

G20

Country Policy Briefs



International
Labour
Office

SAUDI ARABIA

Argentina
Australia
Brazil
Canada
China
France
Germany
India
Indonesia
Italy
Japan
Korea, Republic of
Mexico
Russian Federation

South Africa
Spain
Turkey
United Kingdom
United States

G20 Meeting of Labour and Employment Ministers
26–27 September 2011, Paris

The Saudi Employment Strategy

Saudi Arabia's Council of Ministers adopted the Saudi Employment Strategy in July 2009, at a time that coincided with the slowdown in the country's economy induced by the global financial and economic crisis. Although the Strategy had been in preparation by the Ministry of Labour well before the crisis started, its integrated methodology, objectives and policies are seen as a move towards addressing labour market issues efficiently, representing "an important support to the national economy which has proved its success in the face of the global financial crisis".¹ The Strategy also complements continued efforts to diversify the Saudi economy through its focus on improving the employability and productivity of Saudi nationals in preparation for employment in emerging sectors of the economy.

Employment creation, economic diversification

The Saudi Arabian labour market has long suffered from a variety of structural imbalances, including high dependence on foreign labour, a severe gender gap in the supply of labour, large wage disparities between similarly educated Saudis and non-Saudis² and high unemployment of Saudis, especially youth. Indeed, in 2009 the 10.5 per cent unemployment rate of Saudis was practically double the total unemployment rate of 5.7 per cent, and the unemployment rate for youth aged 20–24 was 30.2 per cent, reaching 39.3 per cent for Saudi nationals in the same age bracket.

Two dominant and inter-related features of the Saudi labour market are the use of foreign workers in the private sector at wages and employment conditions that are unattractive to nationals, and the strong preference of nationals to work in the public sector.³ As a result, Saudis dominate employment in the public sector, and non-Saudis dominate employment in the private sector.

"Saudization" policies, which aim at indigenizing the labour force, with a particular focus on the private sector, have adopted different approaches. Some

measures entail direct imposition of minimum quotas for Saudi nationals in certain industries, as well as blanket reservation of certain occupations for Saudi nationals. Others focus on improving the skills and employability of Saudi workers and their access to jobs otherwise carried out by foreign workers, and on creating new employment opportunities for Saudi jobseekers in the private sector. In this latter regard, new employment creation is closely linked to the diversification of the Saudi economy away from the lucrative, though volatile, oil sector.

Saudization, however, historically has had limited success, with numeric targets rarely met. Challenges to greater employment of Saudis include a mismatch of skills due to deficiencies of the education system, entrenched perceptions preventing nationals from pursuing certain types of work, and the extremely low participation of women in the labour force. Productivity and competitiveness also pose challenges, with employers frequently hesitant to hire Saudis in lieu of non-Saudis, as their unit labour costs are often higher.

Redoubled efforts to improve labour market outcomes for nationals in recent years have included a series of employment-related plans and measures announced since 2008. Although they have partly dealt with the effects of the financial and economic crisis, their main aim has been to scale up existing programmes addressing structural imbalances in the Saudi labour market in the context of the Ninth Development Plan (2010–14). The Saudi Employment Strategy, developed by the Ministry of Labour, fleshes out the details of a comprehensive set of measures to redress imbalances in the Saudi labour market.

The Strategy has the following aims: a sustained increase in participation of the national workforce to reach full employment of Saudi citizens by providing an adequate number of opportunities at appropriate terms of pay and conditions; developing the country's competitive advantage based on its national human resources; and increasing the national workforce's productivity to a level comparable to advanced OECD countries.

Figure 1. General framework of the Saudi Employment Strategy

	Short term (2 years)	Medium term (3–5 years)	Long term (6–25 years)
Overall objectives	Controlling unemployment	Reducing the unemployment rate	Realizing competitive advantage for the national economy depending on national manpower
Interim targets	Increasing employment rates	Increasing the pace of growth in employment rates	Realizing full employment
Realization of full employment	Increasing participation rates	Increasing the pace of growth in participation rates	Achieving the highest possible level of participation rate
Maintenance of durable increase in national manpower participation	Increasing labour productivity	Increasing the pace of growth in labour productivity	Reaching the highest possible level of labour productivity rate
Raising Saudi labour productivity to match the standards of productivity in advanced economies			

Source: Ministry of Labour.

The Strategy covers a period of 25 years divided into the short, medium and long terms (figure 1). In the short term (the first two years) the objective is to bring the unemployment rate among Saudis under control, with policies aimed at reducing the reliance on foreign labour and employing Saudi male and female citizens at a rate equal to the number of new jobseekers. Such policies include the expansion of the labour market information system, prioritization of vacancies for citizens, offering incentives to the private sector to hire nationals, enhancing skills and building capacity.

