

<b>Institution:</b> London School of Economics and Political Science		
<b>Unit of Assessment:</b> 19 - Politics and International Studies		
<b>Title of case study:</b> Reforming labour market and migration regulation in the GCC		
<b>Period when the underpinning research was undertaken:</b> 2010-2019		
<b>Details of staff conducting the underpinning research from the submitting unit:</b>		
<b>Name(s):</b>	<b>Role(s) (e.g. job title):</b>	<b>Period(s) employed by submitting HEI:</b>
Steffen Hertog	Associate Professor in Comparative Politics	2010 to present
<b>Period when the claimed impact occurred:</b> 2013-2020		
<b>Is this case study continued from a case study submitted in 2014?</b> No		
<b>1. Summary of the impact</b> (indicative maximum 100 words)		
<p>Professor Steffen Hertog's research on the economics and political economy of labour market segmentation in Gulf rentier states has had significant policy impact throughout the region. Working with the International Labour Organization, the research has directly informed changes to labour and mobility legislation for foreign workers in Qatar. These reforms were adopted in August 2020, improving working rights and conditions for an estimated two million migrant workers, with further expected gains in national productivity and wage growth. The research has also contributed to a liberalisation of labour mobility regulations in the United Arab Emirates and in Saudi Arabia and helped to advance the World Bank's understanding of the segmentation of Gulf labour markets and the implications for both local and foreign workers.</p>		
<b>2. Underpinning research</b> (indicative maximum 500 words)		
<p>Professor Steffen Hertog's research has focused on the segmentation of Gulf labour markets into public and private as well as national and non-national employment, covering all member states of the Gulf Cooperation Council or GCC (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates). The cross-cutting theme of the research, undertaken continuously since 2010, is the political economy of oil-financed wealth distribution regimes in the GCC. These are based not on conventional welfare measures but rather use the provision of government jobs for nationals as a key distributive tool, combined with an employer-driven labour migration system that results in the domination of private labour markets by low-skilled foreign workers with limited rights. The research has investigated the distortions, divisions, and vested interests resulting from this and has proposed remedial policies intended to reduce these distortions and create welfare systems and labour regulations that are fairer to both nationals and expatriates, as well as more efficient economically [1] [2] [3] [4].</p> <p>A key dimension of this market segmentation is the gap in labour rights between foreigners and nationals in local labour markets, specifically foreigners' very limited mobility rights under the "sponsorship" system – or "kafala" – which prevents them from switching employers. Hertog has investigated in detail how this system leads to lower wages for foreigners, lower labour productivity, and poor skills acquisition due to impaired labour market matching, high overseas recruitment costs, and heightened vulnerability to labour rights violations. In the latter context, he has analysed the emergence of informal markets for foreign labour, where GCC nationals often work as "brokers". A chapter in his 2010 book [5] and his 2010 <i>Comparative Studies in Society and History</i> article [6] were the first academic publications to investigate these informal markets and the political economy of Gulf labour market segmentation more broadly.</p> <p>Hertog's work has also involved the investigation of ways in which the gap in labour costs and rights between nationals and foreigners could be closed, with a view to both increasing citizen employment in the private sector and improving the labour conditions and productivity of foreign workers. He developed proposals for improving mobility rights for foreign workers, both in regulatory terms and through institutional and practical changes that would allow them to use their rights more effectively and reduce the incidence of informal and precarious work [3] [4]. Hertog's recommendations include:</p> <ul style="list-style-type: none"> <li>• Abolition of the sponsorship system.</li> </ul>		

- Introduction of a shorter “lock-in” period during which newly imported foreign workers would have reduced mobility, to allow employers to recoup their recruitment costs.
- Introduction of a “buy-out” option whereby prospective new employers may reimburse current employers should they wish to recruit workers before the end of the lock-in period.
- New labour exchanges for foreign workers, contributing to a more fluid local (rather than international) labour market.
- Implementation of a range of information policies to inform workers of their rights.
- A range of sanctions for specific practices that employers use to undermine workers’ mobility in practice (identified through field research).

More broadly, Hertog’s research has made an economic and intellectual case that the sponsorship system has too many negative consequences to continue as it exists in its current form. Given the widespread and well-documented abuses of migrant workers and the large number of individuals involved – close to 20 million foreign labourers across the GCC region – the topic has significant policy relevance.

### 3. References to the research (indicative maximum of six references)

[1] Hertog, S. (2017). Making wealth sharing more efficient in high-rent countries: the citizens’ income. *Energy Transitions*, 1(7), pp. 1-14. DOI: 10.1007/s41825-017-0007-2.

