

The Growth of Expatriate Assignments into the Middle East



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As economies of the countries in the Middle East continue to grow at an unprecedented pace, the need for local and expatriate talent has become an increasingly important issue for employers in the region. During the past few years, this brought about an interesting trend in the international mobility area with the Middle East's emergence as a hot destination for assignees. Considering the region's political violence and uncertainty, this growth may seem counterintuitive but solid business reasons underpin the trend.

To put some parameters around the phenomenon, ORC Worldwide surveys companies on a wide range of expatriate issues. The "Worldwide Survey of International Assignment Policies and Practices," conducted every two years, attracted 894 participants from all parts of the world in 2006. When the results are compared with the same survey conducted in 2000, the percentage of the worldwide assignee population being sent to the Middle East almost doubled from 5.1 percent of the total to 9.8 percent. (Note: this paper is also based on information from ORC Worldwide's "2006 Location-Specific Survey of International Assignment Policies and Practices [Dubai],"



and the “2006 Location-Specific Survey of International Assignment Policies and Practices [Riyadh]”).

THE REGION

Any discussion of the Middle East must start with the fact that there is no agreed definition of which countries fall within the region. The term was a primarily British geopolitical designation from the late-19th century and has been fluidly interpreted since. However, clearly a core group of countries are recognized as being within the region. The major group of countries in which inward investment has been concentrated in recent years are those belonging to the Cooperation Council for the Arab States of the Gulf, usually known as the Gulf Cooperation Council (GCC). The GCC consists of Saudi Arabia, the United Arab Emirates (UAE), Bahrain, Kuwait, Oman and Qatar.

The six countries of the GCC have a significantly higher level of gross domestic product (GDP) per capita than most other Middle Eastern countries (only Israel has a comparable level), with their relative prosperity based heavily on oil and gas. Other countries that are within the Middle East, such as Jordan, Iran, Lebanon, Egypt, Syria, the Palestinian territories and Yemen have significantly lower levels of development and lower levels of inward investment. Iraq is an exception, with investment driven by security and war-related activities and the need to rebuild infrastructure. A few other countries sometimes appear listed in the Middle East, including Libya (which also has per capita GDP similar to the GCC), Turkey and Sudan but for the purposes of this paper, they will not be defined as part of the Middle East.

EXPATRIATES

Economic development and the relative lack of locally available skills drive the basic need for expatriates in the region. In 2005, foreign direct investment (FDI) into Saudi Arabia, Oman, Iraq and Kuwait more than doubled compared to 2004 and for the UAE, the growth was 43.6 percent. The only countries in the region where investment fell were Iran and Yemen. The six GCC countries, if taken as a group, have a population slightly exceeding 30 million but total GDP that is exceeded by only 15 or 16 individual countries. However, continuing dependence on the oil sector leaves the GCC vulnerable to volatility in oil prices and major diversification efforts are seriously underway. These diversification efforts in themselves provide much of the impetus for the additional demand for skilled workers in industries beyond the traditional energy sector.

Significant disparities still exist in the region with some countries proving more successful than others in attracting expatriates. The UAE, and in particular Dubai, appear to be the most-popular destination despite rising living and housing costs.

The region continues to attract experienced professionals from across the globe. However, the drivers of mobility appear to be changing with many of the new expatriates being attracted by interesting career opportunities with short-term financial

considerations playing a slightly less-dominant part than in past years. There are, of course, those companies that have experienced demands for increases in assignment allowances from their expatriates to compensate for the increased living costs. In some cases, companies relocated to other less-expensive areas within the Gulf.

INDUSTRY ANALYSIS

What industries are driving this growth? The industries with the highest level of assignees into the region are in the engineering and construction, oil and other energy companies. In the 2006 ORC survey, 60.4 percent of assignees into the region were from the oil and other extractive industries, with the second-largest group coming from construction (9.4 percent) followed by aerospace and defense (6.3 percent).

Obviously, the oil industry has been a feature of the region for many years but numbers have still grown in the last few years. With soaring oil prices, many companies have invested in expansion efforts in oil production. With two-thirds of the world's oil reserves within the region, this phenomenon is likely to continue, unless prices fall dramatically. In other parts of the region, such as Qatar, the expansion is based in natural gas production.

Engineering and construction appears to have grown for several reasons. First, the reconstruction in Iraq has led companies to move assignees there or, in some cases, to neighboring Kuwait. Infrastructure development in other parts of the region, particularly the Gulf States, has meant an expansion of project work there. Dubai particularly has seen great expansion. The expansion has even led to urban myths regarding the percentage of the world's construction cranes that are in Dubai, which, the story goes, rivals the numbers of the building-boom of Shanghai five to 10 years ago.

Other industries too have been attracted into the region with many sectors such as telecommunications and financial services undergoing deregulation and opening competition while new sectors are emerging for the first time—including investment banking and private equity.

