

Regional Agenda

Rethinking Arab Employment


A Systemic Approach for Resource-Endowed Economies

Part of the New Vision for Arab Employment Initiative of the World Economic Forum

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Contents



3	Preface
4	Executive Summary
6	Introduction
10	Part I – Stakeholders’ Perceptions of the Main Causes of Youth Unemployment
12	Part II – The Employment System in GCC Countries
15	1. Dynamics of the Employment System
15	2. Vulnerabilities of the Employment System
26	Part III – Interventions
30	Conclusion: Perspectives for Further Discussion
31	Endnotes
32	Annex 1 – Process
33	Annex 2 – Interventions: Stakeholders’ Suggestions
36	Annex 3 – Acknowledgments and Project Team

Preface



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Countries in the Gulf Cooperation Council (GCC) have made tremendous progress in the past decades, building cities at the forefront of innovation, becoming global leaders in select industries, and continuously expanding their global aspirations. Yet, to sustain this momentum, dramatic progress needs to be achieved in how young people, a demographic majority, engage in the economy and society at large. GCC leaders are acutely aware that a job is more than a salary, and that the possible consequences of compromised futures, because of under- and unemployment, are deeply destabilizing. They understand that providing a dynamic, enabling environment in which these youth legions can realize their ambitions is critical to whether their economies can achieve their long-term aspirations, particularly in light of the current social context.

At present, however, even with wide acknowledgment of the importance of the matter and despite decades of economic expansion and extensive investments in education, infrastructure projects, and economic diversification, high youth unemployment rates persist, often reaching double digits.

Against this backdrop, the World Economic Forum's New Vision for Arab Employment Initiative convenes stakeholders around an impartial platform to create better understanding of the structural reasons for youth unemployment, and translate the widespread appetite for resolving the challenge into effective solutions that sustainably increase productive youth employment in the private sector. Recognizing the particularities of resource-endowed economies, the initiative began by engaging leaders of the GCC from business, government, civil society and academia at the highest levels to share perspectives and best practices, with the objective of advancing common action for creating an enabling economic environment for Arab youth.

This report represents the culmination of an exhaustive exploration of the root causes and potential solutions for youth unemployment in GCC countries, based on the World Economic Forum's Strategic Foresight approach. It works to understand the issue from stakeholders' diverse perspectives and provides principles for the design of interventions. Thus, this report offers a tool to policy-makers and business leaders in addressing the issue effectively.

The analysis highlights the deep-rooted social and economic behaviours that drive youth unemployment in GCC economies and concludes that effectively tackling an issue borne of such an engrained framework ultimately requires a holistic approach. This need for change calls for a bold leadership in fundamentally rebuilding the employment system to create a new, more sustainable form of social stability. It also calls for a collaborative effort involving policy-makers, the private sector and civil society, and engaging young people themselves.

Most importantly, such an undertaking asks for the region's collective courage and foresight to abide potential short-term costs in order to seize long-term opportunities. Only such an inclusive, holistic effort will enable the GCC to fully capitalize on its demographic dividend.

We hope that this report will spur debate and action and we would like to express our gratitude to all stakeholders who participated in this process and, in particular, to the Middle East and North Africa Regional Business Council Project Board.

The World Economic Forum remains firmly committed to improving the state of the region by promoting constructive and forward-looking multistakeholder dialogues. The World Economic Forum will further bring together key stakeholders in a series of open dialogues in the Middle East and North Africa region through its Global Project on Employment, Skills and Human Capital.

Two handwritten signatures in black ink. The first signature is 'Espen Barth Eide' and the second is 'P. Rösler'.

Executive Summary

The demographic “youth bulge” represents one of the greatest opportunities, as well as one of the greatest challenges, faced by the Arab World.

With more than half of its population under 25 years old and the world’s highest regional youth unemployment rate, the Middle East and North Africa region stands at a critical juncture. This youthful populace can turn into either a “youth dividend” or a “youth liability”, contingent upon the region’s ability to create an enabling environment in which young people’s aspirations can be fulfilled.

Solutions to date show little progress in confronting the challenge of youth unemployment in a structural manner, in spite of existing financial means.

Despite the widely acknowledged importance of the challenge and many efforts underway, little progress has been made to effectively address youth unemployment. Persisting high youth unemployment rates in Gulf Cooperation Council (GCC) countries – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates – clearly demonstrate that effectively addressing youth employment requires more than budgetary capacity and economic growth.

Possible explanations of limited progress are a lack of common understanding of the problem or a perception that risks associated with comprehensive solutions are too high.

Stakeholders tend to view the issue of youth unemployment from varying angles based upon their assumptions about the root cause of the problem. Shaped by these assumptions, policies often tackle the issue in a selective manner, without fundamentally confronting the status quo. With this in mind, the first phase of the World Economic Forum’s New Vision for Arab Employment initiative engaged leaders from business, government, civil society and academia to develop a holistic analysis of the employment system in Arab resource-endowed economies, with specific emphasis on GCC countries. This approach sought to create a shared understanding of the structural reasons for youth unemployment, while raising awareness of future pressures to the current system were it to be continued, as well as the potential consequences of interventions.

Youth unemployment is a complex structural problem, driven by deep-rooted social and economic behaviours. An integrated, holistic approach helps identify the structural and interrelated reasons for youth unemployment and the vulnerabilities of the current employment model.

The analysis explored stakeholders’ different perceptions of the challenge of youth unemployment and integrated them into a framework that provides a “big picture” of the employment system in GCC countries. The current employment system fulfils two specific purposes: securing social stability, through the social contract established between the state and its citizens; and ensuring economic prosperity, through an economic contract, which represents the relationship between

non-national workers and their host country. The result of the current employment system is that the private and public labour markets are disconnected from each other, with high barriers for national young people to be productively employed in the private sector. This disconnect has roots in the massive demand for non-national labour after the oil boom, coupled with a pervasive protective attitude by governments towards their own citizens.

The foundations of the social contract need to be modified so that national workers become integrated into the private sector if both purposes – social stability and economic prosperity – are to be sustained over the long term.

Systemic solutions include improved frameworks for young people’s independence, creativity, motivation and responsibility, as well as a regulatory framework that harmonizes the attractiveness of non-national and national workers, creates opportunities for trust-building between both workforces, and increases the attractiveness of the private sector for young nationals when compared with the public sector.

The implementation of systemic solutions, which require rebuilding the employment system, involves risks but creates a more sustainable system.

Perpetuating the current employment system implies exposure to current pressures, such as budgetary and public productivity constraints, as well as to potential future pressures, such as declining oil and gas prices, political pressures, rising tensions between national and non-national workforces, stagnant low productivity in the private sector, and a lack of non-national labour supply. An employment system that is more reliant on the productivity of its own national workforce, with its foundation therefore being in the hands of national decision-makers, would be one in which social stability and economic prosperity are appreciably more sustainable. Hence, tackling the challenge on a structural level today, now that wealth and economic growth allow it, opens the way to seize long-term opportunities and makes the system more sustainable over the long run. While this approach might incur short-term costs, it prevents decision-makers from reaching a stage at which the solution space could be significantly constrained due to potential pressures.





Introduction

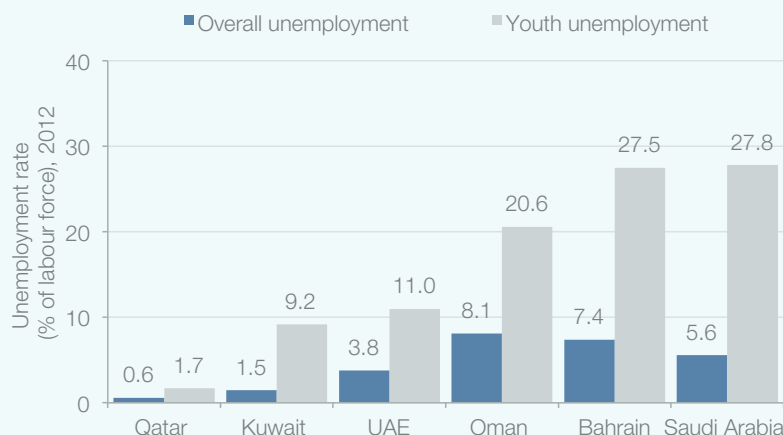
In the context of an increasingly competitive global economy, the transition from education to productive and rewarding employment is challenging for young people everywhere. Nevertheless, the situation has reached a particularly critical juncture in the Middle East and North Africa (MENA), where regional youth unemployment rates are the highest in the world: 27.2% in the Middle East and more than 29% in North Africa, which is more than double the global average.¹ With more than half of the region's population under 25 years old and 2.8 million young people² entering the labour market every year, the demographic "youth bulge" represents one of the greatest challenges faced by MENA economies.

Creating an enabling environment in which young people can turn their education into employment and realize their aspirations is critical to avoid frustration and to ensure social stability. At the same time, these large cohorts of young people represent an enormous pool of talent, with a huge potential to drive the innovation necessary to build more competitive and sustainable economies.

In light of such social and economic imperatives, youth employment is at the top of policy and business agendas.

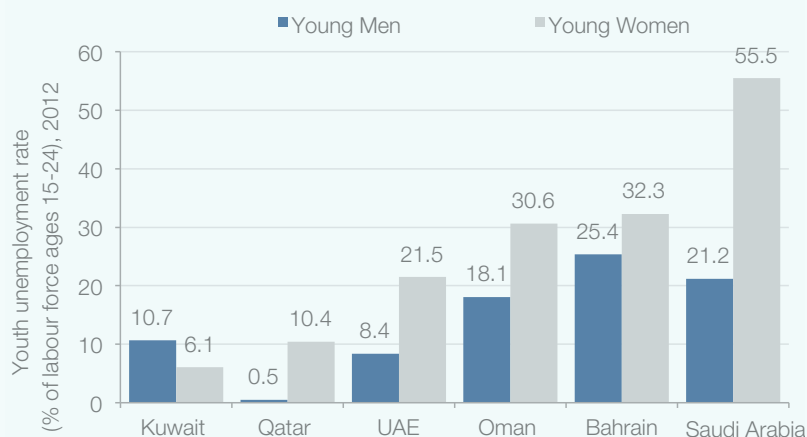
However, little progress has been made towards increasing youth employment in a productive and sustained manner. The recent experience of the Gulf Cooperation Council (GCC) countries – Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE) – has clearly demonstrated that effectively addressing the youth employment agenda requires more than budgetary capacity and economic growth. Supported by a spectacular rise in oil prices, the fast economic expansion of the GCC during the past decades enabled substantial job creation³ and the accumulation of considerable wealth. A significant portion of these gains has been translated into extensive investments in education and infrastructure projects, and into the diversification of the GCC economies. Yet, Gulf countries still face persisting high youth unemployment rates, particularly for young women (see [Figures 1 and 2](#)), suggesting that economic expansion is not enough to solve the youth unemployment challenge in the region.

Figure 1: In GCC countries, youth unemployment rates are more than twice as large as overall unemployment rates



Source: World Bank, World Development Indicators

Figure 2: With the exception of Kuwait, youth unemployment rates in GCC countries are much higher for women



Note: When accounting for the national population only, unemployment rates tend to be higher than the ones presented in Figures 1 and 2. For instance, in the case of Saudi Arabia, according to World Economic Forum calculations based on national statistics (see Central Department of Statistics & Information, *Labour Force Survey 2012*), the youth unemployment rate among nationals reaches 41% and more than 70% among young national women.

Source: World Bank, World Development Indicators

Youth unemployment is a complex structural problem, driven by deep-rooted social and economic behaviours, shaped by institutions, rules and norms governing the labour market and education system.

Designing interventions to sustainably increase productive youth employment is not easy; adopting a more holistic approach appears to be essential to the effort. For instance, different stakeholders view the solution to youth unemployment from varying angles based upon their assumptions about the root causes of the problem. As the development and effective implementation of options often requires the support of a multitude of stakeholders, it is essential that these stakeholders hold a level of shared understanding of both the challenge and potential solutions. Furthermore, solutions to complex problems often require a long time to bear fruit. This means decisions must take into account not only present contexts and risks, but also future ones, which are likely to be very different from the current.