[2] Hertog, S. (2016). The political economy of labour markets and migration in the Gulf: workshop proceedings. Sleiman-Haidar, Ribale (ed.), LSE Kuwait Programme. Available at: <http://eprints.lse.ac.uk/67919/>

[3] Hertog, S. (2014). Arab Gulf states: an assessment of nationalisation policies. Gulf Labour Markets and Migration Research Paper, No. 1/2014. Gulf Labour Markets and Migration Programme, Badia Fiesolana, Italy. Available at: <http://eprints.lse.ac.uk/57578/>

[4] Hertog, S. (2012). A comparative assessment of labour market nationalization policies in the GCC. In: Hertog, S. (ed.), *National Employment, Migration and Education in the GCC. The Gulf Region: economic development and diversification*, Gerlach Press. ISBN: 978394092400. Available at: <http://eprints.lse.ac.uk/46746/>

[5] Hertog, S. (2010). *Princes, Brokers and Bureaucrats: Oil and the State in Saudi Arabia*. Cornell University Press. ISBN: 9780801477515.

[6] Hertog, S. (2010). The sociology of the Gulf rentier systems: societies of intermediaries. *Comparative Studies in Society and History*, 52 (2), pp. 282-318. DOI: 10.1017/S0010417510000058.

These publications build on repeated field visits to the Gulf region since 2010, analysis of a wide range of official data, as well as continuous engagement with relevant stakeholders such as the World Bank and national labour agencies and ministries through a variety of policy projects. [1] [5] and [6] have appeared in leading social science outlets and undergone rigorous peer review.

### 4. Details of the impact (indicative maximum 750 words)

Hertog's research has had impacts throughout the GCC countries, most notably in Qatar, which has introduced major changes to its labour market, ending the requirement for migrant workers to obtain their employer’s permission to change jobs. These reforms will deliver benefits to workers, employers, and the national economy. The research has also made a critical contribution to the debate and formulation of labour policy in the UAE, leading to reforms which have resulted in a considerable relaxation of worker mobility laws; and in Saudi Arabia, where an employer-borne levy on foreign workers was introduced to narrow the cost gap to citizen employees in the private sector. Lastly, Hertog's research has also benefitted the World Bank, which is very active in the GCC, advancing its understanding of the segmentation of GCC labour markets and the implications for both local and foreign workers.

#### Changes to labour and mobility legislation for foreign workers in Qatar

The most significant policy impact of Hertog’s research on Gulf labour markets was delivered through a project for which he functioned as academic lead from 2018 to 2019 on behalf of the International Labour Organization. Since 2018, the ILO has been working with the Qatari Ministry of Administrative Development Labour and Social Affairs to reform migrant worker sponsorship

rules in the country. In this context, Hertog prepared a 30,000-word research and policy paper – submitted in May 2019 – detailing the rationale and options for further reforms of the migrant labour sponsorship system in Qatar, with the Qatari government as the main recipient **[A]**. The project has culminated in extensive liberalisation of sponsorship rules in October 2020, details of which are below.

This policy paper **[B]** directly draws on and cites Hertog’s research **[3]-[6]** about the sponsorship system in the wider region and how it can be reformed; it is the key research and policy document for the bilateral ILO-Qatar project. It develops the economic and policy rationale for sponsorship by investigating the costs and unintended consequences of the current system in Qatar in detail, with new empirical data. It also provides a detailed policy package – consistent with the recommendations outlined in **[3]** and **[4]** – for migrant labour mobility reform. This paper proposes to narrow the labour rights gap with Qatar nationals both to: a) improve wages, productivity, and working conditions for migrant workers; and b) make it relatively more attractive to employ nationals in the private sector once foreigners and locals enjoy the same rights. It also investigates informal labour markets in Qatar and makes the case that sponsorship reform would reduce these. Finally, it develops a strategy for winning over reform allies in the private sector, namely firms which already provide better working conditions and will therefore benefit from a more fluid labour market in which they can recruit experienced workers locally at lower cost.

The paper **[B]** is based on field interviews with policymakers, frontline bureaucrats, employer representatives, employers, domestic and private sector workers, local experts, and academics, as well as econometric analysis of individual-level wage data from the Qatari government. More importantly, it draws on a decade of academic work **[1-6]** on the segmentation of GCC labour markets and its unintended consequences.

The ILO currently enjoys an unusual embedded position in the Qatari government, which it has been able to negotiate as a result of the heavy international pressure that Qatar has been under through both the recent UAE-Saudi blockade and the unfavourable international reporting about labour conditions in Qatar in the context of the 2022 FIFA World Cup. This has created a unique window of opportunity to shape policy in Doha.