The opening of the Dubai International Financial Center (DIFC) in 2004 was designed to position the Emirate as a major world financial hub. Major European banks such as HSBC, ABN-Amro and Deutsche Bank have expanded in Dubai in recent years. Since Dubai's workforce is almost entirely expatriate (more than 80 percent of the labor force), growth inevitably means more assignments into the region. Other states, such as Qatar, are also seeking to emulate Dubai.

This activity has increased the need for expatriate talent and expertise and this dependence on foreign labor is expected to continue for the foreseeable future.

REGIONAL HEADQUARTERS

There also has been a trend toward companies locating regional headquarters in Dubai. In some cases, these are new headquarters specifically for the region, where, in the past, companies may have operated under an EMEA (Europe, Middle East and Africa) umbrella with headquarters in Western Europe.

An extreme example of this trend was the decision announced by Halliburton in March 2007 to move its headquarters from Texas to Dubai. This reflects the extensive operations that the company has in the region, particularly in Saudi Arabia and Iraq.

SOURCE OF ASSIGNEES

The region has a long history of employing high numbers of foreign employees—including low-wage blue-collar workers as well as experienced professionals and senior managers. An estimated 31 percent of the GCC's total population and 56 percent of the workforce consists of expatriates. Despite an increasing demand for skilled jobs among the local workforce and plans for “emiratisation” (localization) in many of the GCC countries the demand for expatriates is still high and is likely to continue. Companies do need to pay particular attention to the localization plans in UAE, Saudi Arabia and Bahrain as this is likely to impact the future number of expatriates they bring into these countries.

ORC's 2006 survey indicates that the majority of assignees into the Middle East come from either Western Europe or North America (65.7 percent). Asia-Pacific represents another 22 percent, although only a small minority of these are from Japan, reflecting the fact that Japan is not a major worldwide player in the oil, construction or energy industries. Only a small minority of assignees (6.6 percent) are transferred from other countries within the region.

The survey, of course, relates to those being transferred by their companies as expatriates. Numerous nationals of countries, like Egypt and Jordan, work elsewhere in the Middle East. The workforce in Saudi Arabia alone is generally estimated to be in the range of 60 percent to 70 percent foreign with a significantly higher percentage for the private sector alone. While some are on expatriate packages, many are from Asia or other Middle Eastern countries and are not on traditional expatriate packages. It is estimated, for example, that approximately 1 million Egyptians are in Saudi Arabia and a similar number of Yemenis.

An interesting trend that is emerging is that increasing living costs and the high cost of housing and education are making the region less attractive for lower-skilled expatriates from traditional locations like India and Jordan as these countries have been experiencing rapid economic growth of their own.

COMPENSATION DESIGN ISSUES

Traditional western expatriates into the region are typically paid on a home- or headquarters-based balance-sheet approach. The main variables within the region relate to housing and hardship payments. Housing is a cost and availability issue for companies and assignees. In Dubai and Abu Dhabi, rents have escalated and there is limited availability of traditional expatriate housing at an affordable level. The movement of rental costs in these two locations has ranged from approximately 20 percent to 40 percent in the last year.

The other design issue is assessing the relative level of hardship.

The situation in Iraq defies typical hardship rating systems and most companies pay a very substantial premium to get people to relocate there—sometimes equal to 100 percent of base pay. Besides Iraq, the high-hardship locations are Saudi Arabia and Yemen, where typical hardship recommendations would be in the range of 30 percent of pay. For Saudi Arabia, the terrorist threat is a major factor but also the severe limitations on normal western lifestyle and freedom of movement, thought and behavior. In Yemen, there is also a risk of terrorist activity but, in addition, there are substantial issues in terms of the underdeveloped infrastructure and medical facilities as well as more-limited external transport links. For instance, there are very few nonstop international flights from Yemen to Western Europe and none to North America. Those that do operate are mainly on local or regional airlines where safety and schedule reliability may be an issue.

At the other end of the hardship spectrum is the UAE, where only the lowest level of hardship premiums are required. Locations like Bahrain and Oman generally attract a slightly higher payment than the UAE but are still not close to the high levels of Saudi Arabia or Yemen.

Since many companies link rest and recreation (R&R) leave to hardship levels, such leave is often provided for locations in Saudi but less commonly for the UAE, where only approximately 25 percent of companies grant R&R leave. When given for UAE assignees, R&R is usually only once a year whereas from Saudi, twice a year is more common. R&R locations depend in part on the expatriate's nationality but Western Europe is the most-common location. Iraq again is an extreme case as companies do not typically allow families to accompany assignees, so the compensation package needs to include provisions for rotating employees out and for family reunion visits either in the home location or elsewhere in the region (e.g. Kuwait) if that is where the family located.

While most companies transfer expatriates into the region on a typical balance-sheet approach, in numerous situations a company may hire an expatriate who already works in the region for another employer. Often, such employees may be offered a standard expatriate package, if that is what they previously received. However, in others, there may be some scope for bargaining on this.

