

LOCALIZATION OF WORKFORCE IN SAUDI ARABIA: HISTORICAL REVIEW OF THE PROBLEM

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ABSTRACT: Recently Saudi government is facing the unemployment challenges due to high number of international labour working in the Saudi Arabia. This caused severe threat to the local workforce. The purpose of this study was to explore the persistence of the current unemployment crisis in Saudi Arabia and alternative strategies that might be designed to reduce unemployment in Saudi Arabia. Localization of the workforce is one of the major initiatives taken by the Saudi government to reduce the unemployment of their local workforce. The research proposes a framework for reducing the number of illegal expatriates. Current study comprehensively reviewed the effectiveness of the measure taken by the Saudi government. Literature indicated that the internalization of the workforce initiatives has significantly reduced the unemployment of the Saudi workforce. However the problem still exists and Saudi government and policy makers still required to develop more effective strategies to cop the situation.

Keywords: qualitative study, unemployment, illegal expatriates

INTRODUCTION

Saudi Arabia is one of the developed countries among whole the world that exports a large amount of skilled workers to be employed for evolution of the kingdom. In addition the hired workers produce adverse effects which create a problem of employment of the local citizen. Moreover, the Kingdom of Saudi Arabia has a paucity of worker force, unbalanced population distribution, insufficient educational institutions and some social restraints preventing the citizen from joining the work force. Nevertheless, the rapid increase in Saudi Arabian oil revenues since early 1970's, gave an opportunities to the kingdom to proceed with enormous development efforts leading to the creation and implementation of the government's Five Year Development Plans (1970-2000), which targeted the plan and control all aspects of the Saudi Arabia's development, including human resources development [1]-[2].

The main problem faced in implementing all plans which initiated by the governments is the lack of skilled local

manpower. This problem has been addressed through the use of expatriate labour as a temporary solution at the beginning of the first development plan in last four decades. The study which conducted by [3], and Ministry of Planning 1995 illustrated that, expatriates have made up a large and increasing percentage of the employed work force: from about 27% in 1970, to about 84% in 1995. According to the Central Department of Statistics and Information (CDSI) report (2014), the unemployment rate in Saudi Arabia was 11.8% in 2014. The work which conducted by [4], reviewed that the total workforce (Saudis and non-Saudis) above the age of 15 years is 11,739,303 individuals, which is approximately 54.1% of the total population of the Saudi Arabia. The total number of employed people in the total workforce is 11,067,673 workers which is 94.3% of the total workforce. The number of unemployed people is 671,630 which is approximately 5.7% of the total workforce (Saudis and non-Saudis). Figure1 presents the unemployment rates among Saudis and non-Saudis from 1999 to 2013 [4].

