts as a deterrent.

And fifth, the Arab Gulf governments are sensitive to how austerity measures will impact lower-income nationals. Saudi Finance Minister Mohammed al-Jadaan told a journalist this past spring that half of the Saudi population has registered to receive welfare payments that will cover a portion of the increases in gasoline and electricity prices.

**Youth Unemployment as the Wild Card**

Perhaps the most serious problem facing nearly all of the Arab Gulf states, and one that could indeed lead to actual unrest, is youth unemployment. World Bank data from 2012 paints a depressing picture of youth unemployment rates: Saudi Arabia, 27.8 percent; Bahrain, 27.5 percent; Oman, 20.6 percent; the United Arab Emirates, 11 percent; and Kuwait, 9.2 percent. (Qatar's rate was minuscule at 1.7 percent.) If anything, these percentages have grown over the past several years, with some estimates for Saudi Arabia at 30 percent. And the demographics only seem to be getting worse—about 37 percent of Saudis are younger than 15 years old. With this youth bulge, unemployment is sure to continue to rise.

There are social and economic reasons why youth unemployment remains so high in the Gulf. For one, there seems to be a preference among nationals in Gulf countries to work in the public sector. Such jobs bring a certain amount of prestige as well as lifetime job security, replete with pensions and health care. Further, because many public sector jobs are not demanding, some lower level civil servants can moonlight by taking on a second job to earn extra income for their families.

But Gulf governments cannot keep hiring young graduates in the public sector, which is already bloated and a huge drain on government resources. When such jobs in the civil service do become available, competition is severe and oftentimes only those with wasta (intercession or influence) are able to obtain a position.

The private sector in these countries has been relatively weak partly as a result of the heavy reliance on one commodity, oil, as an engine of economic growth. Therefore, there are fewer jobs available in the private sector, and business leaders have tended to hire foreigners for manual labor (which most Gulf nationals believe is beneath them) or for white collar jobs in technocratic or managerial positions.

Furthermore, many private sector companies do not believe that a young national with a degree from a university in the Gulf has the requisite skills for a job in the private sector. Education in many of these state universities is still heavily skewed toward memorization as opposed to critical thinking. The upshot of this problem is that Gulf countries are home to a huge number of foreign workers while their own nationals experience high unemployment rates.

As a consequence, many educated young nationals remain dependent on their parents for support and have a lot of idle time on their hands. For young men, this is an especially frustrating time because without a job they cannot marry and start families in homes of their own. In the academic literature, this idle time, which has been prolonged in the Middle East because of economic problems, is called "waithood" and was one of the reasons cited for the Arab Spring. Given that demographic and job trends are not promising, it is this segment of the population that is likely to take to the streets if such trends are not reversed.

Saudi Crown Prince Mohammed bin Salman, in addition to his position as defense minister, is trying to make changes to this situation through his "Vision 2030" plan. It aims to make the kingdom less dependent on oil and to energize the private sector to become the chief growth engine so it can hire more young nationals. Although some of his social reforms—such as curbing the role of the religious police and allowing for more entertainment options—are popular with the young generation and are already being carried out, efforts at building up and changing the private sector to hire young Saudis are a long way off.

In recent years, some other Gulf countries, like the UAE and Oman, implemented a quota system of sorts to compel the private sector to hire more nationals, but these policies have not been very effective. One report noted that "while the number of Omani employees in private sector jobs rose by 138 percent between 2003 and 2010, much of the progress was reversed by the policy responses to the Arab Spring in 2011. The announcement of 35,000 new public sector jobs in the spring of 2011 reportedly led 30,000 Omanis to resign from private sector employment that year." This was a direct result of Omanis' desire to take advantage of the government offer.

**Educational Reform Is the Key**

The only way for the private sector to hire young nationals is to reform the educational system in the Arab Gulf states in a way that makes a graduate from a state university competitive with a foreigner who has technocratic or managerial skills. Some efforts—like establishing the King Abdullah University for Science and Technology near Jeddah in Saudi Arabia—are a start, but much more work needs to be done. Forcing the private sector to hire nationals without the requisite skills simply breeds resentment and probably precludes such nationals from professional advancement in these firms.

In addition, there should be a major societal push in many of these countries to encourage young nationals to learn vocational skills and remove the stigma that such jobs are beneath them. Without these changes in both the educational system and the mindset of the society, the youth unemployment situation will go from bad to worse, which could undermine the stability of several of these states. Such reforms, however, will take a considerable amount of time.

Finally, instead of selling these governments advanced military hardware that helps to balloon the Gulf states' budget deficits and fuels proxy wars like the Yemen conflict, US policymakers would do well to look for ways to support these countries in teaching technical and managerial skills to their young people so they can be gainfully employed. It is in no one's interest, save that of the extremists, for these countries to be rocked by violent upheavals by frustrated, unemployed youth.