As a result of the ILO project, in October 2019 the Qatari government announced that the current labour sponsorship system would be abolished. This was followed in August 2020 by the adoption of a law that allows foreign workers mobility between employers and reforms the termination of employment **[C]**. Many details of the reform directly correspond to the report’s policy proposals **[B]**, such as the inclusion of domestic workers under the new mobility rules. The reform also incorporates the report’s recommendation to create an initial probation period that ties workers who have newly entered the country to their initial employer for six months – while also creating a “buy-out” option, suggested in the report, that allows other employers to hire a worker before the end of this probation period by financially compensating the previous employer, thereby balancing the interests of all parties while maintaining mobility rights. These key recommendations were first proposed in the underpinning research described above **[3]** **[4]**.

The new law has also followed the report’s proposal to create a one-month notice period that gives workers sufficient flexibility in moving to new jobs, and the recommendation to put strict limits on the use of “no-compete clauses”, which otherwise could be used to re-establish mobility restrictions. The Qatari government introduced a general minimum wage for all foreign workers in October 2020, which the report (as well as Hertog’s previous work **[3]**) analysed as complementary to the abolition of sponsorship and is expected to naturally improve wage levels.

The ILO has confirmed that Hertog’s paper has been central in providing the policy input to this process **[A]**, highlighting the strong economic and social rationale the paper **[B]** provides for the reforms and the importance of his previous research in setting this agenda. Qatar has now moved from having the most restrictive migrant labour regime in the region to the least restrictive one, and the intellectual case for sponsorship reform in his paper has been central in facilitating these reforms, affecting more than two million foreign workers **[A]**.

Impacts in Qatar are likely to include higher productivity and wages for foreign workers, with the mean wage gain estimated at 14% in the report (with stronger impacts for lower earners), better skills accumulation, and reduced informal markets, all of which will benefit both workers and legitimate Qatari businesses. Perhaps most importantly, sponsorship reform will mean better

working rights and fewer abuses for migrant workers. All stakeholders involved have welcomed the reforms, and underscored their overall significance:

*"By introducing these significant changes, Qatar has delivered on a commitment. One that will give workers more freedom and protection, and employers more choice. We are witnessing what can be achieved when governments, workers and employers work together with the ILO to promote decent work for all."* Guy Ryder, ILO Director-General [D].

*"The State of Qatar is committed to creating a modern and dynamic labour market. In line with Qatar Vision 2030, these new laws mark a major milestone in this journey and will benefit workers, employers and the nation alike."* Yousuf Mohamed Al Othman Fakhroo, Minister of Administrative Development, Labour & Social Affairs [D].

*"This is very good news for migrant workers in Qatar. The leadership shown by Qatar in dismantling the kafala system and introducing a minimum wage is long-awaited news for all workers. The ITUC stands ready to support the Government of Qatar in the implementation of this historic move, to ensure all workers are aware of the new rules and benefit from them. Other countries in the region should follow Qatar's example."* Sharan Burrow, General Secretary of the International Trade Union Confederation [D].

*"These reforms will make a major contribution to the efficiency and productivity of the Qatar labour market. IOE stands ready to support the Qatar Chamber of Commerce and Industry and the Government in supporting employers during this transition. Our congratulations to Qatar and its Chamber of Commerce!"* Roberto Suárez Santos, Secretary-General of the International Organisation of Employers [D].

*"If these reforms are implemented in line with the announcements, and migrant workers are genuinely able to change employers, it will be significant. It would remove a central element of the kafala system, giving workers more ability to determine their own fate if their employers deceive or mistreat them."* James Lynch, director at migrant rights group, FairSquare [E].

### **Improving the labour rights of migrant workers in the United Arab Emirates**

Hertog's research has also impacted mobility reforms for foreign workers in the UAE. In 2009, he was invited to work as a technical expert as part of a World Bank team drawing up proposals for labour policy reforms in the GCC region, work that has continued into the current REF period. This invitation was extended based on the strength of Hertog's academic work in this area [F].

In the course of his work on the UAE, Hertog was commissioned by the Ministry of Labour to produce a substantial policy paper on the state of internal labour mobility in the GCC and policy options for sponsorship reform [G]. The full report, running to 15,000 words and firmly grounded in the underpinning research [2]-[5], was presented at a ministerial meeting in Abu Dhabi in 2015. This report has subsequently informed the regional policy debate on the question of labour mobility reform. Dr Omar Alnuaimi, Assistant Undersecretary for Policies and Strategy at the UAE Ministry of Labour from 2012-2017, has commended Hertog's important contributions through his work with the World Bank team and, addressing the policy report specifically, noted its "*critical contribution*" to internal debate and its importance in "*making the economic and policy case for such mobility reforms*" [H].

