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Unemployment in Saudi Arabia: Assessment of the Saudization program and the imperatives leading to youth unemployment

Saud Kabli

The American University in Cairo

School of Global Affairs and Public Policy

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A Thesis Submitted to the

Department of Public Policy and Administration

in partial fulfillment of the requirements for

the Degree of Masters in Public Policy and Administration

By

Saud Abdulaziz Kabli

Under the Supervision of Dr. Hamid Ali

December 2014

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has been approved by the Committee composed of

Professor Hamid Ali _____
Thesis Supervisor
American University in Cairo
Date _____

Professor Bahgat Korany _____
Thesis First Reader
American University in Cairo
Date _____

Professor Ghada Barsoum_____
Thesis Second Reader
American University in Cairo
Date _____

Professor Hamid Ali_____
Public Policy and Administration Department Chair
Date _____

Ambassador Nabil Fahmy _____
Dean of GAPP
Date _____

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ABSTRACT

Unemployment is one of the biggest challenges facing the Kingdom of Saudi Arabia, especially among youth. The Saudi government embarked on a national plan to increase employment among nationals and decrease the number of foreign labor force. The Saudization program did not yield the expected results, and efforts were made to reform the program in 2011 under the "Nitaqat Program". Despite enhancements to the Saudization program, the analysis reveals that unemployment levels remained almost stagnant throughout the past decade. The Saudi labor force is increasing by a rate equal to the rate of employment among nationals, thus keeping unemployment rates stagnant. The Saudi labor market suffers from number of distortions; chiefly; the wage differential between nationals and non-nationals in the private sector, the wage differential between nationals in both private and public sectors, and decreased labor productivity in the private sector. Also, the reservation wage among Saudi-nationals is high due to dependency ratio and the introduction of an unemployment benefit that is two-thirds the amount of the national minimum wage. On the other side the cost of foreign labor in the market remains low despite the introduction of measures to increase this cost on private sector employers. In addition, the education system has not catered to the needs of the labor market, which suffers a skill gap in demand and supply. The lack of vocational and technical skills is visible in the market, while a mismatch exists between higher education and labor market needs. The dependence of the Saudization program on quota-based, legal-interventionist methods is proving to be a challenge, further attesting to the need to rely more on a market driven system. Unless the distortions in the labor market are addressed, the Saudization efforts will remain stagnant, since these distortions are creating an imperative for youth unemployment.

Keywords: Saudi Arabia, Unemployment, Saudization, Nitaqat Program, Labor Market, Youth, Wage Deferential, Reservation Wage, Labor Productivity, Labor Market Segmentation, Education and Labor Market, Vocational and Technical Education.

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Table of Abbreviations

CDSI	**Central Department of Statistics and Information**
GCC	**Gulf Cooperation Council**
GDP	**Gross Domestic Product**
GOSI	**General Organization for Social Insurance**
GOTEVT	**General Organization for Technical Education and Vocational Training**
HRDF	**Human Resources Development Fund**
HRDF	**Human Resources Development Fund**
KSA	**Kingdom of Saudi Arabia**
MCS	**Ministry of Civil Service**
MENA	**Middle East and North Africa**
MEP	**Ministry of Economy and Planning**
MOL	**Ministry of Labor**
OECD	**Organization for Economic Cooperation and Development**
SAMA	**Saudi Arabian Monetary Agency**
SAR	**Saudi Arabian Riyal**
SME	**Small and Medium Enterprises**
USD	**United States Dollar**

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I. Introduction

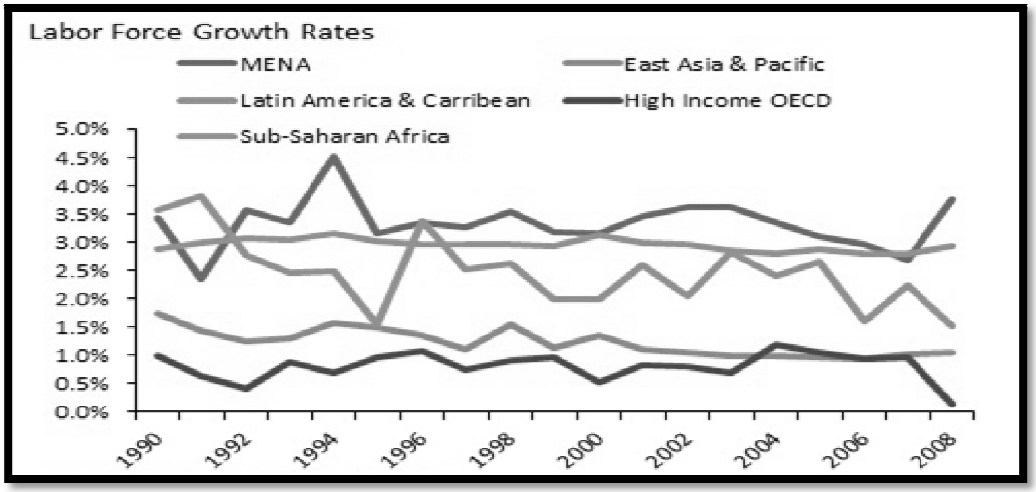
Youth unemployment is one of the predicaments the Arab World is suffering from; it is a main challenge that governments in the region need to face in a time when youth represent more than half the population of Arab societies. The Middle East and North Africa (MENA) regions registered the highest youth unemployment rate among the developing regions at 28.3 percent and 23.7 percent respectively (ILO, 2013). In addition, the MENA region registered the highest labor force growth rate in the world (Figure 1), surpassing even sub-Saharan Africa (Saif & Abdul Khalek, 2011). The failure to meet such unemployment challenge will have many implications; not least on the political stability of the countries as has been exposed by the Arab Spring wave in 2011, especially since two-thirds of MENA population is under 30 years, which is twice the number of the same age group in the United States. In general, the Arab World's performance in the area of human-capital development has been weak, and while high-income Arab states registered lower rates of unemployment in comparison to lower-income Arab states; Saudi Arabia, specifically; noted as the only exception of a high-income Arab state with a high unemployment rate (UNDP, 2009).

In this respect, the Saudi government introduced a national job-localization program, Saudization, with an aim to curb unemployment among Saudi nationals, by imposing a quota-based system that enforces the hiring of nationals in the private sector and reducing the number of non-national workers in the labor force. The Saudi economy is bloated with foreign expatriates, especially in the private sector where they represent a rough 3:1 ratio against nationals. The 'Saudization' program sought to decrease the number of non-national labor by means of enforceability through a quota-system regime, limiting work-permits for expatriates, and providing training programs for Saudi youth. However, this program became a source of scrutiny in KSA as the number of foreign-workers kept on increasing, while job-localization efforts remained stagnant, further attesting the challenge to attain the program's declared goals and objectives.

Both of Saudi Arabia's five-year development plans; the Seventh (2000–2004) and Eighth (2005-2009), targeted reducing the foreign labor-force in the country while

decreasing unemployment among Saudi nationals. Yet, throughout this period, the number of expatriates increased while unemployment rates among nationals remained stagnant. On the other hand, KSA economy registered high-growth levels and unprecedented government spending. In fact, the Saudi economy was creating jobs; however, these jobs went to non-nationals despite the stringent implementation of the Saudization program. This in turn raises questions over the feasibility of this program and the imperatives that lead to the continuous unemployment predicament especially among youth; while taking into account that the Saudi economy is not in recession and is actually creating jobs.

Figure 1: Labor Force Growth Rate in World Regions



Source: World Bank

Saudi intellectuals paid great attention to two issues, arguing that they are the main reasons behind the current predicament of unemployment. First, number of scholars argued that the poor quality of the educational system is behind depriving the Saudi-nationals of the needed talents to compete in an evolving global market economy. Second, criticism was paid to the culture of lavishness in which Saudi youth dwells, reflecting on the lack of work ethics among Saudi youth and the propensity towards depending on rent seeking from the state.

However, this has not been always the case. For example, (Vassiliev, 2000) presents facts that during the pre-oil boom era an actual Saudi working class existed. In late 1950s, two-thirds of Saudi employees in the Saudi Arabia National Oil Company (ARAMCO) were skilled or semi-skilled Saudi workers, and in 1964, Saudi-nationals

represented 80 percent of ARAMCO's employees. Further, attesting that the current attitude among Saudi youth in which they look downward at menial labor work is actually a new phenomenon that started after the prosperity of the oil-boom era in the mid-1970s, and the creation of a rentier economic structure that helped solidifying the sense of receiving easy income rather than working hard to earn it.

Nevertheless, the issue of unemployment in Saudi Arabia could be related to number of different factors such as; the segmentation of the labor market as witnessed in the wage-deferential between nationals and non-nationals, lack of proper labor-laws reform, lack of a market driven education system, delayed efforts to diversify the economy, and the structure of the economy itself. This research aims at discussing the nature of the current unemployment challenge that Saudi Arabia faces, discussing the shortfalls of the 'Saudization' program, and hence arguing in favor of policies that could enhance the government's efforts to meet the stated unemployment challenge.

II. Statement of the Problem

The Saudization program, which aimed throughout the previous decade to provide a solution to the unemployment problem in Saudi Arabia, became a controversial issue. The debate over the program's successes and failures to attain its own declared goals and objectives raises many questions over whether the need arises for devising new set of policies to remedy the continuing unemployment predicament.

Research Objectives:

1. Analyze the 'Saudization' program and the reasons behind its current success and failure.

2. Explore alternative policies and remedies to achieve the program stated goals.

Research Question:

To what extent the Saudization program throughout the previous decade does provide a solution to unemployment in Saudi Arabia? Have the program attained its own declared goals and objectives? What are the alternative policies and programs to achieve the goals?

Investigative Questions:

- What are the evidences of success or failure regarding Saudization program?
- What factors affect Saudization in private sector? Does salary, size of company or educational level make a difference?
- How did Saudization perform across sectors of the economy?
- How the economy is transforming with Saudization?

III. Background

Unemployment in Saudi Arabia

Saudi Arabia faces a high rate of unemployment, put at 37 percent among Saudi youth population in 2002 (Kabbani & Kothari, 2005), which was an alarming figure, although KSA government insisted on putting unemployment rate at around 10 percent. There are number of factors, which make up the composition of drivers that affect Saudi Arabia and determine the nature of its current unemployment challenge. First, similar to the rest of its Gulf States neighbors, Saudi Arabia is a "Rentier State"; a country which relies on external rents of its natural resources to generate state revenue (Beblawi & Luciani, 1987)and (Ali & Abdelatif, 2013)with oil accounting for 90 percent of exports and 45.8 percent of the GDP (World Bank, 2014). Second, unlike the rest of its Gulf States neighbors, Saudi Arabia is a large country (one-fourth the size of continental USA) with a population larger than the population of the rest of Gulf States combined. The Saudi population witnessed 333 percent population growth over the past three decades.

The 1974 census puts the total population in Saudi Arabia at 7 million with 6.2 million Saudi-nationals, while the 2010 census shows that the total population reached 27 million with around 18.5 million Saudi-nationals (CDSI, 2012). While almost 70 percent of the Saudi population is under 30 years old, the country is further challenged with a high population growth rate estimated at around 3.3 percent/year throughout the past decades and only faltering to 2.15 percent/year recently. This means that many Saudis are still bound to enter the labor market as job seekers in the near future as 37 percent of the Saudi population is under 14 years of age as of 2012 (UNDESA, 2012). Moreover, some forecasts state that while 70 percent of the Saudi population is under 30 years; with current influx of males and females to the labor market; Saudi unemployment could reach the level of 50 percent within ten years (Ramady M. A., 2010).

The 'rentier' economy' creates a vicious cycle where citizens are no longer the efficient factor of production and wealth creation in the economy, but rather the recipients of wealth generated by the state/government through external rent, in this case oil exportation. The rent from natural resources encourages unemployment, number of

scholarly works explored the concept of 'Rentier States' (Mahdavy, 1970), (Delacroix, 1980), (Beblawi & Luciani, 1987),(Luciani, 1990)and (Ali & Abdelatif, 2013)tackling among many points how such a system tends to put the society into a fixation of unproductiveness and dependency on 'external rents' received rather than 'income' generated by productivity contributing to the economy, which results in many negative consequences; a phenomenon came to be known as the "oil curse".

Other studies show that dependence on oil endowment results in curbing growth in the non-oil sector and hinders diversification of the economy; thus, leading the private sector to become reliant on government stimulus expenditure (Elbadawi & Gelb, 2010). In addition, one of the negative consequences of this 'oil curse' is the culture of rent seeking and political largesse, which results in the inefficient use of the natural resources in absence of strong state institutions (Elbadawi & Soto, 2012). The experience of almost all rentier states argues Karl (2004) illustrates that oil-led development results in number of negative consequences including among many; barriers to economic diversification, high unemployment rates and higher defense spending (Ali & Abdelatif, 2013). As pointed out by Al-Sheikh and Erbas(2012); KSA is an example of how the 'oil curse' affects the labor market.

While employment rate among Saudi nationals increased by 4.6 percent in the period of 2010-2012, unemployment rate increased by 8.5 percent to reach a current rate of 12 percent among Saudi nationals with youth and females mostly affected, as unemployment rates among them stands at 30 percent and 35 percent respectively (IMF, 2013a). However, a statistical review by Flynn(2011) based on the official Saudi dataset of 2008 concludes that out of a working-age Saudi population of 11.4 million (15+ years) only 4.08 million are in the labor force (3.4 million males and 657,000 females) and some of 400,000 unemployed, which puts unemployment rate in KSA at 9.8 percent, precisely 24.9 percent among females and 6.9 percent among males. Yet, in 2011, the Saudi government introduced a new measure; unemployment benefit that provides young job seekers with a monthly allowance for a maximum period of one year. When that measure was launched Saudi officials expected 500,000 to sign, but instead 7 times as many did, almost 3.5 million (Knickmeyer, 2011). The introduction of this jobless benefit (named:

Hafiz Program) revealed that unemployment rate was more than 20 percent of the labor force; and that the Saudi economy must absorb around 400,000 new entrants to the job market each year (Devaux, 2013).

In September 2002, the Saudi government announced that within 6 months Saudi-nationals would replace foreign taxi drivers, representing 90 percent of total taxi drivers in KSA. However, that deadline was not met, and later the government announced that the process will be extended for another 3 years, yet, that deadline was not met as well(Janardhan, 2011). This along many other examples reveals the limitations of the current Saudi job-localization model to ignite the needed exponential employment of nationals. The current quota-based system reflects the limited capacity of the private sector to absorb job seekers. This happens against a backdrop of high public sector employment where 80 percent of all working Saudis have a government job, and 9 out of 10 jobs among Saudis are in the public sector. The Saudi government is a big employer, hence, the policy of pushing private sector to share in carrying the burden of employing nationals through imposing quotas for hiring them. Nevertheless, the problem of competition between both sectors arise with public sector being more attractive to young Saudis due to better wages, fringe benefits, job security, favorable working conditions and less working hours.

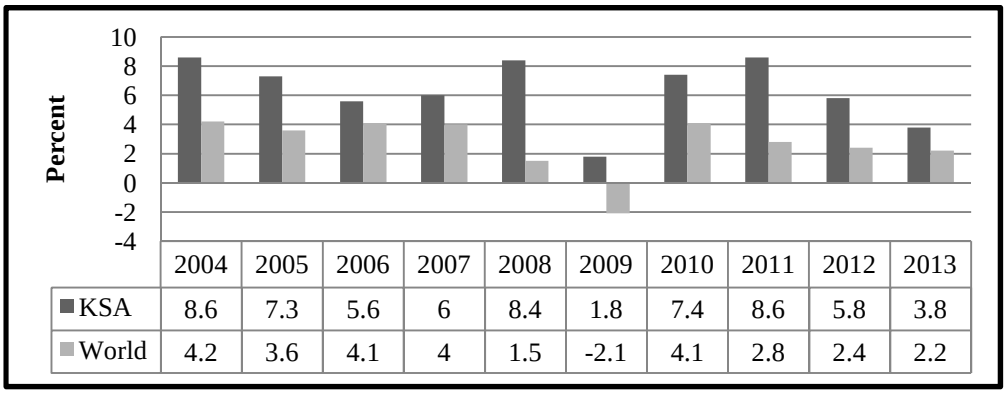
With a population increasing by around 500,000 a year, the Saudi government needs higher job creation rates to absorb new entrants to the job market. The participation of Saudis in the labor force rose from 36 percent to 40 percent in the period of 2009-2013, while a normal participation rate for an economy with the size of Saudi Arabia is 65 percent (Sfakianakis, 2014a). Some estimates suggest that the Saudi economy is losing around SAR 60 billion in GDP output yearly due to unemployment, based on conservative estimates of a male-only 15 percent unemployment (Ramady M. A., 2010).

Economic Growth

Escaping the ‘rentier state’ syndrome is quite a challenge; since the rentier model by default continuous to feed the economy with benefits, making it impossible to break the chain and create an atmosphere of economic incentives triggering income growth modalities rather than just receiving rent. The unemployment predicament that KSA faces

cannot be attributed to slower economic activity, rather the nature of the problem created by this 'rentier state syndrome' is more structural and goes far beyond the mere point of economic growth. As a matter of fact, KSA witnessed an economic growth in the past decade due to rising oil prices, which makes the region an exception from world trend in a time when world economies suffered from an international economic crisis (Figure 2).

Figure 2: GDP Growth Rate, KSA and World, 2004 – 2013

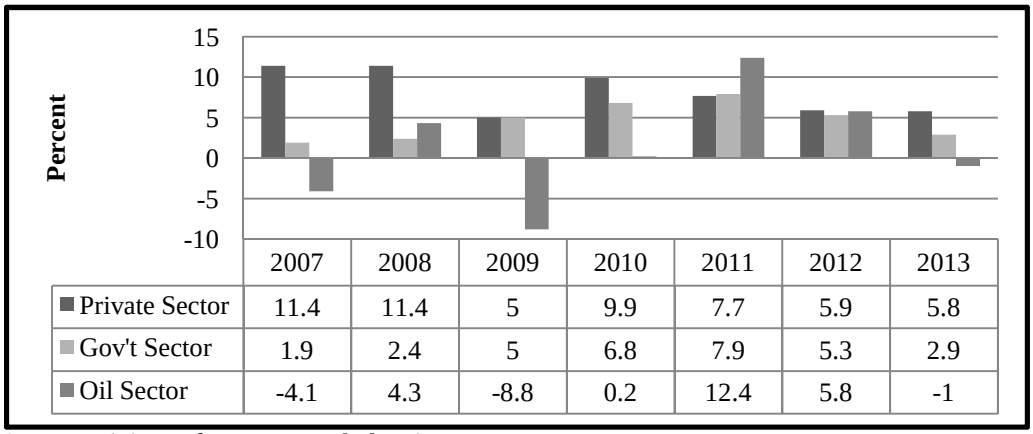


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
KSA	8.6	7.3	5.6	6	8.4	1.8	7.4	8.6	5.8	3.8
World	4.2	3.6	4.1	4	1.5	-2.1	4.1	2.8	2.4	2.2

Source: World Bank

KSA economic indicators for the period of 2007-2013 were showing positive signs (Table 1), in trade balance, current account balance, net foreign assets, capital formation and real GDP growth, especially growth in private sector as percentage of GDP, which surpassed the growth of oil-sector as percentage of real GDP growth on average (Figure 3).