Against this background, **the World Economic Forum engaged leaders from business, government, civil society and academia in a series of conversations** between August 2013 and January 2014 to develop a comprehensive analysis of the employment system in Arab resource-endowed economies, with a particular emphasis on GCC countries, shedding light on the fundamental reasons for youth unemployment and their interdependencies. This approach, based on the World Economic Forum's Strategic Foresight

practice, aims at **creating a common understanding of the structural reasons for youth unemployment and raising awareness of potential consequences – intended and unintended – of interventions, to help decision-makers identify effective and robust solutions, and ensure their successful implementation** (for further details on the process, see Annex 1).

This report provides the main conclusions of the process. The first part of the report summarizes stakeholders' various perceptions of the root causes of youth unemployment. Building on this preliminary exploration, the second part uses a systems thinking approach to provide a holistic analysis of the employment system, integrating the different causes of youth unemployment and mapping out their interdependencies into a synthesized framework. It includes an analysis of external changes to the employment system that might undermine social stability and economic prosperity, the system's very objectives. The third part of the report suggests how the insights presented in the second part, generated through a collaborative cross-stakeholder process, can contribute to advance fruitful discussions to sustainably increase productive youth employment.



Box 1: Historical Context

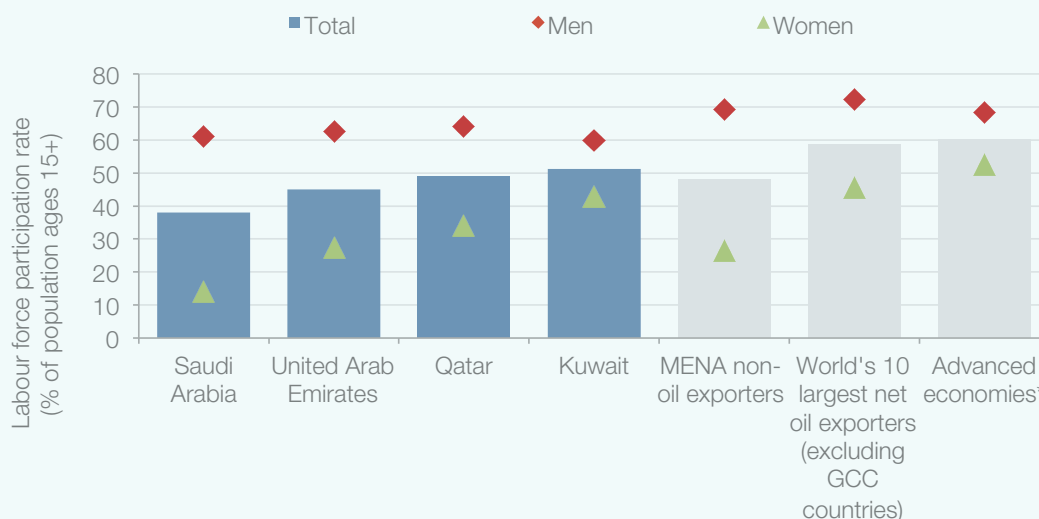
The current employment situation in GCC countries has been shaped by the oil-based growth model adopted by these economies and has evolved supported by, and to support, rapid economic development. The discovery of vast oil reserves in the 1930s,⁴ and their subsequent extraction and exportation, allowed Gulf States to generate considerable revenues from oil – which today account for at least 80% of total government revenues in all GCC countries, with the exception of Qatar for which combined oil and gas revenues represent about 70% of government revenues.⁵

Through oil exports, GCC countries have been able to record rapid economic growth, accumulate considerable wealth, modernize infrastructure and greatly improve their citizens' living standards, all of which with various and overall relatively low levels of diversification of the economy into productive, labour-intensive sectors.⁶ This distinguishes the GCC's economic path from that of most advanced economies, for which the transition to higher per capita income has generally been associated with greater diversification. Furthermore, large oil revenues have enabled the provision of a generous social contract, so that GCC governments do not need to tax their citizens to ensure social welfare. Through implementing the social contract – materialized by subsidies, free access to public services, and the provision of jobs in the public sector – governments commit to securing their citizens' economic and social well-being, and in turn, citizens support their government.

The hiring of both skilled and unskilled non-national labour, which has been needed to sustain the rapid oil-based growth of GCC economies, has also helped shape the employment situation of Gulf States, with non-nationals filling the majority of jobs in the private sector. Labour migration began following the initial discovery of oil, but increased substantially only after the 1973 oil boom and subsequent initiation of ambitious development projects. Such projects led to a rapid increase in labour demand that could not be met by national workforces, either because they were too small or did not have the required skills. In parallel, nationals were absorbed in the social contract that commits to offering comfortable, well-remunerated jobs in the public sector. Thus, by giving citizens an entitlement on oil wealth without promoting the productive use of national labour resources, the social contract has led to low labour force participation rates among GCC nationals (see Figure 3) and a high proportion of non-working dependents per employed person.⁷

While economic growth has been translated into high medical standards, it has not yet significantly altered cultural norms that still put a premium on large families and traditional gender roles. As a result, fertility rates have remained high over the past decades.⁸ This can be linked to the remarkable pace of economic growth that has occurred so far, without needing to productively mobilize the entire national labour force. The resulting high population growth has led to today's inordinately large youth population, with about one-third to one-half of the GCC's populations under the age of 25.⁹

Figure 3: Although aligned with the average rate for MENA non-oil exporting countries, labour force participation rates in GCC countries are low compared to selected international cases



* OECD countries

Note: Figures for GCC countries are for nationals only. All figures are for 2011, except for the United Arab Emirates, for which figures are for 2009. For a list of countries included in aggregates, see Endnote 10.

Source: For GCC countries, United Arab Emirates National Bureau of Statistics, *Labour Force Survey 2009*; Kuwait Central Statistical Bureau, *Annual Statistical Abstract 2012*; Qatar Information Exchange; Central Department of Statistics & Information, *Labour Force Survey 2011*; World Economic Forum calculations. For aggregates, World Bank, World Development Indicators; World Economic Forum calculations



Part I – Stakeholders’ Perceptions of the Main Causes of Youth Unemployment

Stakeholders acknowledge that youth unemployment is a complex phenomenon emanating from a multitude of converging factors. There is wide agreement among stakeholders that retracing the evolution of the problem requires delving deeply into structural issues.

Nine main perceptions of the major cause of youth unemployment in GCC countries emerged from the stakeholder consultations. While perceptions reflect stakeholders’ views of the situation in the Gulf in general, they might not necessarily apply equally to individual countries. Uncovering the divergences between stakeholder views is essential, as these notions form the basis for the proposed solutions and provide insight into why perceptions differ across stakeholders.

Perception 1: There is a skills mismatch inhibiting nationals from being employed in the private sector.

Youth unemployment is an issue of employability. The education system does not provide young people with the skills needed in the private sector. The mismatch relates to basic skills, such as creative and independent thinking, problem-solving skills and soft skills, as well as to sector-specific and functional skills, such as vocational skills, technical abilities and management.

Quotes from stakeholders

- “The system produces graduates disconnected from market demands and needs.”
- “Even if on paper graduates have the credentials, what they lack the most are social and soft skills.”
- “Education is designed to employ people for the public sector.”
- “The skills shortage is particularly problematic for vocational employment.”
- “There is a deterioration of skills due to the certainty that people will get a job.”

Perception 2: Young nationals are not taking enough responsibility for their lives.

The welfare state in GCC countries, materialized by large public spending, generous subsidies, low-cost or free public services and the provision of public sector jobs, creates dependency on the government as well as expectations of it. Incentive schemes do not encourage young nationals to take sufficient responsibility for their own lives. In turn, this limited self-reliance shapes mindsets and attitudes towards the private sector, entrepreneurial risk-taking and work in general, which are at the core of the youth unemployment problem.

Quotes from stakeholders

- “The dependence on government is a problem. This is not a self-reliant culture.”
- “Young people are not responsible for their lives; they blame it on the government, and they expect the government to give them health insurance, education and unemployment compensation.”
- “It is a society that is expecting a dividend. It is a culture of dependence. It is assumed that it is your right as someone from this country that the government has to take care of you.”

Perception 3: There is cultural resistance to doing certain jobs, for example sales and vocational work.

The attitude towards certain functions is at the core of youth unemployment, as there is a gap between the positions that young nationals are willing to take and the ones available in the labour market.

Quotes from stakeholders

- “There are cultural limitations to be ‘out on the streets’.”
- “In Arabic, ‘saleswoman’ is a lady who sells on the streets. There are neither role models, nor success stories for saleswomen having made a career.”
- “There is a mental block against vocational work.”
- “Being paid to serve someone is not in the culture.”
- “Nationals prefer to work in operations, behind the scene.”
- “There is a mindset issue; they only want to work as managers.”

Perception 4: Public sector employment incentives render private sector employment unattractive.

Secure, comfortable and well-remunerated public sector jobs – both in public administration and state-owned enterprises – shape young nationals’ educational choices, heighten their expectations of salary and working conditions, and limit their taste for risk. Public sector employment conditions reduce the attractiveness of the private sector for young nationals and hamper entrepreneurship.

Quotes from stakeholders

- “The problem is that the public sector pays 30% more than the private sector and provides secure jobs. It would have the same effect on people’s choices everywhere. It has negative implications for productivity of the economy at large and for entrepreneurship.”
- “The public sector attracts national talents because it is seen as prestigious, and it offers comfortable working conditions (e.g. working hours) and generous packages.”
- “The incentives given in the public sector generate expectations that make nationals unwilling to work in the private sector.”

Perception 5: Labour regulations are too rigid for national employees.

Labour laws are more protective of nationals than of non-nationals and thereby reduce the relative attractiveness of national hires compared to non-national hires for private sector employers. For example, it is much more difficult to terminate work contracts with nationals than with non-nationals.

Quotes from stakeholders

- “Labour rights of nationals are extreme; it is impossible to fire them.”
- “Private employers prefer to hire non-nationals because of the labour laws protecting nationals.”
- “Companies are hesitant to hire because the labour law is prohibitive; you need to commit to hire for life.”

Perception 6: The business environment is non-conducive for entrepreneurship and small and medium-sized enterprises (SMEs).

The legal frameworks for starting and maintaining a business prevent the creation of start-ups and the development of SMEs. Overbearing bureaucracy, inadequate access to smart finance and especially bankruptcy regimes¹¹ all serve as significant hindrances. In addition, the non-competitive market structure of certain sectors adds further drag on start-up initiatives, preventing them from growing and thereby contributing to job creation.

Quotes from stakeholders

- “The biggest challenge is to create an environment for medium-sized enterprises in order to have more companies operating within the economy.”
- “Bankruptcy laws can lead to jail punishment for entrepreneurs.”
- “There is a lack of SME financing. GCC countries have the lowest share of loans globally.”
- “With a few exceptions, the culture in the region is not entrepreneurial and entrepreneurs are not respected.”
- “This is a commercial culture, but not an investment culture oriented towards risk.”
- “The system makes it difficult to be an entrepreneur, because the government has historically played a paternal role.”

Perception 7: The economy is not sufficiently diversified.

The economy is not sufficiently diversified away from the oil and gas sector. It needs to move into knowledge-based industries, which employ more people than the oil and gas sector. Knowledge-based industries are also more attractive to national citizens than predominant non-oil sectors, such as construction, which provide mainly low-skilled, low-paying jobs.

Quotes from stakeholders

- “There is a lack of non-oil growth.”
- “Looking internationally at other resource-rich countries, economies have diversified. But here, the non-oil sector is financed by oil and its size is minimal once oil-related sectors are taken out. There is no digital economy, no knowledge economy, etc. That’s the problem.”
- “These countries are trapped in a mono-industry economy instead of rethinking the building blocks of their industries and supply chains, for all sectors and not only for petrochemicals.”
- “Citizens who were sent abroad to do an MBA cannot find jobs, because the open positions are in the low- to middle-skill segment, such as construction, logistics and nursing.”

