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# The Saudi Arabian Economy

*Policies, Achievements and Challenges*

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# CHAPTER 12

## **POPULATION AND DEMOGRAPHICS: SAUDIZATION AND THE LABOR MARKET**

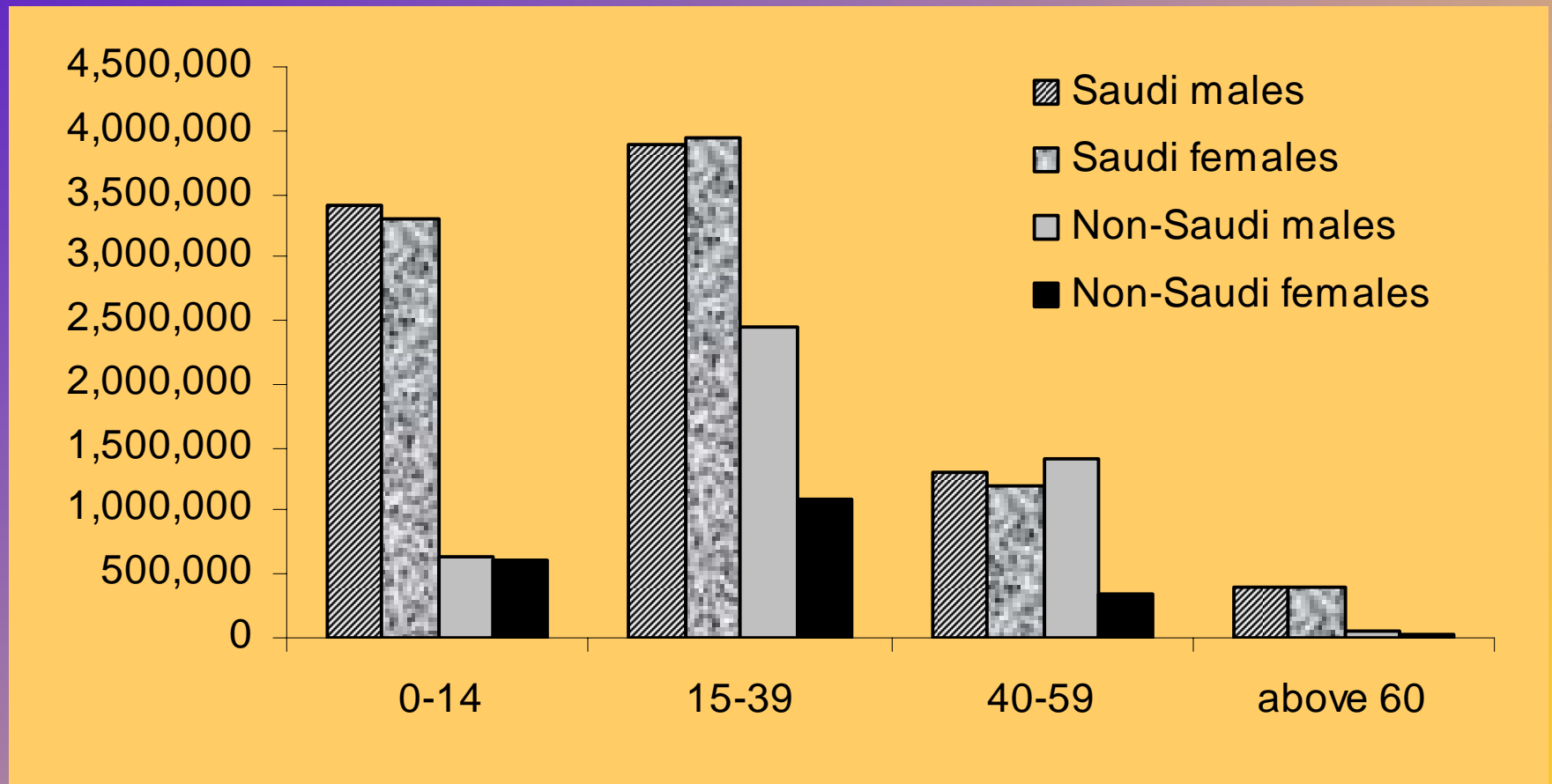
# Overview

- Tackling **unemployment and job creation** is an urgent priority for the Saudi government.
- Unemployment means **less output**, lower standard of living and a high dependency rate.
- Saudi dependency rate is high (56 per 100 Saudi workers) and 2.4 times the world average.
- Saudi Arabia has a **young population** structure with an increasing number of new labor market entrants, along with a high population growth rate.
- The Saudi policy of “**Saudization**” is one tool for combating the unemployment issue.

# Population and demographics

- Saudi population grew threefold from 7.3 million in 1975, to 24.8 million in 2008 which includes 5.4 million foreigners.
- Population growth rate is currently 2.3% compared with 3.5% a decade ago, due improved standard of living, higher female education and urbanization.
- The Saudi population is primarily a “young” population profile, with those under 40 years of age accounting for 78% or 19.4 million of the population.
- The Saudi population under 15 years constitutes 8 million or 32%, explaining the high dependency ratio.

**Figure 12.1 Saudi Arabia's population by age groups, gender and nationality (2008)**



**Source: SAMA**

**Table 12.1 Demographic trends: A comparison of Saudi Arabia and the world**

<i>Description</i>	<i>Year (Period)</i>	<i>Saudi Arabia</i>	<i>Arab Countries</i>	<i>Developing Countries</i>	<i>OECD</i>	<i>The World</i>
Total Population (Million)	1975	<b>7.3</b>	<b>144.4</b>	2972.0	928.0	4076.1
	2005	<b>23.1</b>	<b>313.9</b>	5215.0	1172.6	6514.8
	2015	<b>29.3</b>	<b>3804.0</b>	59566.0	1237.3	7295.1
Annual Growth Rate of Population (%)	1975-2005	<b>3.9</b>	<b>2.6</b>	1.9	0.8	1.6
	2005-2015	<b>2.1</b>	<b>1.9</b>	1.3	0.5	1.1
Urban Population (Ratio to Total population)	1975	<b>58.3</b>	<b>41.8</b>	26.5	66.9	37.2
	2005	<b>81.0</b>	<b>55.1</b>	42.7	75.6	48.6
	2015	<b>83.2</b>	<b>58.8</b>	47.9	78.2	52.8
Population below 15 years (Ratio to Total Population)	2005	<b>34.5</b>	<b>35.2</b>	30.9	19.4	28.3
	2015	<b>30.7</b>	<b>32.1</b>	28.0	17.8	26.0
Fertility Rate (Infants Per Woman)	1970-1975	<b>7.3</b>	<b>6.7</b>	5.4	2.6	4.5
	2000-2005	<b>3.8</b>	<b>3.6</b>	2.9	1.7	2.6
Life Expectancy (years)	1970-1975	<b>53.9</b>	<b>51.9</b>	55.8	70.3	58.3
	2000-2005	<b>71.6</b>	<b>66.7</b>	65.5	77.8	66.0
GDP Per capita (in US \$ based on purchasing power parity)	2003	<b>9,745</b>	<b>5,685</b>	4,359	25,915	8,229
	2004	<b>11,111</b>	<b>5,680</b>	4,775	27,571	8,833
	2005	<b>13,645</b>	<b>6,716</b>	5,282	29,197	9,543

Source: *Central Department of Statistics and Information, Ministry of Economy and Planning and Human Resources Development Report of 2006, UN Development Program, SAMA, 2009.*

# Human resources and employment

- Economic growth of a country requires **both** financial and human resources.
- Saudi Arabia's manpower development goals are set out in the most recent **Five Year Development Plans**:
  - Optimum utilization of the national labor force.
  - Ensure harmony between educational and training programs of Saudis and labor market requirements.
  - Provide more employment opportunities in the private sector.
  - Rationalize the recruitment of foreign workers.
  - Provide more employment opportunities for women.
  - Reduce unemployment levels of Saudis.

# Structure of forecasted Saudi labor market and trends

- The total labor force is forecasted to rise 8.233 million in 2009 from 6.260 million in 1999.
- Of this, the **government sector** employed just under 1 million, with 820,000 or 83% being Saudis.
- The **private sector** 2009 employment is forecasted at around 48% Saudis, or just under 4 million.
- The largest private sector employment is forecasted in the building and construction, trade and services and small scale community and personal services.
- The high value oil and gas and financial sectors employment forecasted is around 2%



**Table 12.2. Structure of the forecasted labor market in the Kingdom – Saudis and Non-Saudis (1999-2009)**

	1999		2009	
	No. of Workers	% Distribution	No. of Workers	% Distribution
<b>Total Labor Force</b>	<b>7,176.3</b>	<b>100.0</b>	<b>9,221.3</b>	<b>100.0%</b>
<i>Saudis</i>	<i>3,172.9</i>	<i>44.2</i>	<i>4,747.1</i>	<i>98.5%</i>
<i>Non-Saudis</i>	<i>4,003.4</i>	<i>55.8</i>	<i>4,474.2</i>	<i>51.5%</i>
<b>Total Labor at Government Sector</b>	<b>916.2</b>	<b>12.8</b>	<b>988.0</b>	<b>100%</b>
<i>Saudis</i>	<i>716.5</i>	<i>78.2</i>	<i>820.0</i>	<i>82.9%</i>
<i>Non-Saudis</i>	<i>199.7</i>	<i>21.8</i>	<i>168.0</i>	<i>17.1%</i>
<b>Total Labor at Private Sector</b>	<b>6,260.1</b>	<b>87.2</b>	<b>8,233.3</b>	<b>100%</b>
<i>Saudis</i>	<i>2,422.7</i>	<i>38.7</i>	<i>3,927.1</i>	<i>47.6%</i>
<i>Non-Saudis</i>	<i>3,837.4</i>	<i>61.3</i>	<i>4,306.2</i>	<i>52.4%</i>

Source: Ministry of Planning, Seventh and Eighth Development Plan.

**Table 12.3. Sectoral Structure of Total Labor Force Eighth Development Plan**

	<i>2004</i>		<i>2009</i>		<i>Change 2004-2009</i>		<i>Growth Rate %</i>
	<i>Number (000)</i>	<i>%</i>	<i>Number (000)</i>	<i>%</i>	<i>Number (000)</i>	<i>Percent</i>	
<b>Agriculture</b>	<b>596.7</b>	<b>7.2</b>	<b>602.6</b>	<b>6.5</b>	<b>5.89</b>	<b>0.6</b>	<b>0.20</b>
Non-oil Mining & Quarrying	17.8	0.2	18.6	0.2	0.88	0.1	0.97
Oil Refining	20.4	0.3	21.3	0.2	0.90	0.1	0.87
Petrochemical Industries	23.2	0.3	26.6	0.3	3.37	0.4	2.75
Other Manufacturing Industries	607	7.3	734.4	8	127.40	13.6	3.88
Electricity, Gas & Water	77.3	0.9	76.7	0.8	-0.64	-0.1	-0.17
Building & Construction	1,585.2	19.1	1,772.4	19.2	187.18	19.9	2.26
<b>Goods Producing Sectors</b>	<b>2,927.6</b>	<b>35.3</b>	<b>3,252.6</b>	<b>35.2</b>	<b>324.98</b>	<b>34.6</b>	<b>2.13</b>
Trade, Restaurants & Hotels	1,137.1	13.7	1,417.5	15.4	280.31	29.8	4.51
Transport & Commun.	341.9	4.1	395.3	4.3	53.43	5.7	2.95
Financial Services	47.4	0.6	53.1	0.6	5.77	0.6	2.33
Real-Estate Services	291.9	3.5	316.4	3.4	24.51	2.6	1.63
Community & Personal Ser.	2330	28.1	2,433.2	26.4	103.23	11.0	0.87
<b>Service Sectors</b>	<b>4,148.3</b>	<b>50.1</b>	<b>4,615.5</b>	<b>50.1</b>	<b>467.25</b>	<b>49.7</b>	<b>2.16</b>
<b>Total Private Sectors</b>	<b>7,075.9</b>	<b>85.4</b>	<b>7,868.1</b>	<b>85.3</b>	<b>792.23</b>	<b>84.3</b>	<b>2.15</b>
Government Services	1,105.4	13.3	1236.9	13.4	131.49	14.0	2.27
Non-oil Sectors	8,181.3	98.8	9105	98.7	923.72	98.3	2.16
Crude oil & Gas	100.5	1.2	116.3	1.3	15.72	1.7	2.95
<b>Total Labor</b>	<b>8,281.8</b>	<b>100.0</b>	<b>9,221.3</b>	<b>100.0</b>	<b>939.44</b>	<b>100.0</b>	<b>2.17</b>

Source: *Ministry of Planning.*

# Wide variance between planned and actual Saudi labor market trends

- While there has been some correlation between the planned labor force structure for Saudis and non-Saudis in the **government sector**, this has not been the case for the **private sector**.
- The **planned number** of Saudi workers by 2009 in the private sector was 3.927 million and non-Saudis at 4.306 million.
- The **actual** work force in 2008 was around 830,000 Saudis and 5.392 million non-Saudis, indicating an extremely **low rate of private sector Saudi employment**, compared with planned employment.