Figure 3: Growth in Saudi GDP Real 2007-2013



	2007	2008	2009	2010	2011	2012	2013
Private Sector	11.4	11.4	5	9.9	7.7	5.9	5.8
Gov't Sector	1.9	2.4	5	6.8	7.9	5.3	2.9
Oil Sector	-4.1	4.3	-8.8	0.2	12.4	5.8	-1

Source: Ministry of Economy and Planning

Table 1: KSA Economic Indicators 2007 – 2013. (USD 1 = SAR 3.75)

	2007	2008	2009	2010	2011	2012[r]	2013[p]
Gross Domestic Product-Nominal (SR billion)	**1,558.8**	**1,949.2**	**1,609.1**	**1,975.5**	**2,510.7**	**2,752.3**	**2,806.7**
Growth in GDP-Nominal (%)	*10.4*	*25.0*	*-17.4*	*22.8*	*27.1*	*9.6*	*2.0*
GDP Real (1999 prices - SR billion)	**899.6**	**975.4**	**993.3**	**1,067.1**	**1,158.5**	**1,225.9**	**1,274.3**
Non-Oil Private Sector *	541.2	603.1	633.5	696.2	749.7	794.0	839.6
Non-Oil Government Sector *	141.8	145.2	152.5	162.9	175.9	185.3	190.6
Oil Sector *	207.3	216.1	197.1	197.4	221.9	234.9	232.6
Growth in GDP Real (%)	***6.0***	***8.4***	***1.8***	***7.4***	***8.6***	***5.8***	***4.0***
Growth in Private Sector (%)	*11.7*	*11.4*	*5.0*	*9.9*	*7.7*	*5.9*	*5.8*
Growth in Government Sector (%)	*1.9*	*2.4*	*5.0*	*6.8*	*7.9*	*5.3*	*2.9*
Growth in Oil Sector (%)	*-4.1*	*4.3*	*-8.8*	*0.2*	*12.4*	*5.8*	*-1.0*
Gross Fixed Capital Formation (1999 prices - SR billion)	**314.3**	**361.9**	**339.6**	**389.1**	**438.3**	**446.3**	**465.7**
Growth in Gross Fixed Capital Formation (%)	*19.4*	*15.1*	*-6.2*	*14.6*	*12.6*	*1.8*	*4.3*
GDP/Capita Total Population (SR Thousand)	**62.5**	**75.6**	**60.4**	**71.7**	**88.5**	**94.3**	**93.6**
Total Population-mid-year (Million persons)	**24.94**	**25.79**	**26.66**	**27.56**	**28.38**	**29.20**	**29.99**
Saudis	17.69	18.12	18.54	18.97	19.41	19.84	20.27
Non-Saudis	7.25	7.67	8.12	8.59	8.97	9.36	9.72
Total Employment (Thousand persons)	**7,766.4**	**7,956.8**	**8,148.0**	**8,834.9**	**9,935.5**	**10,136.4**	**10,634.7**
Saudis	3,584.7	3,678.6	3,837.9	3,955.2	4,143.1	4,251.7	4,631.2
Non-Saudis	4,181.7	4,278.2	4,310.1	4,879.7	5,792.4	5,884.7	6,003.5
Government Budget Balance (SR billion)	**176.6**	**580.9**	**-86.6**	**87.7**	**291.1**	**374.1**	**180.3**
Revenues	642.8	1,101.0	509.8	741.6	1,117.8	1,247.4	1,156.4
Expenditures	466.3	520.1	596.4	653.9	826.7	873.3	976.0
Balance as % Share of GDP-Nominal	*11.3*	*29.8*	*-5.4*	*4.4*	*11.6*	*13.6*	*6.4*
Merchandise Exports (fob - SR billion)	**874.4**	**1,175.5**	**721.1**	**941.8**	**1,367.6**	**1,456.5**	**1,409.7**
Oil (Crude & refined products)	769.9	1,053.9	611.5	807.2	1,191.0	1,265.6	1,207.1
Non-oil Exports	104.5	121.6	109.6	134.6	176.6	191.0	202.7
Non-oil Exports as % of GDP	6.7	6.2	6.8	6.8	7.0	6.9	7.2
Merchandise Imports (CIF - SR billion)	**338.1**	**431.8**	**358.3**	**400.7**	**493.4**	**583.5**	**630.7**
Trade Balance (fob - SR billion)	**564.9**	**795.1**	**394.6**	**576.4**	**917.8**	**924.6**	**835.2**
As % Share of GDP-Nominal	*36.2*	*40.8*	*24.5*	*29.2*	*36.6*	*33.6*	*29.8*
Current Account Balance (SR billion)	**350.0**	**496.2**	**78.6**	**250.3**	**594.5**	**617.9**	**497.4**
As % Share of GDP-Nominal	*22.5*	*25.5*	*4.9*	*12.7*	*23.7*	*22.4*	*17.7*
Crude Oil Production (Million barrels/day)	**8.8**	**9.2**	**8.2**	**8.2**	**9.3**	**9.8**	**9.6**
Average Price-Arabian Light (US$/barrel)	84.35	95.00	59.47	78.96	95.18	106.48	102.41
Official Foreign Assets - Net (SR billion)	**1,347.7**	**1,888.1**	**1,777.6**	**1,948.4**	**2,334.6**	**2,771.9**	**3,062.0**
Saudi Arabian Monetary Agency	1,128.5	1,642.3	1,520.0	1,651.5	2,007.1	2,428.6	2,687.8
Govt. Institutions & Independent Org.	219.2	245.8	257.5	296.9	327.5	343.3	374.2
Exchange Rate (SR/US$)	3.750	3.750	3.750	3.750	3.750	3.750	3.750
Money Supply M3 Growth (% change)	***19.6***	***17.6***	***10.7***	***5.0***	***13.3***	***13.9***	***10.9***
Inflation Rate (2007=100) % change	***5.0***	***6.1***	***4.1***	***3.8***	***3.7***	***2.9***	***3.5***
Saudi Share Price Index (1985 =1000)[1/]	**11,038.7**	**4,803.0**	**6,121.8**	**6,620.8**	**6,417.7**	**6,801.2**	**8,535.6**

Source: MEP - Achievements of the Development Plans 31st Issue; CDSI - Labor Force Survey Bulletins; SAMA - Annual Report # 49, and 2nd Quarterly Statistical Bulletin 2014. Notes: r revised, p preliminary; * based on by kind of economic activity; 1/at year-end.

During the 8th five-year development plan (2005-2009) the average total Saudi revenues per year were around USD 200 billion. In 2010 the Saudi GDP was USD 435 billion with a trade surplus of USD 154 billion and a budget surplus of USD 109 billion (SAMA, 2011). During the 9th five-year development plan (2010-2014) the Saudi government planned to invest USD 385 billion in infrastructure, health and education projects, while enjoying a USD 644 billion worth of foreign reserves by end of 2012, and government's deposits in the central bank amounting to USD 405 billion, representing around 56 percent of GDP end of 2012 (Devaux, 2013). Real GDP growth averaged around 6.25 percent per annum during the period of 2008–2012, making Saudi Arabia third best behind China and India among the G20 member states (IMF, 2013a). On the other hand, the Saudi government's solvency became stronger as public debt decreased from around 37 percent of GDP in 2005 to a low 2.7 percent in 2013.

Government spending was rising with an average of 10 percent annually; and currently KSA has number of mega-projects with an average total worth of USD 784 billion underway or in pipeline (Citi Research, 2014). In Sum, KSA economy enjoys a sound position with enough capital to invest and a list of ongoing mega-projects that could arguably create enough jobs in the market to absorb unemployment (Table 2)

Table 2: Examples of Mega-Projects in KSA. (USD billion)

Transport	
Jazan, Abha, and Al Qasim Airports	**10.7**
King Abdulaziz International Airport	**7.2**
Saudi Land bridge Railway	**7.0**
Jeddah Monorail	**5.6**
Phase One Mecca Mass Rail Transit Project	**5.3**
Energy and Utility	
16 Nuclear Reactors	**100.0**
Ras Al Zour Combined Desalination and Power Plant	**5.0**
Multi-effect Desalination Plant in Yanbu	**4.3**
Construction and Social Infrastructure	
Grand Mosque Expansion in Mecca	**21.3**
Jubail refinery scheme	**20.0**
University building projects	**20.0**

Source: Business Monitor International

However, as Saif and Abdul Khalek(2011) noticed; unemployment in the MENA region, in general, is structural in nature and not linked to cyclical factors; the link between economic growth and job creation is weak because growth is excessively reliant on oil sector. In addition, Hertog (2013) argued that economic activity in KSA is highly dependent on the state budget, pointing out that the share of private sector wages in GDP is less than 10 percent compared to 40-50 percent in mature economies.

Although government spending is high as revealed by successive budgets throughout the past decade, especially on the education sector which averaged around 25 percent of the total budget appropriations throughout the period of 2004 -2014 (Table 3),yet, the private sector in KSA remained dependent on foreign labor. The latest census in 2010 showed that the total population reached 27 million, out of which almost 8.5 million are foreign expatriates, and the rate of unemployment among them is only 0.8 percent (Kabbani & Kothari, 2005). According to the latest official figures the number of non-Saudi population reached 9.36 million in 2012, compared to 6.15 million in 2004 (MEP, 2013). This exponential increase in number of expatriates is antithetical to the goal of big investment by the Saudi government in the educational sector.

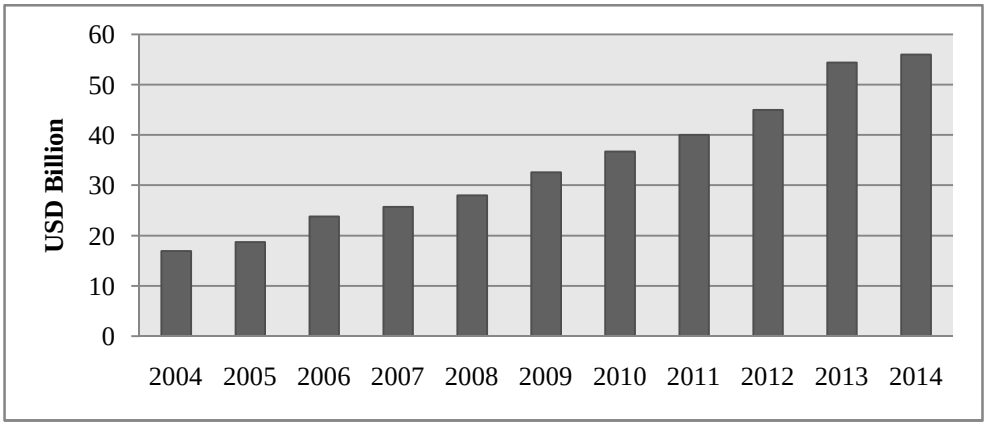
Table 3: Total Expenditure on Education Sector through Fiscal Years 2004-2014 (USD billion)

Fiscal Year	Total Expenditure	Percentage of total FY appropriations	Percentage increase over previous FY
2004	**16.9**	**27**	**-**
2005	**18.7**	**25**	**10**
2006	**23.8**	**26**	**27**
2007	**25.7**	**25**	**8**
2008	**28**	**25**	**9**
2009	**32.6**	**26**	**16**
2010	**36.7**	**25**	**13**
2011	**40**	**26**	**8**
2012	**45**	**24**	**13**
2013	**54.4**	**25**	**21**
2014	**56**	**25**	**3**

Source: Ministry of Finance

The spending of this exponential investment in the education sector as shown by (Figure 4) is mostly appropriated for construction projects of schools, universities and technical colleges. Investment in developing and improving educational curriculums was initiated under King Abdullah Project for General Education Development in addition to number of other programs and plans (US-SABC, 2009), however, reports on progress of such programs are not yet presented. Such investment in education is by default a long-term strategy that does not answer to the nature of the current unemployment problem.

Figure 4: Total Expenditure on Education Sector through Fiscal Years 2004- 2014



Source: Ministry of Finance

There is another downside to the continuous predicament of unemployment and high dependence on foreign labor; according to the Saudi Arabian Monetary Agency (SAMA) the value of remittances by foreign labor in 1985 was USD 5.1 billion, which represented around 10 percent of the GDP, and in 2007 remittances reached around USD 16.2 billion, making Saudi Arabia the second largest country in terms of remittance outflow worldwide after the United States(Looney, 2004b). The causes of the outflow are related to domestic policies of restrict ownership of properties by foreign expatriates in KSA; forcing them to transfer assets abroad.

In 2012, KSA became the 3rd largest country in the world in terms of remittance outflow with a value of USD 29.5 billion, which is double the value remitted in 2002 of USD 15.1 billion. Saudi was surpassed by both the United States and Russia respectively, however, the amount remitted in 2012 represented around 4.1 percent of GDP making Saudi ranked 8th country worldwide in terms of remittance outflow as share of GDP,

compared to both the U.S and Russia 0.3 and 1.6 percent remittance share of GDP (World Bank, 2013).

Taecker (2003) argues that the if the money being remitted outside KSA was spent domestically instead, it will have greater effects as Saudis spend more than expatriates on a much wider basket of goods and services. According to his argument; the expatriate domestic expenditure multiplier is 0.8 which means that for every SAR 1000 an expatriate spends in the economy it produces SAR 450 in income through the circulation of money in the economy. On the other hand, the expenditure multiplier for Saudi national is around 2.5 which means that each SAR 1000 spent by a Saudi generates an extra income of SAR 1500. Moreover, he argues that expatriates remit one-half of their income, which implies that they earned in 1999 around $28 billion, and by taking into account the difference in expenditure multiplier between Saudis and foreign households, the total annual cost of relying on foreign labor would be around $47 billion in that year.

IV. Literature Review

Saudization Program

Saudization is defined as the replacement of the expatriate labor force with a trained and qualified local labor force in a planned manner (Al-Harbi, 1997) by imposing quotas on the private sector to hire more Saudis. The program started during the Fourth (1985-1990) and Fifth (1990-1995) five-year development plans when the government called for Saudization (Al-Dosary & Rahman, 2005). However, the program was only formalized during the Sixth development plan (1995-2000), which called for the assimilation of 659,000 Saudis into workforce and the replacement of 319,000 expatriate workers (Sadi & Al-Buraey, 2009). In general, the Saudization program focused on 3 main goals; first, to increase the employment of Saudi-nationals in the private sector. Second, to decrease the number of foreign workers in the private sector. Third, to recapture and reinvest the income flowing out of the country through remittances (Looney, 2004b).

Accordingly there were number of steps which the Saudi government took;

- A ministerial decree no. 50 issued in 1995 calling on private companies with over 20 employees to reduce expatriate workers by a 5percent rate every year, a number that amounts to 150,000. In addition, penalties were set for non-compliance, which included denial of access to governmental support and freeze on renewal of new permit applications to hire foreign workers (Sadi & Al-Buraey, 2009).

- Also in the mid-1990s, the government created a job reservation project for Saudi-nationals by banning the employment of expatriates in over 20 professions, mostly administrative jobs, and this ban increased to 34 areas of work. Moreover, an increase in fees that deals with foreign recruitment was set, channeling the money to special fund that aims at ‘nationalizing’ jobs.

- The Seventh five year development plan (2000-2005) called for ensuring employment of 817,300 Saudis, 446,600 through Saudization of jobs and 328,700 through job creation. It also affirmed that Saudis should occupy 25

percent of the jobs in the private sector, by setting a fixed quota for hiring Saudis in the private sector at 30percent with different time target to each sector.

- The Centennial Fund was established in 2004 with a budget of USD 80 million, taking an initiative with the Saudi Arabian General Investment Authority (SAGIA) to promote job creation through SME's. In January 2006, the Centennial Fund aimed at helping young Saudi entrepreneurs establish 280 projects, which would create more than 4,000 jobs during the next 5 years.

- General Organization for Technical Education and Vocational Training (GOTEVT) was expected to train 300,000 young Saudis in technical and vocational areas within 3 years through its 75 institutions, which offers extensive courses in many professions in different fields including industry, commerce and agriculture (Al-Dosary & Rahman, 2005).

- Human Resources Development Fund (HRDF) was set up in 1999 with a budget of USD 1 billion to subsidize salaries of trainees and fresh employees upon the completion of their training programs. The HRDF supplies the private sector with 50 percent and 75 percent of the salary and training costs of Saudis for two years (Sadi & Al-Buraey, 2009).

Also, the government introduced a "Saudization Certificate" (*Shahadat Sau'ada*) issued by MOL, which indicates a company's compliance with the established quota rate of Saudization. This certificate has also been used as a method to limit transactions between the public and private sectors to those companies that conform to Saudization regulations. ARAMCO, for example, restricted its contract awarding to companies that abide by Saudization quotas, precisely 50 percent for companies in the services area, 35 percent for construction companies, and 60 percent for importers and engineering offices (Al-Dosary & Rahman, 2005); similar approaches were applied by different ministries in their contract awarding process.

In essence, the core features of the Saudization program were: first, a quota for employing Saudi nationals in the private sector. Second, stressing the sponsorship system

for non-nationals (*Kafeel*), which controls the mobility of expatriates by mandating the consent of the employer before a foreign labor can move to another company. Third, labor laws favoring Saudi-nationals by putting restraints on firing them. Fourth, reserving certain jobs for Saudi nationals. Fifth, subsidizing on-job training for Saudi nationals through the HRDF.

This approach by the Saudi government aimed to force the private sector to carry part of the responsibility and burden of training young Saudis and qualifying them for the labor market. Yet, consideration should be given to the fact that the private sector admitted their inability and lack of experience to train and supervise young Saudi workers (Winckler, 1997). This was revealed by the fact that; while the Sixth development plan (1995-2000) called for replacing 319,000 jobs held by expatriates with Saudi-nationals, what happened in reality is that instead of reduction the number of foreign workforce increased by 58,400 (Looney, 2004b). Henceforth, the Saudization program registered low to moderate levels of success (Niblock & Malik, 2007).

Such program that relies on interventionist measures through subsidies and regulations to incentivize the private sector to hire more Saudi nationals faltered because it works at cross-purposes with other government initiatives, such as expansion in high-wage public sector jobs (Looney, 2012). Moreover, as Mellahi(2007) noted; the private sector in KSA adheres to the hard interventionist approach of the government through the quota-based system, rather than Saudization resulting from a normative approach. According to (IMF, 2013b) the largest increase in employment of Saudi nationals was in areas associated with and largely corresponds to the public sector, while in the construction sector – for example – which witnessed the largest increase in jobs, relatively few jobs went to Saudi nationals.

In 2011, KSA took on tackling its labor market problem and solving the unemployment issue by reforming the Saudization program. A new unemployment benefit program (*Hafiz*) was introduced and provided unemployed citizens with a monthly allowance of SAR 2,000. In addition, a new minimum wage of SAR 3,000 per month (USD 800) was set for the public sector, which also catered as a de facto minimum wage

for the Saudi-nationals in the private sector. In addition, the government set out two new policies. First, a campaign in 2013 against illegal foreign workers in the country; by limiting their existence, the government sought to decrease the supply of foreign labor in the market. In addition, about 5 million expatriates regularized their work permits and stay in the country, and about 1 million left or have been deported.

Second, and most importantly, a ministerial decree no. 4040 was issued in 2011 reforming the Saudization quota system, by setting a new program known as Nitaqat (meaning: *Bands or Ranges*) by setting new employment quotas for hiring Saudis in the private sector. This new programs combines incentives to hire Saudis, as well as sanctions in case of non-compliance. Incentives included more flexibility in foreign labor mobility as well as flexibility in issuing more working visas. Sanctions, on the other hand, included a fee of SAR 2,400 (USD 640) per redundant expatriate worker and deprivation of renewing work permit of expatriates.

The previous Saudization program divided the market into 11 activities, based on which, different quotas for these activities were applied. The new Nitaqat program is more custom-tailored to cater to the different circumstances of each economic activity as well as the size of companies. It abolished the mandatory 30 percent requirement for Saudization applicable to most entities in the previous system, and issued new Saudization percentages based on companies' capabilities of employing Saudis and availability of local talent for such economic activity (Al-Hejailan, 2012). The new Nitaqat program divides the economic activities in the market into 45 activities, and the size of businesses into 5 categories as follows; Conglomerates (3,000+ employees), Big Companies (500 – 2,999 employees), Medium Companies (50 – 499 employees), Small Companies (10 – 49 employees), and Micro Enterprises (9 employees or less).

Hence, under the new program there are a total of 225 (45 x 5) categories under which businesses in Saudi Arabia could fall on. With this scheme companies are classified into four bands depending on their adherence to Saudization requirements of their category. The bands are divided in a traffic light system with premium, green, yellow and red bands. The first two represent compliance with the Saudization requirement, and will

receive benefits accordingly, while the last two are deemed non-compliant and will be subject to administrative sanctions and punitive measures, including a yearly levy on each extra expatriate worker above quota. Table 4 and Table 5 gives an example of the different Saudization requirements under the new program depending on the type of activity and size of company; accordingly each company is placed in a band that corresponds to its status. Currently micro sized business (9 employees or less) are exempted on 'grace period' from the Nitaqat scheme but must employ at least one Saudi national. These companies are placed in a white colored band. As revealed by both tables the Saudization requirements for construction companies, for example, is much less than the Saudization requirements for banking and financial institutions.

Table 4: Nitaqat Saudization requirements for Construction companies (Percent)

Business Size	Red	Yellow	Green	Platinum
Small (10-49	0 - 1	2 - 4	5 - 20	≥21
Medium (50-499)	0 - 1	2 – 5	6 - 15	≥ 16
Large (500-2,999)	0 – 3	4 – 5	6 - 15	≥ 16
Conglomerates (3,000+)	0 – 4	5 – 6	7 – 13	≥ 14

Source: Ministry of Labor

Table 5: Nitaqat Saudization requirements table for Financial Institutions (Percent)

Business Size	Red	Yellow	Green	Platinum
Small (10-49	0 - 9	10 - 29	30 - 79	≥ 80
Medium (50-499)	0 - 19	20 – 49	50 – 90	≥ 90
Large (500-2,999)	0 – 49	50 – 64	65 - 90	≥ 90
Conglomerates(3,000+)	0 – 49	50 – 64	65 – 90	≥ 90

Source: Ministry of Labor

The main official reference regarding employment efforts in KSA is the Saudi Employment Strategy, issued by ministerial decree no. 260 in 2009. The strategy stated vision is to provide adequate number of jobs with suitable wages to absorb Saudi job seekers, providing jobs with high value-added, developing national manpower, and developing Saudi human capital and raising productivity. To this end, the strategy outlines number of overall objectives: first, controlling unemployment in the short term within 2 years, decreasing unemployment rate in the medium term within 3-5 years, and realizing competitive advantage for the national economy on the long term within 6-25 years (MOL, 2009), The summary of the overall strategy is laid down as in (Table 6). The full cost of the strategy is not yet calculated, although it is estimated to around an initial annual funding requirement of USD 4 billion (ILO and OECD, 2011).