In the medium term (the following three years) the objective is to reduce the unemployment rate. This is expected to be achieved through policies that aim to increase employment (with a greater focus on new job creation), participation and productivity.

In the long term (the remaining 20 years) the objective of the Strategy is to align the economy with Saudi Arabia's competitive advantage based on its national human resources. This is to be achieved through the adoption of long-term policies that would reorganize and reconstruct the labour market.

Each of these phases contains a range of policies ten in the short term, ten in the medium term and six in the long term. These are further broken down into a wide range of objectives and detailed implementation mechanisms and accompanied by performance-monitoring indicators. In view of the lengthy overall timeframe of the Strategy, greater flexibility is built into the longer term, to allow for changed circumstances over the course of the implementation period. While the Ministry of Labour is the lead authority, the Strategy envisages collaboration with a series of other line ministries, agencies, and non-governmental/private sector institutions, as detailed in its implementation

plan. The Strategy is not fully costed, although it estimates an initial annual funding requirement of 14.9 billion riyals (SAR) (approximately US\$4 billion).

New economic growth sectors

The short-term policies of the Strategy are strongly geared towards services provided by the Ministry of Labour, such as labour market intermediation and outreach to jobseekers. They also focus on strengthening the Ministry's monitoring and regulatory functions and further refinement of Saudization targets and policies, including incentives and penalties for non-compliance. These policies would in essence orient Saudis towards existing jobs in the private sector.

It is in the medium term that the direct links to economic diversification become apparent, as policies include stimulating economic activity outside main cities, using diversification to create work opportunities for Saudis, and developing human resources. Particular attention is paid to strengthening the role and programmes of the Human Resources Development Fund (HRDF) and, in turn, all fees imposed on foreign workers would be reoriented towards supporting the HRDF and the skills development of Saudi nationals.

The Kingdom's Ninth Development Plan for 2010–14, prepared by the Ministry of Economy and Planning, shows that economic diversification pursued under the Eighth Development Plan (2005–09) is expected to continue apace, with non-oil private sector services and productive activities (excluding agriculture) projected to increase in their relative contribution to GDP over the course of the Plan. Their total contribution to GDP is forecast to grow from 54.7 per cent in 2009 to 60 per cent by 2014. While agriculture, government services and the oil sector are also expected to grow, their relative contribution to GDP would decline.

Over the same period, the rapidly expanding electricity, gas and water sector (projected to grow by 7.6 per cent a year) is expected to witness the fastest employment growth, at 6.8 per cent a year (figure 2). In terms of occupations, most of the job growth is projected to be in industrial processes, as well as in technicians and specialists, clerical and sales occupations, and managers. The human resource development efforts foreseen in the Saudi Employment Strategy would therefore need to pay particular attention to such professions (and growth sectors), in order to meet the targets set out in the Ninth Development Plan. It is not unreasonable to expect that there will be consistency in the implementation of these two strategic frameworks, as the Saudi Employment Strategy is clearly introduced in the Manpower and Labour Market chapter of the Ninth Development Plan.

While the Strategy may succeed in equipping an increasingly educated Saudi labour force with the skills required in new economic growth sectors, the higher cost of Saudi labour relative to foreign workers may continue to pose an obstacle to reducing the level of unemployment of Saudis as the private sector focuses on its own competitiveness. In the longer term, competitiveness can be secured by improving productivity and competing in higher value added sectors. This approach is embodied in the medium- and long-term phases of the Strategy, as well as in the broader national development framework. In the meantime, however, greater regulation of entry of foreign workers will be necessary to achieve Saudization objectives. The Strategy does stipulate a gradual reduction in expatriate workers, though in the past the government has succumbed to private sector pressures to allow in more foreign workers. Nonetheless, the number of work visas issued to foreigners fell to

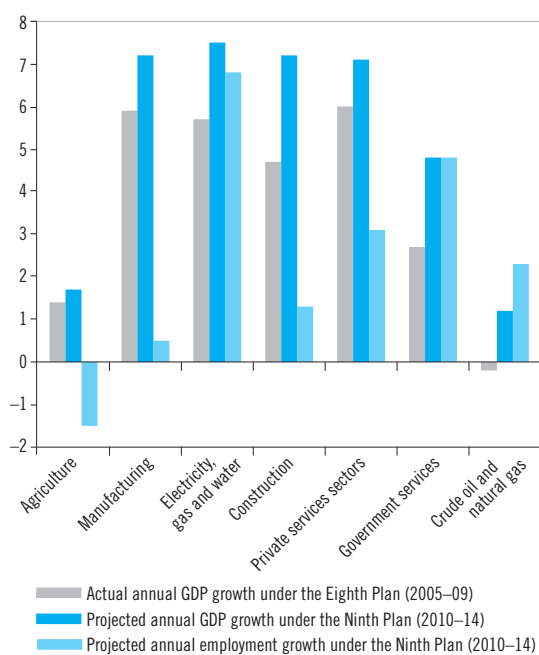
982,420 in 2009, from over 1.2 million the previous year, although this was still more than double the number issued in 2005.⁴