**Table 12.4. Planned and actual labour market structure:  
Saudis and non-Saudis**

	<i>2008 Actual</i>		<i>2009 Planned</i>		<i>Difference</i>	
	<i>No. of Workers</i>	<i>% Distribution</i>	<i>No. of Workers</i>	<i>% Distribution</i>	<i>No. of Workers</i>	<i>% Distribution</i>
<b>TOTAL LABOR FORCE</b>	7,121,658	100%	9,221,300	100%	(2,099,642)	-29.5%
• <b>Saudis</b>	1,656,903	23 .27%	4,747,100	48.5%	(4,581,197)	-27.6%
• <b>Non-Saudis</b>	5,464,755	76.73%	4,474,200	51.5%	990,555	18.1%
<b>TOTAL LABOR GOVT. SECTOR</b>	899,711	12.63%	988,000	100%	85,289	9.8%
• <b>Saudis</b>	827,846	92.01%	820,000	82.9%	7,546	0.8%
• <b>Non-Saudis</b>	71,865	7.99%	168,000	17.1%	(96,135)	-135.2%
<b>TOTAL PRIVATE SECTOR</b>	6,221,947	87.37%	8,233,300	100%	(2,011,353)	-32%
• <b>Saudis</b>	829,057	13.32%	3,927,100	47.6%	(3,098,043)	-373%
• <b>Non-Saudis</b>	5,392,890	86.68%	4,306,200	52.4%	1,086,690	20%

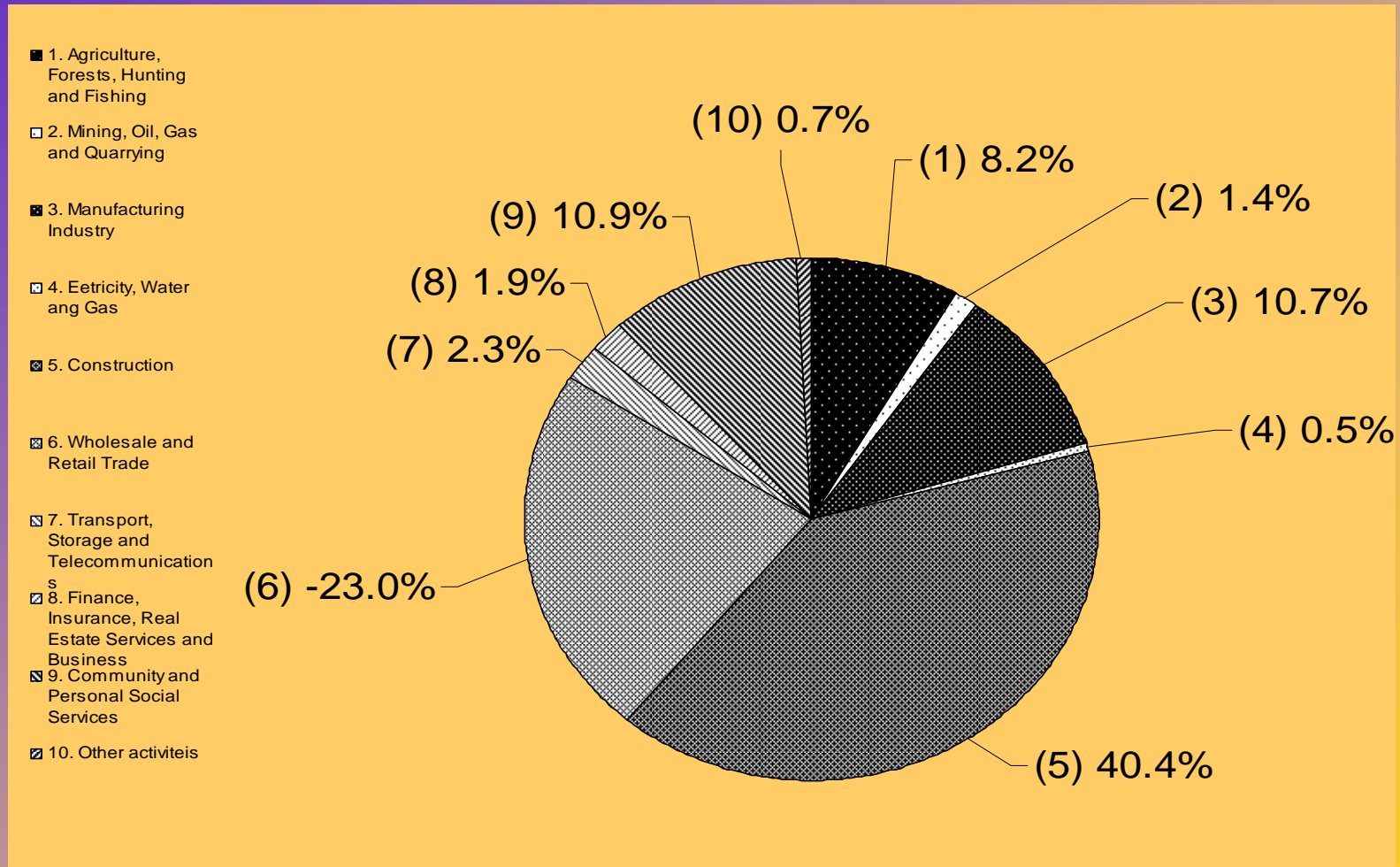
Source: *Ministry of Planning, SAMA*

# Manpower, education and professional breakdown of the labor force

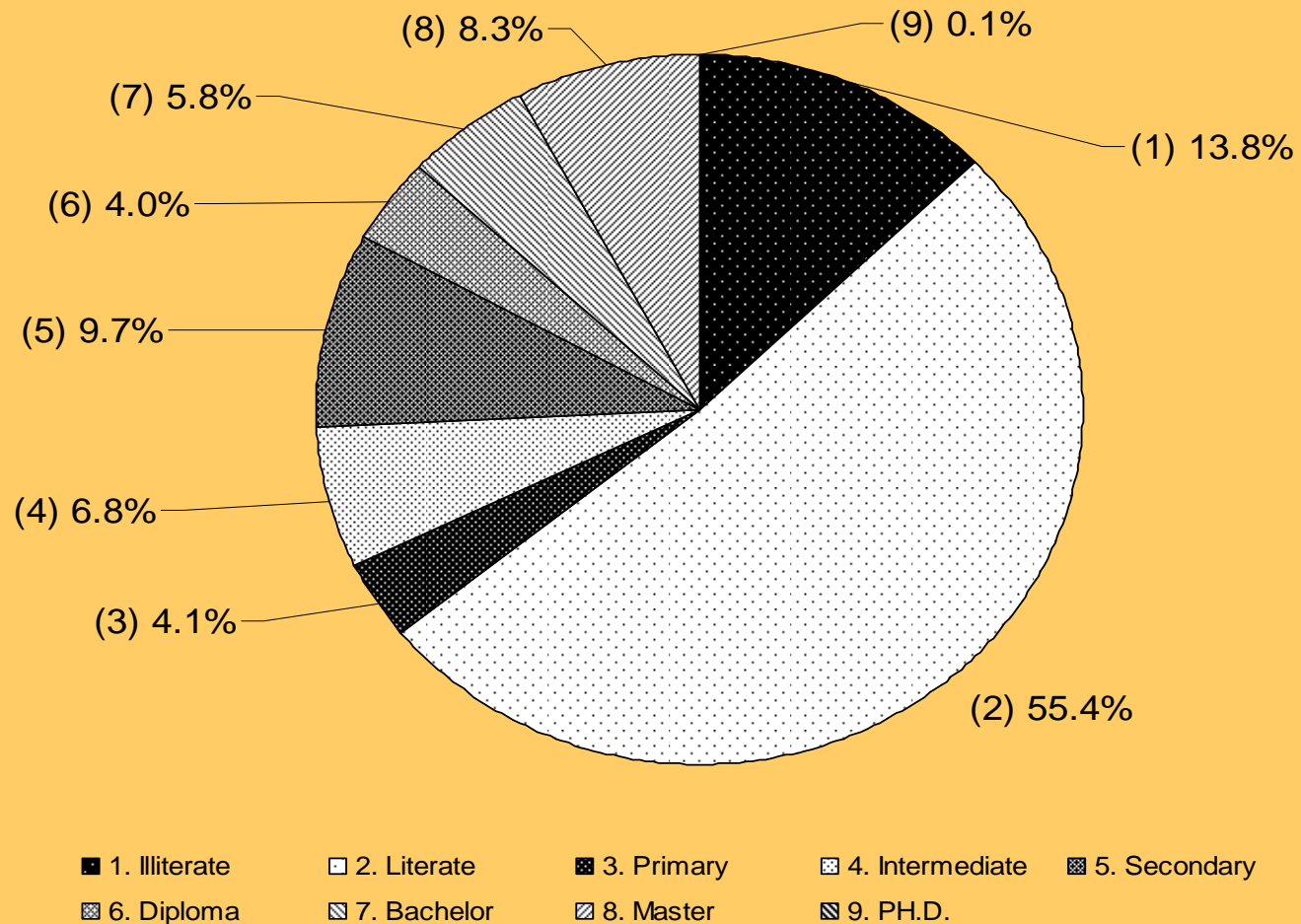
- The **distribution of manpower by professional classification** seems to **match** the educational level and qualifications of the Saudi and non-Saudi workforce.
- Distribution by major economic activity for actual workers employed in 2008 reveals that the overwhelming employment in the private sector was **lower-value jobs**.
- Breakdown by **educational level** indicates that nearly 70% of the workforce had basic literacy skills, and around 16% held university level qualifications.
- Analysis by **major professions** indicated that round 9% were classified as having scientific and technical backgrounds, while industrial and chemical processing employed around 4% with the necessary professional background.