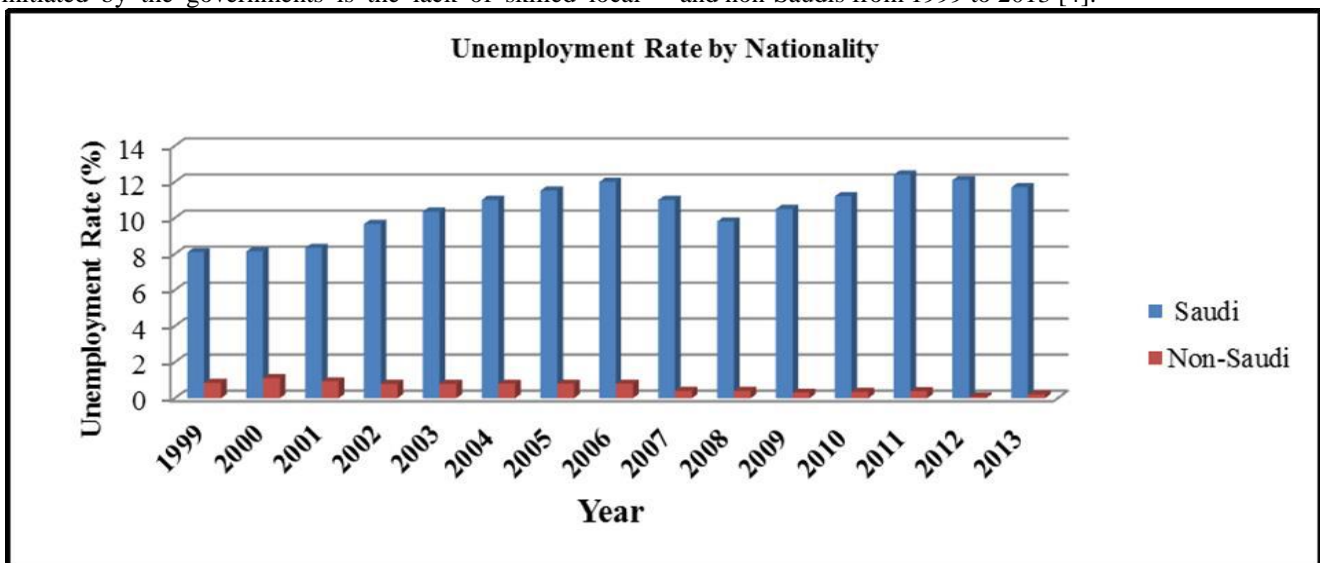


Figure1: Presents the unemployment rates among Saudis and non-Saudis from 1999 to 2013[4].

A high unemployment rate among the original work force, negative cash flow in the national economy, and high cost of providing social and infrastructure services for the expatriates and their dependents are just few of the

problems that are created by a heavy reliance on the expatriate workforce. Throughout the previous national plans, developing human resources and reducing the dependency on an expatriate work force were one of the

objectives of these plans. These efforts have led to an indigenization of the workforce or in this case a Saudization process. The indigenization can be defined as the process by which the total labour force is nationalized and expatriate workers are replaced by Saudis. It involves gradual control of vital and key occupations and positions in the labour market until the Saudis eventually take complete control [5].

Compared to other countries, the problem is different since it increases; many expatriates in Saudi Arabia are already employed in their markets while citizens are seeking jobs. The most recent figures in Saudi Arabia, there are 1.4 million unemployed citizens and 8 million expatriates working in the labour market [6]. As of the result, resolving this issue has become the most important matter for the Saudi Ministry of Labour (MoL). National employment systems have been established to tackle the unemployment dilemma between citizens while the labour market flooded by expatriates. Lack of performance measurement indices and monitoring mechanism for these systems caused failure to provide jobs to citizens and caused a state of confusion and dissatisfaction among employers. In 2011, the Saudi government established a new project for boosting citizen's employment in the private sector. Although, the problem is practical, Reference in literature shows that very little emphasis have been put in illegal workers and cover-up activities. Thus, the fundamental problem explored in this research.

History of foreign workers in Saudi Arabia

When American experts discovered oil in the Eastern Province in 1938, the economy of Saudi Arabia was altered dramatically. Towns became cities, Bedouins departed deserts, and many fishermen in the eastern and western parts of Saudi Arabia started working for the Arabian American Oil Company (ARAMCO) and other related companies. Life was revolutionized within a short span of time. Foreign labour started to arrive in millions, as they were required in big numbers. Saudi government became rich and so did its citizens. Local people, who only decades ago used to be self-sufficient and humble in their lifestyle, became dependent on foreign workers. Most significantly, the development of the new projects was tremendous and there was a large need for employees to fill the job openings at these projects. Because of oil revenue, the KSA emerged as one of the largest economies in the Middle East and the North African region. This Kingdom's economy relies heavily on oil revenues, which make up more than 90% of the total GDP [7]. During the oil boom of the 1970s, government human resource efforts failed to meet the need for a skilled workforce [8]. This resulted in a further need for foreign labour. During the same era, the local workforce was concentrated in fulfilling public sector jobs such as police, firefighters, teachers, and other governmental jobs. Alzalabani (2004) [9] explained that during the 1980s, the Saudi government realized that it was not able to continue to provide government jobs to Saudi citizens indefinitely, but in the meantime, it showed a lax approach to Saudization [10]. Furthermore, in the 5-year development plans (1995–2000), the government sets a goal to create nearly 319,500 private jobs through Saudization. Instead of reducing the foreign workforce, the number of expatriates targeted during the period grew by

58,400 [11]. The problem continued to exist and the private sector became saturated with low-paid expatriates as a result [12 –[13].

REVIEW OF LITERATURE

The unemployment rate has been increased in the last few decades and became a very political issue for the Saudi government. Those unemployed cannot afford the basic needs for themselves and their dependents; high unemployment generally results in an increase in crime and may reduce the everyday importance of ethical values.

