ERF Policy Brief

# Workforce Development During Qatar's Economic Transition

Nader Kabbani

*About the authors*

*Nader Kabbani is Senior Fellow and Director of Research with the Middle East Council on Global Affairs. He is an ERF Research Fellow.*

## In a nutshell

- *Qatar's economic transition to a diversified, competitive, knowledge-based economy requires a workforce composed of competitive citizens and high-skilled expatriates.*
- *Developing a competitive national workforce requires that Qatar's education system focus more on skills and citizens have access to upskilling opportunities throughout their careers.*
- *Attracting high-skilled expatriates requires paying them competitive salaries, providing them a measure of autonomy in their work, and creating opportunities to invest in the country.*
- *Creating a competitive private sector requires Qatari authorities to ensure that the skills of expatriate workers complement those of its national workforce throughout the transition.*

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One of the key pillars of Qatar's economic transition from a hydrocarbon-based economy to a more diversified, competitive, knowledge-based economy is developing a "future ready workforce" composed of "globally competitive citizens" and "high-skilled expatriates". This strategic objective is articulated clearly in Qatar National Vision 2030 and in its Third National Development Strategy (NDS3).

Developing a "future ready" workforce will require that Qatar reform its education systems and create more space for the private sector to lead economic growth in the country. During its transition, Qatar must also maintain the right skills mix that creates career paths for citizens, while ensuring that expatriate workers are fully engaged, utilized, and vested in the country. Indeed, care must be taken during implementation to ensure that they align and unlock synergies rather than clash and compete.

This policy brief examines the policy conditions required for the kind of workforce that Qatar will need to create a more diversified, competitive, knowledge-based economy. It begins by exploring Qatar's economic transition. It then discusses the conditions needed for upskilling Qatar's national workforce and attracting high-skilled expatriate workers. It concludes by exploring the role of the private sector and government stewardship in facilitating the skills mix the country needs for its economic transition.

## Qatar's economic transition

Beginning in the mid-1990s, Qatar experienced a period of explosive economic growth, driven by its production and export of liquefied natural gas (LNG). Between 1995 and 2015, Gross Domestic Product (GDP) increased from under 20 billion USD to over 160 billion USD (in constant 2015 US dollars). This represents a real economic growth rate of over 35 percent per year. Within a short time, Qatar became one of the richest countries of the world, on a per capita basis. After 2015, and through 2023, economic growth slowed to an average of only 1 percent per year. This slowdown underscores how much Qatar's economy remains attached to hydrocarbon revenues and highlights the importance of shifting quickly to more sustainable model of economic growth underpinned by a competitive, diversified economy.

Qatar's economic transformation has progressed in phases. The first involved building up the country. As revenues from its LNG exports began flowing, Qatar invested heavily in construction and building its infrastructure. This effort was redoubled after it won its bid to host the 2022 FIFA World Cup. Within a few years Qatar's capital, Doha, was transformed into a modern city, with a new business district, a modern downtown, a state-of-the-art transportation system, as well as new housing, office space, retail, and more. Qatar's population quadrupled from 650,000 in 2000 to over 2.7 million by 2017. Many of these migrants were low-skilled construction workers. However, as the World Cup ended and population growth slowed, Qatar faces overcapacity in real estate, retail, hospitality, and other sectors.

Qatar has entered a new phase in its development that requires it to shift from building to utilizing what it has built. A key challenge for Qatar as part of its economic transformation is to encourage economic activity that makes productive use of these physical assets. This will require a higher skilled workforce to underpin the workings of an innovation-driven, knowledge-based economy. NDS3's target of increasing the share of workers in skilled and high-skilled jobs makes perfect sense. To do this, Qatar must do three things: (1) improve the skills of its national workforce; (2) create better opportunities and incentives for skilled expatriate workers to work and invest in the country; and (3) ensure that the skills mix between the two remains complimentary as the country transitions.

## Upskilling the national workforce

Upskilling the national workforce will require significant rethinking and retooling of the country's education system. Qatar has achieved near universal primary and secondary school enrollment rates. Where it is struggling is in the quality of this education. For example, despite significant improvements in their performance on standardized international tests in recent years, students in Qatar overall, and national students in particular, continue to underperform compared to global averages. Qatari authorities acknowledge this and have included improvements on standardized international tests as key targets on both their national development plans and sustainable development targets. The education system in Qatar is also quite traditional, focusing more on knowledge transfer and less on skills development. This has affected the ability of students to integrate successfully into the workforce.

An important issue is the attraction of public sector jobs, which offer nationals better salaries, benefits, work conditions, job security, and even prestige than they could obtain in the private sector. As a result, 83 percent of Qatari nationals work in the public sector or for a state-owned enterprise. Another 8 percent work in the semi-private (mixed) sector. Accessing a public sector job is more about the level of educational attainment than skills development. NDS3 has set a target of increasing the share of Qatari workers in the private and semi-private sectors from 17 percent to 20 percent. Achieving this target will require not only finding a way of moderating differences in the compensation packages and work conditions between the public and private sectors, it also requires shifting the education system to focus more on skills development and preparing students for work in the private sector.