Perception 8: There is a lack of private sector consultation in public decision-making.

There is a lack of mechanisms for systematically engaging the private sector in the public sphere of decision-making, notably in the areas of labour market regulations and the education system. This situation could be attributed in part to the absence of a comprehensive corporate tax system, which limits the translation of private sector growth into increased government revenues, and thus minimizes private sector leverage over government. Low taxation also harms the private sector’s social standing, as it leads to the private sector receiving less recognition for being an important contributor to the overall welfare of society.

As a result of this low engagement, education is not aligned with labour market needs, and young nationals are often unaware of the career opportunities in the private sector. In essence, there is no common ownership of the unemployment problem between the public and private sectors and, therefore, little joint responsibility to solve it.

Quotes from stakeholders

- “There is a lack of cooperation between the private sector and educational institutions.”
- “There is a lack of cooperation and partnership between the private and public sectors to change labour laws and make them more flexible.”
- “National young people have no awareness of rights, obligations and opportunities in the private sector.”
- “Nationals do not even think of the private sector, as they believe it is for non-nationals only.”
- “Without taxation, there is no representation.”

Perception 9: The private sector is not investing enough in young nationals.

With some exceptions, private sector engagement in the education and training of nationals is seen as low. Companies often limit their operations in the GCC to commercial and sales offices, preferring to keep their higher value-added business lines at other locations, and invest little in training young nationals to support their activities. Companies are perceived as predominantly interested in interacting with nationals as consumers rather than workers. Even once employed, it seems that young nationals are often regarded as less productive than their non-national peers, and thus are not adequately trained nor well integrated into the company.

Quotes from stakeholders

- “The private sector has been quite unwilling to properly train the national workforce.”
- “The private sector needs to assume its role and become part of the solution when it comes to employment creation.”
- “There is a lack of trust of the private sector in nationals.”

Part II – The Employment System in GCC Countries

The previous section revealed that stakeholders have different perceptions, which are more or less related, of the main cause of youth unemployment. Exploring solutions to the youth employment challenge requires creating a holistic understanding of the employment system and its underlying dynamics, capturing the “big picture”.

Bearing in mind these postulations, this section provides a systemic analysis of the employment situation in GCC countries, developed using a systems thinking approach (see Box 2).

The objective of this analysis is to make the structural reasons underpinning youth unemployment and their interrelations explicit and thereby explore the solution options in a more comprehensive manner.

The structure and underlying patterns of the employment system, acknowledging its interplay within a broader environment, are analysed and synthesized in an integrated framework (see Figure 4).

Box 2: The Systems Thinking Approach

What is a system?

A system is an interconnected set of elements that produces its own pattern of behaviour over time and is coherently organized to achieve a purpose. While a system can be influenced by external forces – which can trigger, precipitate or constrict its dynamics – the source of its behaviour lies in its intrinsic structure.¹²

The purpose of systems thinking

Systems thinking is an approach that helps see and understand the **structures** that underlie complex situations, in order to identify **impactful points of leverage** for effectively and sustainably addressing complex issues.¹³

“The reason that structural explanations are so important is that only they address the underlying causes of behaviour at a level at which patterns of behaviour can be changed.”
Peter M. Senge, *The Fifth Discipline*

Key characteristics of the systems thinking approach

The systems thinking approach provides a **holistic** and **dynamic** perspective, which allows for grasping the “big picture” and identifying processes of change. While traditional analysis focuses on separating a particular phenomenon of interest – the *whole* – into its constituting elements (“analysis” being the process of “breaking into *parts*”), systems thinking focuses on the linkages and **interactions** among the elements that compose the whole. Over time, these interactions produce **patterns of behaviour**.

Traditional Analysis	Systems Thinking
Focuses on isolated parts	Captures the interactions among the elements that compose the whole
Identifies linear causal relations	Identifies circular causal relations (every element is both a cause and an effect)
Focuses on particular events (i.e. “snapshots”)	Captures patterns of change
Focuses on exogenous explanations (events are seen as caused by external factors)	Focuses on endogenous explanations (the behaviour of the system is seen as generated by the system itself)

Table based on: Peter M. Senge, *The Fifth Discipline*; Donella H. Meadows, *Thinking in Systems*

Box 3: The Integrated Framework of Stakeholders' Perceptions of the Main Causes of Youth Unemployment

The integrated framework (see Figure 4) consolidates stakeholders' views on what are perceived to be the main causes of youth unemployment, all of which can be traced to the protective relationship between the government and its citizens.

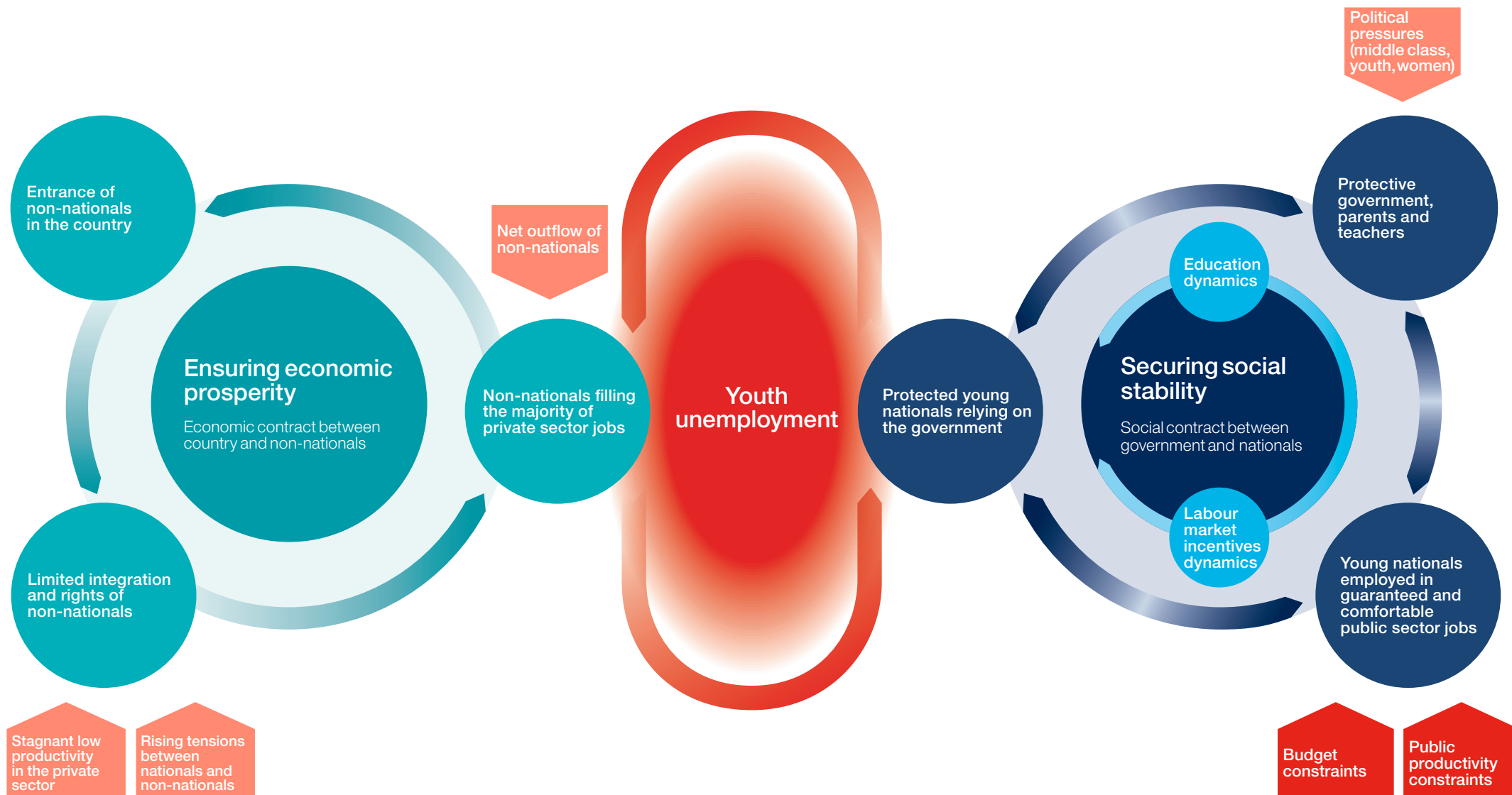
Young people's reluctance to take on certain responsibilities, cultural resistances to certain jobs, rigid labour laws for nationals, a non-conducive business environment for entrepreneurship and SMEs, a lack of private sector consultation in public decision-making (perceptions 2, 3, 5, 6, 8) can all be attributed to the protective system, characterized by a dependency between nationals and the authorities.

The skills mismatch and lack of diversification (perceptions 1, 7) are an outcome of education dynamics. Public sector employment incentives (perception 4) are intrinsic to the social contract described above.

Finally, a private sector that is not investing enough in young nationals (perception 9) can be attributed to the fact that in past decades, there was no need for an interaction between the private sector and young nationals, who were employed in the public sector, since the two systems were functioning independently. With rising youth unemployment, aligning the private and public sectors has become a widely acknowledged necessity.



Figure 4: Dynamics and vulnerabilities of the employment system in GCC countries – An integrated framework



- Current pressures on the system, which impact its stability and sustainability
- Potential pressures on the system, which might impact its stability and sustainability in the future

1. Dynamics of the Employment System

The employment system comprises the actors directly taking part in the labour market – labour supply and labour demand, as well as the intermediaries between supply and demand – and those who are indirectly related to it, such as parents, teachers and political leaders. The employment system also includes the institutions, rules and norms – formal and informal – which govern and shape individual actors’ behaviours.

The employment system in GCC countries serves two purposes: securing social stability and ensuring economic prosperity.

Social stability cannot be sustainably ensured without economic prosperity, and vice versa, so both systems must be well functioning for the whole employment system to be a success. For example, non-national doctors and teachers contribute to providing health and education services vital for facilitating the social contract, while social stability is crucial for the economy to flourish.

Social stability dynamics (see Box 4)

In GCC countries, social stability is achieved through implementing the social contract established between the government and its citizens, by means of state-financed wealth distribution enabled by large oil and gas revenues. The social contract rests on the government’s ability to secure its citizens’ well-being and is materialized by generous subsidies, free access to services such as health and education, and the provision of occupational and income security through government jobs. In exchange, the populace is willing to

support this form of governance, which is characterized by a high level of dependence between citizens and authorities. These dynamics constitute the public labour market, defined as including both public administrations and state-owned enterprises, dominated by nationals.

Economic prosperity dynamics (see Box 5)

Economic prosperity in GCC countries, on the other hand, is reliant on non-national workers. This gives rise to an economic contract, which pictures the relationship between non-national workers, both skilled and unskilled, and their host countries. In this contract, non-national workers are provided economic benefits while their rights and integration into society remain limited. Non-national workers accept their legal and social situation in return for the economic benefits offered by their employers. These dynamics constitute the private sector, dominated by non-national labour.

Two separate labour markets (see Box 6)

The labour structures designed to deliver social stability and economic prosperity in GCC countries follow dynamics which ultimately create two separate labour markets – one public and one private. The two markets are disconnected from each other, relying almost exclusively on two distinctly different labour supplies – nationals and non-nationals – and there are high barriers for the labour forces to flow from one market to the other. In particular, the system poses significant barriers for young nationals to productively join the private sector. As the public sector has reached a limit in its capacity to absorb young nationals, the result is youth unemployment.

2. Vulnerabilities of the Employment System

The systemic understanding of the employment system in GCC countries reveals a set of internal dynamics and external changes that might undermine social stability and economic prosperity, the system’s very objectives (See Boxes 7 and 8).

The employment model has worked relatively well over the past decades, but high population growth, which can be linked to particularly low labour force participation for women (see Box 1), has exposed a number of vulnerabilities. Budgetary and public productivity constraints already prevent most governments from providing the entire national workforce with public sector jobs, which some nationals have come to expect as one pillar of the social contract.