## Figure 12.2.

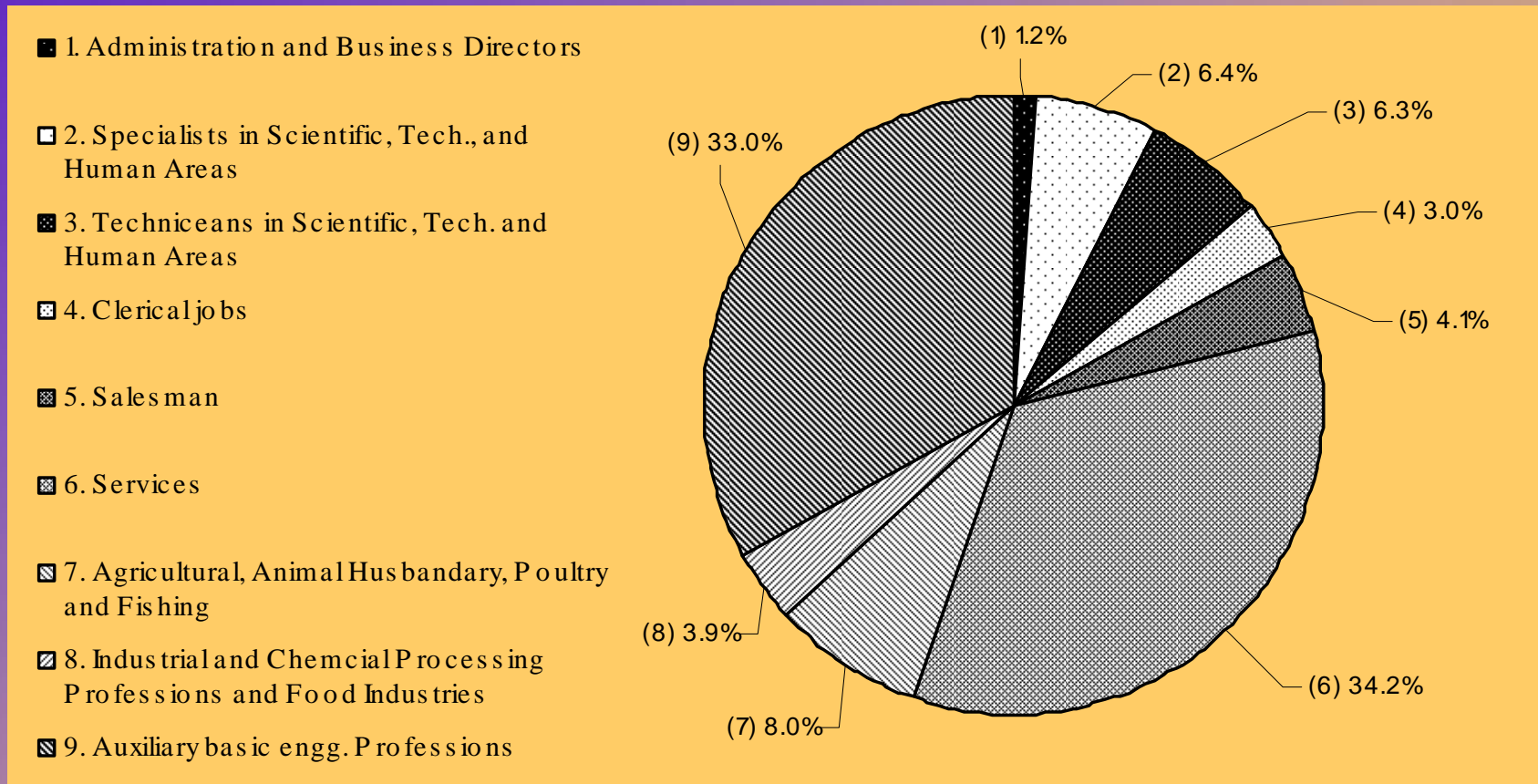
(A) Distribution of manpower in the private sector by major economic activity during 2008



## (B) Breakdown of labour force in the private sector by educational level in 2008



## (C) Distribution of manpower in the private sector by major professions during 2008



Source: SAMA



# Capital intensive industries and employment levels

- The **capital intensive** nature of many of the hydrocarbon based Saudi industries has not been matched by high employment in those sectors.
- Investment in the petrochemical and petroleum sector accounted for SR 183 billion in 2008, or nearly 50% of total private sector investment, but this sector employed around 60,000 workers out of the 467,000 in the industrial and manufacturing sectors or nearly 13%.

## (Contd...)

- **Investment per employee** in the capital intensive sectors ranged from SR 700,000 to SR 3.102 million, while in the less capital intensive industries it averaged around SR 250,000.
- The result is that the **average** Saudi wage rate has been low, with further **gaps** between Saudi and non-Saudi labour, and between Saudi male and female wage levels.

**Table 12.5. Industrial and manufacturing employment and investment per employee (2008)**

<i>Sector</i>	<i>Number of Licenses</i>	<i>Investments (SR Million)</i>	<i>Employment</i>	<i>Investment per Job (SR'000)</i>
• Food & Beverage	668	35.117	86,515	408
• Textiles/clothing	155	4.840	22,238	221
• Carpentry	52	0.784	3,932	261
• Paper/Printing	255	9.941	26,275	382
• Chemical & Petroleum	497	183.099	59,856	3,103
• Rubber & Plastics	444	11.531	39,740	296
• Non-Metallic Metals	679	48.169	69,478	698
• Basic Metals	296	35.349	42,377	841
• Machinery & Equipment	217	5.025	22,411	228
• Construction metal Products	288	7.247	26,230	279
• <b>TOTAL Industry</b>	<b>4,167</b>	<b>359.533</b>	<b>466,661</b>	
<b>Average.</b>				<b>771</b>

Source: *SAMA*

**Table 12.6 Average wage in Saudi Arabia during the period 1994-2008**

	<i>Saudis</i>		<i>Non-Saudis</i>	
	<i>Males</i>	<i>Females</i>	<i>Males</i>	<i>Females</i>
1994	7,298	3,660	2,153	3,133
1995	7,896	3,864	2,142	3,016
1997	7,570	4,144	2,046	2,716
1998	7,473	3,812	1,934	2,740
2000	6,877	3,217	1,763	2,391
2001	6,684	3,151	1,710	2,403
2002	5,984	2,703	1,543	2,221
2008	7,650	3,100	1,650	2,480

Source: *Ministry of Labour, SAMA.*

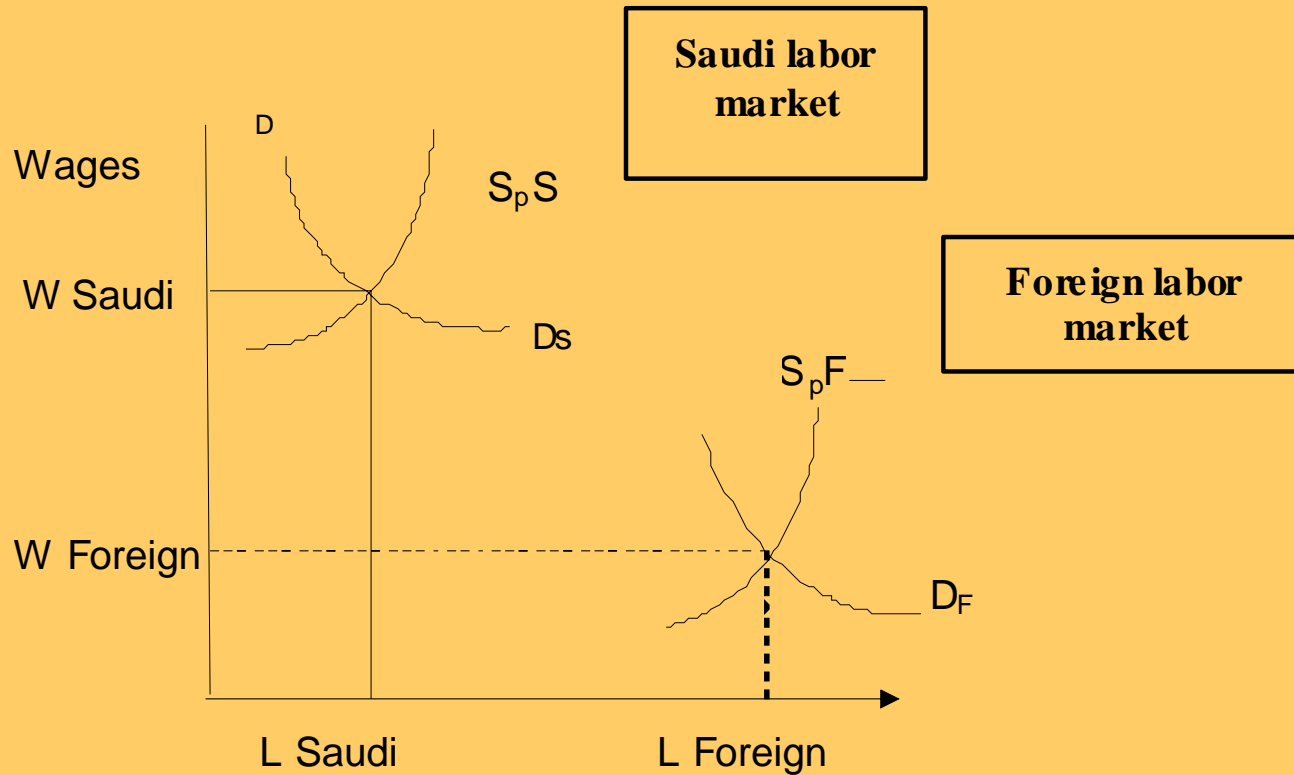
# “Duality” of the Saudi labor market

- The **average** wage level for a non-Saudi male is lower than a Saudi counterpart.
- This is due to the fact that a **large number of the non-Saudi labor have low-level skill employment.**
- Such low-wage work is a problem for “**Saudization**”.

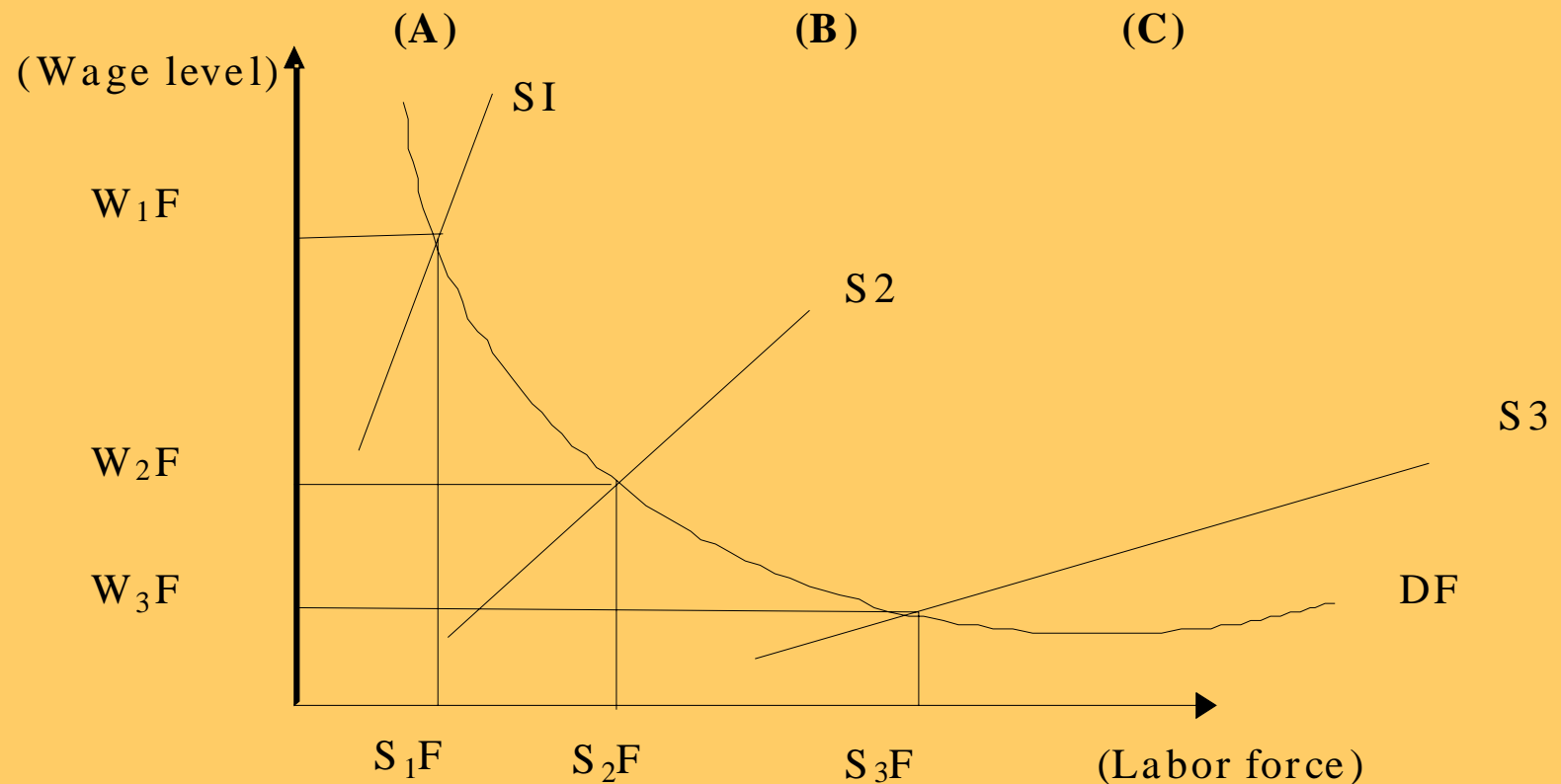
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- There seems, on the surface, **two distinct labor markets in Saudi and the GCC** composed of national and foreign, with a theoretical **aggregated and undifferentiated** supply and demand functions, but earning different equilibrium wage levels as set out in **Fig. 12.3**.
- However, there are wide **differences** in wage levels, not only **between** Saudis and non-Saudis, but also **between** different skill groups of non-Saudis which commands different wage levels due to **different supply elasticities**. (Fig. 12.4)