In 2010, the KSA's population was 27,563,432. This number included 8,589,817 non-nationals (CDSI, 2013). The total labour force of the KSA was 6,991,200. This number included 724,655 Saudis (669,037 male and 55,618 female) and 6,266,545 non-Saudis (6,187,130 male and 88,415 female; Ministry of Labour [MOL], 2010). The number of non-Saudis in the Saudi Arabian workforce represents 47.267%. (Ministry of Labour, 2011)

Throughout the Gulf Cooperation Council (GCC), which consists of the Kingdom of Saudi Arabia (KSA), the Kingdom of Bahrain, Kuwait, Qatar, Sultanate of Oman, and the United Arab Emirates, local employment has become an issue of concern. In these GCC countries, localization programmes designed to increase the participation of citizens in the workforce have been in place for several decades [14]. This development has long been associated with the growing petroleum industry since the late 1930s in most GCC countries. The World Bank (2004) reported this as an unprecedented job creation challenge for the member states. According to the World Bank report, economists in these countries implied that there need to be millions of jobs to be created across the entire member states of the GCC by 2020. Saudi Arabia, which has the largest economy, population, and geographic size of the GCC member states, faces the most difficult challenge among them all. The increase of foreign workers in Saudi Arabia and the shortage of job opportunities for Saudi citizens pressured the Saudi government to take swift measures to reduce the impact on Saudi citizens who seek employment. This realization led to coining the term 'Saudization', which refers to a development strategy to train Saudi citizens to replace foreign workers. The term was coined by the Saudi government in the 1970s but its initiation in Saudi economy started in the year 1994. Saudi government implemented the Saudization programme intensively through the Sixth development plan (1995–1999). Saudization policy for private sectors promulgated through a ministerial decree in 1995 declared that private companies with more than 20 employees should reduce the number of non-Saudis by 5% annually. They were warned that non-compliance will attract denial of certain types of government support, a freeze on visa application for new recruits, and non-renewal of existing work permits of expatriate workforce (Ministry of Planning 1995 as quoted by Sadi and Al-Buraey 2009). Job creation has been one of the major issues facing the Kingdom for the past several decades [13]. Saudi economy has been heavily dependent on foreign workers [14] and has undertaken many steps to involve and employ its citizen proactively. Al-Harbi [15] refers to Saudization as replacement of expatriate labour force with a trained and qualified Saudi labour force in a planned and phase-wise manner. Thus, Saudization focuses

particularly on the Saudi youth, and a high rate of unemployment among the youth makes it mandatory for the government to take initiative to involve the youth in gainful employment. The recent events of the Arab Spring intensified the process of job creation, and the Saudi government has to take swift and measureable steps to decrease the unemployment rates. It is widely believed that one of the main reasons for the Arab Spring was unemployment. Fayad *et al* [16] reported that only 36% of the entire workforce in the KSA are Saudi citizens. This means more than 60% of the workforce in the Kingdom is non-Saudis. This further explains some of the dissatisfaction of many Saudis youth that was visible in the later part of the year 2011 and 2012. The current unemployment rate is 12% according to the Ministry of Labor that is a challenge for the government to deal with,

and recently, government has initiated the Hafiz programme for the unemployed youths, which has accelerated the process of Saudization with new fervour.

Table 1 sets out the national employment structure as of 1999 and 2009 as per the Seventh and Eighth Development Plans. The government's clear aim was to ensure that the main growth of the labour market comes from the private non-oil sector and this was forecasted to grow from 2,422 million Saudis in 1999 to 3,927 million by 2009 or a 62% increase. The overall *Saudization* ratio would rise from 44.2% in 1999 to 51.5% by 2009 for both the public and private sector as illustrated in Table 1. According to the Ministry of Planning, the main growth rate for employment would be generated from the industrial, trade and service sectors, as illustrated in Table 2, while the agricultural and energy sectors would see the smallest labour gains.