Despite having become destabilized by rapid population growth, the employment system still operates, but is fragile and susceptible to potential pressures, some of which are already materializing:

- The ability of the employment system to secure social stability may be threatened if it becomes increasingly unaffordable for welfare states to provide for the unprecedented “youth bulge”.
- The demands and expectations of a well-informed and politically aware national citizenry might require a rethinking of the social contract.
- The economic system is highly reliant on a large non-national workforce whose availability and socially stable integration is uncertain.
- Easy access to and heavy reliance on generally cheap, low-skilled, non-national labour could continue to disincentivize investment in technology and enforce a stagnant low productivity in the private sector over the long term.

Hence, the employment system not only creates high internal dependencies of young people on authorities, but is in itself highly dependent on factors beyond control, notably high oil and gas prices and the availability of a large non-national workforce.

Box 4: Social Stability Dynamics



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The starting point of dynamics is the protective role that the government chooses to play. This leads to two dynamics, education dynamics and labour market incentives dynamics, which are initially independent, but ultimately meet and reinforce each other.

Education dynamics

The protective government role forges institutions and serves as a role model for family education (as expressed in the bubble "protective governments, parents and teachers"). This relationship established between authorities – governments, parents and teachers – and young people is reflected in an educational system that does not stimulate enough independent and creative thinking, i.e. qualities needed in the private sector, and that is designed primarily to provide citizens with the skills needed to take up public sector positions. As noted by stakeholders, "Governments don't encourage critical thinking at school. As a consequence, students just know how to memorize, which automatically forges public servants." Protected by their parents and teachers, young people grow up in an environment where their current and future needs are provided for, perpetuating a culture of dependency on authorities.

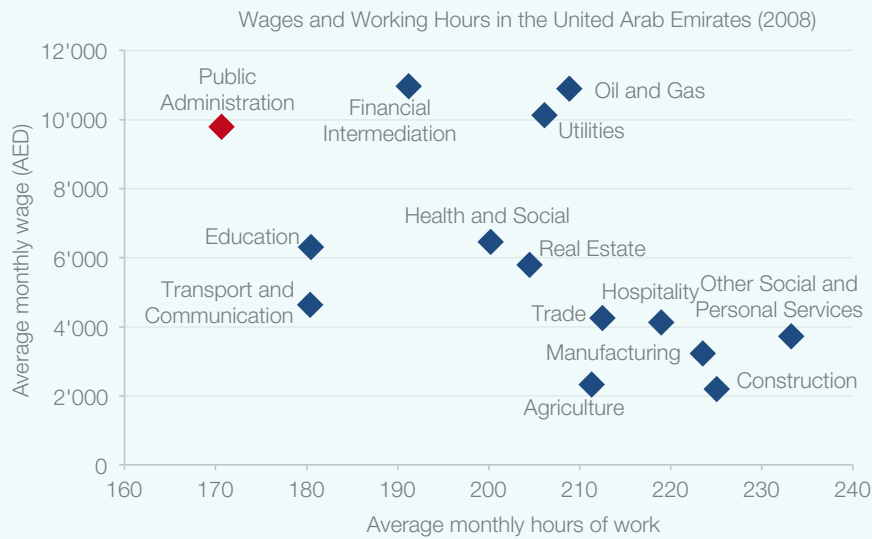
Labour market incentives dynamics

The protective government role is reflected in the government's commitment to providing secure, comfortable and well-remunerated public sector jobs (see Figure 5) to its citizens, making it hard for the private sector to compete for talent. The public sector attracts young people, elevating their expectations and limiting their appetite for risk, in a context in which entrepreneurship is still nascent. Additionally, low corporate taxation harms the private sector's social recognition as a contributor to the welfare of society at large. This further strengthens the role of the government as the employer of choice. As noted by stakeholders, "Labour markets are distorted towards the public sector" and, "People do not identify with the private sector, as companies neither pay taxes nor offer jobs for nationals."

The results of both dynamics are protected, dependent young people who have learned to rely on the government because their education-shaped mindset confines their job prospects to the public sector and limits their overall willingness to participate in the labour market. Even young people who have not been influenced in this particular fashion still invariably become attracted to well-remunerated, comfortable public sector jobs, which similarly come to shape their mindset and their decision to economically rely on the government.

In turn, young people accept the protective authority of the government, closing the circle of social stability.

Figure 5: The public sector offers attractive wages for relatively less working hours than the private sector



Source: United Arab Emirates National Bureau of Statistics

Some stakeholders' quotes illustrating the social contract

Protective governments, parents and teachers

- "We create societies of consumers, not producers. You can buy schools, but not education."
- "Governments spend too much on their people to keep them happy."
- "Youth is not looked at as capable to do a job."
- "Parents want kids to have a safe job in the public sector."
- "The education system does not teach skills. Students just memorize."
- "The education system does not teach people how to think independently, solve problems and process information."

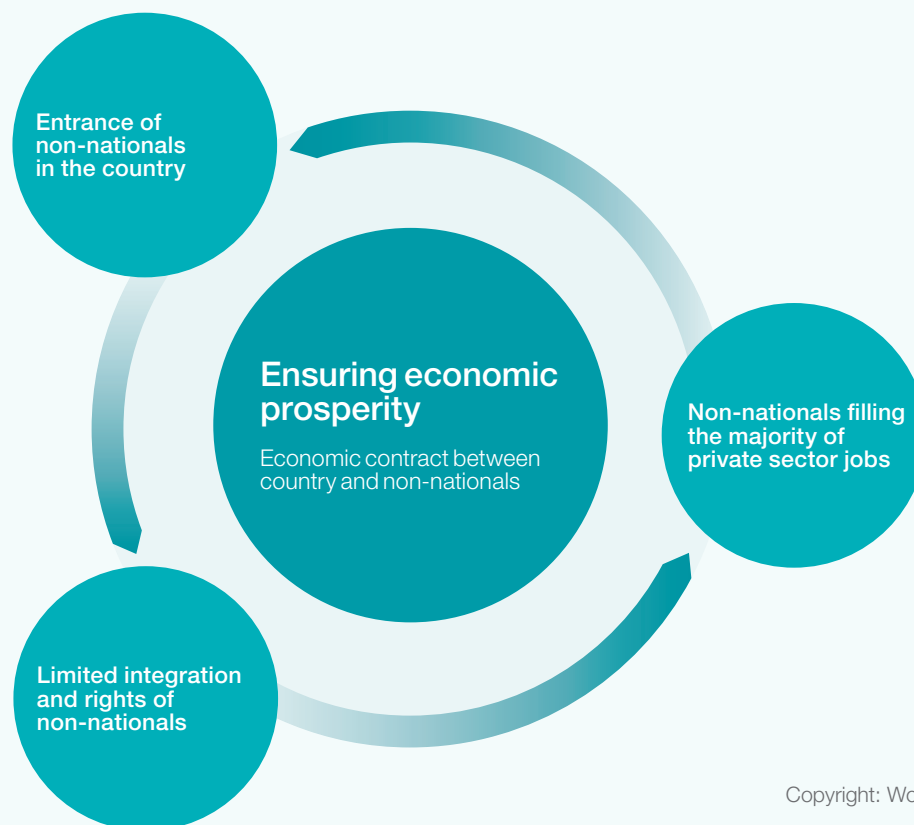
Protected young nationals relying on the government

- "Since the 1990s, the mentality is that 'the government has to take care of me'. Young people today are not prepared to work hard."
- "The sense of entitlement is a problem."
- "People expect the government to do everything for them."
- "Young people don't learn to manage their finances and loans at an early age."
- "We don't know how to organize and prioritize our lives and our finances. We don't know how to plan for the future."
- "The youth expects to be well paid with little commitment."
- "If young people get more money by staying home, they will not accept a job which pays less."

Young nationals employed in guaranteed and comfortable public sector jobs

- "People work in the public sector for the pension system, job security and low working hours."
- "There is much more accountability in the private sector. In the public sector, even if you don't have a good review, you keep your job."
- "A government job is the best option when a man wants to get married."
- "There is a lack of performance management and competitiveness in the public sector."
- "Our (private sector) best employees stay with us only temporarily and leave us once a government job becomes available."
- "Young nationals are looking for public sector jobs, because their mindset is that government jobs are sustainable and working hours allow them to have another job on the side. It is very attractive, especially for women."

Box 5: Economic Prosperity Dynamics



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The starting point of dynamics underlying the private sector is the entrance of a non-national labour force into the countries, which started after the discovery of oil and became massive in the 1970s, due to quantitative and qualitative shortages of national labour.

Non-nationals – both skilled and unskilled – are limited in the rights that they can claim (e.g. temporary residency, no opportunity to obtain citizenship, limited job security, no minimum wage, restriction of movement between jobs and no mandatory pension schemes) and in their social integration (e.g. limited availability of schools where nationals and non-nationals mix), hindering them from identifying with their host country and integrating into society (see Figure 6). Looking at social stability dynamics, the reason for these limitations might be found in the need of authorities to protect national citizens.

The consequence of limited labour rights is that non-nationals have become more attractive hires for the private sector than nationals, in terms of cost and flexibility. Nationals are paid higher wages than non-nationals (see Figure 7). Higher flexibility of non-nationals is based on their limited rights. Furthermore, the limited integration of non-nationals into society encourages non-national employers to hire their peers. As a result, non-nationals fill the majority of private sector positions (see Figure 8).

As the private sector's competitiveness has been based on a non-national workforce, more non-nationals are allowed to enter the country to maintain the circle of economic prosperity.

Figure 6: According to a recent survey by HSBC, GCC countries offer attractive earnings but rank poorly in terms of integration of expatriates

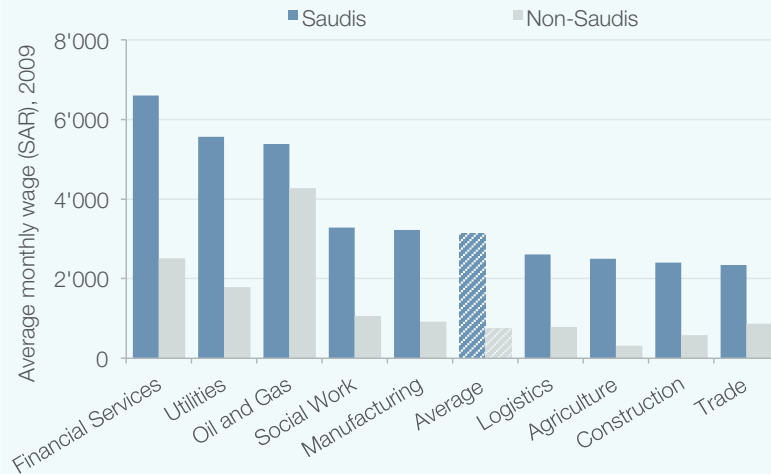
HSBC Expat Explorer, Country Rankings (2013)

Rank out of 37 countries (1 = best)

	Disposable Income	Integration
	Rank	Rank
Bahrain	4	23
Oman	14	31
Qatar	3	34
Saudi Arabia	16	37
United Arab Emirates	25	36
Kuwait	19	35

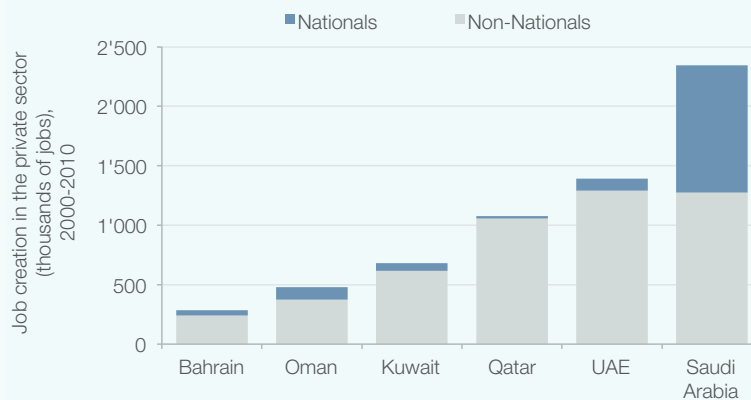
Source: HSBC, Expat Explorer Survey, 2013

Figure 7: Except in the oil industry, wage differentials in the private sector between Saudis and non-Saudis are large



Source: Saudi Arabia Ministry of Labour, 2009

Figure 8: Between 2000 and 2010, almost 80% of jobs created in the private sector in the GCC have been filled by non-nationals



Note: Figures are estimates.