**Figure 12.3 Duality of GCC labor markets**



**Figure 12.4. Demand and supply for expatriate labor in Saudi Arabia by market segmentation**

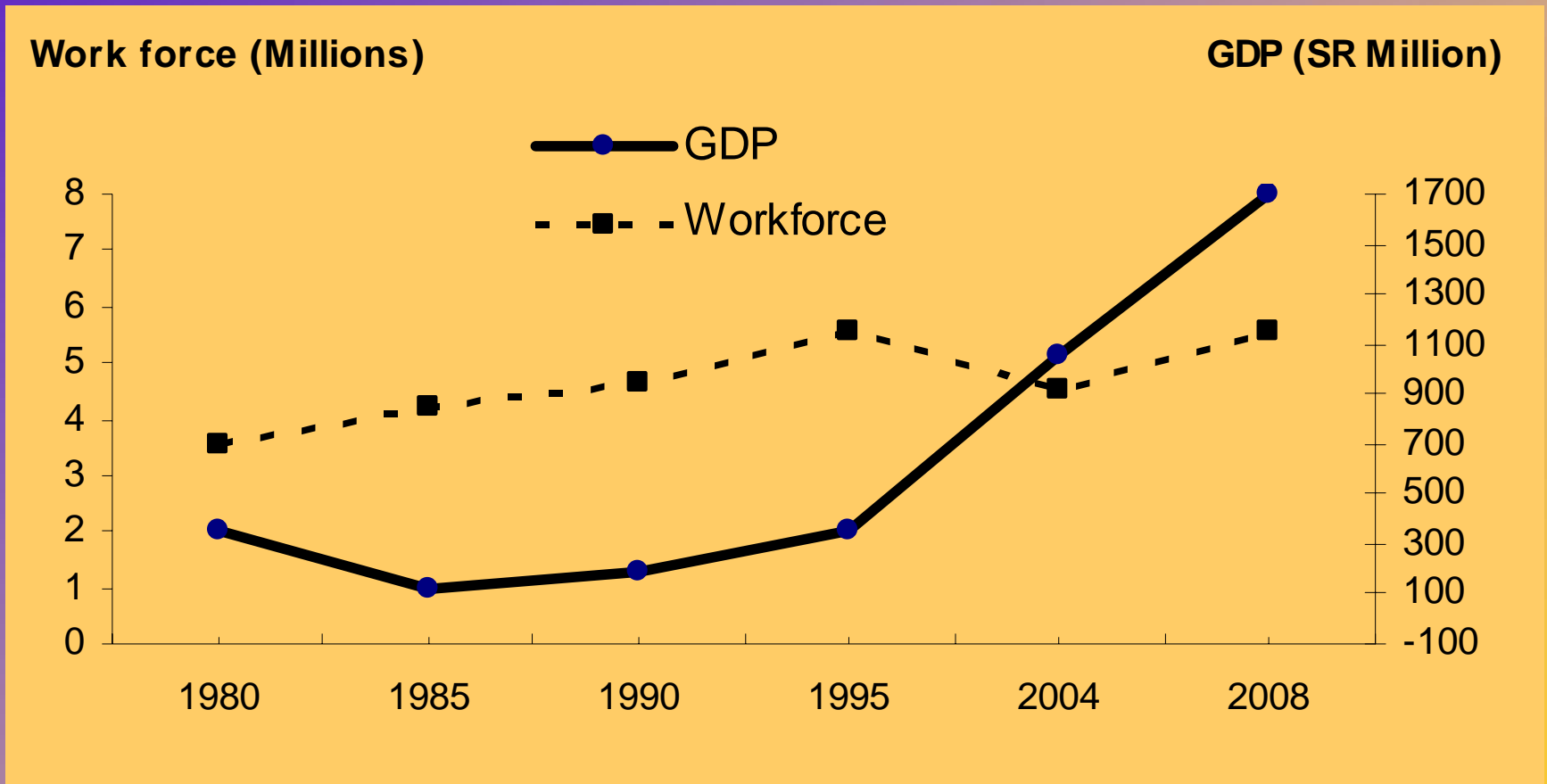




## **“*Saudization*”: A viable solution?**

- **“*Saudization*”** has been a central plank of Saudi policy since 1970, when it was decreed that 75% of workers in all businesses should be Saudi, and receive at least 51% of the company’s total salary payment.
- Notwithstanding this objective, the **number of expatriate labor has increased over the period 1980-2008**, despite a fall over the period 1995-2004 when the Saudi GDP declined. Foreign labor rose again after the Saudi GDP increased from 2004.
- The Saudi government hopes that **long-term** manpower demand and supply projections will reverse this trend to ensure a **majority Saudi labor force by 2020**, when non-Saudi labor would be around 2.483 million and Saudi labor force around 4.69 million.

**Figure 12.5. GDP and expatriate workforce in Saudi Arabia 1980-2008**



Source: SAMA

**Table 12.7. Manpower demand and supply projections (1999-2020)**

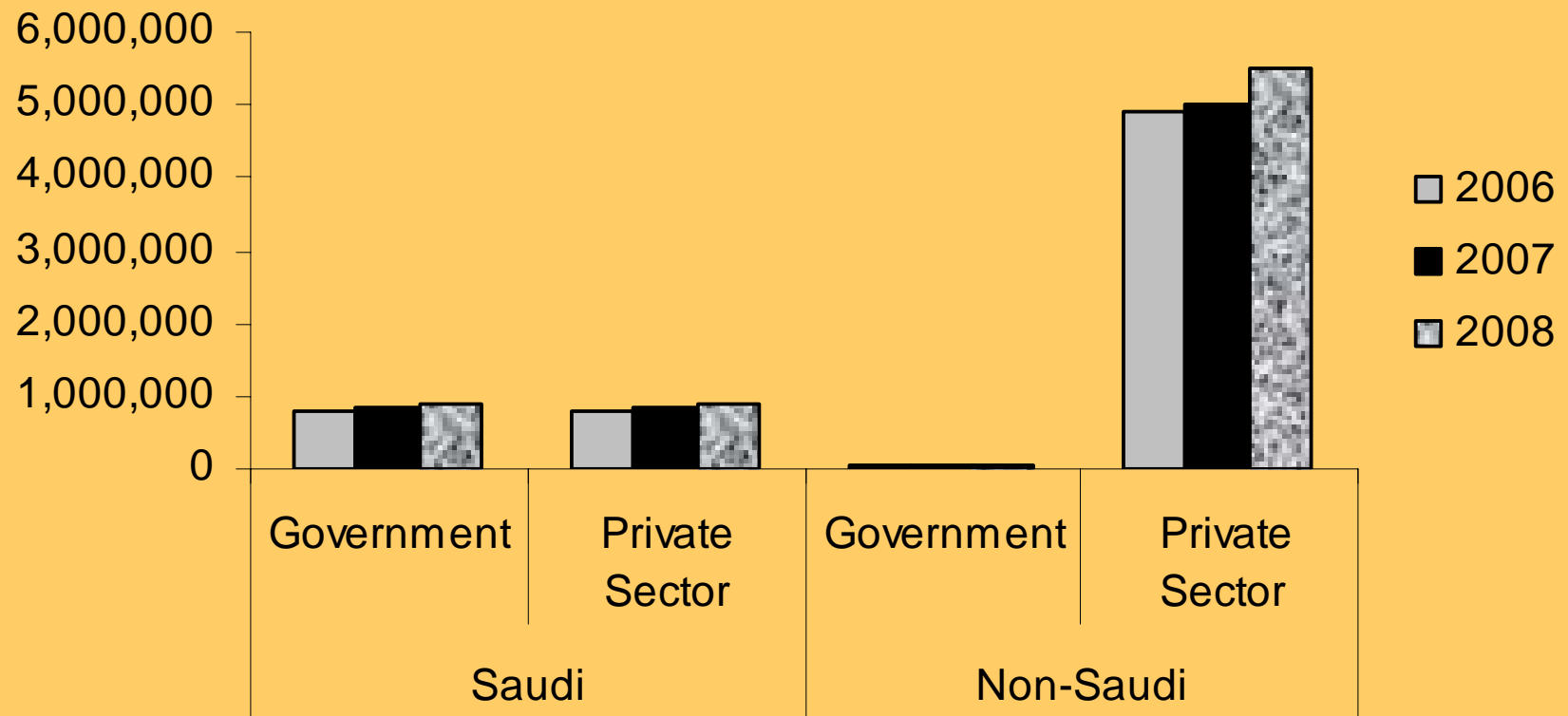
Description	Thousands			Average Annual Growth Rate %	
	1999	2004	2020	7th Plan (2000- 2004)	Long Term Perspective (2000 – 2020)
<b>1. Demand</b>					
Government Services	916.2	923.3	984.0	0.35	0.34
Crude Oil & Gas	98.9	100.4	127.0	0.30	1.20
Private Sector	6,161.2	6,472.2	9,635.0	0.99	2.15
Total Demand	7,176.3	7,504.9	10,746.0	0.90	1.94
<b>2. Supply</b>					
Saudi Population	15,658.4	18,520.3	29,717.0	3.41	3.10
Saudi Labor Force	3,172.9	3,990.2	8,263.0	4.69	4.66
<b>3. Demand/Supply Balance</b>					
Non-Saudi Labor Force	4,003.4	3,514.7	2,483.0	(2.57)	(2.25)

**Source: Ministry of Planning**

# **“*Saudization*”** has been successful in the government sector

- To a large extent, the policy of **“*Saudization*”** has been successful in the **government sector**, but this is due to the fact that there is much better hiring **control** in the government sector compared with the private sector.
- By 2008, the actual number of employed Saudis in the private and public sectors **were about the same**, at **under 1 million**, while non-Saudi private sector employment increased over the period 2006-2008, or the latest “boom” years.