Learning from others

The development of a national employment strategy provides the opportunity to articulate a coherent and comprehensive vision and framework that brings together several policy and programme areas impacting on the demand and the supply of labour and on the functioning of labour market institutions, as called for in the ILO Employment Policy Convention, 1964 (No. 122). Many countries have adopted national employment strategies or policies, with differing areas of focus. Policies geared towards global integration as a core element of growth and employment promotion are present in the national employment policies of open economies in East and South-East Asia, while in Latin America there is a tendency to focus on labour market policies and conditional cash transfers. Many strategies aim to make employment a central and accountable target of economic policies, and this requires commitment and action that goes well beyond the mandate of ministries of labour.

A broad strategy such as the Saudi Employment Strategy may well evolve with a mixed record of successes and failures. In 2000, a mid-term review of the first European Employment Strategy commended it for increased involvement of a large number of actors at both European and national level; a heightened transparency of employment policies; and greater political accountability for the actions taken. On the other hand, it also identified an array of weaknesses including regional differences in labour market performance; skills gaps; an exclusive focus on employability, with a lack of interest in modernization and innovation; and poor social partnerships within EU Member States.⁵ The degree to which the Saudi Employment Strategy is embedded in national legislative and development frameworks will also influence its overall implementation and ultimate impact. Finally, resourcing of the Strategy will also be critical to its success. The Strategy itself proposes to learn from the success of Denmark, where unemployment fell from 9.6 per cent in 1993 to 4.4 per cent in 2000. Danish expenditure on labour market programmes during that period reached about 5 per cent of GDP.

Figure 2. Annual GDP and employment growth by sector (%)



Source: Ninth Development Plan, Kingdom of Saudi Arabia.

Focus on active programmes

The Saudi Employment Strategy provides a welcome articulation of a dynamic vision of the labour market and is a comprehensive blueprint to address persistent imbalances, including clear and measurable goals, policies and mechanisms of implementation. There are, however, ongoing challenges to ensuring its success. Adequate resourcing of the Strategy will be essential, but not sufficient. Policy coherence will be critical. Investing in human resources will not improve the employment prospects for Saudi nationals in the private sector without a better control of the entry of

References:

Banque Saudi Fransi. 2011. "Employment Quandary", 16 February (Riyadh).

De Kerros, T. 2011. "Saudi Arabia: From national strategies to economic realities", in *The Entrepreneurialist*, 18 March.

International Labour Office (ILO). 2010. *Employment policies for social justice and a fair globalization*. Recurrent item report on employment, 99th Session of the International Labour Conference, 2010 (Geneva).

International Monetary Fund (IMF). 2011. *Regional Economic Outlook: Middle East and Central Asia*, April (Washington, DC).

Looney, R. 2004. "Saudization and Sound Economic Reforms: Are the Two Compatible?", in *Strategic Insights*, Vol. III, Issue 2, February.

Ministry of Economy and Planning of the Kingdom of Saudi Arabia. 2010. *The Ninth Development Plan 2010–2014* (Riyadh).

Ministry of Labour of the Kingdom of Saudi Arabia. 2009. *Saudi Employment Strategy* (Riyadh).

Palmer, G.; Edwards, S. (eds). 2004. *Reflections on the European Employment Strategy: How relevant to the UK?*, New Policy Institute (London).

foreign labour, or if employment and wages in the public sector are allowed to grow to the extent that a private sector job is not considered an attractive prospect. In parallel, adequate conditions of work must be secured in the private sector and should apply to all workers. Enhanced labour market information systems, as envisaged in the Strategy, will be required if impacts of policies are to be properly measured.

The success of Saudization and of the Saudi Employment Strategy very much depends on whether policies provide sustainable economic incentives that significantly boost the supply of, and demand for, Saudi workers. To this end, implementation of the Strategy should focus on active programmes that encourage labour market participation of Saudis. Improving labour supply also requires employees to feel adequately protected. In this regard, the absence of minimum wages in the private sector and limited social dialogue also need to be addressed.

¹ Saudi Press Agency, July 2009.

² The average wage of Saudi workers is 3.6 times higher than that of foreign workers.

³ Saudi nationals account for 92 per cent of employment in the public sector but only 13 per cent in the private sector.

⁴ Banque Saudi Fransi (2011).

⁵ Palmer and Edwards (2004).