Source: International Monetary Fund (IMF), *Gulf Cooperation Council Countries: Enhancing Economic Outcomes in an Uncertain Global Economy*, 2011

Some stakeholders' quotes illustrating the economic contract

Entrance of non-nationals in the country

- “GCC countries managed to escape the resource curse because they were open to non-national labour and in particular because of the low wages and the importation of skilled labour.”
- “GCC countries, with the exception of Saudi Arabia, need non-nationals because of the limited size of their workforce.”
- “Governments import Asian workers for lower skilled jobs and they will continue as long as this is possible, for half of the salary of nationals.”

Limited integration and rights of non-nationals

- “Nationals and non-nationals are very separate communities.”
- “Non-nationals should be integrated. For instance, schools are segregated. Nationals should get out of their shell.”
- “Expatriates have their own schools but in the past years, things have opened up. Also on television, you now have

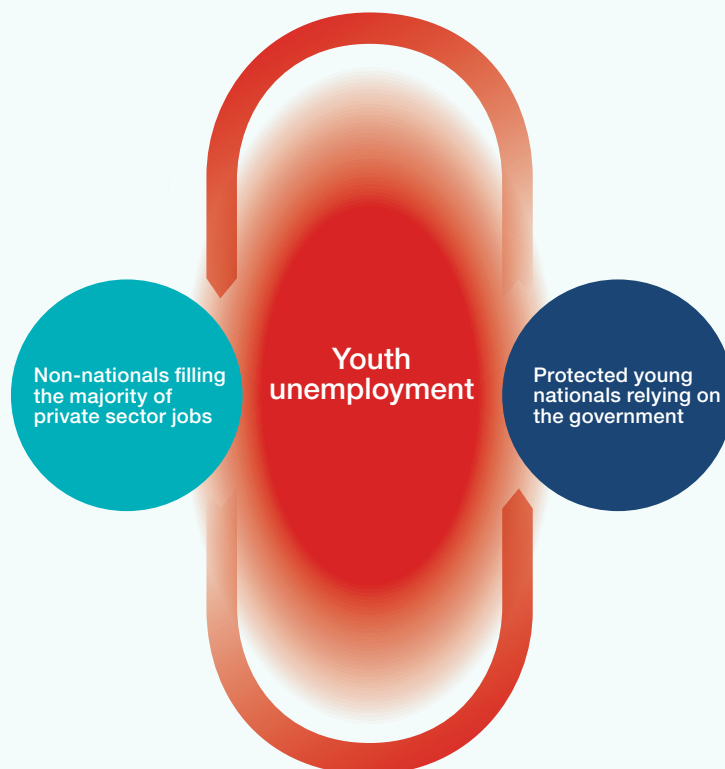
more and more English programmes. But there is still a gap in terms of socializing.”

- “For the skilled labour, it is hard to attract talent, because insurance and permanent residency are not offered to non-nationals.”

Non-nationals filling the majority of private sector jobs

- “From a pure profitability perspective, it does not make sense for me to hire nationals. They are more expensive and less qualified.”
- “Employers believe that non-nationals are more dedicated and efficient; employers focus on the bottom line.”
- “Non-national workers have the advantage to be highly motivated. There is a diverse pool of expatriates to choose from; they have more experience in other economies, they have no relatives who can ask for favours, and they have pressure to be successful when returning home.”

Box 6: Two Separate Labour Markets



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The dynamics of the economic contract – limited rights and limited integration of non-nationals – reinforce dynamics of the social contract, namely young people’s reliance on the government

The limited integration of non-nationals provides few opportunities for trust-building with national citizens, making it harder for nationals to feel comfortable in the private sector that is mainly filled with non-national labour. Additionally, both the limited rights and on average lower relative salaries of non-nationals limit the social recognition of private sector employment among nationals. Moreover, the ease of access to inexpensive labour can hinder investment in more technology-intensive industries or SMEs (e.g. creating taxi companies instead of hiring drivers) that might be more attractive to nationals. As a consequence, the attractiveness and accessibility of the private sector for nationals is weakened, reinforcing their dependency on public sector employment.

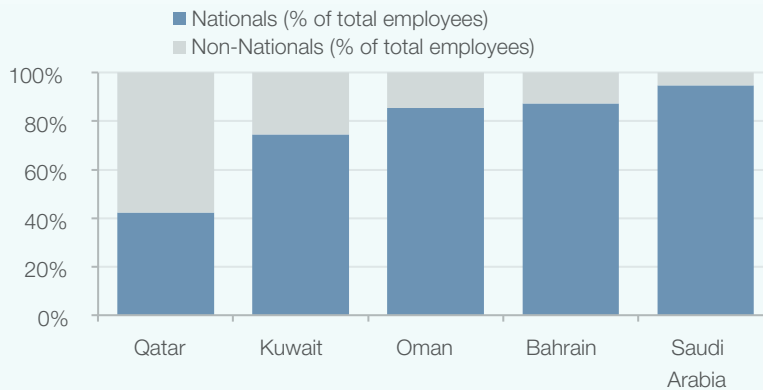
The dynamics of the social contract – protective authorities and dependent young people – reinforce the dynamics of the economic contract, namely the reliance on a non-national workforce

The education system and public employment incentive schemes do not prepare national young people for a private sector driven by competition and flexibility. In addition, they tend to have little contact with private sector activities and role models growing up, and are often unaware of opportunities offered by private companies. As a consequence, the relative availability and attractiveness of non-national workers for private employers is further strengthened.

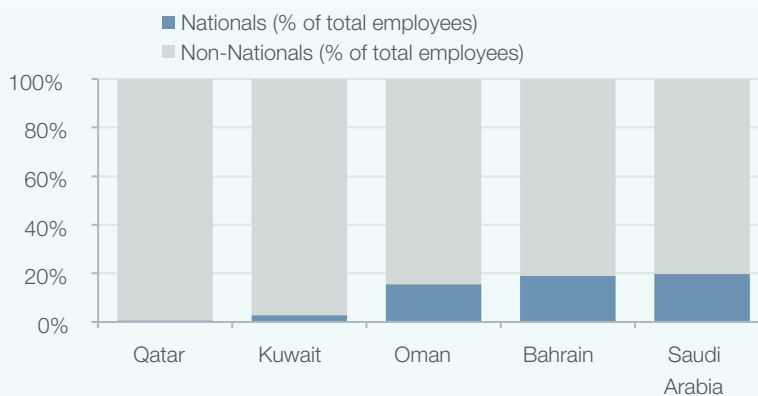
As a result of the reinforcement between the dynamics of the social and economic contracts, the private and public labour markets are disconnected from each other, relying almost exclusively on two different labour supplies – non-nationals and nationals (see Figure 9).

Figure 9: GCC labour markets are segmented

The public sector is dominated by nationals (2008)



The private sector is dominated by non-nationals (2008)



Source: The Cooperation Council for the Arab States of the Gulf, Secretariat General, *Statistical Bulletin*, 2012

Some stakeholders' quotes illustrating the separation between the two labour markets

The dynamics of the economic contract reinforce those of the social contract: the attractiveness and accessibility of the private sector for nationals is weakened, reinforcing their dependency on public sector employment

- “The whole business model has been created around expats. Nationals won’t feel comfortable there and managers are more comfortable bringing their own people.”
- “There is mistrust of young nationals in private sector people and a fear of (job) insecurity.”
- “Nationals also prefer to work in the public sector to be among themselves.”
- “Social status and social reward of private sector employment is lacking.”
- “There is a social stigma around construction and blue collar jobs, and wages are too low, because of the low cost of non-national labour.”
- “It’s a matter of compensation and getting the critical mass of nationals to do certain jobs (that have been filled by non-nationals).”
- “A job becomes respectable if it is well paid.”
- “Private sector salaries have contributed to its recognition in (other) advanced economies.”
- “The availability of a cheap non-national workforce also prevents the development of certain service industries, for instance if nannies are cheap, childcare centres are not needed, or if drivers are cheap, taxi companies cannot exist.”
- “The construction sector is the second contributor to GDP after the oil sector, but employs mostly low-skilled non-nationals.”

The dynamics of the social contract reinforce those of the economic contract: the relative availability and attractiveness of non-national workers for private employers is further strengthened

- “There is a motivational gap among nationals.”
- “There is a deficit regarding education. If you hire people from good national universities, they cannot compete with non-nationals.”
- “The private sector looks for workers who are able to think critically.”
- “The private sector is not interested in diplomas, but in experience.”
- “Curricula in public education are not adequate for 21st century students. They end up with certificates, not knowledge.”
- “For the private sector, employing nationals is costly due to training costs, higher wage expectations and loyalty issues.”
- “There is no awareness of private sector opportunities. Nationals believe that the private sector is for expatriates, as they account for 90% of private sector workers.”
- “Students hear from parents that government jobs are the way to go.”
- “Currently, a lot of kids’ ambition is to work in the education sector, because they have no contact with the private sector during their studies.”

Box 7: Vulnerabilities of the Social Contract



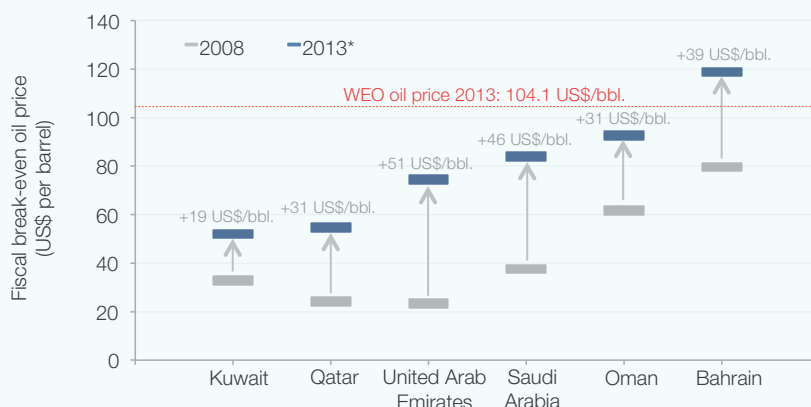
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The social contract is subject to various pressures, such as (1) budget constraints, (2) public productivity constraints, and (3) potential political pressures, as shown in the red arrows in the figure above (dark red indicating that the pressure has started materializing).

The social contract might be further destabilized if it becomes increasingly unaffordable for the public budget that relies on high oil and gas prices. Figure 10 shows that fiscal break-even oil prices have increased significantly over the past years. Long-term structural devaluation of oil and gas prices would call into question the government's capacity to deliver on the expectations of its people. Moreover, if the public sector keeps growing and reaches a stage at which public

productivity significantly drops – a situation for which there is a precedent within the region (see Figure 11 for stagnating public productivity after a sharp decline in the 1980s) – the efficient delivery of public services might be hindered. In addition, the stability of the social contract might be threatened if demands and expectations of well-informed and aware national citizens change. The latter might be triggered by economic constraints due to inflation, particularly for the middle class, as well as by the emergence of virtual leadership structures, notably a broadening range of influencers, accelerated by social media.