Table 6: Summary of Saudi Employment Strategy, 2009

	Short Term (2 years)	**Medium Term (3-5 years)**	**Long Term (6-25 years)**
Overall Objectives / Interim Targets	**Controlling unemployment**	**Reducing the unemployment rate**	**Realizing competitive advantage for the national economy**
Realization of full employment	**Increasing employment rates**	**Increasing the peace of growth in employment rates**	**Realizing full employment**
Maintenance of durable increase in national manpower participation	**Increasing participation Rates**	**Increasing the pace of growth in participation rates**	**Achieving the highest possible level of participation rate**
Raising Saudi labor productivity to match the standards of productivity in advanced economies	**Increasing labor productivity**	**Increasing pace of growth in labor productivity**	**Reaching the highest possible level of labor productivity rate**

Source: Ministry of Labor

Labor-Market Distortion

There is no doubt that an interventionist policy by the government in this aspect to correct a deficient labor market, as a general policy, could be beneficial both socially and economically. Yet the argument here is regarding the nature of such intervention and the nature of such deficiency in the market. Fakeeh(2009) argued that the Saudization program is deficient as a policy, since, without a targeted logistics and application, it provides little more than a short-term solution to unemployment. That is due to the fact that Saudization as a policy targets the symptom, which is unemployment, rather than focusing on the real problem; that is *employability*. Accordingly, employability refers to alignment of education and labor market needs, and the lack of equipping Saudi youth with soft and hard skills needed for the job market.

In De Bel-Air(2014) account for migration trends in Saudi Arabia traces back the historical reasons behind the disconnection of labor recruitment from market needs, as the 1973 oil boom era triggered massive migration of unskilled and semi-skilled cheap labor to cater to the massive infrastructure projects. Those migrants were brought on short-term contracts with no entitlement to social benefits and were used as in most case as means of distributing the wealth of oil-rent to citizens; who benefit from these migrants' income or even trade in labor visas.

In their study on sources of disconnect between growth and employment Saif and Abdul Khalek(2011) put forward number of points; first, reliance on oil as a source of growth in the region since oil is very capital-intensive and generates few jobs. Second, a bloated oversized public sector, with high public sector wages as percentage of GDP (Table 7). Third, an underdeveloped private sector that is subject to numerous constraints. Fourth, labor market inefficiencies such as mismatch between education and skills required by the labor market, and lack of regulations that increases mobility and flexibility in the labor market.

According to Niblock and Malik(2007), a skilled, motivated and effective Saudi labor, which the private sector needs, is not available, or at least not sufficient. Further proposing the question: "Does the labor market provide the caliber and skills needed for a

successful economic development, at rates of pay which are competitive internationally?" However, there is another side to the issue often missed. Non-national labor average wage in Saudi is 3.6 times less than nationals, the average wage of foreigners is USD 266 per month while the average wage of Saudis is USD 966 per month (Knickmeyer, 2011), and this in turn affects the labor market by driving down overall wages and distorts competition between nationals and non-nationals. In its research, Hay Group (2012) found that nationals are paid 13 percent more than average market wages; putting pressure on private sector to comply with Saudization requirements.

Table 7: Public Sector Wages to GDP, Public to Private Sector Ratio (Percent)

Region	Government Wages Percent GDP	Ratio of Public to Private Sector Workers
MENA	**9.8**	**1.3**
Africa	**6.7**	**1.0**
Latin America	**4.9**	**0.9**
Asia	**4.7**	**0.8**
OECD	**4.5**	**0.9**
Europe and Central Asia	**3.7**	**0.7**

Source: World Bank

Analyzing the workforce in Saudi; Diwan and Girgis(2002) noticed that the public sector in Saudi Arabia hosts more than 27 percent of the Saudi workforce while the rate is 14 percent within OECD countries; this due to the security and financial benefits provided by the public sector against the private sector. One suggestion put forward to deal with this imperative is to unify both sectors so as to encourage graduates to join the private sector, in addition, providing job security in the private sector. Moreover, they point to the deficiency in the labor market in terms of wage differential between Saudis and non-Saudis, with the average difference in wages reaching up to 80 percent, thus, making expatriates more lucrative for hiring.

According to Hertog(2014c) The ratio of national to foreign wages in the GCC's private sector is 2:1, and this gap persists when controlling for type of job and educational background, this in addition to the sponsorship system which prevents foreign workers from moving to a new employer without the consent of the current one; makes non-national workers more attractive.

In the period between 2011 and 2013 the Saudi economy created 699,199 jobs for both national and non-nationals, with an average growth of 6.6 percent (10.5 percent rate of growth for Saudis). However, 43 percent of these jobs were in the public sector (Sfakianakis, 2014a). Moreover, 1.5 million of the 2 million jobs created in the last four years went to non-Saudis (IMF, 2013a). On the other hand, Hertog(2013) points out that in 2011, only less than 400,000 out of the 4 million expatriate-held-jobs in the private sector paid a wage more than USD 800, which equals the minimum wage set by the government for Saudi nationals at SAR 3,000. This means that at the current prevailing wages level, only very few positions and jobs Saudi nationals can apply to or compete for. Furthermore, Randeree(2012) notes that businesses find it difficult to retain Saudi employees after they have been trained as they are lured away by better paying companies once they have been trained.

In 2011, Devaux(2013)argues that 844,000 Saudis were employed in the private sector out of a pool of 4 million employable Saudis. Thus, assuming private sector employment grows at a rate of 10 percent per annum (vs. 11.3 percent in 2011) and that the private sector maintains same structural profile of 11 percent private jobs held by Saudi nationals; then the private sector has an absorption capacity of only 84,000 nationals in comparison to 400,000 new entrants to the job market each year. This in turn, reveals the need to go beyond the standard measures of relying on natural growth rates of the job market. However, the quota system for hiring nationals put forth by the Saudi government had limited results up until 2011. The issue is not only reliant on job creation, Abouraia(2014) argues that most unemployed Saudis are unemployed by choice since jobs offered are not up to their expectation of wage and job satisfaction.

In his paper Kabli(2013) reviews the historical development of the Saudi labor market that led to the current deficiencies, pointing out that in the period of 1974-1984 most expatriates were highly-skilled labor from developed countries on temporary project assignments. However, after the oil-boom era, local companies resided on cheap labor from developing countries, and the labor market depended on unskilled low-cost labor, thus, creating the deficiency in the labor market as it became harder for nationals to compete with non-nationals who were willing to work long hours for a lesser wage.

According to Al-Dosary(2004) there are 17 factors behind low participation rates of Saudi nationals in the private sector, including factors pertaining to both labor market deficiencies and education gap; such as language skills and lower wages. On the other side, Mellahi and Wood(2001) argued that there are four reasons behind private sector resistance to Saudization, chiefly, labor cost and inability of Saudis to integrate in a multicultural work environment.

Forstenlechner and Rutledge(2010) argue that the abundance of cheap and highly elastic labor created less motivation among businesses for investment in labor saving technologies, and hence, less incentive to hire nationals whose wages are higher. The mostly cheap and unskilled labor catered to rising standard of living for nationals but in return affected employment and productivity among nationals due to the imbalance created by huge dependency on expatriate workers.

According to Shediac and Samman(2010) the GDP contribution per employee in the GCC is around USD 41,600 in comparison to Norway USD 128,695, another oil producing country. They point out that the unemployment problem in the GCC countries stems from set of structural problems, chiefly; the structure of the economy, the education system and labor policies. Such problems need a holistic approach to deal with, especially solving the disparity in labor market through new regulations.

Examining labor market policies that are likely to expand hiring nationals in GCC countries Fasano and Goyal(2004) found that an effective labor strategy should focus on investment in human capital and institutional reform, in addition to creating a vibrant non-oil sector, proposing number of solutions and policies to mitigate the current problem of

unemployment among nationals. Such solutions include; increasing the relative attractiveness of national employment in the private sector by reducing wage deferential between public and private sector, leveling the playing-field by reducing disparities in labor mobility between nationals and non-nationals, increasing the set of skills, facilitating improvement in productivity through investments in capital, and using price and market-based intervention rather than quantity-based system through quotas as done currently.

Due to the wage deferential between national and non-national labor, Sadi(2013) points out that some companies resorted to hiring unskilled and unqualified Saudi-nationals just to fulfill the quota requirement on the assumption that they will not perform real work; such activity might be harmful to the economy on the long-term, despite it being a practice that conforms with Saudization requirements.

The issue of national labor productivity was reiterated by Alhamad(2014b), concluding that new labor laws of the Saudization program will drive wages upward, however, with more Saudis entering the labor force there will be risk of decreasing productivity due to shrinking foreign labor force.

Discussing the likely economic costs and burdens on private sector from the quota-based system, Ramady(2013) points out that such system might result in harming economic growth as the dependence on the private sector increases in efforts to diversify the economy away from oil and gas. This point was further stressed by Peck(2014), mentioning that while compliance with the quota system was high, the costs were also significant as 11,000 firms had to shut down, and exit rate of companies increased by 50 percent, in addition to decreasing total employment among surviving companies with total employment decreasing by around 418,000.

Examining the labor market and the constraints on implementing the Saudization program, Mahdi and Barrirntos(2003) showed for instance that; while Saudis are concentrated in sectors such as defense and education, the expatriates in Saudi Arabia are concentrated in most of the other sectors in the economy such as construction, manufacturing, wholesale and retails. They point in their study to the importance of career development for Saudis in order to trigger effects of job-localization.

Labor market nationalization, points out Hertog(2012) has happened mostly “by fiat” through quotas and prohibitions; leading to rule avoidance and illegal practices instead of genuine national employment. He further points out that labor market segmentation makes large-scale job creation unattainable, since wage differentials between nationals and non-nationals is large, and higher national labor mobility and labor rights makes them less attractive for employment. Concluding that a “labor market strategy based on prices rather than on administrative intervention, can re-integrate public and private labor markets, and sustainably increase productivity in both” arguing for increasing non-national labor prices and internally liberalizing the labor market.

Identifying number of tension points in the Saudi labor market Al-Sheikh and Erbas(2013) mention that wage differentials lowers the competitiveness of Saudi-nationals in the private sector, while rigid foreign labor mobility distorts the market. They also mention that numbers of foreign workers could be adjusted to cyclical demands and market conditions, on contrary the Saudi population is growing rapidly. Concluding that the main distortion in the labor market has been the lack of sustainability in private sector wages, which has declined sharply in recent years while public sector wages increased, creating a distortion that results in high unemployment among nationals.

Additionally, Mahdi (2000) studied the structure of labor market in Saudi Arabia; concluding that inequality in the application of the labor regulations between national and non-national workers has distorted the labor market and created a situation of monopsony, also arguing that Saudization of the labor market could be successfully applied to white-collar employment, but that it will prove a challenge in blue-collar employment, especially in case of dirty and hazardous work. This last point constitutes an essential part of the issue of reducing unemployment in Saudi Arabia since most jobs held by foreign workers are concentrated in the blue-collar segment. Pointing out that in 1998 around 72 percent of Saudi male job seekers refused a chance to work in the private sector due to low wage levels, and 47 percent refused such chance due to poorer working conditions compared to public sector.

Finally, Achoui(2009)review of formal Saudi documents shows that Saudi faces number of challenges in its economy, mainly; high dependence on oil, high dependence on foreign labor, low rate of female participation in employment and weak link between education system output and the needs of economic sectors. And while the government embarked on number of human resource development, the study shows that these programs are not developed functionally or structurally in SMEs.

Different studies show that the issue of unemployment in Saudi Arabia requires further investigation and study; Al-Dosary, Rahman, and Aina(2006) assert the need for comprehensive data on the nature and magnitude of unemployment in Saudi, in addition to the need for adequate consultation with all stakeholders including the private sector. They point out that data is not shared between fragmented government agencies, further, there is lack of cooperation between government and private sector as policies are set without consultation with stakeholders.

The general issues with Saudi labor market requiring reforms were summarized by (IMF, 2013). First, the need to reform education and raise labor productivity, as well as increasing vocational and technical training and decreasing the mismatch between the educational system and labor market demands. Second, making employment quotas to hire Saudi-nationals more effective. Third, tackling issues pertaining to labor mobility of foreign workers and reforming the sponsorship system. Fourth, amending labor market policies and unemployment benefits to Saudi-nationals including training programs. Fifth, capitalizing on wage subsidies to nationals and solving wage differentials in the labor market.

Education and Labor-Market

In his Thesis, Goetz (2003) regards demographics as the first and utmost threat to Saudi Arabia due to high population growth coupled with stress on the economy from high unemployment rates. He also mentions the need to reform and restructure the education system in order to meet this challenge. Discussing this demographic challenge Forstenlechner and Rutledge(2011) point out that the ratio of national to non-national workers, with non-Saudis currently making up half the workforce in the country, creates a

‘demographic imbalance’. Further stating that; the cost of migration is becoming visible in terms of productivity, as Saudis are less productive today than the 1990s.

Directing attention to the risks of political implosion if the unemployment challenge is not met; Bremmer(2004) stresses the need for an educated citizenry and reforming the education system in Saudi Arabia in order to succeed in the long-term reforms and create a needed knowledge-based society. Studies by Hertog(2012) and Al-Dosary and Rahman(2005) revealed a preference in employers to hire non-nationals since Saudi-nationals are perceived as inexperienced and less productive, and that this trend persist even if wage differentials decreased, and thus, companies will only hire Saudi-nationals up to the required quota since they are less desirable.

Education reform is one of the recurring issues correlated to the challenge of unemployment in KSA. Currently, 78 percent of female job seekers are university degree holders, Bosbait and Wilson(2005) concludes that education in Saudi Arabia does not appear to equip youth for employment. Additionally, Baqadir, Patrick, and Burns(2011) present evidence that a skill gap still exists between nationals and non-nationals especially in areas of vocational skills, Showing that vocational education fails to provide Saudis with sufficient skills and training needed for the market, and highlighting that the gap centers around three factors: work ethics, specialized knowledge and generic skills.

Concluding from research that some school graduates in KSA are below reasonable level to continue university education; Alzu'be(2012) stresses the need to reform curriculums and teaching methods, in addition to investing in student training. Also, he points out the existence of a gap between university outputs and market needs; which requires balancing. A point which Sadi and Al-Buraey(2009) asserts as well, pointing out the “marked imbalance between labor market requirements and educational provisions, which is suggested by the graduation statistics for 2001” as over 80 percent of Saudi university graduates that year were in the social sciences and art disciplines, while graduates in medicine and other health related subjects comprised only 2 percent, the reminder 6.4 percent, 2.7 percent and 0.8 percent were in natural sciences, engineering and hospitality and tourism respectively. This point was further stressed by (JCCI, 2005) which

called for linking acceptance in universities with needs of labor market, increasing vocational and technical training and balancing quantity and quality in different educational levels.

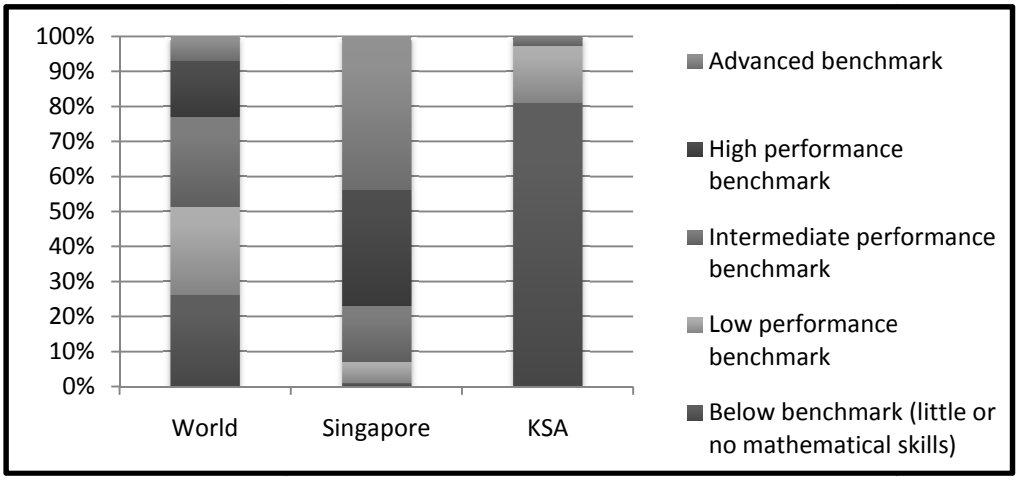
In his paper, Kabli(2013) points out that due to the historical development of the labor market; the educational system failed in managing to cope with the change in order to develop the productivity of the local labor. Thus, for example, instead of educating a national farmer on modern methods of farming with introduction of automation and mechanization; the state relied on importing low-paid unskilled labor to fill in the gap. This resulted in stagnating productivity while the competition between national and non-national labor pushed Saudis outside the job market and led to unemployment and ballooning the public sector. This in turn, led to increasing demand on higher education certificates since the level of education rather than the quality of education or level of productivity is what determined wages.

One factor that plays a huge role in the demand for education is the fact that education is free up to the university level; in addition the government pays a monthly allowance to Saudi university students of USD 300 per month. This incentivizes students to continue education rather than enter the labor market, and resulted in an exponential growth in university educated citizenry, and hence, university degree-holders unemployment. The Saudi government heavily subsidizes higher education to compensate for the skills deficit, with an estimated 800,000 Saudis enrolled in national universities, and more than 100,000 studying abroad on government scholarships. Surprisingly, for example, 90 percent of Saudis in prison are university degree-holders (Looney, 2012).

The education deficit in KSA is twofold, first, the poor quality of education, especially in scientific fields. Second, there is a lack of technical and vocational education at a level corresponding to the needs of the market. The performance of Saudi students in subjects of math and sciences is very low, as presented by the various reports of the International Association for the Evaluation of Educational Achievement (IEA). Saudi 8th grade students registered a mean score of 332 in mathematics in 2003, below the international average of 467, and a mean score of 398 in sciences for the same grade and

year, also below the international average of 474 (TIMSS, 2003).In 2007, the KSA mean score for 8th grade in mathematics decreased to 329, while the international average increased to 500. Scores in 2011, did not register any improvements; with an 8th grade student's mean score in mathematics put at 394 against an international average of 500, and a mean score in sciences of 436 against an international average of 500(TIMSS, 2011). Saudi students showed minimal or no mathematical and science skills. Their results were quite striking when compared to Singapore which scored in both fields around 600. Such weak performance by Saudi students cannot be attributed to institutional incapacity, rather to the quality of the educational system itself. The average student to teacher ratio in KSA is 12 to 1; one of the lowest in the world; in comparison to other developed countries with better performing students. In South Korea the ratio of students to teachers is 31 to 1, and in Singapore is 24 to 1 (Figure 5).

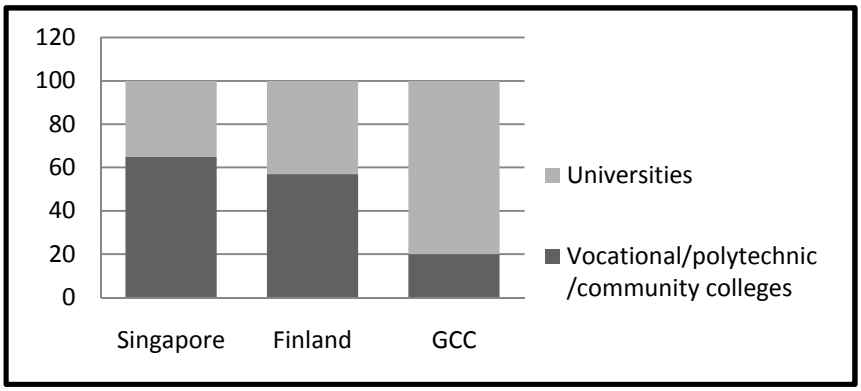
Figure 5: Eight Grade Students Performance in Mathematics at Each Level



Source: TIMSS, 2003.

What statistics reveal in KSA is a distortion in supply and demand across education, with excess supply of Saudi-nationals with university degrees, especially in humanities fields, against an excess of demand on skilled labors. The percentage of students entering universities is higher than students opting for technical and vocational education, a scheme that persists in the GCC countries in general, and creates an inverted educational pyramid by which the majority of students, 80 percent in GCC, are in universities rather than community colleges, vocational or polytechnic schools (Figure 6).

Figure 6: Breakdown of Post-Secondary Student Population



Source: OECD

Although the Saudi government incurs huge expenses on higher education, the survival rates in national universities averages around 40 percent only. In comparison to other developed countries where the percentage of students completing their bachelor degree is 70 percent in Germany and 83 percent in the United Kingdom (OECD, 2005). In sum, the inefficiency in the education system results in pushing the majority of youth towards higher education, which costs the state heavy funds, only to end up with less than half graduating; mostly in fields not needed by the market.