**Figure 12.6. Saudi and non-Saudi employment by government and private sector (2006-2008)**

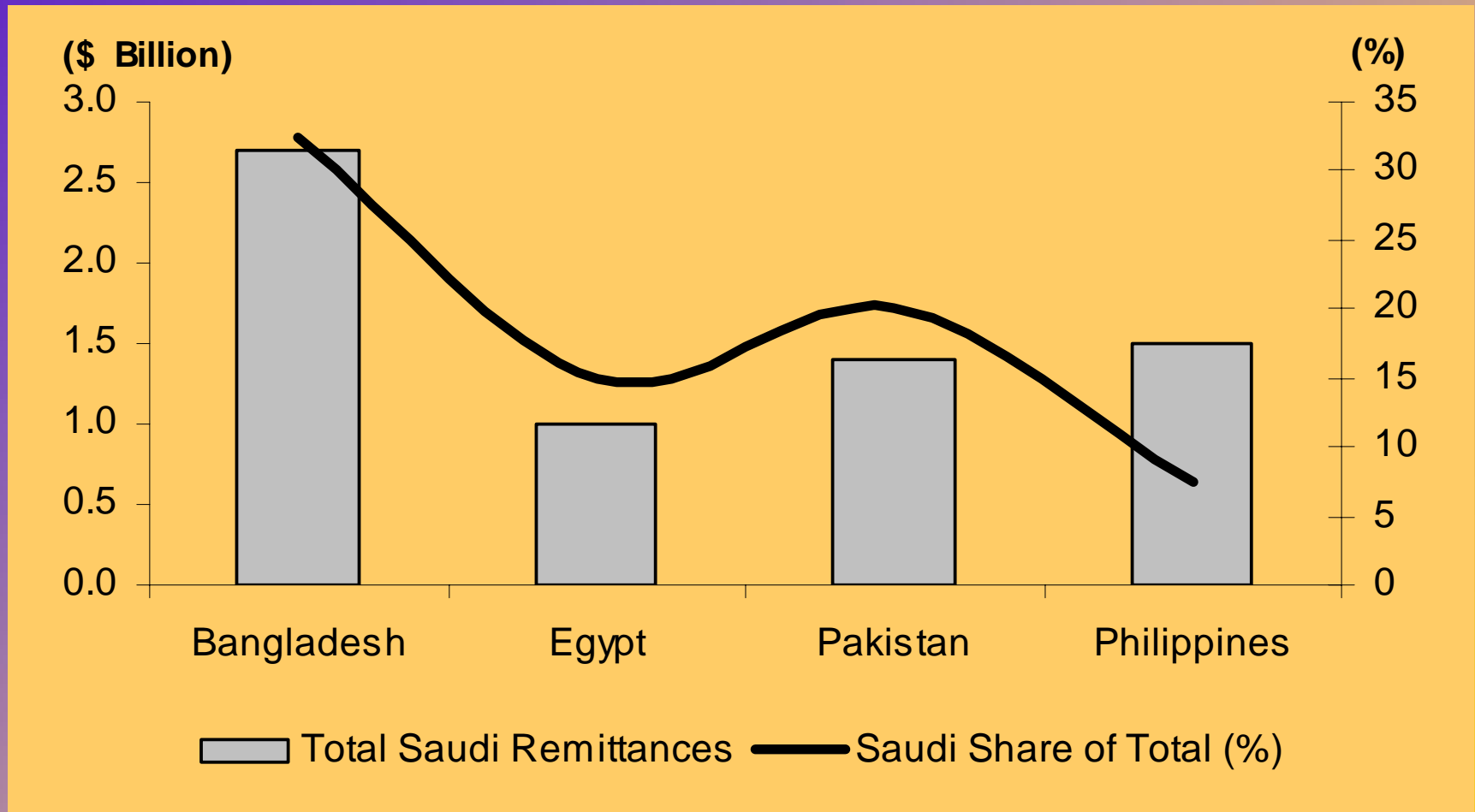


Source: SAMA

# “Saudization” – government measures and responses

- The Saudi government’s “**Saudization**” measures have centered around **key strategic goals**:
  - Increasing employment for Saudi nationals across all sectors of the domestic economy.
  - Reduce, and reverse over-reliance on foreign workers.
  - Recapture, and reinvest expatriate remittances outflows back to the Kingdom.
- Over the period 1998-2008, it has been estimated that around SR 524 billion (\$ 139 billion) **foreign worker remittances** left the Kingdom, especially to major labor exporting countries such as Bangladesh, Egypt, Pakistan and the Philippines.

**Figure 12.7. Saudi remittances to key country destinations (2008)**



**Source: Central Banks of respective countries**

# Policies to speed up “*Saudization*”

- The following policies have been followed by the Saudi government:
  1. Ensuring strict compliance with government resolutions and circulars regarding *Saudization*.
  2. Enhancing the role of the Human Resources Development Fund (HRDF) to provide *Saudization* programs.
  3. Provide more information on vacant positions to Saudi job applicants and to employers.
  4. Support the role of technical/training agencies such as General Organization for Technical Education and Vocational Training (GOTEVT)
  5. Link foreign labor recruitment with *Saudization* policies and restrict foreign labor to certain job categories.



# Private Sector “*Saudization*” issues

- The importance of the private sector in employing more Saudis is **continuously stressed, but the results have been patchy.**
- There are some issues of concern raised by the private sector concerning “*Saudization*”, and the obstacles the private sector faces in its implementation.
- The private sector believes that free market forces should be the key element for an effective “*Saudization*” program, rather than government imposed quotas.

## Table 12.8. Private sector Saudization issues

<i>Issues</i>	<i>Private Sector Justifications</i>
<b>1. Labor cost</b>	<ul style="list-style-type: none"> <li>• The relatively high cost of Saudi manpower, compared to foreign manpower, results in private sector reliance on imported cheap manual labor, deployed in labor-intensive occupations. This helps private sector profitability despite government attempts to increase expatriate costs (Residency or <i>Iqama</i>, Visa renewals, etc.).</li> </ul>
<b>2. Social and cultural perceptions</b>	<ul style="list-style-type: none"> <li>• Saudis are reluctant to take up and seriously pursue certain types of jobs, despite <i>Saudization</i> directives. For example, the forced <i>Saudization</i> of employees in the vegetable markets has failed. <i>Social Status</i> is still important for young Saudis as it affects marriage and other social relations.</li> </ul>
<b>3. Control over process of production</b>	<ul style="list-style-type: none"> <li>• Expatriate workers are easier to control and more disciplined than Saudis. Control is exercised through short-term employment contracts. In some cases, there are few legal obligations towards expatriates, who are prohibited from changing jobs without their sponsor's permission.</li> </ul>
<b>4. Lack of social integration in multi-cultural work environment</b>	<ul style="list-style-type: none"> <li>• Local populations are reluctant to integrate into multi-cultural work environments, fearing that it might degrade their existing status.</li> </ul>
<b>5. Job tenure</b>	<ul style="list-style-type: none"> <li>• It is more difficult to fire Saudi workers than foreign workers.</li> </ul>
<b>6. Inadequate qualifications</b>	<ul style="list-style-type: none"> <li>• Saudi employees may have inadequate qualifications, a lack of good English or a non-technical background.</li> </ul>
<b>7. Mobility</b>	<ul style="list-style-type: none"> <li>• Saudi workers are less mobile than foreigner workers; they are reluctant to change job locations.</li> </ul>

# Regulating foreign labor

- The Saudi accession to WTO, globalization pressures, and the objective to make Saudi Arabia more attractive to FDI flows could potentially cause **conflict with “Saudization” aims.**
- The pace of “Saudization” has picked up over the past decade with new laws being passed.
  - Private businesses employing more than 20 people to increase Saudi nationals by 5% every year (current requirement is 30%).
  - The employment of foreigners in 22, mostly administrative professions, has been banned.
  - The government increased **fees** on recruitment of expatriates, with money going into a special fund established to “nationalize” jobs.
  - Setting up “Saudization” metrics for contracts awarded to Saudi Aramco projects.

## (Contd....)

- In February 2003, a decision announced that **3 million expatriates were to be phased out from Saudi Arabia within a decade**, and that the total number of expatriates must **not** exceed 20% of the Saudi population by 2013.
- The 2003 decision also stipulated a **QUOTA** system for foreign nationalities, in which **no single** nationality must exceed 10% of **TOTAL EXPATRIATES**.
- If fully implemented, the decision will hit hardest some nationalities such as Indians, Egyptians, Pakistanis but with minimal impact on Western nationalities.
- Other GCC countries have adopted a different approach. **Bahrain scrapped its private sector sponsorship system in August 2009** and replaced it with a blanket government sponsorship system ,with foreigners free to change jobs, depending on market demand and supply conditions.

**Table 12.9. Major expatriate communities in the GCC countries  
(Estimates for various years, in thousands)**

<i>Expatriate Communities</i>	<i>Bahrain 2004</i>	<i>Kuwait 2003</i>	<i>Oman 2002</i>	<i>Qatar 2002</i>	<i>Saudi Arabia 2004</i>	<i>UAE 2002</i>
Indians	120	320	330	100	<b>1,300</b>	1,200
Egyptians	30	260	30	35	<b>900</b>	140
Pakistanis	50	100	70	100	<b>900</b>	450
Filipinos	25	70		50	<b>500</b>	120
Yemenis					<b>800</b>	60
Sri Lankan		170	30	35	<b>350</b>	160
Jordanians/ Palestinians	20	50		50	<b>260</b>	110
Syrians		100			<b>100</b>	
Indonesians		9			<b>250</b>	
Sudanese					<b>250</b>	30
Bangladeshis		170	110		<b>400</b>	100
Turks					<b>80</b>	
Nepalese				70		
Iranians	30	80		60		40
<b>Total Expatriate Population</b>	<b>275</b>	<b>1,329</b>	<b>570</b>	<b>500</b>	<b>6,090</b>	<b>2,410</b>

Source: *UNDP*

# An “incentive-based” Saudization strategy

- A new **incentive based approach** is required, encompassing:
  - a) Developing new employment opportunities, rather than **substituting** local workers for foreigners.
  - b) **Training** new Saudi job entrants for likely job openings is the way to successful national employment policy.
  - c) Ensuring that “**Saudization**” be implemented through market forces and incentives, induced through an expanded and reformed education system.
  - d) Using **direct subsidies** to enter Saudis into jobs through company training programs sponsored by the **HRDF**.

# The Human Resources Development Fund

- The HRDF, established since 2000 provides grants for qualifying, training and recruiting Saudis in the private sector.
- HRDF pays 75% of salary of employee while in training (max SR 1,500 per month) for 3 months, and 50% of salary for first two years (max. SR 2000 per month).
- Actual HRDF results have been **modest** to date.

**Table 12.10. HRDF subsidy support program:  
Saudi private sector companies. 2002-2006**

<b>Activity</b>		<b>Status/Results</b>
• Number of contracts signed with private sector companies	-	1,662
• Total number of employees working with these companies (including foreigners	-	1,108,810
• Total number of Saudis working with these companies	-	204,237
• Percentage of Saudis employed before HRDF subsidy	-	18%
• Total number of new Saudi jobs agreed between HRDF and private sector and %	-	104,269 (51%)
• Expected <i>Saudization</i> after HRDF subsidy	-	25%
• Actual number of new Saudis employed and %	-	39,923 (38%)
• Saudis dropped out and %	-	6,781 (19.6%)

Source: *HRDF, 2008*



# Labor participation: a model for new entrants

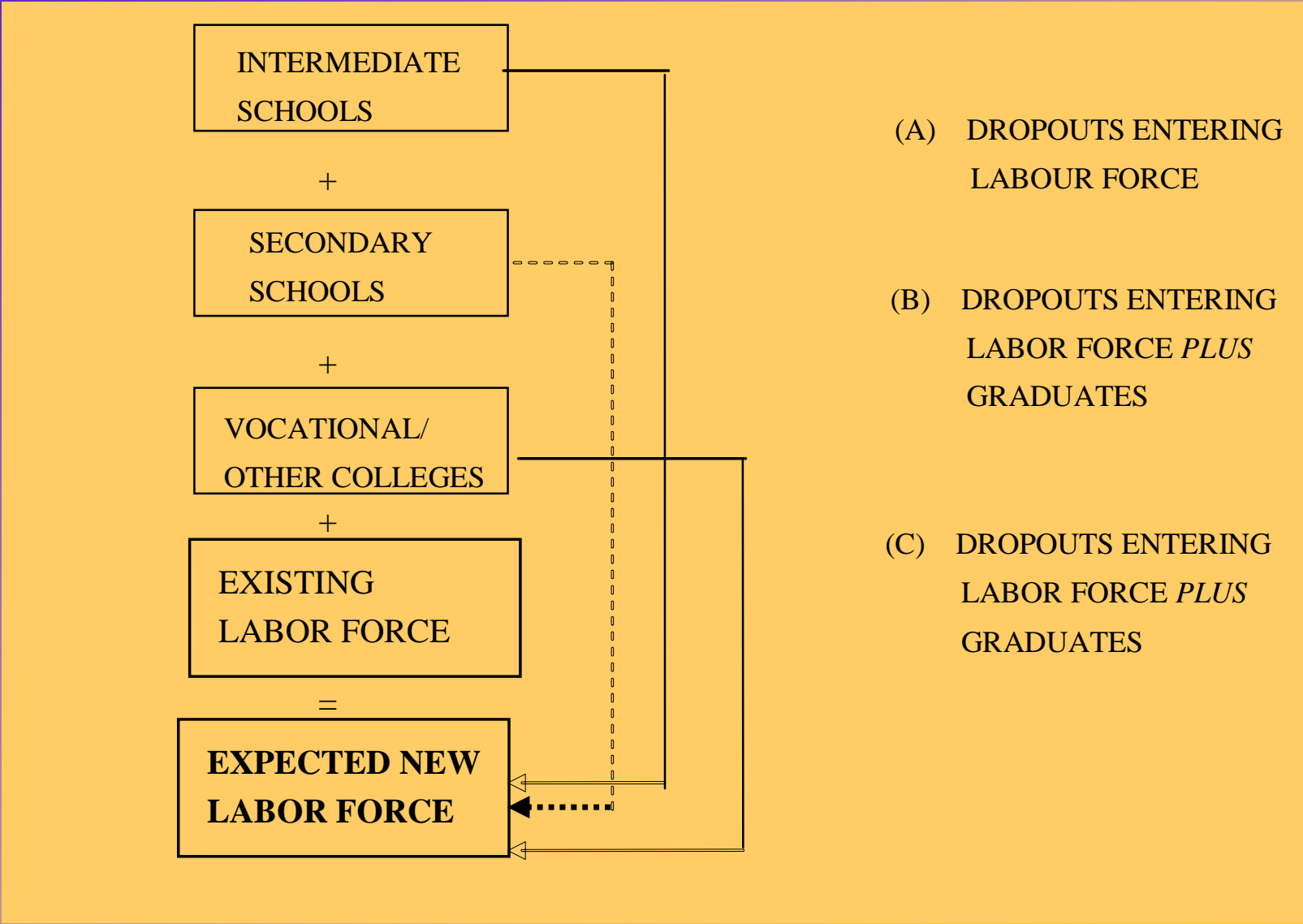
- The total number of Saudi **labor force entrants** are derived from several sources:
  - Intermediate schools
  - Secondary schools
  - Vocational/colleges

**plus** dropouts from the above **plus** the existing labor force.
- The above provides the total **expected labor force**.