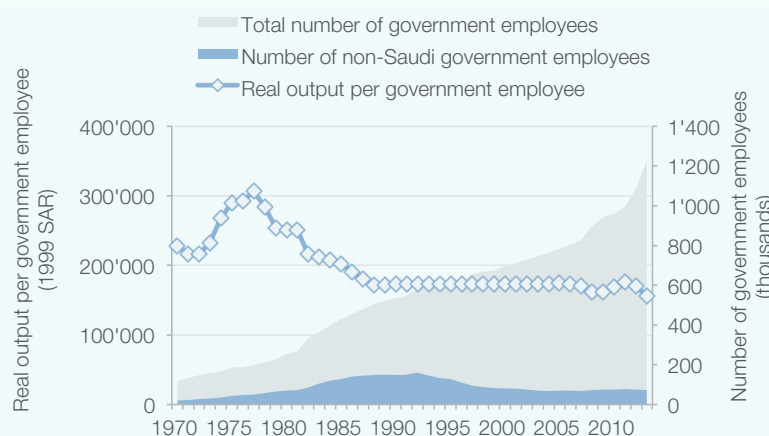
Figure 10: Fiscal break-even oil prices – i.e. for each country, the average oil price at which the public budget is balanced in a given year – have increased significantly over the past years



*Prices for 2013 are projections

Note: The World Economic Outlook (WEO) oil price is the simple average of three spot prices (crude oil): Dated Brent, West Texas Intermediate, and the Dubai Fateh.
 Source: International Monetary Fund (IMF), *Regional Economic Outlook Update, Middle East and Central Asia, Statistical Appendix*, November 2013; International Monetary Fund (IMF), World Economic Outlook Database, April 2014

Figure 11: Labour productivity in Saudi Arabia’s public sector sharply declined in the 1980s and has been stagnating since then



Note: Labour productivity is estimated as the government services GDP (at 1999 constant prices) per government employee. Figures for 2013 are provisional.
 Source: Saudi Arabian Monetary Agency, Annual Statistics, 2014; Steffen Hertog, *A comparative assessment of labor market nationalization policies in the GCC*, 2012; World Economic Forum calculations

Some stakeholders’ quotes illustrating the vulnerabilities of the social contract

Budget constraints

- “The current system is not sustainable due to the oil price. Even if the oil price stays the same, the population is growing.”
- “Governments can no longer absorb graduates, given population growth and decreasing finances.”
- “Now the youth share has increased to the extent that government can’t absorb people anymore.”
- “In five to 10 years, we will be unable to continue this transfer system as the amount of people entering the labour market rises.”
- “Subsidies can’t be afforded any longer.”

Public productivity constraints

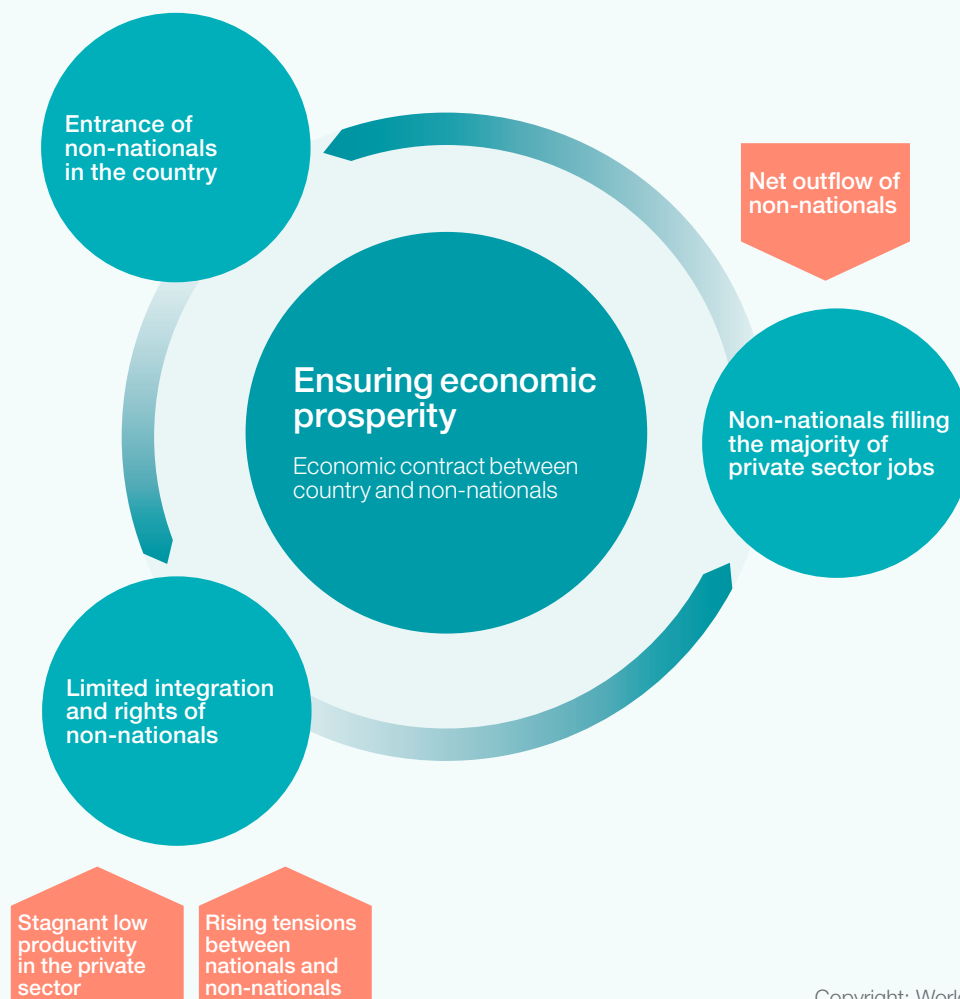
- “Government has reached saturation. It is overstaffed and this has decreased its productivity.”
- “Creating government jobs leads to low efficiency and to employees who don’t add much value.”
- “Government is not reforming due to fear of social unrest. Their pressure point is the productivity problem.”

- “Public productivity is low because of large employment, protected jobs and high wages.”
- “You cannot meaningfully employ an unlimited number of people in the government.”

Political pressures

- “Money creates expectations and is not enough to fulfil people or hinder radicalism.”
- “The government is from a generation that doesn’t understand young people.”
- “There is a risk of internal conflicts between traditionalists and some young people.”
- “Unmet expectations create frustration.”
- “There are many ‘shepherds’ in today’s world. Leadership structures are changing.”
- “The shrinking middle-class and rising uneven wealth distribution could create animosity against the private sector that doesn’t contribute enough to job creation for nationals.”

Box 8: Vulnerabilities of the Economic Contract



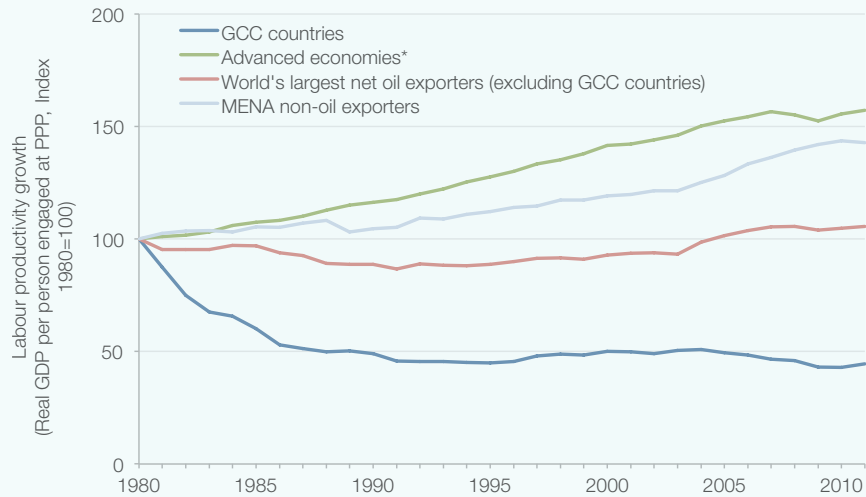
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The economic contract suffers from three pressures and might be destabilized if any one of them becomes apparent. Potential pressures are (1) a stagnant low productivity in the private sector, (2) rising tensions between national and non-national workforces, and (3) a net outflow of non-nationals, who might decide to leave the country or to not enter anymore, as shown in the red arrows in the figure above.

Firstly, as easy access to and heavy reliance on generally cheap, low-skilled, non-national labour impacts incentives to innovate and invest in technology, it could over time enforce a stagnant low productivity in the private sector. Figure 12 demonstrates that productivity dropped precipitously in the early 1980s (this can be partly linked to the import of low-skilled

labour, which replaced mid-skilled labour) and has stagnated since then.¹⁴ Secondly, the large presence of non-nationals coupled with limited integration and income inequalities may create and/or exacerbate existing tensions between nationals and non-nationals. Thirdly, the non-national workforce could unexpectedly and massively emigrate or not enter the country in the first place – for instance, as a result of geopolitical tensions, rising labour demand from other regions, or increasing relative attractiveness of other countries for workers – which would leave the national workforce unprepared to take over.

Figure 12: Overall labour productivity in GCC countries dropped in the early 1980s and has stagnated since then



*OECD countries

Note: For the list of countries included in aggregates, see Endnote 15.

Source: International Labour Organization (ILO), Key Indicators of the Labour Market; World Economic Forum calculations

Some stakeholders' quotes illustrating the vulnerabilities of the economic contract

Stagnant low productivity in the private sector

- “Due to unlimited availability of cheap non-national labour, productivity has gone down everywhere, except in the oil and gas sector where automation is high.”

Rising tensions between nationals and non-nationals

- “Crime rates and instability have increased and the social gap between nationals and expats will have a long-term impact.”
- “On discussion forums, there is a sense of xenophobia as a by-product of youth unemployment.”
- “The situation with this share of non-national employees is unsustainable over the long term due to rising social

tensions, such as the loss of national identity, and financial constraints.”

Net outflow of non-nationals

- “You can't treat retention of knowledge in a transient way. The dependency on non-national technicians for desalinated water is a national security threat.”
- “These countries are hostages of non-nationals and will have to give them residency to gain their loyalty and keep them in the country, particularly those in higher-end jobs.”
- “Many SMEs fail when cheap non-national labour is expelled, because SMEs rely on them.”
- “The sustainability of nations is based on nationals.”



Part III – Interventions

The series of conversations conducted by the World Economic Forum between August 2013 and January 2014 explored stakeholders' perspectives on interventions that, in their view, should be adopted to sustainably increase the number of young people productively employed by the private sector.

Throughout this exercise, stakeholders continually emphasized the critical importance of enhancing cooperation, coordination and communication between the private sector, government and civil society (see [Box 9](#)).

To achieve such collaboration, stakeholders pointed out that all businesses, governments and young nationals must first recognize and assume their respective responsibilities for reducing youth unemployment, which is of common interest since social stability is required to ensure economic prosperity, and vice versa.

The widely acknowledged importance of cooperation between the private sector, the government and civil society demonstrates that stakeholders share a common, broad perspective on the actors who need to be involved to design and implement interventions to tackle youth unemployment.

In general, suggested interventions tend to be linked to stakeholders' perceptions of the root causes of youth unemployment.

If each is taken in isolation, stakeholders' perceptions of the main causes of youth unemployment – as explored in Part I of this report – would come to define the boundaries of solutions proposed as interventions. For example, if the skills mismatch was to be recognized as the sole root cause of youth unemployment, solutions would be limited in scope to the areas of education, training programmes and the alignment of education with private sector demands. Other significant issues, such as the willingness of young people to work in the private sector, might not be addressed.

As the analysis in Part II emphasizes, youth unemployment is a systemic problem that requires comprehensive, forward-

looking and daring solutions. Integrating the perceptions of diverse stakeholders and analysing their causalities provide a “big picture” that on the one hand extends the solution space, while on the other surfaces the necessity for restructuring the foundations of the employment system.

To illustrate this further, the integrated framework exposed in Part II can be used to assess the potential impact of select interventions, the issues they leave unaddressed, and the potential unintended consequences – positive and negative – they might foster. Throughout the project, stakeholders suggested a broad range of interventions to address youth unemployment (see [Annex 2](#) for a comprehensive list of suggestions), among which the three following ones were the most recurring:

1. **Increasing the flexibility of the legislative and regulatory framework**, notably by harmonizing labour laws between national and non-national labour forces and by relaxing regulations related to entrepreneurship and SMEs (e.g. bankruptcy regimes¹⁶)
2. **Improving the education system** and developing effective vocational and on-the-job training programmes to provide young people with the skills needed by the market
3. **Creating a virtuous circle of economic diversification** by prioritizing industries, expanding their value-added activities, and integrating SMEs in the entire value chain; this includes encouraging entrepreneurship and easing access to finance for entrepreneurs and SMEs

The three most recurring suggested interventions have a huge potential to solve the unemployment problem, but only if they are implemented in concert and supplemented by additional interventions.