The other side of this problem is the lack of the much need technical and vocational training by the labor market in Saudi despite increased government funds for education. Describing this predicament Sfakianakis(2014b) points out that official data shows that the proportion of Saudis enrolled in universities is 78 percent, which is the highest in the world, compared to an average of 56 percent in OECD countries and less than 30 percent in Turkey. On the other hand only 9 percent of secondary school graduates enroll in vocational and technical training, compared to an average of 41 percent in OECD countries and 37 percent in Turkey. And while KSA spends on higher education 8 times what it spends on vocational training, OECD countries spend 2 times on average. Tellingly, Germany spends 0.99 and 0.73 percent of its GDP on higher education and vocational training respectively, while KSA spends 1.86 percent of its GDP on Education and a only 0.23 percent on vocational training. Such imbalance leads to giving more weight to higher education on the expense of vocational and technical training, and hence, distorting the labor market.

In 2002, there were 30,060 students in the 17 existing technical institutes in Saudi, among which only less than 4,800 graduated; this is striking in comparison to 40 percent of the total national university student population taking Islamic studies (Bosbait & Wilson, 2005). This mismatch between market needs and education is being reaped today with the fact that unemployed bachelor's degree holders represent 46.2 percent of the total unemployment population. In addition, 90 percent of those who registered with the Hafiz Program for unemployment benefits have degrees in theoretical disciplines, while 95 percent of females registered with Hafiz Program are bachelor's degree holders (Sfakianakis, 2014b).

The trend of mismatching education and labor market needs continues even with new initiatives such as the King Abdullah Scholarship Program (KASP) initiated in 2005 to support massive scholarship endowments to young Saudi to pursue their higher education abroad at all level, as described by Alfawaz, Hilal, and Alghannam(2014) KASP lacks pre-departure awareness of market needs and requirements.

In his study on the status of vocational and technical education in KSA, Al-Shammari(2009) points out to the mismatch between the General Organization for Technical Education and Vocational Training (GOTEVT) efforts and skill formation in vocational and technical colleges on one side, and needs of the private sector and labor market on the other hand. Recommending that GOTEVT role should be changed to "create industry- led training organizations to serve and link the outcomes of this skill formation organization to the employment needs of the labor market and to the needs of the economy in general".

The imbalance in the education that led to a distorted human capital development in KSA was a result of an imbalanced development plans across time. The structure of the government expenditures since 1970, since the first five years plan was initiated, and up to 2014 (Table 8) shows clearly that the government invested heavily in infrastructure and economic resources on expense of human resources development (MEP, 2013).

Table 8: Structure of Government Expenditure 1970 – 2014 (Percent)

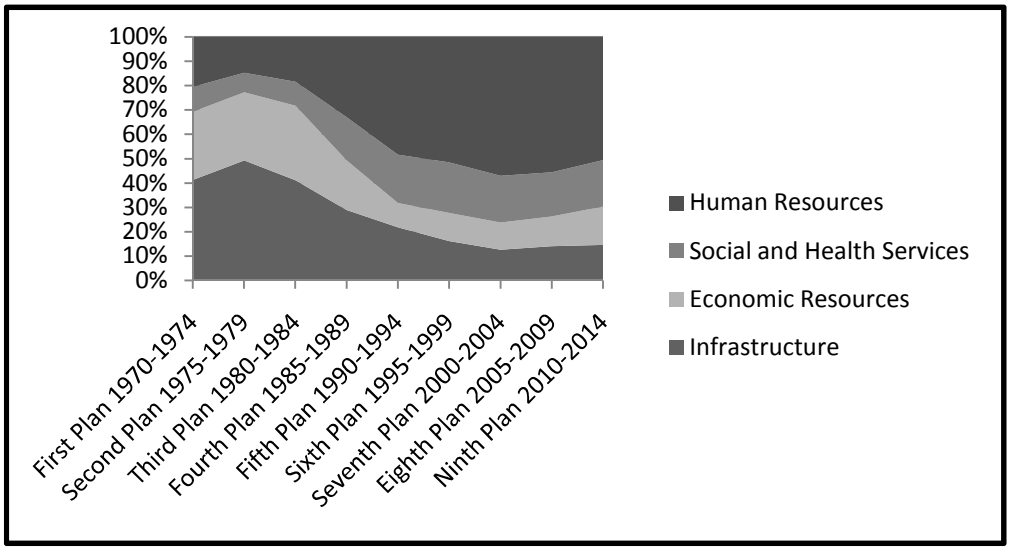
Development Plans	Infrastructure[1]	Economic Resources[2]	Human Resources[3]	Social and Health Services[4]	Total
First Plan 1970-1974	41.3	27.9	20.5	10.3	100.0
Second Plan 1975-1979	49.3	28.0	14.7	8.0	100.0
Third Plan 1980-1984	41.1	30.7	18.4	9.8	100.0
Fourth Plan 1985-1989	28.9	20.4	33.0	17.7	100.0
Fifth Plan 1990-1994	21.8	10.0	48.3	19.9	100.0
Sixth Plan 1995-1999	16.2	11.5	51.5	20.8	100.0
Seventh Plan 2000-2004	12.6	11.2	57.1	19.1	100.0
Eighth Plan 2005-2009	14.1	12.2	55.6	18.1	100.0
Ninth Plan 2010-2014	14.6	15.8	50.6	19.0	100.0

Notes: **1/ Transport, telecommunication services, public works, housing, and municipal affairs.**
2/ Agriculture, water and electricity, petroleum & mineral resources, and industrial services.
3/ General education, higher education, technical & vocational training, science & technology.
4/ Health care, social, youth and information services, and cultural activities.

Source: Ministry of Economy and Planning.

As shown in (Figure 7) proper investment in human resources sector started only during the sixth five year plan (1995-1999) when the problem of unemployment began to have an acute toll on the economy of the state.

Figure 7: Structure of Government Expenditure1970 – 2014



Source: Ministry of Economy and Planning.

V. Research Methodology

According to Niblock & Malik(2007) “the absence of an independent means of unraveling the realities behind the divergent statistics on employment make it impossible to arrive at an accurate figure for the composition of the Saudi labor force”. In addition, Flynn(2011) points out that ideally a thorough labor market dataset would originate from a single government agency, which is not the case in KSA. Adding that in 2007, The Ministry of Economy and Planning (MEP) reported a total labor force of 8.2 million, while the Ministry of Labor (MOL) reported a total legally registered labor force of 6.7 million. The difference arises from the fact that the MOL collects data on labors registered with the government, while the MEP collects data on all workers in the economy.

The variations in official datasets were reiterated also by Hertog(2012) who points out that SAMA and the Central Department of Statistics and Information (CDSI) account for total number of foreigners in KSA in 2007 was at around 6.5 million, while the MOL reported 8 million foreigners. On the other hand, MOL reported, also in 2007, a number of 770,000 Saudis in the private sector; while conversely; The General Organization for Social Insurance (GOSI) records put Saudis in the private sector at about 550,000. He also points out that CDSI figures show that numerical relationship of foreigners to locals has been constant since 1993, hinting that this means the data have been extrapolated rather than derived from survey results.

There are number of government agencies that collect information related to labor force in KSA, such as the Ministry of Civil Service (MCS), which collects data on public sector employment, while GOSI collects data on private sector employment for social insurance purposes. Moreover, both the Human Resources Development Fund (HRDF) and Hafiz Program collect data on unemployment among Saudi-nationals. Finally, CDSI; which is housed in MEP, collects general data on the Saudi economy including the labor force, and actually have the longest running dataset; the *Statistical Yearbook* produced annually since 1975.

Analysis will be mainly quantitative-descriptive based on official published results, and data collected on the labor market will include levels of employment and

unemployment, total labor-force structure, sizes of private sector companies, wage structures across different economic activities and professions for nationals and non-nationals, percentages of Saudization across different economic activities and size of companies. Special emphasis will be given to understanding the role of education by comparing wage structure according to education level to both national and non-national labors. In addition, percentages of Saudization according to education across sectors for both national and non-national labor forces. Different data sets will be examined across each other or across years, with special attention to the data of the period 2011-2013, of the newly Saudization policy revived and reformed under Nitaqat program.

The concept of unemployment will be not explored in this paper as pertaining to the definition of unemployment or the types of unemployment in the Saudi labor market. Statistics declared so far in KSA are not matured enough to the extent of defining unemployment across certain types, nor are the statistics released on quarterly basis depending on private sector performance. This thesis will accept the broad definition of unemployment in KSA as calculated by MOL. Moreover, unemployment figures will be based primarily on annual reports released by MOL, and this thesis will rely on that dataset for number of purposes: first, MOL represents the main government stakeholder in the unemployment issue, and thus, assessment of its efforts should be based on their primary figures. Second, labor affairs were originally part of the mandate of the Ministry of Labor and Social Affairs up to 2004 when ministerial decree no. 27 was issued to create a separate Ministry of Labor, since then MOL has been collecting data specifically on the private sector and releasing it annually. Finally, this paper aims to assess the Saudization program; which runs under the auspices of MOL.

Data analysis will be made only to the limitations of this research purpose. Attention will be paid to generic labor force data, and distinctions will be made between national and non-nationals. The set of data produced by MOL is divided along gender lines, but this paper will not consider gender variations in the analysis, as such analysis will require further investigation along sociological lines and gender-based studies. With no access to micro data; this research will depend on officially published results by MOL represented and stylized.

VI. Analysis of Saudization Program

Status of Nitaqat

The status of the Nitaqat program in 2011 (year of program initiation) presented in (Table 9) highlights a challenging trend; most of the companies in the non-compliant bands of red and yellow are SMEs. Excluding the micro companies which are exempted from the Saudization requirements; 68 percent of small companies and 49 percent of medium companies were in the red and yellow bands. On the other hand, 71 percent of large companies and 92 percent of conglomerates were in the green and platinum bands. Overall, excluding micro companies, 65 percent of KSA companies were non-compliant with Saudization requirements per the Nitaqat program in 2011 (MOL, 2011).

In both years, 2012 and 2013 (Table 10) and (Table 11) the status of Nitaqat shows improvement as more companies moved from the red and yellow bands into the green and platinum bands. In 2012, the companies in red band decreased from 120,599 to 67,769, and the companies in the yellow band decreased from 40,341 to 37,611 (MOL, 2012). Same trend continued in 2013, with red band companies decreasing from 67,796 to 17,314, and yellow band companies decreasing from 37,611 to 19,637 (MOL, 2013). However, as both tables show, SMEs kept on representing around 99 percent of companies in both red and yellow bands throughout the period of 2011 to 2013. On the other hand, most of the large and conglomarate companies were placed in the green and platinum category for the same period, and by 2013, more than 95 percent of the large and conglomarate companies were placed in both the green and platinum bands.

SMEs, as theoretically, the creators of jobs were in mostly in non-compliance due to the cost associated with hiring nationals and their lack of skill sets which does not meet the requirements of SMEs. The Saudization regulation weakens SMEs, however on the contrary, big companies and conglomerates can afford to hire the nationals as well as train them for the job.

Table 9: Status of Nitaqat Program (2011)

Category Classification	White Category		Red Category		Yellow Category		Green Category		Platinum Category		Total	
Size of Company	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Micro (1-9)	1,558,047	100	-	-	-	-	-	-	-	-	1,558,047	86
Small (10-49)	-	-	113,558	52	34,617	16	66,890	30	4,678	2	219,742	12
Medium (50-499)	-	-	6,757	28	5,058	21	11,014	45	1,468	6	24,297	1
Large (500-2,999)	-	-	265	9	624	21	1,843	61	307	10	3,039	0.2
Conglomerates (3000+)	-	-	19	3	42	6	500	67	188	25	749	0.0
All Companies	1,558,047	86	120,599	7	40,341	2	80,247	4	6,641	0.4	1,805,875	100

Source: Ministry of Labor, Annual Labor Statistics 2011.

Table 10: Status of Nitaqat Program (2012)

Category Classification	White Category		Red Category		Yellow Category		Green Category		Platinum Category		Total	
Size of Company	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Micro (1-9)	1,714,276	100	-	-	-	-	-	-	-	-	1,714,276	86.62
Small (10-49)	-	-	65,265	96.3	32,971	96.3	125,648	87.7	1,668	85.7	234,552	11.85
Medium (50-499)	-	-	2,392	3.53	4,269	3.53	17,958	11.4	1,575	12.3	26,194	1.32
Large (500-2,999)	-	-	101	0.15	350	0.15	2,434	0.93	389	1.66	3,274	0.16
Conglomerates (3000+)	-	-	11	0.02	21	0.02	508	0.06	276	0.35	807	0.04
All Companies	1,714,276	100	67,769	100	37,611	100	146,548	100	12,899	100	1,979,103	100

Source: Ministry of Labor, Annual Labor Statistics 2012.

Table 11: Status of Nitaqat Program (2013)

Category Classification	White Category		Red Category		Yellow Category		Green Category		Platinum Category		Total	
Size of Company	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Micro (1-9)	1,523,193	100	-	-	-	-	-	-	-	-	1,523,193	86
Small (10-49)	-	-	16,498	95	16,654	85	167,973	83	12,204	79	213,329	12
Medium (50-499)	-	-	786	5	2,833	14	31,732	16	2,482	16	37,833	2
Large (500-2,999)	-	-	29	0	146	1	3,097	2	462	3	3,734	0
Conglomerates (3000+)	-	-	1	0	4	0	619	0	272	2	749	0
All Companies	1,523,193	100	17,314	100	19,637	100	203,421	100	15,420	100	1,778,985	100

Source: Ministry of Labor, Annual Labor Statistics 2013.

This highlights that the role of SMEs is under-utilized; as pointed out by Looney(2004a) SMEs in KSA represent 93 percent of total enterprises and account for only 24.7percent of total employment. In comparison to the United Kingdom, SMEs represent 99.9 percent of the private sector and 59.1 percent of employment. As matter of fact, numbers of different reports show that SMEs play a decisive role in creating more jobs in the economy. According to (De Kok, et al., 2011) between 2002 and 2010, 85 percent of total employment growth in the European Union was attributable to SMEs, which have higher employment growth rate than large enterprises.

In addition, one of the major challenges facing SMEs in KSA is the lack of financing. The credit gap for financing SMEs in the MENA region is around USD 240 billion, while only 2 percent of bank lending in Saudi Arabia goes to SMEs (Saleem, 2013) with high interest rates that reach 20-25 percent. Saudi banks are conservative when it comes to lending SMEs with very strict criteria for lending, further limiting SMEs growth opportunities and reaching its potential for job creation. According to the above tables, SMEs – including micro businesses – represent around 99 percent of total businesses in KSA, while only accounting for 49 percent of total employment and 33 percent of total GDP, which is below global average of 64 percent for employment and 47 percent for GDP (MOL, 2014). As shown by official data (Table 12), SMEs employ 59.9 percent out of the total population of Saudi-nationals in the private sector, while on the contrary; they employ 72.2 percent out of the total non-national workers population in the private sector.

Table 12: Number of Employees in Private Sector by Size of Company and Nationality, 2013

Size	Nationals	Non-Nationals	Total
Micro	**147,308**	**1,428,372**	**1,575,680**
Small	**311,232**	**2,198,838**	**2,510,070**
Medium	**420,672**	**2,310,428**	**2,731,100**
Large	**294,549**	**1,149,656**	**1,444,205**
Conglomerates	**293,092**	**1,125,488**	**1,418,580**
Total	**1,466,853**	**8,212,782**	**9,679,635**

Source: Ministry of Labor

The status of the Nitaqat program shows that the government's efforts are paying off as presented in (Table 13), the total number of companies in the red band, for example, decreased by 43.8 percent between 2011 and 2012,while the total number of companies increased in the green band by 82.6 for the same period. While this trend is clear in (Table 13), one point of important consideration is the change within the white band, which represents the micro companies exempted from the Saudization requirements. The amount of micro companies increased between 2011 and 2012 by 10 percent, and then decreased by 11.15 percent between 2012 and 2013.

MOL explains the decrease in number of micro business between 2012 and 2013, as due to a revision of the number of inactive micro entities in the market (MOL, 2013). What this reveals is that after the initiation of the Nitaqat program, many companies resorted to shirking practices by which they have opened new micro businesses to be eligible to import more foreign workers without affecting their Nitaqat status. According to labor laws, a micro company is allowed to import 4 expatriates provided they have one registered Saudi-national, either the business owner or a hired worker. It could be argued that the Nitaqat program had, in effect, helped through its system of incentives and sanctions in increasing the level of Saudization in companies. Nevertheless, (Table 13)reveals also that the monitoring cost of such system is very high, as many companies resort evasion practices.

Table 13: Number of Companies according to Nitaqat Bands (2011 - 2013)

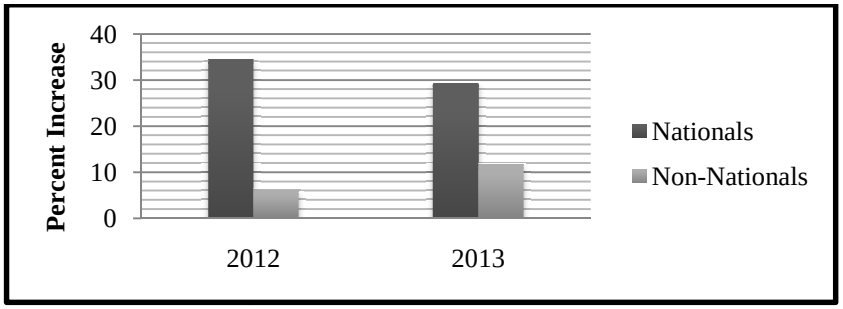
	White Category		Red Category		Yellow Category		Green Category		Platinum Category		Total	
Year	Number	Percent change	Number	Percent change	Number	Percent change	Number	Percent change	Number	Percent change	Number	Percent change
2011	1,558,047	-	120,599	-	40,341	-	80,247	-	6,641	-	1,805,875	--
2012	1,714,276	10.0	67,769	-43.8	37,611	-6.8	146,548	82.6	12,899	94.2	1,979,103	9.6
2013	1,523,193	-11.15	17,314	-74.45	19,637	-47.79	203,421	38.81	15,420	19.54	1,778,985	-10.11

Source: Ministry of Labor, Annual Labor Statistics 2012 and 2013

Unemployment and Labor Force

In 2011, the Saudi-nationals represented 10.85 percent of the labor force in the private sector (Table 14), which is quite low in comparison with international average. The Nitaqat Program paid off as the number of Saudi-nationals in the private sector increased in the period of 2011-2013 by more than 600,000. Between 2011 and 2012, the total number of Saudis employed in the private sector increased by 34.36 percent against a low 6 percent for non-nationals. Same trend continued between 2012 and 2013 as the number of Saudis increased by 29.28 percent against 11.69 percent for non-nationals (Figure 8).

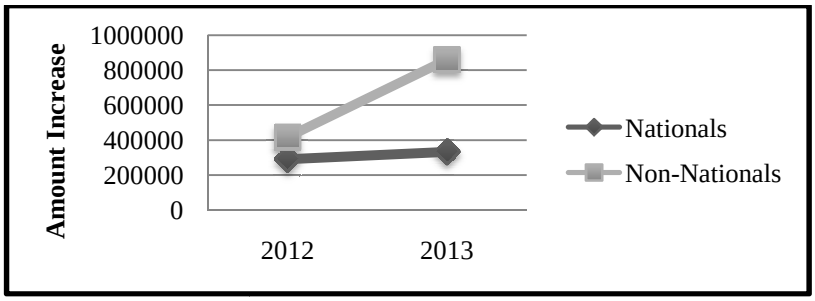
Figure 8: Increase in National and Non-National Employment 2012-2013



Source: Ministry of Labor, 2013

By 2013, the percentage of Saudi-nationals out of the total labor force in the private sector reached 15.15 percent, with a Saudization rate of increase by 2.52 and 1.78 percent for 2012 and 2013 respectively. Although the percentage of Saudi-nationals increase in the private sector was higher than the percentage of non-national increase; cumulatively, the amount of increase in non-nationals was almost double that of Saudi-nationals (Figure 9).