## (Contd....)

- Based on the above model, one can then **forecast new market labor entrants**, the potential jobs created by the private sector (as the main source of employment) to **derive the unemployed level of workforce**.
- Estimates suggest that **unemployment** levels for **Saudi males only** could reach around 48% by 2013.

Figure 12.8 Sources of new entrants into Saudi labor market (Saudis only)



**Table 12.11. Employment developments from 2003-2013:  
Saudi Arabia (males only)**

	<i>*2003</i>	<i>2006</i>	<i>2008</i>	<i>2011</i>	<i>2013</i>
Male Entrants to Market Labor Force	450,000	497,478	531,882	587,999	628,663
Private Sector GDP Growth		4%	4%	5%	3%
Jobs Created – New	150,000	167,107	182,481	207,221	224,130
Total Male Labor Force	2,861,006	4,304,904	5,351,179	7,057,809	8,294,463
Employed*	2,417,720	2,900,007	3,257,951	3,854,130	4,293,770
Unemployed*	443,286	1,404,897	2,093,228	3,203,679	4,000,693
Employment Rate	84.51%	87.37%	60.88%	54.61%	51.77%
Unemployment Rate	<b>15.49%</b>	<b>13.63%</b>	<b>39.12%</b>	<b>45.39%</b>	<b>48.23%</b>
Total	100.00%	100.00%	100.00%	100.00%	100.00%

**Source:** *\*2003 as base year, Ministry of Planning, 19<sup>th</sup> Issue, Achievements of the Development Plans, 2002, pp. 300-301.*

# Saudi unemployment

- Saudi unemployment data is still **scarce and unreliable**, as they only deal with Saudi males for data announced, with little reference to **female** unemployment levels.
- There does not seem to be a precise way to measure Saudi unemployment, due to the lack of an unemployment benefit “**signing-up**” system which registers **those able and willing to work**, but have no work, as being truly unemployed.

## (Contd....)

- In Saudi Arabia, the extended family system and “**voluntary unemployment**” often disguises the true extent of unemployment.
- At the same time, the labor force is increasing faster than new jobs being created, especially by the private sector.
- The result has been a very **low labor participation rate** for Saudi Arabia (both male and female) compared with the other GCC countries. (*Participation rate = labor force as % of total population*).

**Table 12.12. Selected labor participation rates\*:  
GCC countries 2007/2008 (%)**

<i>Country</i>	<i>Male</i>	<i>Female</i>	<i>Total</i>
<b><i>Saudi Arabia</i></b>	<b><i>51.7%</i></b>	<b><i>11.6%</i></b>	<b><i>33.8%</i></b>
Kuwait	84.4%	45.8%	52.3%
Qatar	94.9%	49.4%	91.7%
UAE	89.4%	41.9%	54.9%
Oman	76.9%	24.6%	36.6%
USA	73.0%	59.4%	66.0%

*\*Labour force as % of total population*

**Source: *International Labour Organization (ILO).***

# Profile of Saudi and non-Saudi labor participation

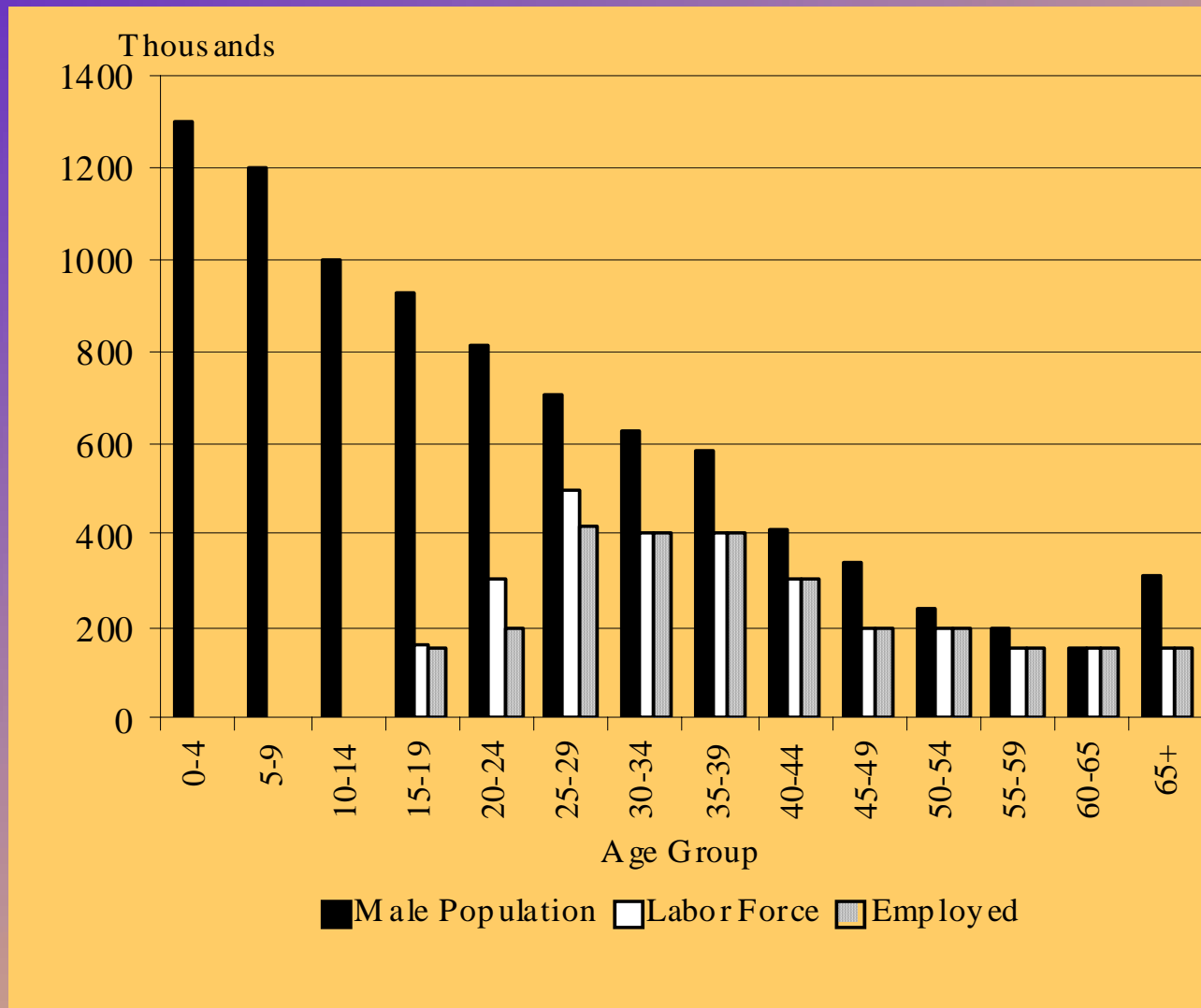
- The **age composition** of the Saudi population will put increasing pressure on labor participation levels in the years ahead.
- From available government data, the male participation employment levels are more significant in the **older age groups**, but worse off in the younger 15-24 year age group.



## (Contd....)

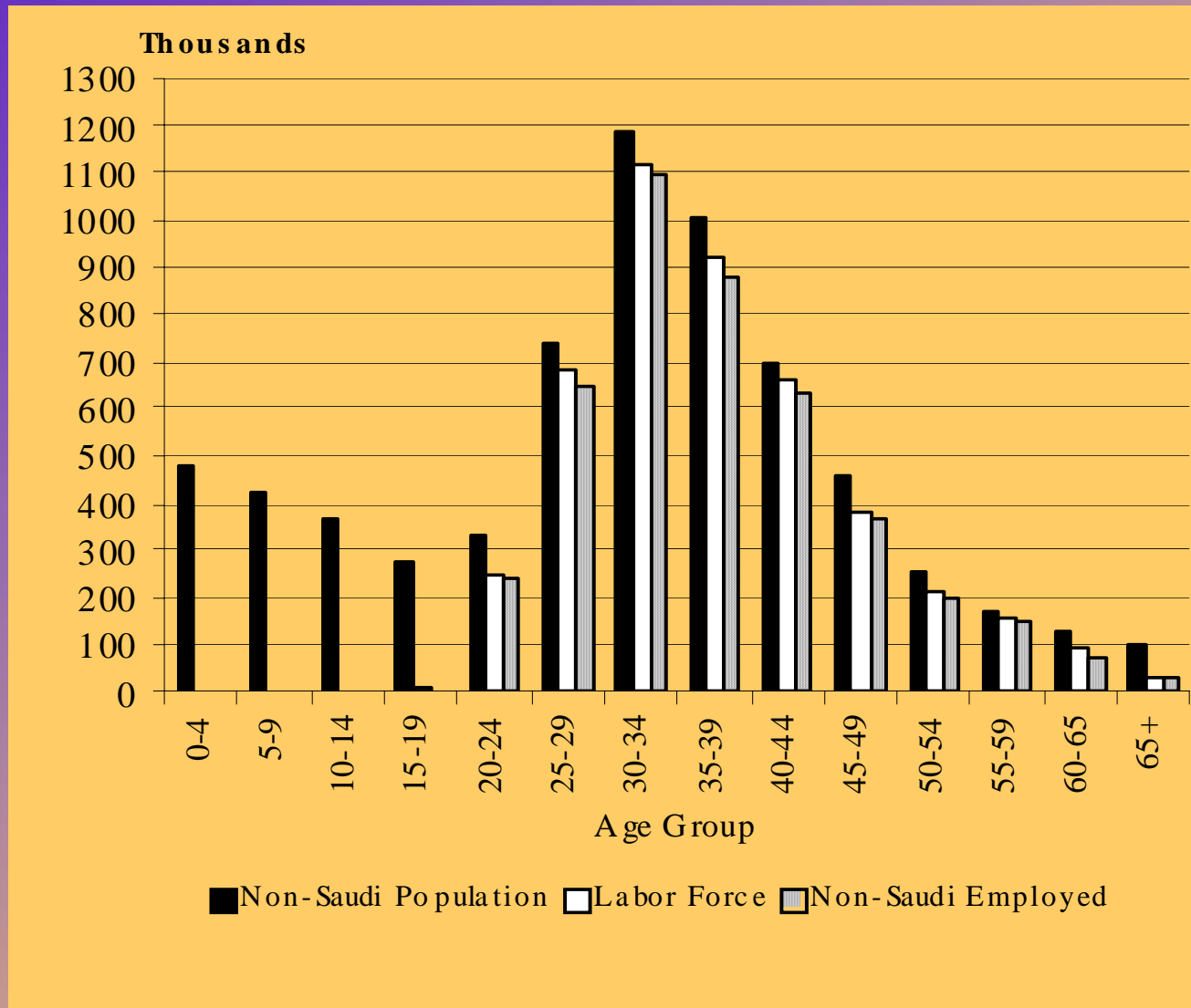
- **Unemployment amongst Saudi males is positively correlated with age:** the younger the age group, the higher the unemployment levels ,posing potential social problems in the future.
- The **non-Saudi population** exhibits a different employment pattern, with high employment patterns for the older age groups, but the younger expatriates are technically non-employable dependents up to the age of 19.