As presented in [Table 1](#), each of these interventions is informed by one or two perceptions emphasizing a specific root cause of youth unemployment. Testing the effectiveness of each of these interventions illustrates that they might prove less effective or sustainable than presumed if implemented individually (see [Table 1](#)).

Box 9: Some Quotes of Business Leaders, Political Leaders and Young Nationals Concerning Cooperation

- “We hire nationals because we have a social responsibility to do it. The whole region’s stability is dependent on employment creation.”
- “We need a business-led approach to education.”
- “Ministers should be closer to the business sector and to business reality.”
- “The private and public sectors need to share the risk of hiring and training nationals.”
- “The private sector in the region is not bringing a lot of foreign currency in, is not paying a lot of taxes and is not employing a large number of national people. The private sector needs to assume its role and take responsibility for at least one of those three requests, which is to become part of the solution when it comes to employment creation. The government assumes its role by investing.”
- “Young people in our society need to be heard, to express their needs, feelings, abilities, dreams. They just need a chance, support and trust.”

Moreover, these examples suggest that to sustainably increase the number of young people productively employed by the private sector, additional measures are needed, particularly measures that increase trust-building between the private sector and young people, as well as measures that create a suitable framework for young people to become more independent, creative, motivated and responsible.

To this end, devising mechanisms for systematically increasing the private sector's engagement with decision-making in the public sphere, and increasing integration of the non-national workforce into society, could foster greater trust between the private sector and young people. Additionally, concerning young people's mindsets, reshaping the educational system is necessary but not sufficient. The analysis found in the previous section exposes that the prerequisite for effective reforms is the willingness of authorities to give up their protection of young nationals to some degree, giving the latter the motivation to take greater responsibility for their lives. A performance management system in the public sector that increases the accountability of employees conjoined with lower job security would achieve such an impact, for example. In this scenario, government would serve as a role model for family and primary education, ultimately culminating in profound change to the mental frameworks of young nationals. Only through such interventions will young women and men be able to succeed in a competitive private sector and contribute to economic prosperity.

Enabling an environment in which young women and men are able to contribute to economic prosperity requires rethinking the starting point of social stability dynamics.

The benefits of implementing reforms to the employment system in a comprehensive and structural manner are evident, particularly bearing in mind the vulnerabilities exposed in the previous section. A system that relies on the productivity of its own workforce is clearly more resilient than one that relies on volatile oil and gas prices. The way in which the social contract is implemented today could not be sustained in the long term should oil and gas prices decline. Hence, tackling the challenge on a structural level might incur short-term costs, as it implies redesigning the whole employment system, including its educational institutions, but opens the way to seize long-term opportunities and make the system more sustainable over the long run.

Given the structural nature of the employment system's vulnerabilities, any sustainable intervention needs to take underlying behaviour patterns and created dependencies of the system into account. The good news is that these patterns are primarily constructs of the current system and can thus be redirected and modified through the creation of a different, more resilient system.



Table 1: Using the integrated framework to test the effectiveness of interventions: Selected examples

Suggested intervention to sustainably increase the number of young people productively employed by the private sector	Corresponding perception(s) of the main causes of youth unemployment	Example(s) of impact	Example(s) of remaining barriers for young people to be productively employed in the private sector	Example(s) of potential – positive and negative – unintended consequences
<p>1. Increasing the flexibility of the legislative and regulatory framework, notably by harmonizing labour laws between national and non-national labour forces and by relaxing regulations related to entrepreneurship and SMEs</p>	<p>Perception 5: Labour regulations are too rigid for national employees</p> <p>Perception 6: The business environment is non-conducive for entrepreneurship and SMEs</p> <p><i>Where it links in the integrated framework: “Limited rights of non-nationals” and “Protective government”</i></p>	<ul style="list-style-type: none"> – Increases the relative competitiveness of the national workforce – Creates a “wake-up call” for young people to take responsibility – Encourages entrepreneurship by changing the rules that shape attitudes towards failure (for example easing bankruptcy laws) 	<ul style="list-style-type: none"> – Work ethics and skills of young nationals are not addressed, hindering successful competition – The attractiveness of the private sector for young nationals remains limited if the regulatory framework doesn’t tackle the public employment scheme as well; even if it does, attractiveness of the private sector remains confined by the degree of (mis)trust between it and young people 	<ul style="list-style-type: none"> – Work incentives need to be addressed in parallel, otherwise labour force participation of young nationals might decrease if their labour rights are reduced (for example reduced job protection), given their expectations towards the social contract – If the regulatory framework eases rigidity only in the private sector, public employment would become even more attractive (for example if job protection there persists) – If labour laws and related regulations are harmonized by giving more rights to non-nationals, it could strengthen non-nationals’ long-term engagement with their host country
<p>2. Improving the education system and developing effective vocational and on-the-job training programmes to provide young people with the skills needed by the market</p>	<p>Perception 1: There is a skills mismatch inhibiting nationals from being employed in the private sector</p> <p><i>Where it links in the integrated framework: “Education dynamics”</i></p>	<ul style="list-style-type: none"> – Improves young people’s employability by teaching them market-relevant skills (for example technical, managerial, social skills) – Raises young people’s awareness of opportunities offered by private companies by increasing their exposure to private sector activities and role models during training programmes 	<ul style="list-style-type: none"> – If changes in the education system do not target family and primary education, basic incentives for young people to take responsibility and productively participate in the labour market might not be tackled – If improvements in the education system do not address creativity, young people’s problem-solving skills might remain insufficient for the private sector – The non-national labour force remains more competitive in terms of cost (lower salary expectations) and flexibility (lower job protection and overall less labour rights) 	<ul style="list-style-type: none"> – If labour laws are not harmonized simultaneously, this could lead to increased frustration on the part of well-educated young people who still cannot find their space in the private sector due to the competitive advantages (cost and flexibility) of non-nationals – If improved education is translated into higher labour force participation of young people in general, and women in particular, this might ease public budgets; the productive contribution of women to economic development might also support economic diversification efforts
<p>3. Creating a virtuous circle of economic diversification by prioritizing industries, expanding their value-added activities and integrating SMEs in the entire value chain; this includes encouraging entrepreneurship and easing access to finance for entrepreneurs and SMEs</p>	<p>Perception 6: The business environment is non-conducive for entrepreneurship and SMEs</p> <p>Perception 7: The economy is not sufficiently diversified</p> <p><i>Where it links in the integrated framework: “Protective government” and “Education dynamics”</i></p>	<ul style="list-style-type: none"> – Fosters self-employment and job creation beyond the oil and gas sector – Increases the attractiveness of the private sector for young nationals by creating jobs in sectors that are more attractive to nationals (e.g. knowledge-based industries) 	<ul style="list-style-type: none"> – The employability of young people is not addressed – The relative attractiveness of entrepreneurship and private sector employment for young nationals remains limited if the lack of social recognition of the private sector and/or young people’s awareness of their opportunities and rights in the private sector are not addressed – If cultural perceptions of certain job functions do not change, young people’s willingness to go into vocational training or accept jobs that match their skills might not be addressed 	<ul style="list-style-type: none"> – If there is a lack of skilled and motivated national labour to sustain a more diversified economy, reliance on non-national labour would be encouraged – As economic diversification encourages using the entire workforce, it could in turn spur the implementation of the other interventions



Conclusion: Perspectives for Further Discussion

The six GCC countries possess a great potential: about one-third to one-half of their respective populations is less than 25 years of age. So far, though, this vast reservoir of latent talent has been hindered by high youth unemployment and could turn into a “youth liability”. The analysis presented in this report indicates that the current employment system in GCC countries is fragile in light of its high dependency on external factors such as oil and gas prices and the presence of a large non-national labour force. Its most draining vulnerability, however, is imbedded in the internal dependencies created between young people and authorities that have been hindering the productive employment of a sufficient number of young people in the private sector.

The intent of this analysis is to encourage the implementation of systemic, forward-looking and daring solutions that can help GCC countries turn their youth bulges into “youth dividends”, that is, young women and men who are capable of driving the innovation necessary to build competitive and sustainable economies. Realizing this ambition requires rebuilding the system and creating a new, more sustainable form of social stability.

The integrated framework synthesizes stakeholders’ perceptions of the main causes of youth unemployment and analyses the system’s vulnerabilities. Concrete principles emerge from the undertaking, taking shape in the form of questions to be asked when designing interventions:

- Does the proposed intervention substantially increase the number of young people productively employed by the private sector?
- What does the systemic analysis of the internal dynamics of the employment system tell us about the outcome(s) of the intervention?
 - What are the remaining barriers for young people to be productively employed in the private sector, those that can decrease the effectiveness of the proposed intervention? And, thus, which complementary interventions are needed to improve the effectiveness of the intervention?
 - What might be unintended consequences – both positive and negative – of the intervention(s)? What measures and/or contingencies need to be put into place to address them?
- Will the proposed intervention(s) be effective and feasible in alternative future contexts?
 - What external changes might undermine or favour the effectiveness of the intervention(s) to increase the number of young people productively employed by the private sector?
 - What external changes might render the intervention unfeasible or un-operational?

There is wide agreement that youth unemployment is a systemic problem that requires systemic solutions. Tackling it will require courage, systemic thinking and foresight. The success of implementing these solutions also depends on multistakeholder cooperation and ownership rather than reshuffling responsibilities between the public and private sector.

Approaches that circumvent what is at the core of the challenge – the hearts and minds of young women and men – expose the employment system to greater costs in the long term: social instability and an economy that does not meet its full potential. That being so, redesigning the building blocks of the employment system and adapting the social contract to new realities are a necessary step to seize the opportunity of a young population and create a resilient system. In light of possible future developments, action today is needed to take advantage of the current situation in GCC countries, characterized by economic growth and large government revenues, as current oil and gas prices may not be sustained over the long run.

The World Economic Forum remains committed to supporting the region and providing an impartial platform for constructive and forward-looking multistakeholder dialogues on sustainably increasing productive youth employment.