Figure 9: Amount Increase in National and Non-National Employment 2012-2013



Source: Ministry of Labor, 2013

Table 14: Number of Employees in the Private Sector by Nationality and Gender 2011-2013

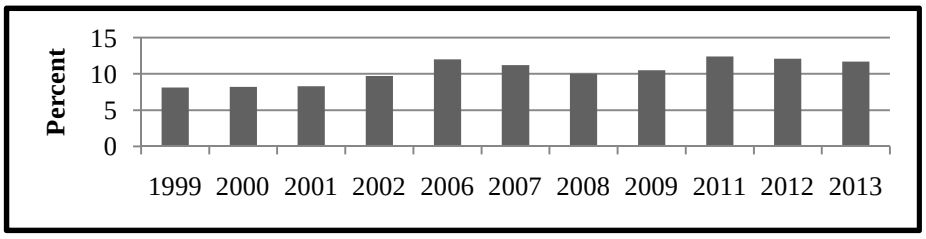
Year	Saudi Nationals			Non-Saudi Nationals			Total Nationals and Non-Nationals			Percent Saudis
	Males	Females	Total	Males	Females	Total	Males	Females	Total	
2011	744,990	99,487	844,476	6,823,554	113,466	6,937,020	7,568,544	212,952	7,781,496	10.85
Percentage of Total Labor Force	9.57	1.28	10.85	87.69	1.46	89.15	97.26	2.74	100.0	
2012	918,793	215,840	1,134,633	7,244,206	108,694	7,352,900	8,162,999	324,534	8,487,533	13.37
Amount Change	173,803	116,354	290,157	420,652	-4,772	415,880	594,455	111,582	706,037	2.52
Percent Change	23.33	116.96	34.36	6.16	-4.21	6.0	7.85	52.40	9.7	
2013	1,068,315	398,538	1,466,853	8,051,394	161,388	8,212,782	9,119,709	324,534	9,679,635	15.15
Amount Change	149,522	182,698	332,220	807,188	52,694	859,882	956,710	235,392	1,192,102	1.78
Percent Change	16.27	84.65	29.28	11.14	48.48	11.69	15.76	72.53	14.05	

Source: Ministry of Labor, Annual Labor Statistics 2013

As shown in (Table 14) the total number of private sector employees is 9.6 million, and the private sector labor force has been expanding rapidly, with 9.7 percent increase in total labor force between 2011 and 2012, and another 14 percent increase between 2012 and 2013. The latest increase alone amounts to 1.1 million new jobs, a figure higher than total new jobs held by Saudis since the initiation of Nitaqat in 2011. Job creation, as a matter of fact, is not the problem that leads to unemployment among Saudi-Nationals.

Unemployment has been hovering throughout the past decade around the 10 percent figure, as (Table 15) shows; the number of unemployed Saudis increased from 228,625 in 1999 to 622,533 in 2013. The Nitaqat program managed to decrease unemployment rate since it started from 12.4 percent in 2011 to 11.7 percent in 2013; yet, this is still higher than the unemployment rate of 1999, which was only 8.1 percent (Figure 10). Meaning that at the end result, total Saudi unemployment rate did not decrease despite slight success of Nitaqat program since its initiation in 2011.

Figure 10: Total Unemployment Rate among Saudi-Nationals 1999-2013



Source: Ministry of Labor, 2013

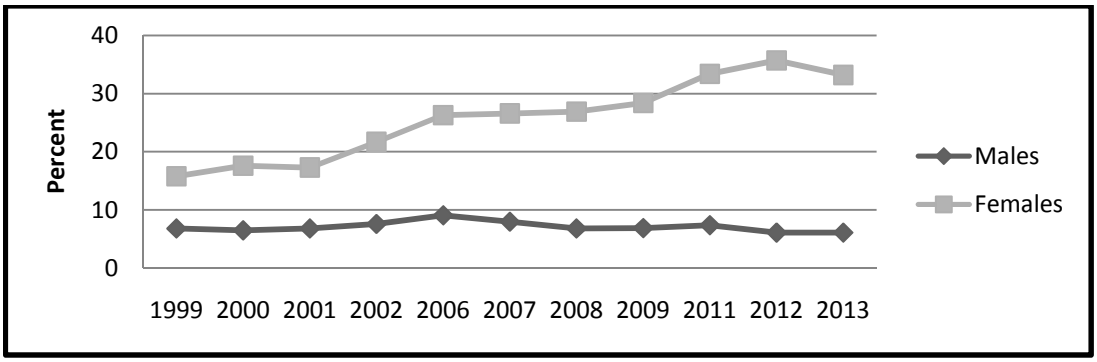
The increase in unemployment rate in the last decade could be attributed to the large influx of female job seekers, the data show that male unemployment percentage was stagnant around 6-7 percent, while female unemployment rate doubled from 15.8 percent in 1999 to 33.2 percent in 2013 (Figure 11) and the amount of unemployed females rising from a 100,000 less than the unemployed male population to 100,000 more than the unemployed male population (Figure 12). Stagnant unemployment rate could be attributed to the influx of national female population into the labor market; however, as revealed by the data, male unemployment has also been stagnant. Thus, hinting that gender related issues pertaining to the labor market could only explain the increase in female unemployment; not the stagnation in male unemployment.

Table 15: Unemployment figures and Rate among Saudi Nationals (1999-2013)

Year	Saudi Nationals Unemployed						Unemployment Rate		
	Males	Percent	Females	Percent	Total	Percent	Males	Females	Total
1999	163.286	71.4	65.339	28.6	228.625	100	6.8	15.8	8.1
2000	164.611	68.6	75.240	31.4	239.851	100	6.5	17.6	8.2
2001	176.611	69.9	76.083	30.1	252.694	100	6.8	17.3	8.3
2002	203.155	69.9	100.975	30.1	304.130	100	7.6	21.7	9.7
2006	292.905	62.5	176.110	37.5	469.015	100	9.1	26.3	12
2007	271.007	59.7	182.987	40.3	453.994	100	8	26.6	11.2
2008	239.170	57.4	177.180	42.6	416.350	100	6.8	26.9	10
2009	248.162	55.3	200.385	44.7	448.547	100	6.9	28.4	10.5
2011	282.930	48.3	302.797	51.7	585.727	100	7.4	33.4	12.4
2012	234.983	40.5	358.870	59.5	602.853	100	6.1	35.7	12.1
2013	261.392	41.9	361.141	58.1	622.533	100	6.1	33.2	11.7

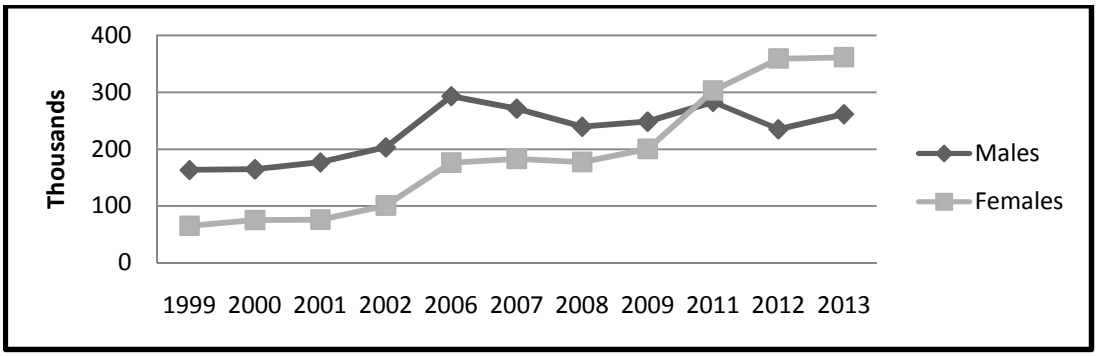
Source: Ministry of Labor, Annual Labor Statistics 2013

Figure 11: Saudi Male – Female rates of Unemployment, 1999-2013



Source: Ministry of Labor, 2013

Figure 12: Amount of Saudi Male – Female Unemployment. 1999 – 2013



Source: Ministry of Labor, 2013

The manpower survey for the period of the Nitaqat Program, 2011-2013 (Table 16) is quite revealing on the reasons behind this stagnation in rates of unemployment despite the efforts by the government. Between 2011 and 2013, the total number of employed Saudis increased from 4.1 to 4.7 million. This reflects an increase rate of 5.8 and 7.3 percent in 2012 and 2013 respectively, making the percent of employed Saudi-nationals in the economy at 35.7 percent. However on the other side, the labor force itself increased by almost a similar percentage of 5.4 and 6.8 in 2012 and 2013 respectively. So, in effect, despite the fact that unemployment rate decreased by 3.3 percent in 2013, the total number of unemployed Saudis in the economy increased by an equal percentage of 3.3 percent to reach 622,533 in 2013 from 585,727 in 2011; keeping the percentage of total unemployed nationals at around 4.7 percent out of the total labor force.

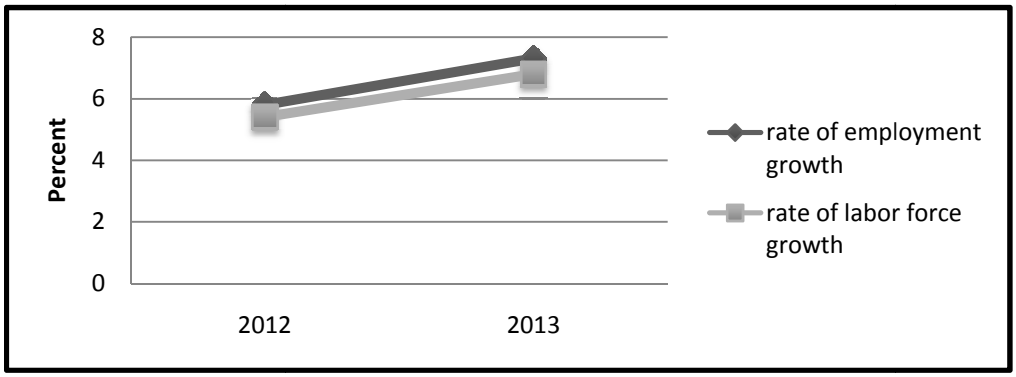
Table 16: Total Saudi Manpower Survey (2011 – 2013)

Year	Employed		Unemployed		Labor Force		Out of Labor Force		Population (15+ years)		Unemployment Rate
	Total	%	Total	%	Total	%	Total	%	Total	%	
2011	4,143,071	33.0	585,727	4.6	4,728,798	37.6	7,823,061	62.3	12,551,859	100.0	12.4
2012	4,397,371	34.4	602,853	4.7	5,000,224	39.1	7,769,497	60.9	12,769,721	100.0	12.1
Amount Change	254,300		17,126		271,426		-53,564		217,862		
Percent Change	5.8		2.8		5.4		-0.68		1.7		-0.3
2013	4,717,127	35.7	622533	4.7	5,339,660	40.4	7,867,723	59.6	13,207,383	100.0	11.7
Amount Change	319,756		19,680		339,436		98,226		437,662		
Percent Change	7.3		3.3		6.8		1.3		3.4		-3.3

Source: CDSI Labor Force Survey, 2011, 2012 and 2013

The structure of KSA manpower is self-defeating; while the employment is increasing, the labor force is also increasing by a similar rate; thus, keeping unemployment percentages stagnant (Figure 13). The labor force represented 37.6 percent of the total working age population in 2011 and increased to 40.4 percent in 2013. The Saudi labor force is expanding by a rate equal to the rate of employment, hence; the labor market will always run a deficit in amount of Saudis unemployed; keeping unemployment oscillating within a set range.

Figure 13: Rate of Nationals Employment Growth vs. Rate of Nationals Labor Force Growth



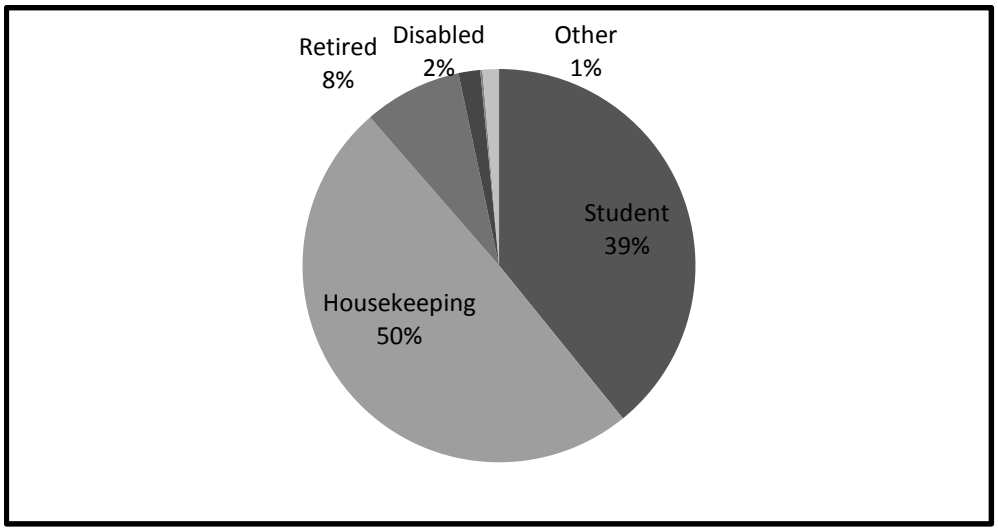
Source: Ministry of Labor, 2013

The manpower survey reveals also that the total Saudi working age population (15+ years) is 13.2 million in 2013; however, more than half of that population is out of the labor force, 62.3 percent in 2011 and 59.6 percent in 2013 amounting to 7.8 million. This could be attributed to number of reasons; among them a problem of underemployment in KSA rather than a problem of unemployment. Examining the breakdown of the out of labor force population by age and reason for being out of the labor force (Table 17) reveals number of points.

Firstly, that the majority of the population out of the labor force are either students, or in housekeeping position; which mainly refers to housewives not willing to work, with 39 and 50 percent respectively (Figure 14).Secondly, the total amount of students within the age working population, those between 15 and 24 years of age precisely, is around 2.9 million, which hints that the labor force is to witness exponential increases with time. The last published detailed national census of 2004 draws a clear picture of the population

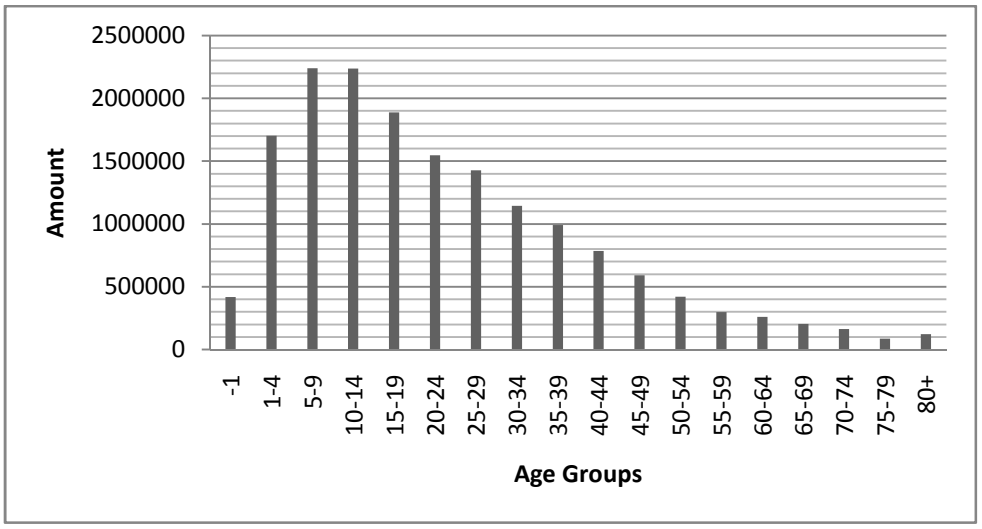
structure with majority of population falling between 1- 24 years (Figure 15). Moreover, as (Table 1) shows the total Saudi population is put at 20.27 million, while the Saudi population above 15 years is 13.20 million (Table 16), which means that around 35 percent of the Saudi population is under 15 years, compared to 18 percent in industrial countries (Al-Sheikh & Erbas, 2012).

Figure 14: Saudi Out of Labor Population by reason, 2013



Source: CDSI Labor Force Survey, 2013

Figure 15: Saudi Population Distribution by Age Group, 2004



Source: CDSI Census, 2004

Table 17: Number of Saudi Population Out of Labor Force by Age and Reason, 2013

Age Group	Student	Housekeeping	Retired	Disabled	Self Sufficient	Other	Total
15-19	1,959,010	82,948	0	14,513	1,426	8,978	2,066,875
20-24	1,006,425	351,178	358	15,279	2,871	35,492	1,411,603
25-29	105,814	545,453	184	20,723	3,308	27,884	703,366
30-34	7,973	526,669	911	16,532	2,543	12,737	567,365
35-39	751	496,191	2,364	15,417	518	8,445	523,686
40-44	0	437,752	8,573	8,742	828	2,454	458,349
45-49	237	385,655	27,491	5,608	1,194	1,072	421,257
50-54	39	314,747	87,188	4,256	858	1,017	408,105
55-59	314	246,391	110,574	5,714	212	389	363,594
60-64	0	182,758	127,998	4,572	144	1,693	317,165
65+	0	321,328	270,123	29,131	201	5,575	626,358
Total	3,080,563	3,891,070	635,764	140,487	14,103	105,736	7,867,723

Source: CDSI Labor Force Survey, 2013

Labor Market Structural Deficiencies

The Saudi labor market suffers from number of structural deficiencies resulting from market segmentation; as there are actually two labor markets in KSA, one for the nationals and another for the non-nationals. In addition, another segmentation exists between nationals in the public sector and nationals in the private sector. This structural inefficiency is visible in the wage differential between, nationals and non-nationals in the private sector, one the first hand, and among nationals themselves in the public and private sector, on the other hand. Also, such inefficiency is visible in the labor productivity rates of employees in both sectors, as well as in the education sector.

Another inefficiency is the information asymmetry in the regulatory environment; creating an 'Agency Cost' where the agent (private companies) are able to determine the cost of non-compliance; hence, circumventing regulations (Weimer & Vining, 2011). As shown above in comparison between status of Nitaqat Program for the period 2011-2013 (Table 9), (Table 10) and (Table 11). Companies resort to shirking practices that allows them to access government benefits and avoid penalties through; creation of micro-companies that allows them to import labors and bypass quota requirements since these companies are currently exempted from the Nitaqat Program. Otherwise, creating sub-companies in activities where Saudization targets are easily achievable and using imported labors in these activities for other jobs. Moreover, companies might resort to hiring Saudis just to meet the Saudization requirement while expecting those nationals to do nothing; which leads to deterring genuine employment and creates what came to be known as fake or phantom Saudization; *Saud'a Wahmiya*.

Wage Differentials

In 2011, the average monthly wage for a Saudi-national was SAR 2,889, while the average wage for a non-national was SAR 1,022 (Table 18), thus, wages of nationals are 3 times higher on average than non-nationals. This discrepancy in wages makes Saudi-nationals more expensive and less attractive to hire by the private sector.

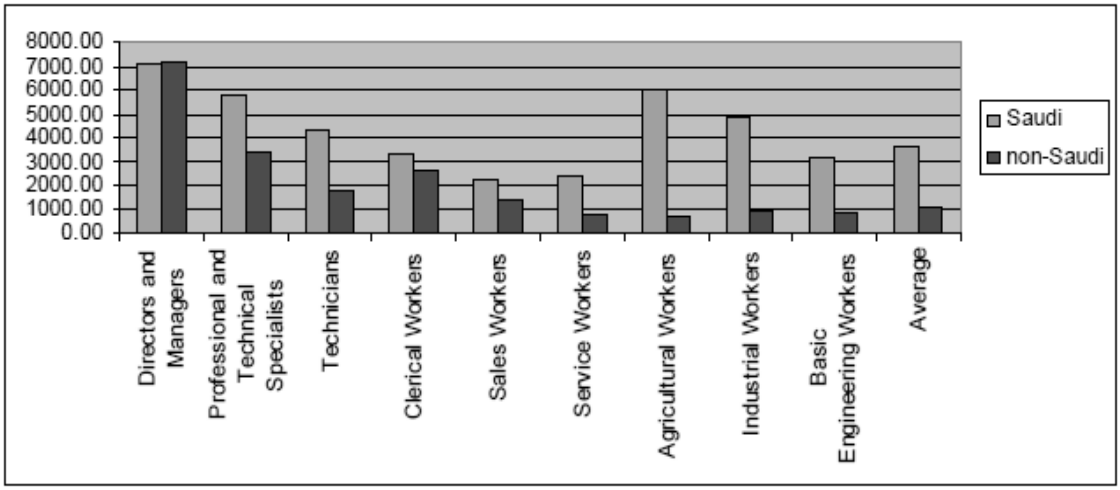
Table 18: Average Wages (SAR/Month) in Private Sector by Nationality 2011

Nationality	Nationals			Non- Nationals			Total		
	Males	Females	Average	Males	Females	Average	Males	Females	Average
Wage	3,635	2,142	2,889	748	1,295	1,022	982	1,676	1,239

Source: Ministry of Labor

This wage differential between nationals and non-nationals exists despite similarity in educational level, and across different economic activities in the labor market (Figure 16). The wage differential created by the structural inefficiencies in the labor market of is an economic force that results in disequilibria. It could be traced to number of reason. First, the sponsorship system (*Kafeel*) reduces the mobility of foreign labor by tying residency permit to the sponsoring employer whose consent is required for a worker to change employer; thus, weakening the relative bargaining position of expatriates vis-à-vis the employers.