**Figure 12.9. Saudi male population and employed 2008  
(male and female expatriates excluded)**



Source: SAMA, Ministry of Planning.

**Figure 12.10. Non-Saudi population and employed, 2008**



Source: SAMA, Ministry of Planning.

# Education and labor participation levels: the phenomenon of “educated unemployed”

- Emphasis is now on **education and increasing Saudi labor productivity** as being of more prominence for economic development.
- Budgetary education expenditure has been increasing.
- The aim is to ensure that both the number **and** quality of Saudi job seekers are enhanced for jobs needed by the Saudi labor market.

## (Contd.....)

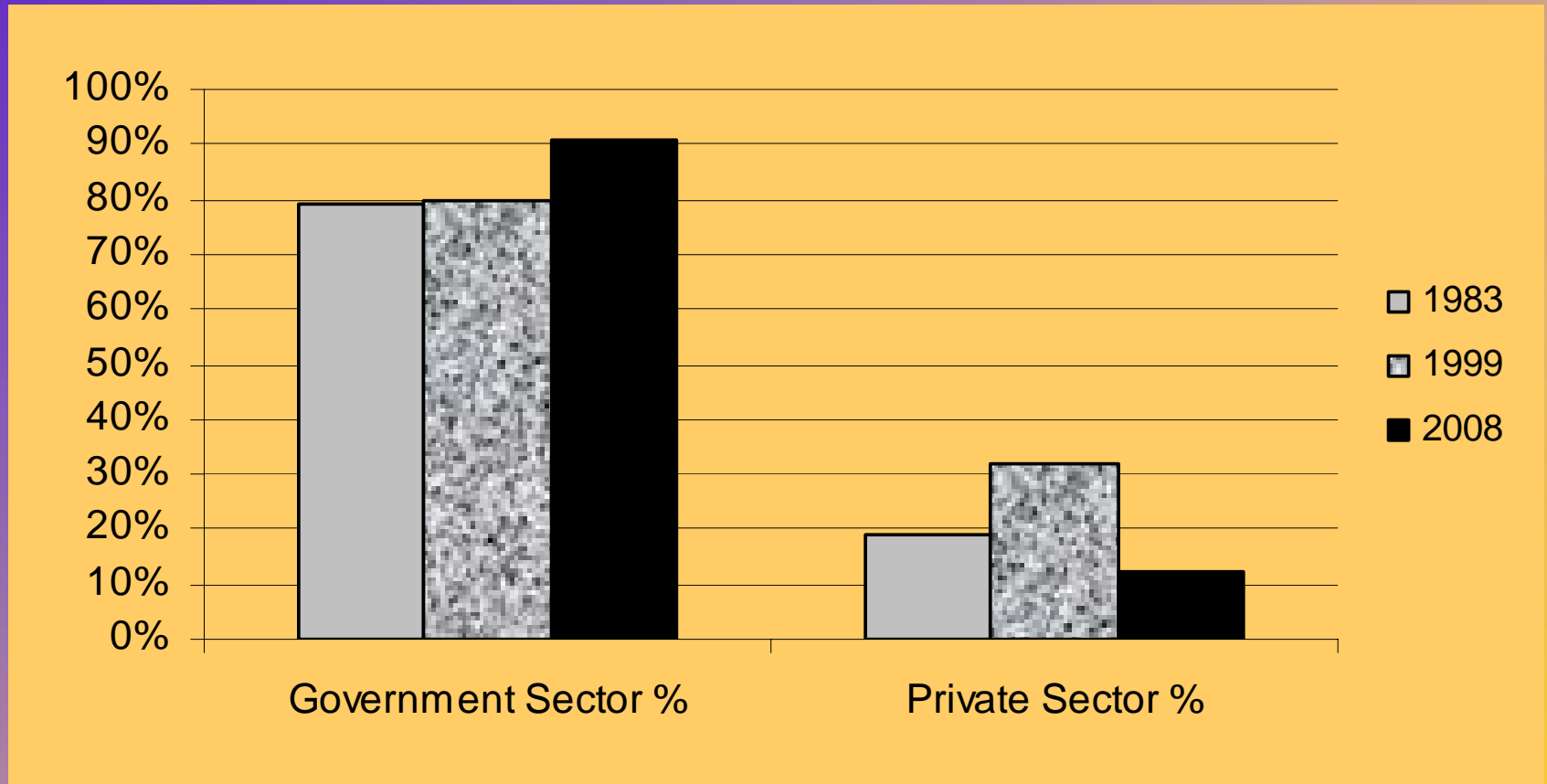
- Despite massive expenditure on education, there is now **increasing unemployment even amongst educated Saudis**, including those holding Bachelor and higher degrees seeking jobs since 2002.
- This has given rise to the phenomenon of **“educated unemployed”** – whereby citizens of resource rich countries such as Saudi Arabia ,seek advanced education at home or abroad in order to obtain higher wage jobs but becoming **“voluntary unemployed”** and refusing to accept lower paid available jobs when the higher paid “resource rich” wage jobs are not available.
- Their preference is also for **government jobs**, hence the imbalanced Saudi labor force in the private and public sector.

**Table 12.13. Breakdown of registered Saudi job seekers by educational level (1997-2008)**

<i>Educational level</i>	<i>1997</i>	<i>2002</i>	<i>2006</i>	<i>2008</i>
Illiterate	6,316	1,725	658	472
Literate	7,910	2,406	4,044	1,991
Primary School	16,943	13,187	18,097	24,691
Intermediate School	11,980	15,401	23,220	43,135
High School	10,083	27,217	44,571	50,411
Diploma	-	-	13,484	14,933
Bachelor	2,141	4,321	16,191	11,461
Higher Education (Masters/Ph.D.'s)	-	-	122	103
<b>TOTAL</b>	<b>55,373</b>	<b>64,257</b>	<b>120,387</b>	<b>147,197</b>

**Source:** *ARAMCO*

**Figure 12.11. Saudis employed in government and private sectors as % of total employment (1983-2008)**



**Source: SAMA**

# Preference for Government sector employment

- **On average**, public sector pay and benefits are higher than those in the private sector at education levels one through eight.
- Government employees also benefited from **mandatory salary increases** during 2008/2009, when inflation rates rose in Saudi Arabia.
- All this, **plus security of job holders**, makes public sector jobs attractive, creating a further pool of “**educated unemployed**” who prefer to remain voluntarily unemployed while seeking for such higher paid (but scarce) “resource rich” jobs, than accept lower paid available jobs.

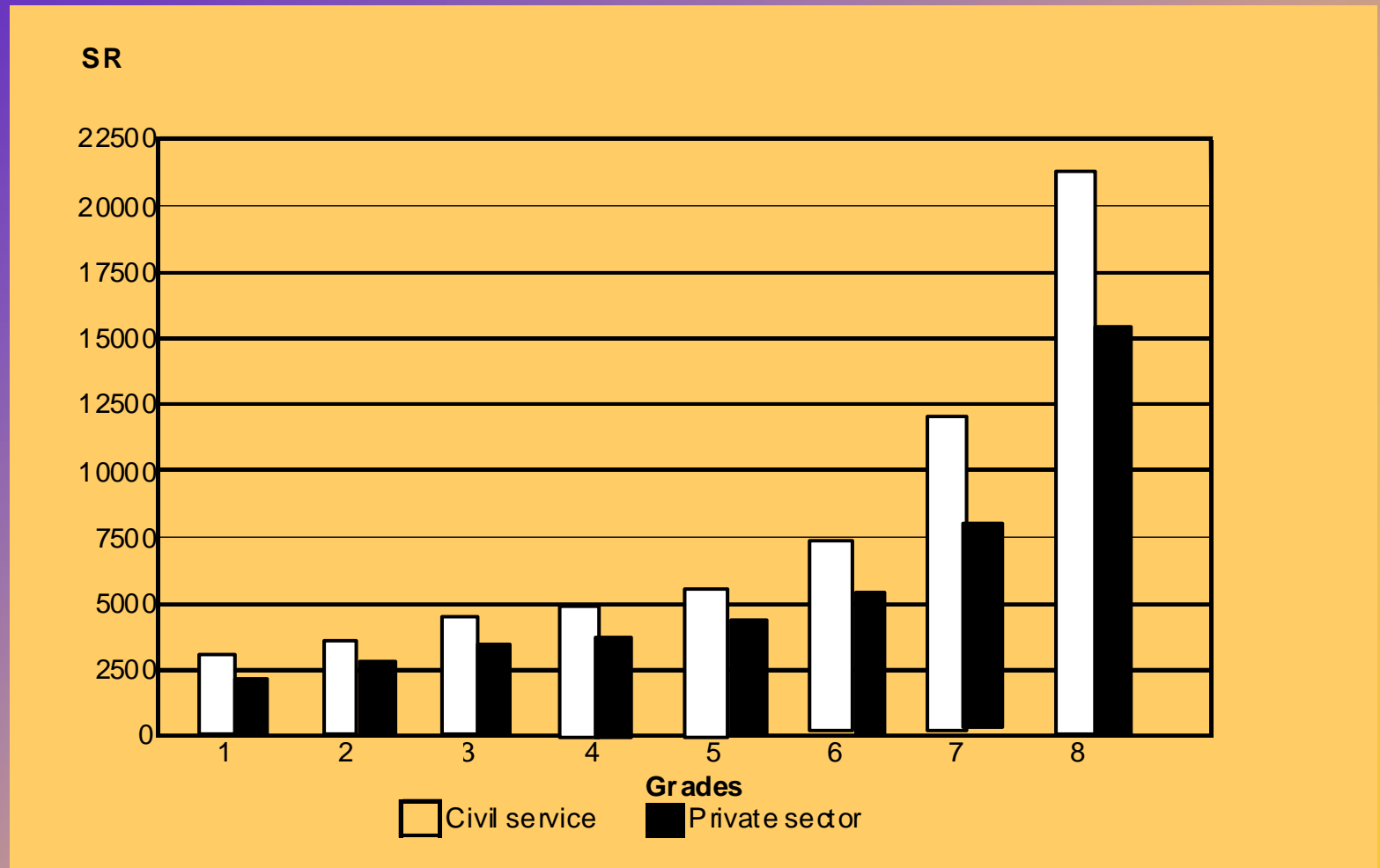


## (Contd....)

- The result is often a **significant national human capital and budgetary drain on the government's salary expenditures.**
- For some years, such as **1994 and 1999** when oil prices fell sharply, the government's wage bill reached nearly 100% of oil revenues, and 57% of total government expenditures.