As previously discussed, there are also significant numbers of other foreign nationals either from within the region or from parts of Asia such as the Indian subcontinent or the Philippines. In terms of pay levels, the regional employees (Jordanians, Palestinians, etc.) are typically more highly paid than the Asian employees, although both are often paid below the level of local nationals and below the level of western expatriates.

Firms face a major challenge deciding competitive pay packages for the different employee groups. Unlike many countries with their local national pay structure and a separate structure for incoming expatriates, in the Middle East these two structures are joined by locally hired “western” expatriates and by incoming or locally hired

employees from elsewhere in the region or from Asia. Thus, traditional pay analysis is much more complex and survey data, where it exists, is much more difficult to interpret. There are several overlapping labor markets and rapid growth has compounded the problem by creating shortages for certain types of employee. Even within the true local national group, there may be differentiation between those with external experience and education and those with entirely local experience.

ASSIGNEE ISSUES AND CONCERNS

Some parts of the region do not pose significant security issues. Dubai and Abu Dhabi, for instance, have low crime rates and have experienced almost no terrorist activity or violence. An assignment into these locations is relatively straightforward for the employee and accompanying family. Indeed, the biggest single issue, particularly in Dubai, is the spiraling cost of expatriate housing as the economy has boomed. Lifestyle is relatively relaxed with western supermarket chains and with the ability for foreigners to purchase and consume alcohol.

Other locations pose greater problems in terms of physical danger, lifestyle or both. Qatar for example, while generally safe, experienced a car bombing attack in Doha in 2005 that killed a British resident and injured a number of others. Qatar's religious restrictions are also more stringent than the UAE. For example, alcohol can be purchased by foreigners, but only one outlet is approved and other significant conditions that limit purchases. Bahrain is socially more liberal than Qatar but has a higher risk of terrorist violence.

Jordan experienced terrorist attacks in November 2005 when simultaneous suicide bombings at three western hotels in Amman killed 60 people and injured more than 120. On the other hand, Jordan is socially liberal and has few restrictions on behavior. Egypt and Syria also fall into a similar category from the point of view of expatriate lifestyle. Other areas in the Middle East are well known for being volatile locations with security issues of prime concern to expatriates and their companies.

Saudi Arabia represents a major challenge with several significant terrorist attacks on western targets in the last few years including the attack in Al Khobar in May 2004 when 22 died, and the country has an extremely restrictive interpretation of Islam that severely limits the role of women. Anecdotal evidence suggests a recent softening of this hard line with a relaxation of the restrictions around the employment of local women who are receiving more encouragement to enter the workforce. However, restrictions in the Kingdom remain with women not being allowed to drive and with strong societal pressures in terms of dress and behavior. Most public recreational facilities practice sex segregation with separate hours for men and women and for "families" (those with children). Alcohol is forbidden and several westerners have been imprisoned for attempts either to smuggle alcohol into Saudi Arabia or to produce illicit alcoholic drinks.

Historically, most companies expected to send an assignee's family along with them on an assignment unless the host country was considered a war zone. In the

last few years, that stance has shifted. A number of companies now send assignees on a single-status basis into Saudi Arabia and some other countries, which are not classic war-zones but where the terrorist threat is high. This requires some changes to the expatriate terms and conditions, particularly in the provision of additional home leave. In single-status situations, some companies have turned assignments into rotational ones where the assignee may work three weeks at the work site and then have a week's leave at home or two weeks on and two weeks off. Especially for assignees from Western Europe, this is logistically quite feasible. The oil and construction industries have long experience of such rotational assignment patterns given the remote or inhospitable locations where oil exploration or production may occur, but in parts of the region this practice has begun to spread to other industries.

Iraq is the extreme end of this spectrum. Almost no company sending employees into Iraq allows the family to accompany the employee. The assignees usually live in guarded camp-style facilities with a regular rotation out either to home or a safer, third location. High levels of incentive premiums are also needed.

THE FUTURE

Clearly, future expatriate usage in the Middle East will be heavily influenced by political and economic factors. If the region stabilizes politically and if the violence in Iraq subsides and the tensions related to Iran lessen, the potential for significant growth in inward investment exists. In particular, the potential market in Iran could be significant given the size and level of economic development of the country. However, there is no guarantee that the political situation will improve and it could decline further.

In the economic sphere, the high price of oil is likely to continue to provide an incentive for investment in the region. Many question whether the UAE can main-

tain its rapid growth rate and high level of inward investment and predict that the economic boom in the region will slow down. However, the future for the region still looks bright. Dubai recently announced a strategic plan that will apparently produce an 11-percent annual growth in GDP to \$108 billion (USD) and bring total employment numbers to 1.73 million by 2015.

The continuation of the economic diversification efforts that are already seriously underway in all the GCC countries is also likely to continue to fuel the need for skilled expatriate labor, certainly for the immediate future. ■

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