Figure 16: National Vs. Non-National Monthly Wages by Profession, 2007

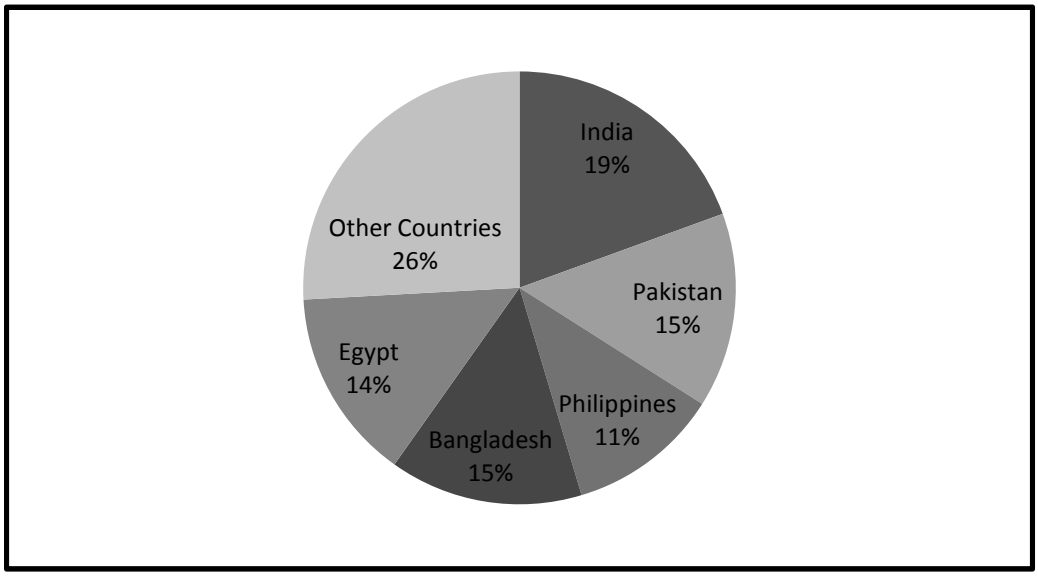


Source: MOL in(Hertog, 2012)

Second, around 74 percent of expatriates in Saudi Arabia originate from Five specific countries; India, Pakistan, Bangladesh, Philippines and Egypt (Figure 17), comprising 6,717,658 out of an immigrant population of 9,717,658 (UNDESA, 2013). Laborers from these countries are mostly considered low skilled and low-paid, and hence,

willing to accept lower wages and longer working hours which still makes a higher earning than in their home countries.

Figure 17: Percentage of Expatriates in Saudi Arabia by Nationality (2013)



Source: UNDESA.

Third, reservation wage for Saudi-nationals is increasing due to number of reasons, among them the unemployment benefit issued by the Hafiz Program which equals SAR 2,000 per month for a year of unemployment, while the minimum wage set by the government is SAR 3,000 per month; this in turn creates a moral hazard. Also, the imbalance between the public and private sectors, where wages, benefits, job-security and better working conditions for nationals are higher in the public sector; thus, pushing Saudi youth to a longer period of 'wait-hood' in anticipation for job opening in the public sector.

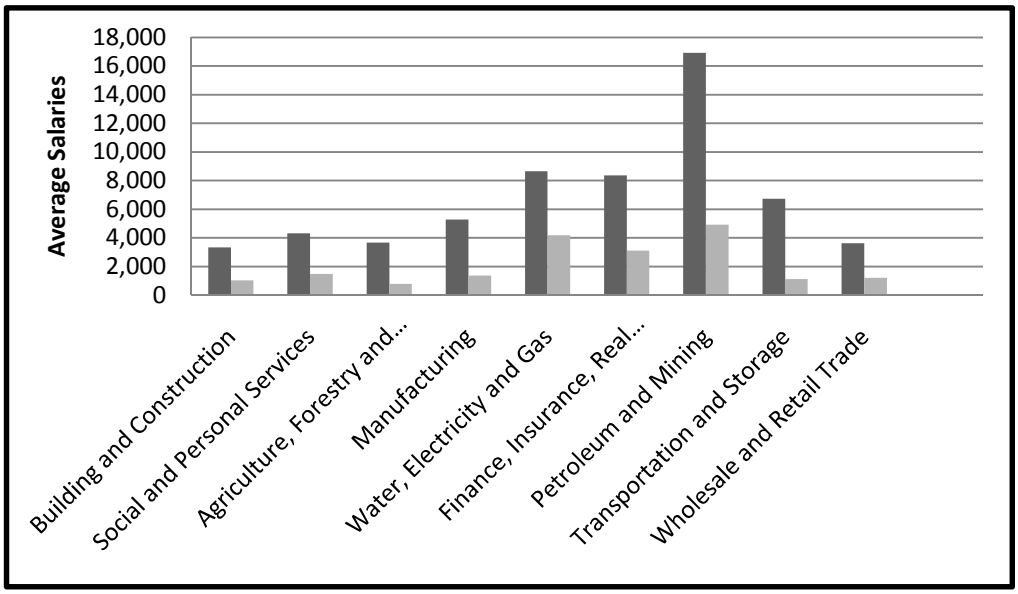
In addition, other socio-economic factors, such as high dependency ratio among Saudis; an average of six dependents, sheds light on reasons behind high reservation wage (Hertog, 2012). According to Ramady(2010) Saudi dependency rate is 2.4 times the world average. This dependency is compounded by the fact that inflation in KSA is relatively high at an average of 4.3 percent in the period of 2007-2011; however, inflation is much higher when examined across main groups of the living costs as inflation for same period was 6 percent for the food and beverages and 8.6 percent for housing, water, electricity and gas (SAMA, 2013). According to Alhamad(2014a) inflation in Saudi Arabia is not visible

when looking at the general Consumer Price Index (CPI), but rather when examining the groups and subgroups affecting peoples' cost of living such as food and rent.

As shown by Table 19 the average wages for Saudi nationals is higher than the average wages of non-nationals across different economic activities, with Saudi wages especially high in capital-intensive activities such as Finance, water, electricity and gas, petroleum and mining, and insurance (Figure 18). The non-national wages brings down the total average wage structure in the economy; thus; creating a disincentive for Saudis to replace non-national jobs at the current rate of wages. When examined against each other; (Figure 19) shows that percentage of Saudization is higher when the average wage of Saudis is high also. Thus, Saudization is aligned with wage levels. As noticed by Hertog(2014a) the narrower the wage gap between nationals and non-nationals in professions, the higher is the Saudization ratio (Figure 20). Such correlation implies that without government intervention on labor prices or quantitative supply; Saudization will remain difficult to attain.

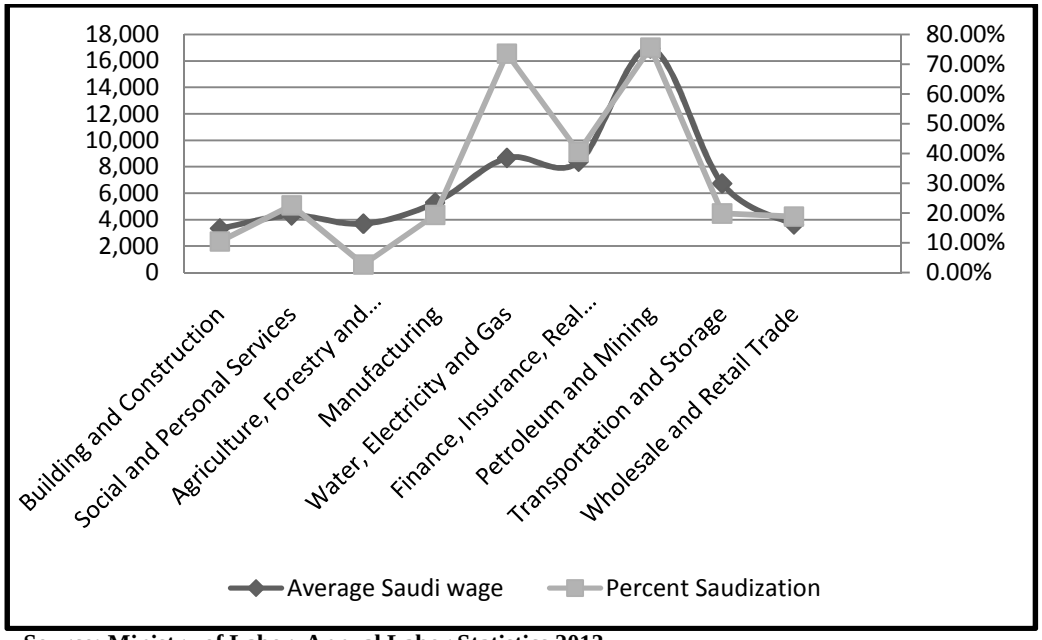
There are currently three different fees levied on private sector employers under Saudization rules. First, a work permits of SAR 100 per year per foreign laborer. Second, a residence permits of SAR 500 per year per foreign laborer. Third, a HRDF charge of SAR 150 per year per foreign laborer, for nationals training purposes. Yet, it should be noted that the average earning of a non-national is SAR 12,400 per year, thus, it seems that an annual fee of SAR 750 is a cost most private sector firms are willing to internalize since it only represents a 6% of the average non-national income, which is too small of an amount to alter the behavior of the private sector provided that a Saudi-national wage is three times higher than the average non-national wage.

Figure 18: Average Salary in the Private Sector according to Economic Activity 2013



Source: Ministry of Labor, Annual Labor Statistics 2013

Figure 19: Average Saudi Wages vs. Percentage of Saudization across Economic Activity 2013



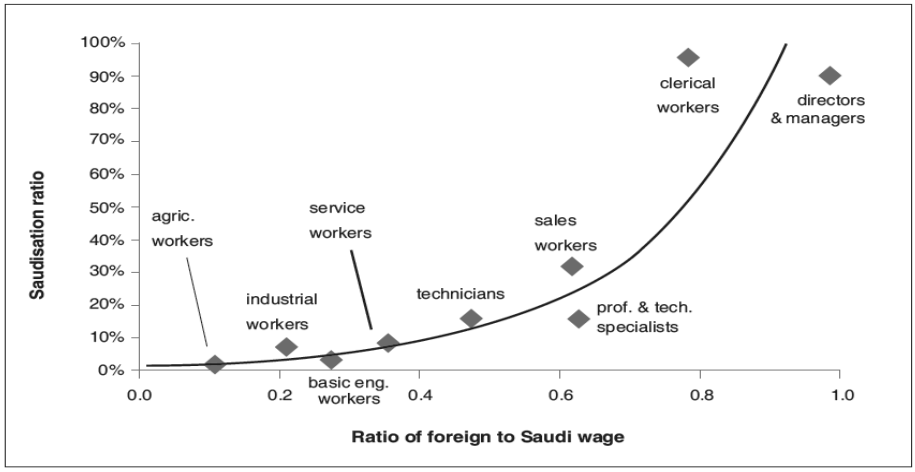
Source: Ministry of Labor, Annual Labor Statistics 2013

Table 19: Average Salary in the Private Sector according to Economic Activity SAR/ Month 2013 (USD 1 = SAR 3.75)

Economic Activity	Saudi Nationals			Non-Saudi Nationals			Total Average
	Males	Females	Average	Males	Females	Average	
Building and Construction	3,517	2,777	3,330	1,031	706	1,029	1,473
Social and Personal Services	5,139	3,447	4,310	1,402	2,262	1,483	2,575
Agriculture, Forestry and Fishing	3,956	2,852	3,676	777	1,030	777	1,012
Manufacturing	5,949	2,884	5,274	1,370	903	1,365	2,587
Water, Electricity and Gas	8,717	3,379	8,659	4,180	6,779	4,187	7,815
Finance, Insurance, Real Estate and Business	8,873	5,844	8,356	3,110	2,955	3,110	6,049
Petroleum and Mining	16,977	15,225	16,927	4,842	5,485	4,916	14,285
Transportation and Storage	7,345	2,950	6,721	1,112	6,182	1,119	3,140
Wholesale and Retail Trade	3,921	2,995	3,619	1,203	1,670	1,204	1,919
Total Average	5,355	3,153	4,748	1,168	1,808	1,176	2,134

Source: Ministry of Labor, Annual Labor Statistics 2013

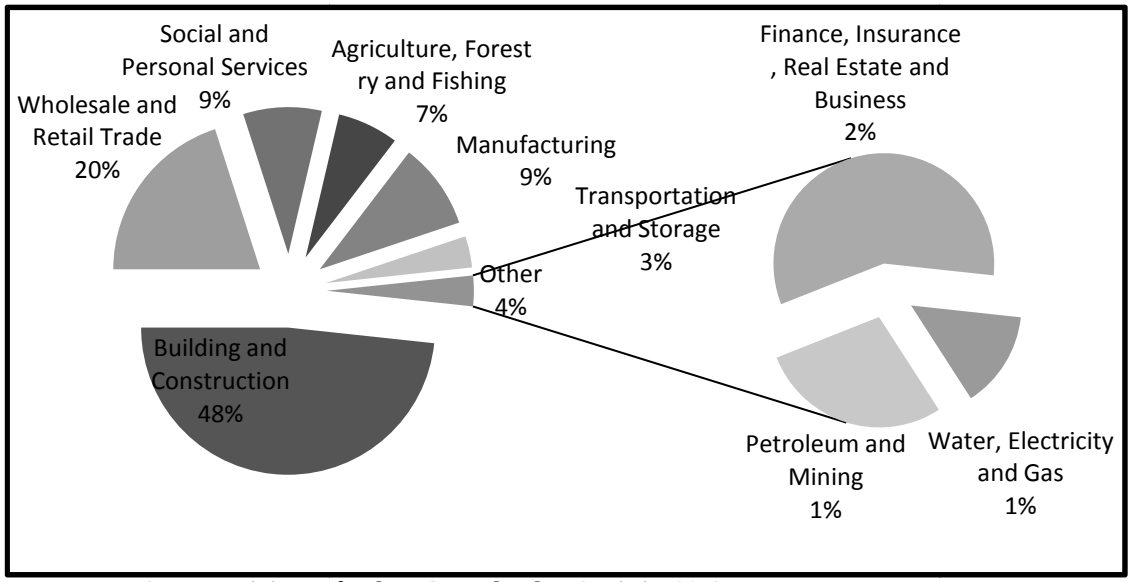
Figure 20: Saudization ratios vs. wage ratios of different professions (2010)



Source :(Hertog, 2014a)

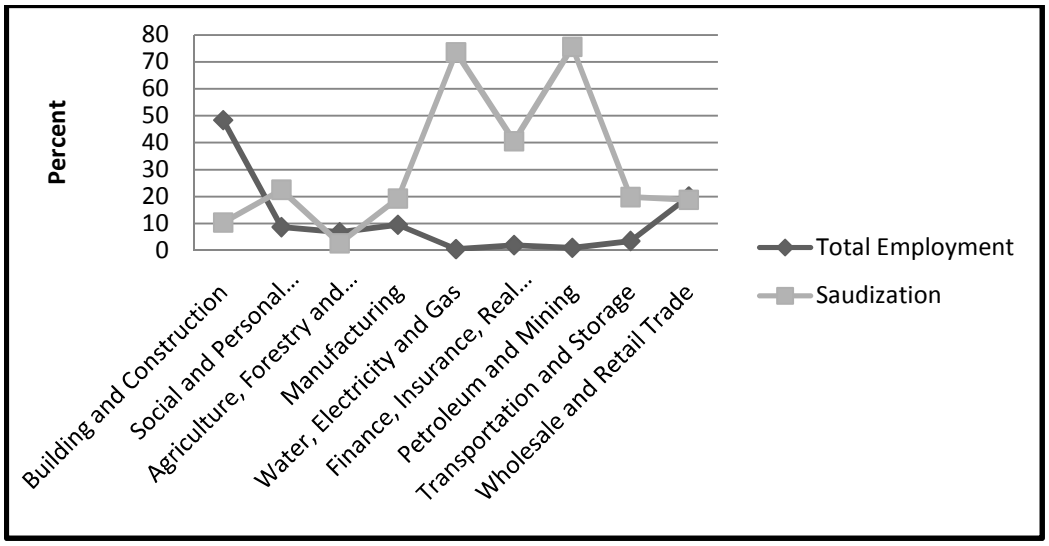
Currently, as (Table 20) shows, there are two economic activities that compose 68 percent of the total private sector employment, building and construction, and, wholesale and retail trade, with 48 and 20 percent respectively (Figure 21). However, when the percentage of Saudization in each economic activity is examined against percentage of total private sector employment in these economic activities (Figure 22), it is clear that activities with high wages enjoy high levels of Saudization. However, these activities have a lesser share in the employees market since they are mostly capital-intensive in nature.

Figure 21: Distribution of Employment in the Private Sector by Economic Activity 2013



Source: Ministry of Labor, Annual Labor Statistics 2013

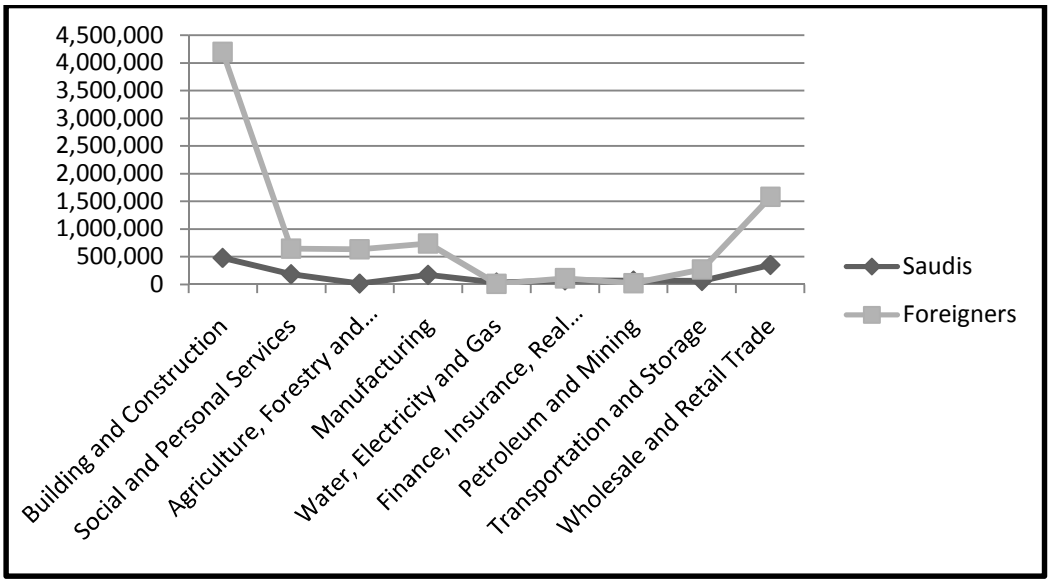
Figure 22: Saudization vs. Total Private Sector Employment by Economic Activity 2013



Source: Ministry of Labor, Annual Labor Statistics 2013

Comparing the total number of national and non-national employees in the private sector across different economic activities reflects this trend (Figure 23) as the graph shows that the greatest variation in number of Saudis against foreigners is in the activities of construction and trade, where the deflection points are visible.