**This is unsustainable.**

**Figure 12.12 Saudi Civil Service and private sector monthly wages by educational grade levels (average 2005-2008)**



**Source: Central Department of Statistics**

**Table 12.14. Government wage bill as % of government expenditure and oil revenue 1994-2008**

<i>Year</i>	<i>Government wage bill as of percentage of:</i>			<i>Investment expenditure as % of total Gov't. expenditure</i>
	<i>GDP</i>	<i>government expenditure</i>	<i>oil revenue</i>	
1994	18.0%	51.1%	91.5%	14.0%
1996	16.0%	45.6%	66.4%	13.5%
1999	23.0%	56.0%	98.6%	9.0%
2002	16.25%	50.2%	70.3%	12.8%
2007	8.5%	27.1%	22.4%	25.5%
2008	7.9%	26.9%	14.2%	25.2%

Source: *SAMA, Ministry of Planning, National Accounts of Saudi Arabia.*

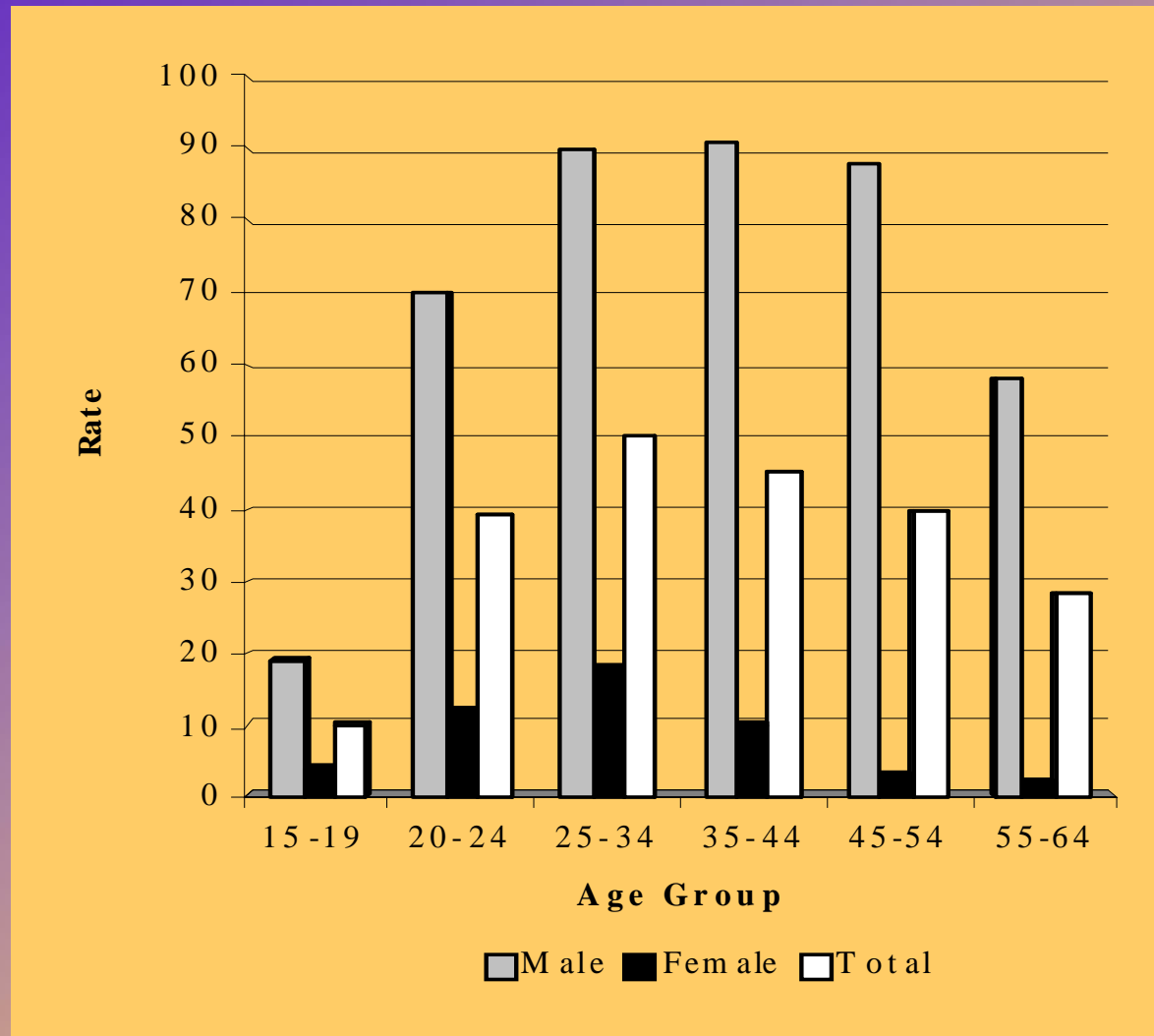
## **Female labor participation: still low**

- The Kingdom has achieved great strides to eliminate gender disparity at the **educational** level despite girls' education being introduced later than boys' in the 1960's,
- However, the **level of female labor participation lacks behind that of Saudi males.**
- Female labor participation is higher in the 25-44 age group, but is lower than males in the 15-19, as well as the older age groups above 45 years.

# The reasons are many for this female disparity

- With potential and family commitments, one would expect this trend in the older female age groups, as well as the **few job openings available** for females, except for government teaching positions.
- The fact remains that a mere **6.5% of the 3.95 million Saudi Arabia females aged between 19-41 were in formal employment in 2008, one of the lowest participation rates in the world.**

**Figure 12.13. Participation rates by gender and age group, 2007**



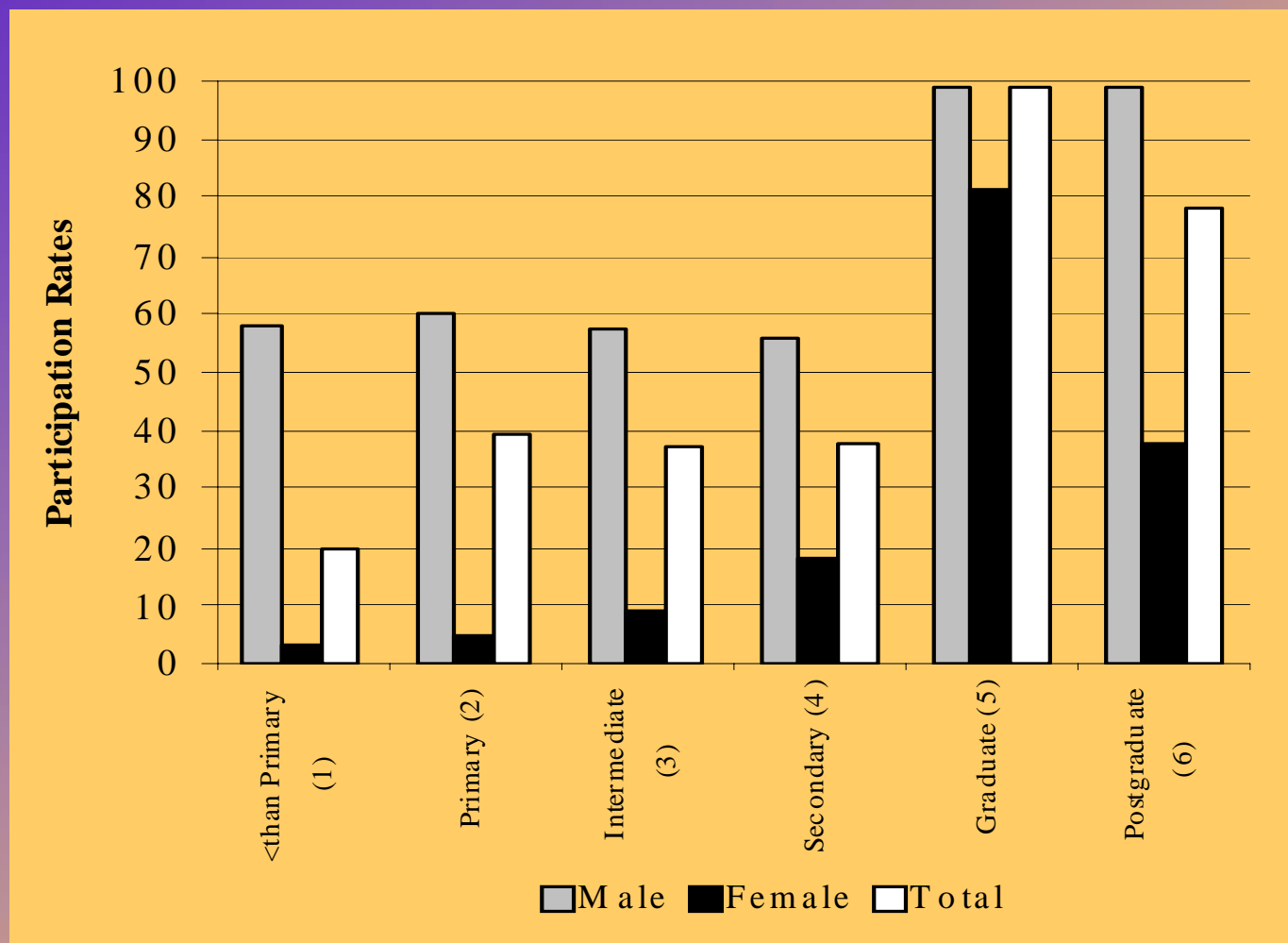
**Source: Ministry of Planning, SAMA.**

- The low female participation rate however seems to **under-estimate** several factors:
  - a) Total employment statistics included those **formally** employed, but **excluded** those females not **working** in agriculture and other traditional occupations.
  - b) The employment statistics do **not take into account** females employed in small and family run businesses, or those working from home.

- There is increasing emphasis by the government to **provide more employment opportunities for Saudi females**, but social customs and beliefs are strong barriers to wider labor participation.
- **Expansion of female education** has encouraged many females to seek further education and seek employment but most **still work in the services sector, education, health and social services**.
- There is a positive correlation between higher educated Saudi females and labor participation levels, with females with lower education being disadvantaged.



**Figure 12.14. Participation rates by gender and educational level 2007**



**Source: Ministry of Planning, SAMA.**

# Counting the cost of Saudi unemployment

- Besides the **social cost of unemployment**, there is often a **loss to the “real” economy** due to economic waste, or a rise in the **“potential output gap”**, which measures the loss in GDP output through unemployed resources.
- One such measurement is using **OKUN’S LAW**, an empirical based research that states that each extra percentage point of cyclical unemployment is associated with approximately a **TWO PERCENT POINT** increase or decrease in GDP output gap.

## (Contd...)

- When the actual **output** is **below** potential output, it is called an **a recessionary** gap and when **actual** output is **above** potential output it is called an **expansionary** gap.
- Estimates using OKUN'S LAW for Saudi Arabia for the period 1993-2008 ,reveals significant potential output losses due to high and increasing unemployment amounting to around **SR 968 billion** for the period 1993-2008.

# Table 12.15. Saudi unemployment and potential GDP losses 1993-2008

	(1)	(2)	(3)	(4)	(5)	(6)
<i>Year</i>	<i>Non-Oil GDP at Producer Prices (SR bn)</i>	<i>Unemploy- ment Rate %</i>	<i>% Natural Rate of Unemploy- ment %</i>	<i>Output Gap (%)</i>	<i>Value of Output Gap (SR Bn)</i>	<i>Potential Output (SR Bn)</i>
	(Y)	(U)	(U*)			(Y*)
1993	296.8	7%	5%	4%	11.9	308.6
1994	304.1	8%	6%	4%	12.2	316.3
1995	314.9	9%	6%	6%	18.9	333.8
1996	328.9	9%	7%	4%	13.2	342.1
1997	347.5	11%	8%	6%	20.8	368.3
1998	351.8	12%	9%	6%	21.1	372.9
1999	361.9	13%	9%	8%	28.9	390.8
2000	379.6	15%	10%	10%	37.9	417.5
2001	390.9	18%	11%	14%	54.7	445.6
2002	402.6	20%	12%	16%	64.4	467.0
2003	473.1	21%	13%	16%	25.3	548.7
2004	514.7	22%	13%	18%	92.6	607.3
2005	554.1	25%	14%	22%	121.9	676.0
2006	603.8	28%	15%	26%	156.9	760.7
2007	641.9	27%	15%	24%	154.1	796.0
2008	685.8	25%	15%	20%	137.2	823.0

**Legend:**  $Y$  = Real Output;  $Y^*$  = Potential Output  
 $U$  = Unemployment Rate  $U^*$  = Natural Rate of Unemployment

Sources: Author's own forecasts for ( $U^*$ )  
Central Department of Statistics, Media Reports, SAMA, 2002

**Footnotes:** "Output Gap" is measured by subtracting (3) from (2) and multiplying by a factor of 2 as per Okun's formula. The resultant % is multiplied to actual GDP (1) to arrive at value of output gap in (5). Potential output (6) is derived from adding (1) plus (5).

# Conclusions

- The **Saudi labor model** seemed to have been built upon several premises:
  - A **continuous** level of high economic growth which was not sustainable.
  - **Continued** high oil prices
  - Availability of **highly paid jobs** in the public sector.
- The old model **could not be sustained** and a new level of modest expectations, realism and adaptation to changed labor market needs has crept in, with once shunned jobs now being taken up by young Saudis.