Again, these reforms will significantly improve the labour rights of migrant workers in the UAE. Addressing the benefits of the reforms and contribution of Hertog's policy report, Dr Alnuaimi has said: "*it informed our own internal debate about reforms to the labour sponsorship system, which resulted in a considerable relaxation of mobility rules in the UAE in 2016, allowing lower-skilled workers to switch jobs with agreement of their employer after six months of employment and allowing higher-skilled workers to switch jobs without employer agreement. The reforms significantly enhance mobility rights of foreign workers*" [H].

An indication of the practical impact of these reforms is provided by analysis of similar – in fact, more limited – reforms in 2011, which have been shown to have substantially improved wages and worker mobility (see, for example, the econometric work by Suresh Naidu, Yaw Nyarko, and Shing-Yi Wang, *Journal of Political Economy*, 124(6), 2016), precipitating a doubling of employer transitions and an improvement in real earnings of 10% for foreigners switching jobs.

Additionally, in 2014-15 Hertog conducted further research on the potential introduction of a minimum wage for foreign workers in the UAE. The results of the research were presented directly

to the UAE Minister of Labour and, although the recommended wage increase is yet to be implemented, the issue continues to be debated internally.

### **Contributions to labour mobility reform in Saudi Arabia**

Hertog's work in his capacity as a technical expert with the World Bank's GCC team has also contributed to progressive policy advancements in Saudi Arabia too. He was the lead author of a 120-page report prepared for the Saudi Ministry of Labour, which outlined a suite of fiscal tools and policy options intended to reduce the cost gap of employing migrant versus local workers and made the case for labour mobility reform. In 2017, Saudi Arabia introduced an employer-borne levy on foreign workers which narrowed the cost gap to citizen employees in the private sector, boosting national employment. Dr Andras Bodor, Senior Economist at the World Bank and previously GCC region task team leader on labour policy, noted how "*Dr Hertog's work has been critical in triggering and informing the internal debate on this measure*" [F].

### **Advancing the understanding of GCC labour markets at the World Bank and the International Monetary Fund**

As outlined above, Hertog has worked with the World Bank since 2009 and throughout the current REF period. Hertog's input has benefitted the World Bank team by improving its understanding of GCC-specific labour issues and enhancing its capacity to formulate effective policy responses. Indeed, Bodor has attested to the importance of this contribution: "*Dr Hertog is probably the leading academic expert on GCC labour markets and labour policy. His work has substantially advanced our understanding of how the segmentation of markets between foreigners and citizens compromises the quality of employment of foreign workers and keeps GCC citizens out of private employment. It is important to note that labour market policy advice in the GCC cannot rely on the adaptation of labour policies employed elsewhere in the world; the nature of the GCC labour markets is so different because of the vast majority of foreign workers in the workforce. Dr Hertog understands this well and developed out-of-the-box, unique policy solutions for the particular GCC-specific challenges. He has developed several policy tools in his publications for narrowing the labour mobility and labour cost gap between foreigners and citizens, notably through reforms to the sponsorship system and fiscal tools such as fees and subsidies*" [F].

Hertog's research has been widely read in the policy community in the Gulf monarchies as well as within international organisations and consultancies working with regional governments on labour market reform. His work has also informed research and policy reports produced centrally by the World Economic Forum and the International Monetary Fund [I].

### **5. Sources to corroborate the impact** (indicative maximum of 10 references)

[A] Supporting statement from the Director of the Project Office for the State of Qatar, International Labour Organization, 22 August 2019.

[B] ILO/Qatar labour policy options report (May 2019). Confidential – available upon request.

[C] "UN Labor Body: Qatar 'Dismantles' Kafala Employment System", *New York Times*, 30 August 2020.

[D] "Dismantling the kafala system and introducing a minimum wage mark new era for Qatar labour market", International Labour Organization press release, 30 August 2020.

[E] "New employment law effectively ends Qatar's exploitative kafala system", *The Guardian*, 1 September 2020.

[F] Supporting statement from Senior Economist, World Bank, South Asia Region, 16 September 2017.

[G] Internal labor mobility for foreigners in the GCC: current outcomes and reform options (2015). Confidential – available upon request.

[H] Supporting statement from former Assistant Undersecretary for Policy and Strategy, United Arab Emirates Ministry of Labour, 12 September 2019.

[I] Citations of Hertog's research in relevant World Economic Forum (2014) and IMF (2014) (2018) (2018a) reports.