	1999		2014	
	Number of workers (000)	% distribution	Number of workers (000)	% distribution
Total Labour force	7176.3	100	9221.3	100
Saudis	3172.9	44.2	4747.1	98.5
Non Saudis	4003.4	55.8	4474.2	51.5
Total Labor at government sector	916.2	12.8	988.0	100
Saudis	716.5	78.2	820.0	82.9
Non Saudis	199.7	21.8	168.0	17.1
Total Labor at private sector	6260.1	87.2	8233.3	100
Saudis	2422.7	38.7	3927.1	47.6
Non Saudis	3837.4	61.3	4306.2	52.4

Table 1: Structure of the forecasted labour market in the Kingdom – Saudis and non-Saudis

	2004		2009		Change from 2004-2009		Growth rate (%)
	Number (000)	%	Number (000)	%	Number (000)	%	
Agriculture	596.7	7.2	602.6	6.5	5.89	0.6	0.2
Non-oil mining and 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	127.4	13.6	3.88
Electricity, gas and water	77.3	0.9	76.7	0.8	-0.64	-0.1	-0.17
Building and construction	1585.2	19.1	1772.4	19.2	187.18	19.9	2.26

Good producing sectors	2927.6	35.3	3252.6	35.2	324.98	34.6	2.13
Trade, restaurants and hotels	1137.1	13.7	1417.5	15.4	280.31	29.8	4.51
Transport and communication	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 and personal services	2330	28.1	2433.2	26.4	103.23	11	0.87
Service sectors	4148.3	50.1	4615.5	50.1	467.25	49.7	2.16
Total private sectors	7075.9	85.4	7868.1	85.3	792.23	84.3	2.15
Government services	1105.4	13.3	1236.9	13.4	131.49	14	2.27
Non oil sectors	8181.3	98.8	9105	98.7	923.72	98.3	2.16
Crude oil and gas	100.5	1.2	116.3	1.3	15.72	1.7	2.95
Total labour	8281.8	100	9221.3	100	939.44	100	2.17

Table 2: Structure of the forecasted labour market in the Kingdom – Saudis and non-Saudis

Source : Ministry of planning.

Table 2 illustrates that while the government had optimistically forecasted the increase in Saudi employment in the private sector by a massive 370%, the actual Saudi private sector labour force was 829,000 in 2008 as opposed to the forecasted 3.9 million. The Ministry of Planning seemed to have been on target for the government positions, especially for Saudis, as such positions have to be budgeted and approved beforehand as per civil service employment regulations, and there is more certainty and control over labour force entrants to the government sector. The policy of *Saudization* or the manner in which it has been applied has not, on the above private sector employment evidence, seemed to have met national goals.

CONCLUSION

Saudi Arabia is a young wealthy nation with multiple social and economic problems. While the country is extremely wealthy, it has a young population, many of whom are unemployed. The country is highly dependent on a single resource (oil), and relies heavily on imported labour to meet the requirements of economic growth and contribute to the development of the country. In recognition of these systemic problems, the Government has developed a policy of 'Saudization' as a way of replacing expatriate with Saudi workers as a way of solving the problem of unemployment. With Saudi Arabia having developed relatively recently, the thesis begins by providing an historical overview of the establishment of the Kingdom and at the impact of the 1970s oil boom. It focuses on the labour market, the role of religion and on government

attempts to stem rising unemployment through the policy of Saudization. Prior research Studies have focused mostly about unemployment rate and quality of work. In addition, labour market indicators can be observed in literature reviewed, the assessment of the success of Saudization Programs in public and private sector organizations through an initiative of replacing expatriates with Saudi workers has been examined by previous researchers [17-18]. The current study aims to analyse the impact of saudiazation policy on the local unemployment. Review of the literature suggested that up to some extent the processes of localization of the workforce coped with the situation of the local workforce unemployment. However, the measure is not the only policy to reduce the unemployment in the Saudi Arabia.

Limitations

This study was faced with several limitations due to one: shortage of reliable data and two: social and cultural restrictions. Obtaining the data necessary to formulate and write this research was an obstacle throughout. Available unbiased resources were limited and we constantly faced with the dilemma of verifying which of the conflicting data is more accurate and to which degree they represent a more recent application of the policy. Government website are unfriendly and fall short of supplying straightforward statistics and in many cases (such as more detailed and actual information regarding expatriates' distribution over sectors according to qualifications for example) do not exist. In most cases, government representatives did not have all the recent data

and were not aware of their duty in pointing out where or who can provide it. Available research on Saudization is limited to a one-stakeholder view and in the majority is biased to the government's favour. Comprehensive research on Saudization from all stakeholder's view and practice is unavailable and almost never backed up by fieldwork. The researcher recommends studies of different sectors of the economy's needs of labour. The Saudi labour's future will benefit from the outcome of research on the different sectors requirement of specialized labour and the outcome will certainly encourage the policy makers and private investors to respond in terms of providing youth with those educational needs.

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