Finally, Qatar needs to ensure that its citizens receive access to upskilling opportunities and career counseling throughout their careers. This requires shifting the focus of education and employment systems from job placement and advancement to career development. This will not be easy; as it requires education systems and employers to provide meaningful employment experiences and greater autonomy within these experiences. It also requires employers to resist the temptation to promote promising nationals before they master the skills of their current positions. Such changes will require a fundamental shift in mindset and in social norms regarding what constitutes an acceptable job and what constitutes occupational success.

## Attracting high-skilled expatriate workers

Expatriate workers form an integral part of Qatar's development model. With a relatively small national population of under 400,000, Qatar relies on a large expatriate workforce, which represented 94 percent of workers in 2023. Qatar will continue relying on expatriate workers for the foreseeable future. What must change is the skills mix of these workers, as Qatar transitions from a hydrocarbon-based economy focused on sectors, such as construction, that depend directly or indirectly on revenues from oil and natural gas to a competitive, knowledge-based economy driven by innovation.

Qatar must thus attract and retain skilled and high-skilled foreign workers to the country, engage them in meaningful, productive work, and encourage them to invest in the country's long-term economic development. All three elements are important. Between 2000 and 2015 Qatar was quite successful at attracting and engaging high-skilled expatriate workers, by offering them competitive salary and benefits packages and creating space for them to apply their skills and contribute to building the country. However, at the time, with few exceptions such as medical clinics, Qatar did not allow foreigners to start their own businesses and offered limited options for owning property.

Following a steep drop in global oil and natural gas prices in 2015, employers across Qatar substantially reduced salaries and benefits for expatriate workers. Qatari firms now offer lower salaries and benefits as compared to Saudi Arabia and the United Arab Emirates for similar talent. As such, Qatar has seen a steady erosion in the skills composition of the expatiate workforce with higher-skilled workers leaving and often being replaced by lower-skilled alternatives. At the same time, Qatar has introduced more formal, rigid work processes. Such processes, in turn, tend to discourage and demotivate high-skilled workers who value a certain level autonomy that allows them to apply their expertise. Qatari institutions must reverse this downward spiral if they wish to become a hub for innovation and to develop a truly diversified and globally competitive non-hydrocarbon economy.

At the same time, Qatar has improved the opportunities for expatriates to invest and own property. These developments include allowing full foreign ownership of businesses in most sectors and creating free zones that allow export-oriented businesses to set up and operate. However, these opportunities have come during an economic slowdown in the country, and so there have been few serious takers. Furthermore, business regulations remain overly complex and discourage investment and risk-taking. Indeed, net foreign direct investment (FDI) has not exceeded 0.6 percent in any year since 2011 and has actually declined over the past five years. In order to attract foreign investors and entrepreneurs, Qatar must remove barriers to investment and doing business, especially for export-oriented firms.

## Managing the skills composition

The economic transition that Qatar is undertaking is a dynamic process that requires Qatari authorities to manage the skills mix of the economy and ensure that the incentives are oriented in the right direction.

Allowing firms to hire expatriate workers for positions where Qataris could fill the role would dampen the incentives of Qataris to seek out these positions and firms to support their onboarding and on-the-job training. However, limiting firms from hiring expat workers in occupations with not enough qualified Qataris would stifle competitiveness and reduce incentives for firms to invest in the country. In other words, Qatari authorities must maintain a delicate balance between these two objectives. Managing this balance requires Qatari authorities to ensure that the skills of expatriate workers complement those of its national workforce throughout the transition. At a fundamental level, it requires Qatar to align its educational curricula with the skills needs of the labour market and to invest in skills development programs that equip nationals with skills demanded by the private sector. Nationalization strategies, such as increasing the costs of work permits for foreign workers, should target sectors with qualified nationals who are available to work. Qatar should also invest in forward-looking labour market information systems that can identify emerging skills gaps and signal required adjustments early on.

Not getting this balance right will result in an underutilized national workforce or an uncompetitive private sector that is starved for talent. Both remain points concern. NDS3 notes that "Qatar's performance on international rankings of business environment and innovation have declined over the past decade. The development of a competitive private sector has also been hampered by policies that do not encourage citizens to work in the private sector, and policies and procedures which create difficulties in attracting and retaining highly skilled expatriates."

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**Contact Information**

**ERF Office**
**Address:** 21 Al-Sad Al-Aaly St. Dokki, Giza, Egypt
PO Box 12311
**Tel:** +202 333 18 600 - 603
**Fax:** +202 333 18 604
**Email:** erf@erf.org.eg
**Website:** http://www.erf.org.eg

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