Endnotes

1. International Labour Organization (ILO), *Global Employment Trends*, 2014.
2. Anthony O’Sullivan, Marie-Estelle Rey, and Jorge Gálvez Méndez, “Opportunities and Challenges in the MENA Region”, OECD, 2011.
3. According to the IMF, about 7 million jobs were created in the GCC between 2000 and 2010 (excluding the United Arab Emirates, for which data is unavailable). See: International Monetary Fund (IMF), *Labor Market Reforms to Boost Employment and Productivity in the GCC*, 2013.
4. In the 1930s, oil was discovered in Bahrain, Saudi Arabia, Kuwait and Qatar. Discoveries of oil – in commercial quantities – in the United Arab Emirates and Oman took place respectively in 1958 and 1963.
5. International Monetary Fund (IMF), *Economic Prospects and Policy Challenges for the GCC Countries*, 2013. Note: Qatar, which is today the world’s largest exporter of liquefied natural gas, started to export gas only in the late 1990s.
6. Since the mid-1970s, GCC countries have made significant investments to diversify their economies beyond the oil and gas sector. However, most non-oil and gas industries either depend directly on the oil and gas sector (e.g. petrochemicals), or are sustained by public spending and therefore depend indirectly on revenues from oil and gas.
7. In the case of Saudi Arabia, in 2011, only 4.1 million Saudis were employed out of a total national population of 19.4 million, leading each Saudi wage earner to support on average four to five dependants. See: Saudi Arabian Monetary Agency, Annual Statistics, 2014; Central Department of Statistics & Information, *Labour Force Survey 2011*.
8. Fertility rates – i.e. the number of births per woman – in GCC countries are declining, but remain high compared to advanced economies. In 1980, fertility rates ranged between 4.9 in Bahrain and 8.3 in Oman; in 2012, the United Arab Emirates had the lowest fertility rate among GCC countries at 1.8, while Saudi Arabia and Oman had the highest rates, respectively at 2.7 and 2.9. See: World Bank, World Development Indicators.
9. In 2010, 28% of Qatar’s population was under 25 years old; 34% in Bahrain; 37% in the United Arab Emirates; 41% in Kuwait; 48% in Saudi Arabia; and 50% in Oman. See: United Nations, Department of Economic and Social Affairs, Population Division, *World Population Prospects: The 2012 Revision*.
10. Countries included in aggregates: The figure for “advanced economies” is computed as a simple average of figures for all OECD members. The figure for “MENA non-oil exporters” is computed as a simple average of figures for Djibouti, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Syria, Tunisia, and the West Bank and Gaza. The figure for “World’s 10 largest net oil exporters” is computed as a simple average of figures for Russia, Iraq, Nigeria, Iran, Angola, Venezuela, Norway, Canada, Algeria and Kazakhstan (ranking based on U.S. Energy Information Administration (EIA), Top World Oil Net Exporters, 2012).
11. In GCC countries, most regulatory frameworks in place focus on the way assets of bankrupt companies can be liquidated and distributed, rather than on restructuring the debt to save the business. Also, procedures dealing with insolvency cases are often too long, bureaucratic and expensive. In addition, bankruptcies can be subject to criminal law, implying that debtors can face civil penalties, such as loss of the right to manage a company, restriction of movement, or prison. See: Kuwait Financial Centre, “Dealing with Bankruptcy in the GCC: A Key Missing Block in the Reform Agenda”, January 2013; Mahesh Uttamchandani, “No Way Out: The Lack of Efficient Insolvency Regimes in the MENA Region”, World Bank, Policy Research Working Paper 5609, March 2011; World Bank, *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*, 2013.
12. Donella H. Meadows, *Thinking in Systems*, 2008.
13. Peter M. Senge, *The Fifth Discipline*, 1990.
14. With the exception of Oman, labour productivity has declined in all GCC countries since the 1980s. This decline can be partly linked to the import of low-skilled labour, which replaced mid-skilled labour. The accessibility and the lower relative cost of this non-national workforce encouraged businesses to increase their production through raising their headcount, rather than through labour productivity gains. See: Steffen Hertog, “The private sector and reform in the Gulf Cooperation Council,” LSE Kuwait Programme, 2013.
15. Countries included in aggregates: The figure for “advanced economies” includes all OECD members, except Czech Republic, Estonia, Germany, Slovakia and Slovenia for which data is not available for the whole period of analysis. The figure for “MENA non-oil exporters” includes Egypt, Israel, Jordan, Malta, Morocco, Syria and Tunisia; Djibouti, Lebanon, and the West Bank and Gaza are not included as data is not available. The figure for “World’s largest net oil exporters” includes Iraq, Nigeria, Iran, Angola, Venezuela, Norway, Canada and Algeria; Russia and Kazakhstan are not included as data is not available for the whole period of analysis (ranking based on U.S. Energy Information Administration (EIA), Top World Oil Net Exporters, 2012).
16. See Endnote 11.

Annex 1 – Process

Started by the World Economic Forum in May 2013, the New Vision for Arab Employment initiative provides an impartial platform to facilitate action-oriented partnerships to tackle youth unemployment in the Arab World. It brings together government, business and civil society leaders at the highest level to share knowledge and best practices, as well as advance common action for creating economic opportunity for the Arab youth.

The initiative recognizes the diversity of the Arab region, and aims to address the challenge in all Arab countries. Started in August 2013, the first phase of the initiative focused on Arab resource-endowed economies, with a particular emphasis on GCC countries.

Developed using the World Economic Forum's Strategic Foresight approach, the project followed two steps. As a first step, between August and December 2013, it engaged leaders from business, government, civil society and academia in a consultation process. Insights emerging from this consultation have nurtured the development of systemic analysis of the employment situation in GCC countries, shedding light on the structural causes of youth unemployment and their interdependencies.

As a second step, a session at the World Economic Forum Annual Meeting 2014 convened business and government leaders to explore interventions to sustainably increase the number of young people employed in the private sector, using the systemic analysis developed in the previous phase as a framework. Discussions contributed to creating a common understanding of the youth employment challenge in GCC economies and led to the initial prioritization of interventions to be further explored.

Building on the outcomes of the session at the Annual Meeting 2014, the World Economic Forum's commitment to bringing together key stakeholders in constructive and open dialogues on employment in the Middle East and North Africa will continue through the Employment, Skills and Human Capital project, which is a global effort of the World Economic Forum. This phase will focus on solutions and potential best practices to catalyse collective action on the issue.



Annex 2 – Interventions: Stakeholders’ Suggestions

Throughout the series of conversations, stakeholders were asked to suggest interventions that in their view should be adopted to sustainably increase the number of young people productively employed in the private sector. This annex provides an overview of stakeholders’ suggestions, clustered as measures aiming at redirecting the dynamics of the social contract and the ones of the economic contract. Each intervention is illustrated with examples reflecting the variety of concrete actions suggested by stakeholders.

The Social Contract: Suggested Interventions

Interventions targeting the dynamics – education and labour market incentives – of the social contract are meant to: Increase the attractiveness of national young people for the private sector, by:

- Adapting family **education**;
- Developing an educational system that provides youth with work ethics and skills needed by the market today and in the future.

Improve the relative attractiveness of the private sector – compared to the public sector – for young nationals, by:

- Changing **incentives** provided by public employment;
- Increasing the **communication** between young people and private companies.

Interventions	Examples of actions proposed by stakeholders
Adapt family, primary and higher education to provide children with basic skills and increase young people’s employability	<ul style="list-style-type: none"> – Improve teachers’ education, formalize their qualifications, increase their salaries and raise entry criteria to make the profession more prestigious – Reduce the number of topics taught – Provide young people with role models (teachers, parents and the government itself) – Develop competency-based and interest-based education instead of degree-based education; facilitate access to learning opportunities that allow young people to follow their interests – Give schools more autonomy – Reform curricula and teaching methods – Create an independent institution to measure educational outcomes, assessing both cognitive and non-cognitive skills – Promote work ethics, performance orientation and motivation through education and media campaigns – Establish a more selective screening of candidates for higher education programmes
Create alignment between the private sector and the government, and between different ministries (labour, education, planning), to make education more relevant to the labour market and to increase early exposure of students to the labour market	<ul style="list-style-type: none"> – Align ministries’ performance indicators – Define strategic sectors to be developed, identify future labour market needs, establish workforce plans and fund education to develop skills for these sectors – Increase collaboration between educational institutions and international partners (e.g. international network) – Create more private schools and public-private partnerships in education – Introduce compulsory work experience during studies in the private sector (internships and part-time jobs), possibly funded by the government – Provide youth with international experience – Create a 3-12-month labour market entry programme to develop basic work skills – Create retraining centres for graduates from national universities to facilitate their entry into the private sector – Subsidize development and training for nationals – Build more capacity for human resource management
Include young people in a dialogue between the private sector and the government	<ul style="list-style-type: none"> – Formalize a continuous dialogue between the government, young leaders, the private sector and civil society – Discuss medium- and long-term initiatives with the government to implement best practices globally for youth employment – Consider different segments of youth, according to their education level, as policies will be different for each segment
Improve career guidance	<ul style="list-style-type: none"> – Create career counselling centres and online platforms (e.g. a unified portal for the GCC with a page for every country providing information, career guidance and learning tools) – Develop career guidance from an early age – Create mentorship programmes

Reduce incentives to go to the public sector or to stay unemployed	<ul style="list-style-type: none"> – Create a more competitive public sector, e.g. by establishing performance management – Reduce the attractiveness of the public sector, e.g. by reducing vacation and making public sector jobs less secure – Create incentives for government employees to leave the government after a certain number of years, e.g. offer leave packages
Develop well-functioning job matching institutions and information systems	<ul style="list-style-type: none"> – Provide information on jobs, salaries, labour laws, rights and obligations in the private sector – Increase awareness of job security and pension schemes offered by the private sector to nationals – Offer information/training on CV and cover letter writing, interview preparation, etc.

The Economic Contract: Suggested Interventions

Interventions targeting the dynamics of the economic contract are meant to:

Increase the relative attractiveness of national young people – compared to non-nationals – for the private sector, by:

- Improving their competitiveness from a **regulatory viewpoint**.

Increase the attractiveness of the private sector, including entrepreneurship and SMEs, for national young women and men, by:

- Providing the right **incentives**;
- Increasing the **social recognition** of the private sector;
- Supporting the **development of industries** appealing to nationals.

Interventions	Examples of actions proposed by stakeholders
Adapt the regulatory framework to enable nationals to be as competitive as non-nationals on the labour market, through: A) Giving more rights to non-nationals B) Providing less guarantees to nationals	<ul style="list-style-type: none"> – Make no difference between nationals and non-nationals in contracts – Provide job security and pension schemes for non-nationals – Open borders within the MENA region – Enable freedom of movement between jobs and inside/outside the country for non-nationals – Abolish/reform the sponsorship system for non-nationals – Increase (entry-level) wages and the minimum wage for all – Eliminate employment guarantees for nationals – Allow employers to fire individual nationals and hire others without penalty (penalize only in aggregate) – Abolish the minimum wage for nationals
Provide incentives to the private sector to hire and train nationals	<ul style="list-style-type: none"> – Tax non-national employees to subsidize training programmes and/or wages for national employees – Deliver government rewards to engaged private employers – Provide benefits for companies that are successful in meeting quotas (e.g. tax breaks) – Give non-nationals permanent residency (to increase the long-term engagement of non-national employers) – Support investment of non-nationals in their country of residence
Integrate nationals into the private sector	<ul style="list-style-type: none"> – Adjust job titles and offer functions and industries attractive for nationals – Encourage the private sector to recognize its social responsibility – Trust young nationals – Support the establishment of mixed schools (nationals/non-nationals)
Tap into the potential of women	<ul style="list-style-type: none"> – Provide childcare solutions – Provide transportation solutions and guards – Provide job security for mothers – Support part-time and temporary jobs – Create awareness of women's potential – Invest in workspace segregation (where needed) – Establish labour laws to enable and facilitate women's employment

<p>Increase social recognition and financial reward of vocational training and related jobs</p>	<ul style="list-style-type: none"> - Establish accreditation and certification systems - Adjust job titles - Combine vocational training with entrepreneurship - Increase wages - Organize public and media campaigns
<p>Increase social recognition of and identification with the private sector</p>	<ul style="list-style-type: none"> - Formalize mechanisms of participation for the private sector in the public sphere - Increase the role of the private sector in society (e.g. by imposing corporate taxes) - Increase media coverage of the private sector, e.g. in TV series
<p>Diversify the economy away from the energy sector</p>	<ul style="list-style-type: none"> - Invest in the development of the ICT industry, creative industries and knowledge-intensive industries - Develop national content, establish a scientific community
<p>Improve the business environment and provide incentives to encourage entrepreneurship and SME development</p>	<ul style="list-style-type: none"> - Reform bankruptcy laws - Create protection mechanisms for entrepreneurs who fail - Offer paid sabbaticals for public sector employees to start their own business while allowing them to come back to the public sector if they fail - Change the attitude towards failure, both from regulatory and cultural angles - Relax labour laws for start-ups and SMEs - Introduce compulsory work experience for students in start-ups/SMEs funded by the government - Ease the access of new competitors to the market, and reduce protectionism and bureaucracy - Identify business-to-business opportunities for start-ups and SMEs, and link them to large supply chains - Ensure markets for SME businesses - Create economic zones and cities - Create and facilitate access to smart capital (loans associated with conditions and guidance) - Create seed funds for start-ups and create business incubators - Develop accelerators to scale up start-ups - Develop training programmes for entrepreneurs - Accommodate entrepreneurship training in the education curriculum - Provide SME mentoring - Raise awareness of the benefits of creating and working in start-ups and SMEs, through education, role models and media campaigns that target parents and young people

Annex 3 – Acknowledgments and Project Team

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