Figure 23: Number of Saudis vs. Foreigners in Private Sector by Economic Activity 2013



Source: Ministry of Labor, Annual Labor Statistics 2013

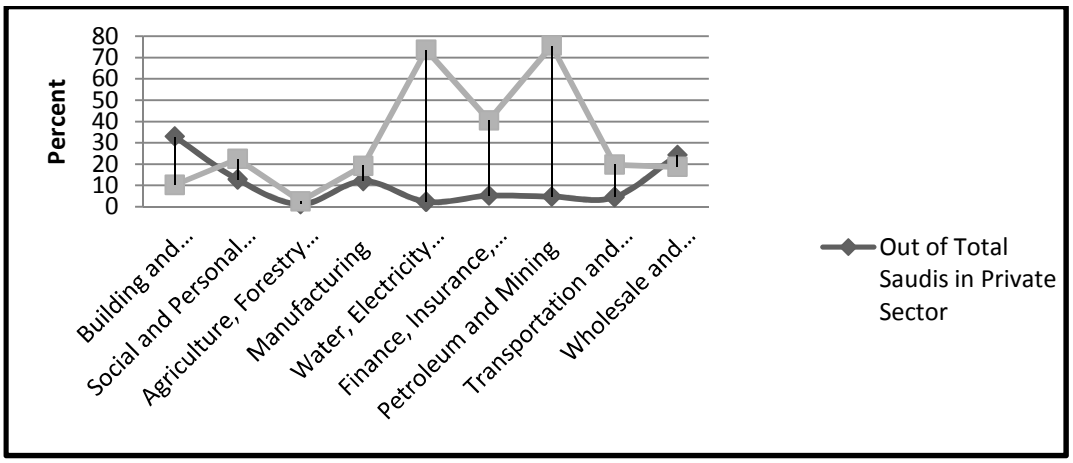
Table 20: Employment in Private Sector according to Economic Activity (2013)

Economic Activity	Saudi Nationals				Non-Saudi Nationals				Total Average				Percent Saudis
	Males	**Females**	**Total**	**Percent**	**Males**	**Females**	**Total**	**Percent**	**Males**	**Females**	**Total**	**Percent**	
Building and Construction	**358,709**	**123,814**	**482,523**	**32.90**	**4,152,596**	**41,240**	**4,193,836**	**51.06**	**4,511,305**	**165,054**	**4,676,359**	**48.31**	**10.32**
Social and Personal Services	**96,754**	**90,847**	**187,601**	**12.79**	**566,665**	**80,106**	**646,771**	**7.88**	**663,419**	**170,953**	**834,372**	**8.62**	**22.48**
Agriculture, Forestry and Fishing	**12,745**	**4,387**	**17,132**	**1.17**	**631,536**	**1,747**	**633,283**	**7.71**	**644,281**	**6,134**	**650,418**	**6.72**	**2.63**
Manufacturing	**137,623**	**38,924**	**176,547**	**12.04**	**720,634**	**19,577**	**740,211**	**9.01**	**858,257**	**58,501**	**916,758**	**9.47**	**19.26**
Water, Electricity and Gas	**33,550**	**388**	**33,938**	**2.31**	**12,203**	**28**	**12,231**	**0.15**	**45,753**	**416**	**46,169**	**0.48**	**73.51**
Finance, Insurance and Real Estate	**63,374**	**12,953**	**76,327**	**5.20**	**110,188**	**1,968**	**112,156**	**1.37**	**173,562**	**14,921**	**188,483**	**1.95**	**40.50**
Petroleum and Mining	**67,751**	**2,007**	**69,758**	**4.76**	**20,456**	**2,182**	**22,638**	**0.28**	**88,207**	**4,189**	**92,396**	**0.95**	**75.50**
Transportation and Storage	**56,935**	**9,471**	**66,406**	**4.53**	**267,697**	**1,597**	**269,294**	**3.28**	**324,632**	**11,068**	**335,700**	**3.47**	**19.78**
Wholesale and Retail Trade	**240,077**	**115,590**	**355,667**	**24.25**	**1,567,186**	**12,943**	**1,580,129**	**19.24**	**1,807,263**	**128,533**	**1,935,796**	**20.0**	**18.73**
Others	**797**	**157**	**954**	**0.07**	**2,233**		**233**	**0.03**	**3,030**	**157**	**3,187**	**0.03**	**29.93**
Total	**1,068,315**	**398,538**	**1,466,853**	**100.0**	**8,051,394**	**161,388**	**8,212,782**	**100.0**	**9,119,709**	**559,926**	**9,679,635**	**100.0**	**15.15**
Percent of Total by Gender	**11.71**	**71.18**	**15.15**		**88.29**	**28.82**	**84.85**		**94.22**	**5.78**	**100.0**		

Source: Ministry of Labor, Annual Labor Statistics 2013

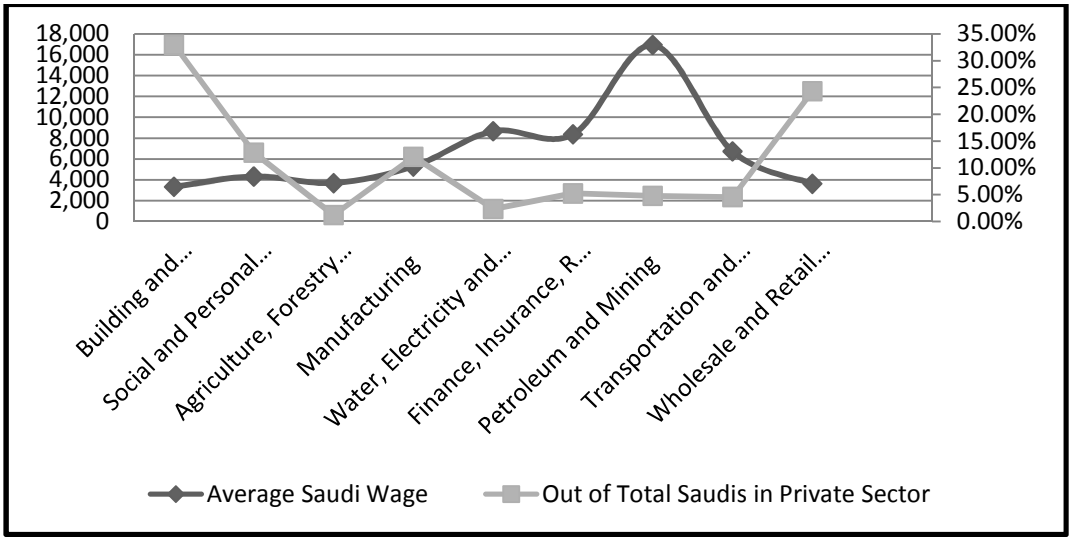
Although capital-intensive economic activities registered higher Saudization percentages; when it is examined against percentages of Saudis in each economic activity out of the total Saudi population in the private sector (Figure 24), two deflection points occur in construction and trade; further pointing to the fact that these activities retain a higher ability to absorb more nationals. Both of these activities have a higher percentage of Saudis out of the total Saudi population in the private sector, despite lower wages (Figure 25). If wages were to be higher in these activities, it might attract more Saudis and become a locus for more national employment.

Figure 24: Saudization vs. Number of Saudis out of Total Saudi Private Sector Population 2013



Source: Ministry of Labor, Annual Labor Statistics 2013

Figure 25: Average Saudi Wage vs. Number of Saudis out of Total Saudi Private Sector Population 2013



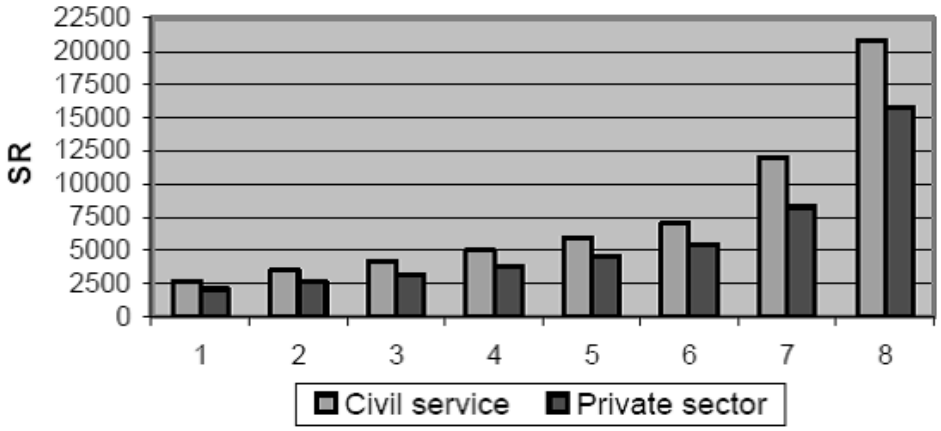
Source: Ministry of Labor, Annual Labor Statistics 2013

Public vs. Private Sector

According to data from the late 1990s presented by Diwan and Girgis(2002) the average wage in public sector is higher than the private sector on all levels of education (Figure 26). This is due to increases in public sector wages, while the average private sector wage decreased over time. In addition, public sector employees enjoy number of fringe benefits: better job security and less working hours than the private sector, creating in return segmentation in the labor market.

The public sector wage bill in KSA absorbed around 50 percent of current expenditures and around 30 percent of oil exports on average during the period of 2003 – 2010 (Al-Sheikh & Erbas, 2013): "Without active monetary policy because of currency pegging, the remaining macroeconomic management tool is fiscal policy in the GCC countries. Heavy reliance on oil revenue for budgetary financing is where the oil curse becomes much more visible because budget is the main conduit of transferring oil rents to citizens in which the main channel of transfer is the government sector wage bill".

Figure 26: Civil Service and Public Sector Monthly Wages, late 1990s (USD 1 = SAR 3.75)



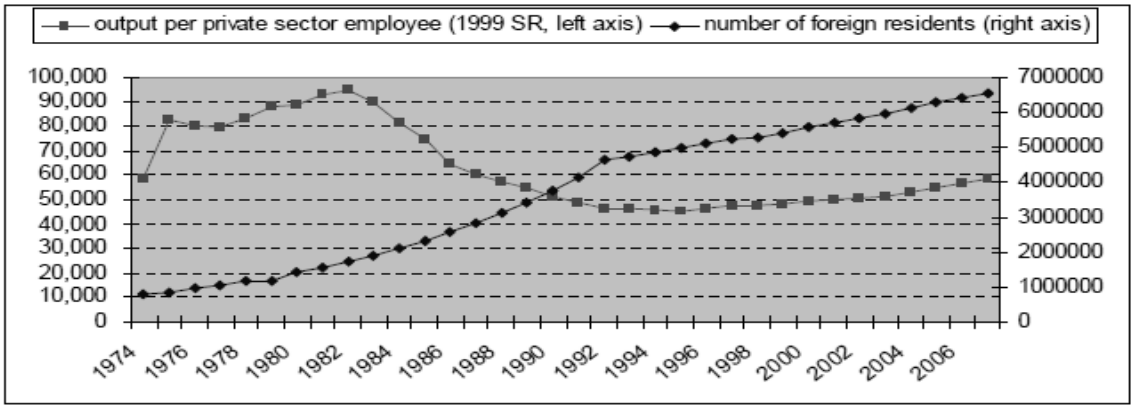
Source: World Bank, MEP, 2002 in(Diwan & Girgis, 2002)

The exponential increase of public sector employment, as the number of public sector employees almost doubled since 1994, coupled with a wide gap in wages between public and private sector created segmentation between both that caters to increasing the wait-hood period of nationals in anticipation for a public sector job, as well as solidifying a disincentive for private sector jobs among Saudis.

Labor Productivity

Labor productivity is actually one of the structural inefficiencies in the labor market. As a matter of fact, labor productivity has in overall declined in KSA, as shown in (Figure 27) output per private sector employee has decreased with the increase in number of foreign workers. According to Hertog(2012) this was due to the large-scale substitution of high and mid-skilled expatriates with low-skilled cheap labor during a period in which KSA economy shrank upon falling global oil prices.

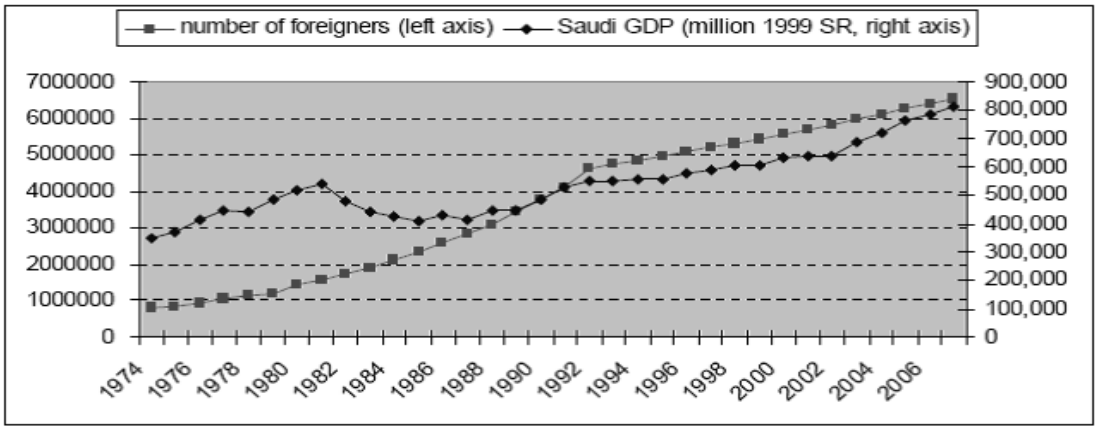
Figure 27: Non-Oil Private Sector Productivity Rates, against Number of Foreigners 1974-2007



Source: CDSI, SAMA in (Hertog, 2012)

Measured against GDP growth; the number of foreign workers in KSA has no relationship to GDP developments and growth rate, as shown in (Figure 28). This suggests that reliance on expatriates was created by a structural inefficiency in the labor market.

Figure 28: GDP against Number of Foreigners 1974-2007

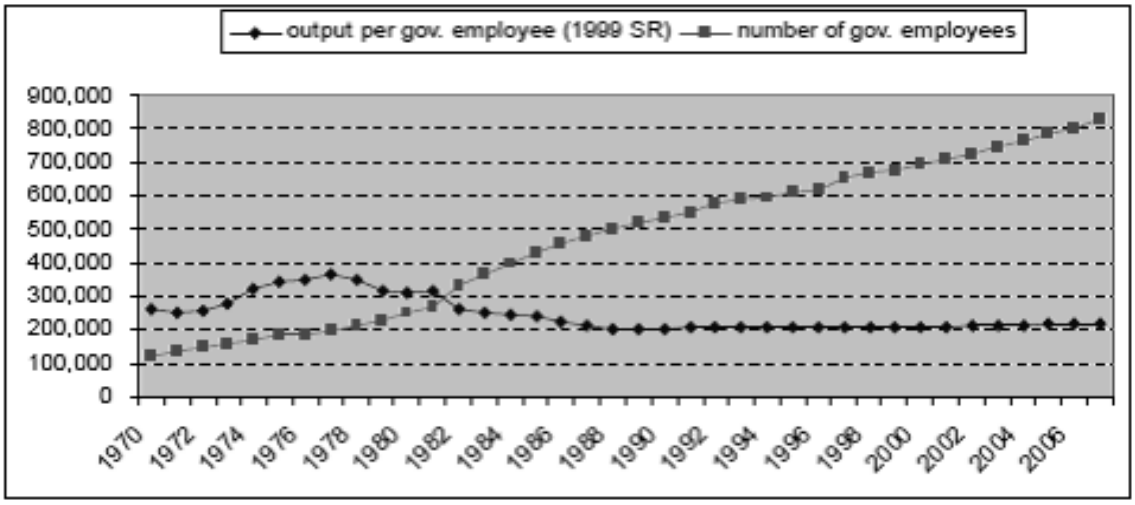


Source: CDSI, SAMA in (Hertog, 2012)

The decline in productivity was a trend in both public and private sectors, as is tied up to what Hertog(2012) describes as “the institutionalization of a segmented labor market in the 1980s”. More Saudi-nationals were given guaranteed public sector employment as part of the rent seeking practice created by the state. This resulted in widening the gap between public and private sectors, as public wages were higher than the private sector wages that relied on foreign cheap labor. This in turn, increased the reservation wage of nationals; creating a disincentive to work for the private sector, one the one hand, and led to overstaffing in public sector and reduction of public sector productivity, on the other hand, as shown in (Figure 29).

In addition, as Hertog(2012) puts it: “The availability of cheap, unskilled labor has also undermined incentives for Saudi business to invest in technology and management structures with a view to enhancing productivity per laborer, creating a vicious cycle of low-margin production vs. low-margin workforce”. The low productivity that KSA economy suffers from feeds the structural inefficiency of the labor market, making it harder for Saudization efforts to incubate in such working environment that dependence on cheap low-skilled labor for production.

Figure 29: Public Sector Productivity Rates, against Number of Public Employees 1974-2007

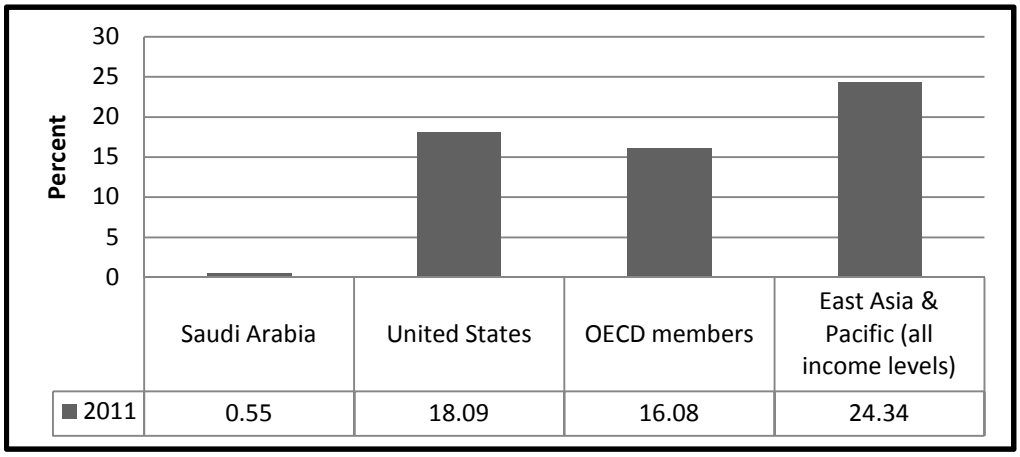


Source: CDSI, SAMA in (Hertog, 2012)

The use of technology in production is representative of higher labor productivity in the economy. So far, KSA’s share of high technology exports is very minimal compared

to other countries and regions, 0.55 percent of total Saudi manufacturing exports compared to 16 percent in OECD countries (Figure 30). The Saudi private sector relies on simple technologies with minimum to no innovation. The research and development (R&D) expenditure in the GCC is around 0.1 percent of GDP compared to an average 2 percent of GDP in OECD countries (Hertog, 2014b). The dependence on low-skilled cheap labor affected the average productivity of the Saudi economy, driving the private sector to rely on more low-paid laborers to increase productivity in a labor-intensive manner, instead of investing in cost-effective technologies that increases labor-productivity in a capital-intensive manner.

Figure 30: Share of hi-tech exports in total manufacturing exports for number of countries in 2011

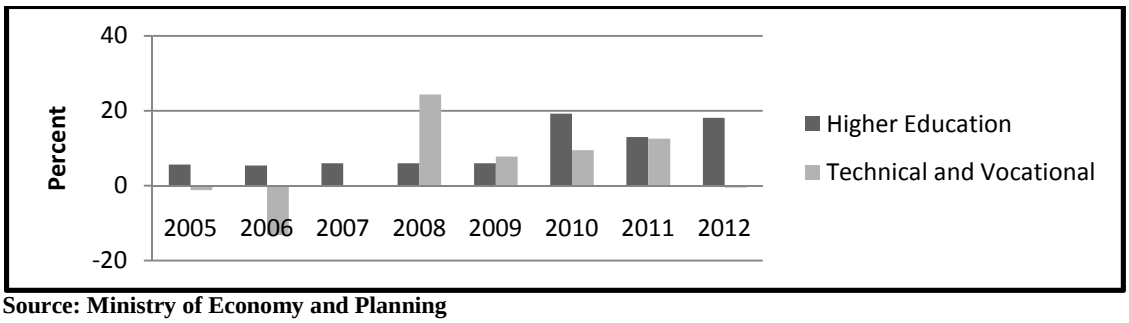


Source: World Bank

Education and Labor Force

As mentioned above, the educational pyramid is inverted in KSA with more nationals graduating from higher-education institutions than from vocational and technical training institutions. As shown in (Table 21), the growth percentage of higher education graduates surpassed even the growth percentage of secondary level graduates, with 13.5 and 11.4 percent respectively in 2012, for example. Measured against enrolment in higher education, the enrolment rate in Vocational and Technical institutions is much less, reflecting the low entry levels and demand for such type of education (Figure 31)

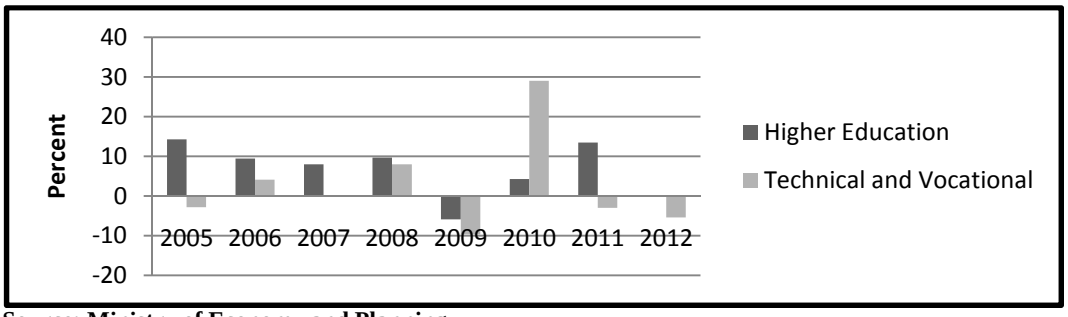
Figure 31: Growth in Total Enrolment, Higher and Technical/Vocational Education 2005-2012



Source: Ministry of Economy and Planning

The variation between the years 2006 – 2008 to the growth rate of enrolment is due to the fact that as of 2007, GOTEVT was restructured and named Technical and Vocational Training Corporation (TVTC), and higher technical institutes for girls upgraded and affiliated to the new TVTC (MEP, 2013). The addition of girls' technical colleges could partly explain the increase in enrolment rate, since examining growth rate of total graduates from both higher education and TVTC reveals that technical and vocational education is actually decreasing (Figure 32)

Figure 32: Growth in Total Graduates, Higher and Technical/Vocational Education 2005-2012



Source: Ministry of Economy and Planning

Table 21: Human Resource Development in Saudi - Education (2013)

Item	Unit	2005	2006	2007	2008	2009	2010	2011	2012
General Education (Male & Female)									
Total Enrolment	**(1000)**	**4,642.2**	**4,746.6**	**4,812.5**	**4,948.5**	**5,040.4**	**5,146.2**	**5,187.5**	
Primary Level		**2,415.6**	**2,433.1**	**2,442.5**	**2,469.9**	**2,493.1**	**2,513.8**	**2,530.7**	
Intermediate Level		**1,070.8**	**1,100.3**	**1,144.5**	**1,188.9**	**1,188.3**	**1,198.4**	**1,212.0**	
Secondary Level		**953.2**	**1,000.8**	**1,013.1**	**1,058.5**	**1,143.6**	**1,206.4**	**1,226.2**	
Others*		**203.6**	**212.4**	**212.4**	**231.2**	**215.4**	**227.6**	**218.6**	
Growth in Total Enrolment	**% p.a**	**2.0**	**2.2**	**1.4**	**2.8**	**1.9**	**2.1**	**0.8**	
Graduates (Male & Female)									
Secondary Level	**(1000)**	**252.7**	**267.9**	**308.8**	**321.0**	**347.1**	**350.7**	**390.8**	
Growth in Secondary Level	**% p.a**	**5.6**	**6.0**	**15.3**	**4.0**	**8.1**	**1.0**	**11.4**	
Pupil/Teacher Ratio Primary Level		**11.3**	**11.3**	**11.2**	**10.8**	**11.2**	**11.0**	**10.9**	
Pupil/Teacher Ratio Secondary Level		**11.9**	**11.8**	**11.5**	**11.7**	**11.0**	**10.8**	**10.7**	
Higher Education (Male & Female)									
Total Enrolment	**(1000)**	**603.8**	**636.2**	**674.4**	**714.9**	**757.8**	**903.6**	**1,021.3**	**1,206.0**
Total Graduates		**94.8**	**103.8**	**112.1**	**123.1**	**115.8**	**120.8**	**137.1**	
Growth in Enrolment	**% p.a**	**5.6**	**5.4**	**6.0**	**6.0**	**6.0**	**19.2**	**13.0**	**18.1**
Growth in Graduates		**14.3**	**9.4**	**8.0**	**9.7**	**-5.9**	**4.3**	**13.5**	
Institute of Public Administration									
Total Enrolment	**Number**	**43,132**	**14,104**	**49,501**	**53,941**	**51,904**	**50,503**	**65,495**	**70,328**
Total Graduates		**42,329**	**40,292**	**48,404**	**52,889**	**51,001**	**49,440**	**64,382**	**69,278**
Technical & Vocational Training									
Total Enrolment		**61,640**	**53,490**	**91,730[1/]**	**87,174**	**93,986**	**102,939**	**115,948**	**115,940**
Enrolment in Vocational Training		**21,054**	**13,130**	**24,713**	**20,182**	**19,360[3/]**	**16,262**	**21,682**	**19,560**
Enrolment in Technical Training		**40,586**	**40,360**	**67,017**	**66,992[2/]**	**74,626**	**86,677**	**94,266**	**96,380**
Growth in Total Enrolment	**% p.a**	**-1.2**	**-13.2**		**24.4**	**7.8**	**9.5**	**12.6**	**-0.0**
Total Graduates	**Number**	**16723**	**17416**	**30445[1/]**	**24996**	**22563**	**29099**	**28226**	**26690**
Graduates of Vocational Training		**6667**	**6498**	**16730**	**12570**	**9721**	**8387**	**6317**	**6160**
Graduates of Technical Training		**10056**	**10918**	**13715**	**12426**	**12842**	**20712**	**21909**	**20530**
Growth in Total Graduates	**% p.a**	**-2.8**	**4.1**		**8.0**	**-9.7**	**29.0**	**-3.0**	**-5.4**

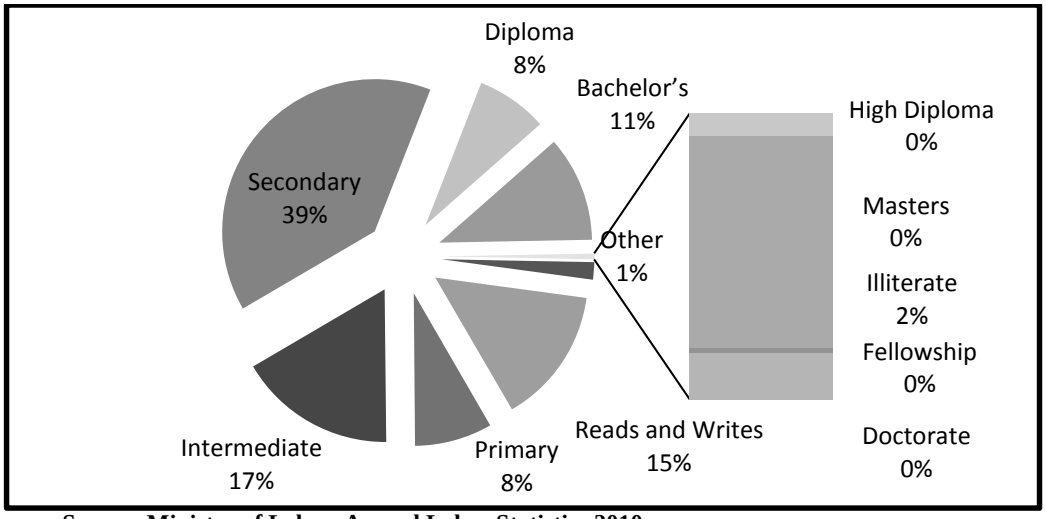
Note: * Includes pre-school, teacher training, adult and special education

1/ As of 2007, technical education and vocational training have been integrated into the Technical & Vocational Training Corporation (TVTC); higher technical institutes for girls have also been upgraded and affiliated to technical colleges; the General Organization for Technical Education and Vocational Training (GOTEVT) has been renamed "Technical and Vocational Training Corporation (TVTC)". 2/ Includes trainees at Higher Technical Training Institute for girls. 3/ Includes 1753 trainees in vocational institute at prisons.

Source: Ministry of Economy and Planning 2013.

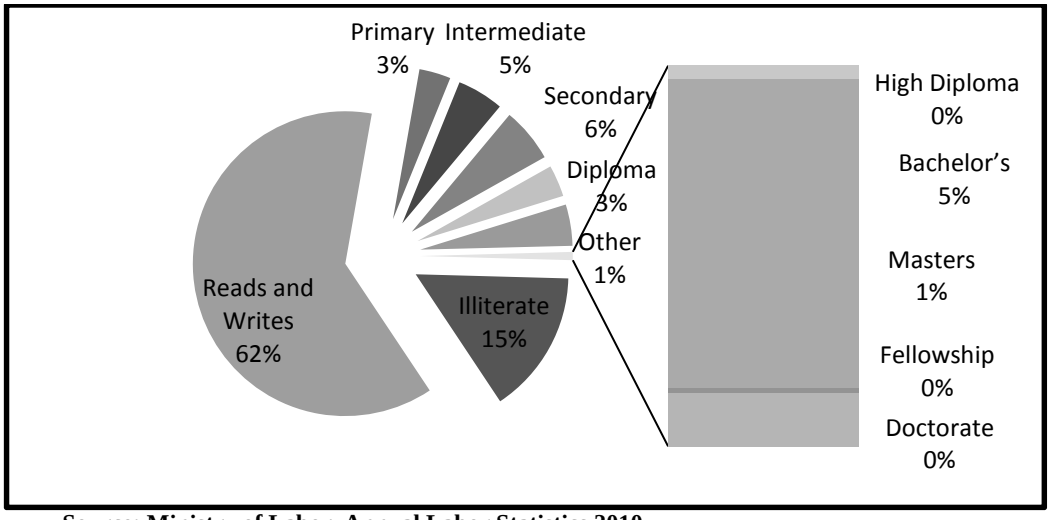
Aside from the variations between higher education, on one hand, and technical and vocational training, on the other hand; the structural inefficiency in the labor market is visible when measured by percentage of employment in the private sector against educational level (Table 22). The majority of Saudi-nationals employed in the private sector are intermediate, secondary ,or Bachelor's degree holders, representing 67 percent out of the total Saudi private sector population (Figure 33), while the majority of non-nationals are either illiterate or only read and write, representing 77 percent out of the total foreign population in private sector (Figure 34).

Figure 33: Distribution of Saudis in the Private Sector by Educational Level 2010



Source: Ministry of Labor, Annual Labor Statistics 2010

Figure 34: Distribution of Foreigners in the Private Sector by Educational Level 2010



Source: Ministry of Labor, Annual Labor Statistics 2010

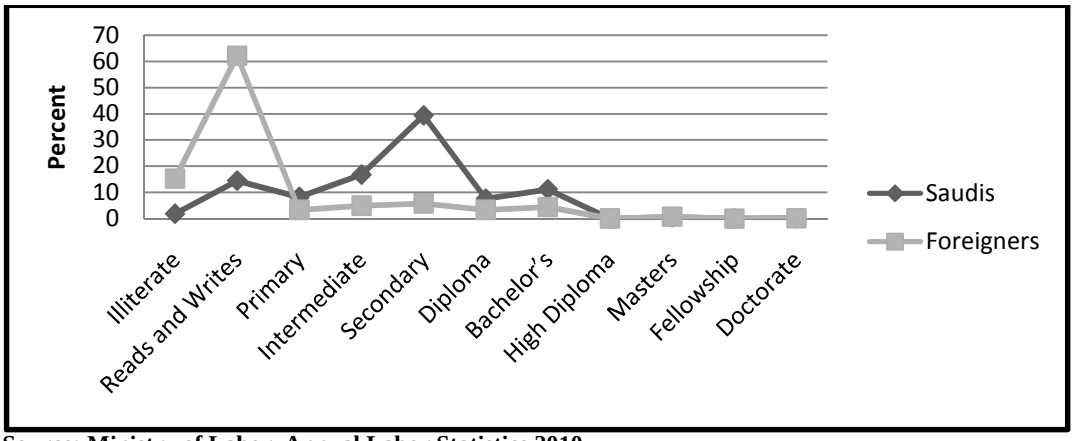
Table 22: Employment in Private Sector according to Educational Level (2010)

Educational Level	Saudi Nationals		Non-Saudi Nationals		Total Average		Percent Saudis
	Total	**Percent**	**Total**	**Percent**	**Total**	**Percent**	
Illiterate	**13,386**	**1.85**	**954,126**	**15.23**	**967,512**	**13.84**	**1.38**
Reads and Writes	**104,830**	**14.47**	**3,891,847**	**62.11**	**3,996,677**	**57.17**	**2.62**
Primary	**59,661**	**8.23**	**209,449**	**3.34**	**269,110**	**3.85**	**22.17**
Intermediate	**121,237**	**16.73**	**309,382**	**4.94**	**430,619**	**6.16**	**28.15**
Secondary	**285,158**	**39.35**	**362,249**	**5.78**	**647,407**	**9.26**	**44.05**
Diploma	**54,959**	**7.58**	**209,745**	**3.35**	**264,704**	**3.79**	**20.76**
Bachelor's	**80,957**	**11.17**	**273,138**	**4.36**	**354,095**	**5.06**	**22.86**
High Diploma	**335**	**0.05**	**2,092**	**0.03**	**2,427**	**0.03**	**13.80**
Masters	**3,343**	**0.46**	**42,995**	**0.69**	**46,338**	**0.66**	**7.21**
Fellowship	**40**	**0.01**	**370**	**0.01**	**410**	**0.01**	**9.76**
Doctorate	**749**	**0.10**	**7,222**	**0.12**	**7,971**	**0.11**	**9.40**
Total	**724,655**	**100.0**	**6,266,545**	**100.0**	**6,991,200**	**100.0**	**10.37**

Source: Ministry of Labor, Annual Labor Statistics 2010

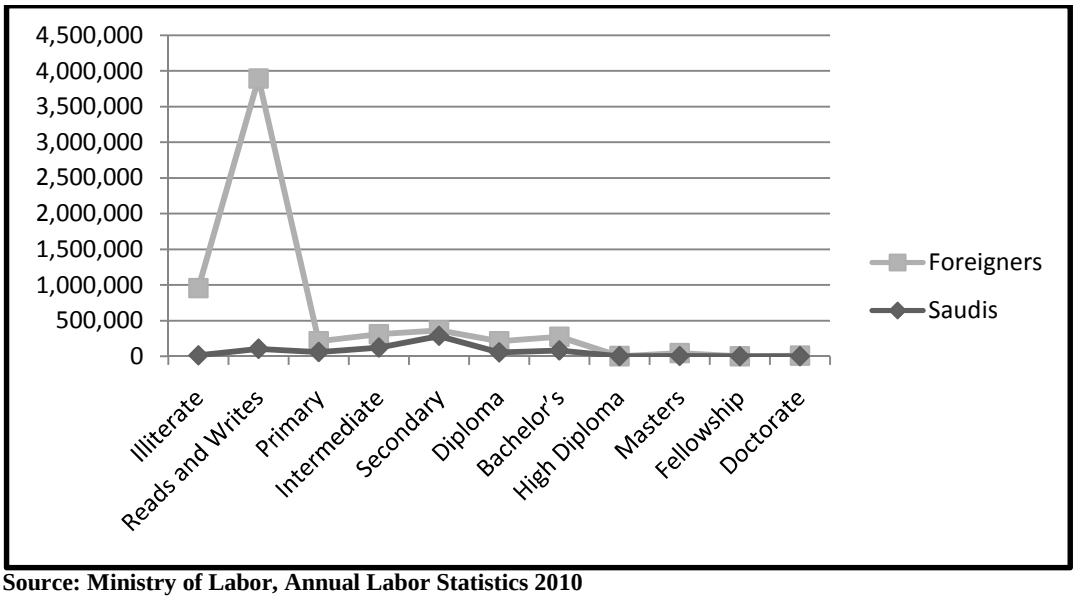
Measured against each other; the variation in educational level points to the structural inefficiency in labor market. As shown in (Figure 35) the percentage of Saudi-nationals in the private sector against non-nationals reveals a parity diagram, while measured against total amount, it reveals that KSA private sector labor force is soaked with low-skilled, low-wage uneducated employees (Figure 36). In sum, more than 50 percent of the total private sector labor force can only read and write, while the percentage of Saudis at this educational level is only 2.62 percent. The highest percentage of education level among Saudis; secondary degree holders, at 44 percent, represents only 9.26 percent of the total private sector labor force.

Figure 35: National vs. Non-National Employment in the Private Sector against Educational Level 2010



Source: Ministry of Labor, Annual Labor Statistics 2010

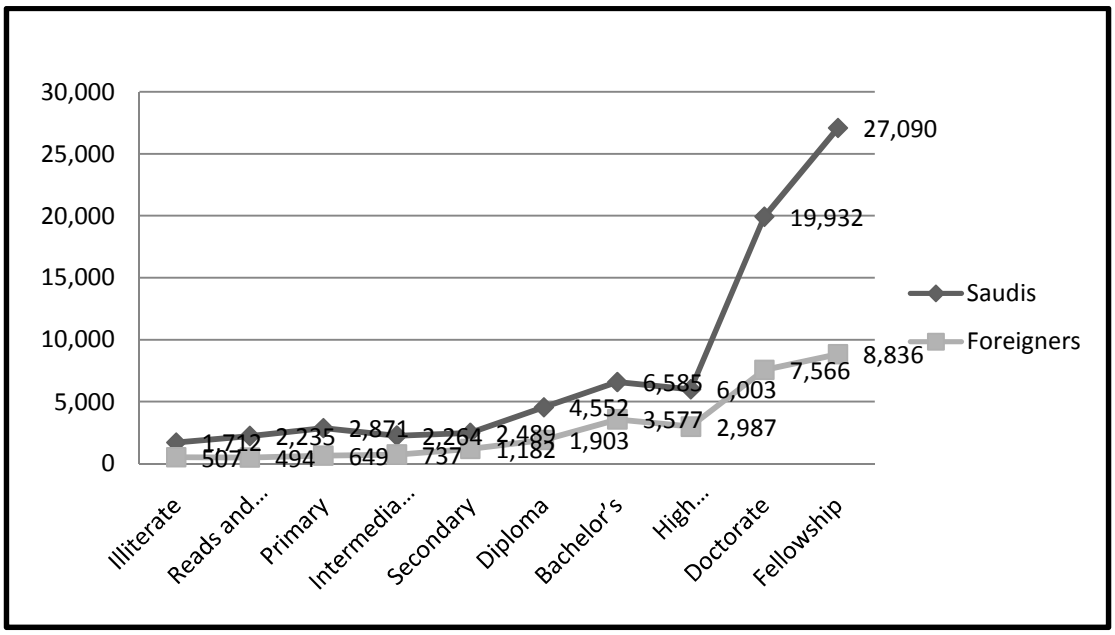
Figure 36: Number of National vs. Non-National in the Private Sector against by Educational Level 2010



Source: Ministry of Labor, Annual Labor Statistics 2010

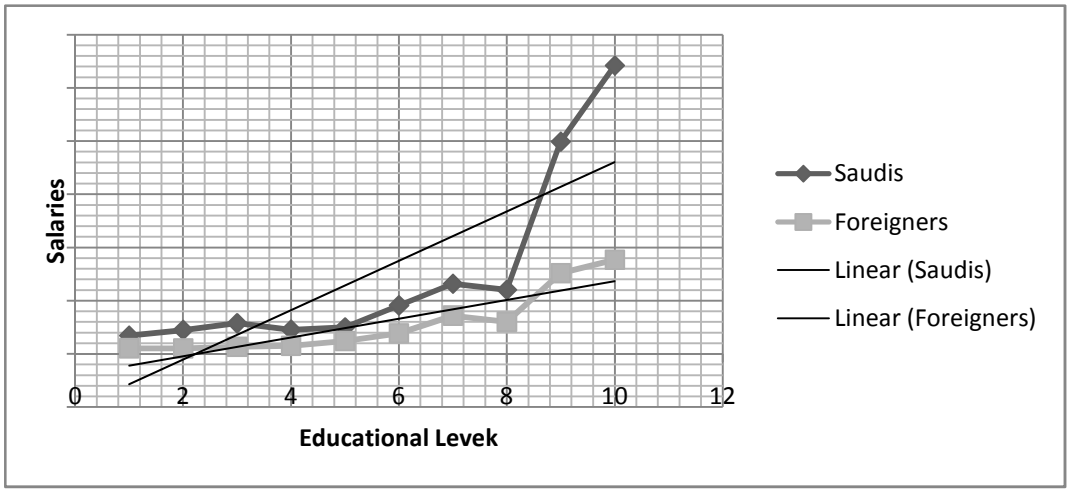
As mentioned above, the average private sector salary is driven down by the low margin of non-national salary. When salaries in the private sector are measured against educational level (Table 23) the variation is very clear (Figure 37). The linear line of both national and non-national wages according to educational level suggests that nationals have higher wage expectations as they receive more education. This in part explains why most unemployed Saudis are highly educated rather than low educated (Figure 38).

Figure 37: National vs. Non-National Salaries in Private Sector according to Educational Level 2009



Source: Ministry of Labor, Annual Labor Statistics 2009

Figure 38: National vs. Non-National Salaries in Private Sector according to Educational Level 2009



Source: Ministry of Labor, Annual Labor Statistics 2009

Table 23: Average Salary in the Private Sector according to Educational Level - SAR/ Month (2009)

(USD 1 = SAR 3.75)

Educational Level	Saudi Nationals			Non-Saudi Nationals			Total Average
	Males	Females	Average	Males	Females	Average	
Illiterate	1,752	972	1,712	507	483	507	523
Reads and Writes	2,250	1,866	2,235	493	577	494	538
Primary	2,909	1,378	2,871	649	588	649	1,131
Intermediate	2,293	1,323	2,264	739	568	737	1,126
Secondary	2,541	1,715	2,489	1,184	1,041	1,182	1,730
Diploma	4,693	2,754	4,552	1,972	1,382	1,903	2,425
Bachelor's	7,699	2,875	6,585	3,637	2,569	3,577	4,185
High Diploma	6,063	3,402	6,003	3,057	2,099	2,987	3,561
Fellowship	27,067	27,216	27,090	8,270	14,471	8,836	10,609
Doctorate	20,376	15,207	19,932	7,733	6,714	7,566	8,817
Total Average	3,203	2,254	3,137	756	1,347	764	990

**** note by author: The average salary of a primary degree holder is higher than an intermediate or secondary degree holder. This anomaly is not explained by MOL, however, number of hypothetical explanations could be provided, as this table represents the average salaries in the labor market the deviation could represent the difference in years of work experience as holders of primary degrees enter the labor market earlier.**

Source: Ministry of Labor, Annual Labor Statistics 2009

VII. Conclusion

The Saudization program in its current form suffers negative externalities that should be addressed. This paper concludes that; the main issue with unemployment in KSA, especially among youth, is not related to efforts of MOL or its national programs such as Saudization through Nitaqat; as much as it has to do with the current structure of the economy being labor-intensive in nature, rather than capital-intensive. The Nitaqat Program yielded some developments in term of employing more Saudis in the private sector, however, the rate by which employment is increasing is similar to the rate by which the national labor force is growing; thus, self-defeating the efforts of MOL and keeping the rate of unemployment stagnant through the years. It could be argued that without the intervention of the government through MOL programs; the employment situation could have been worse; however, it should be noted too that analysis reveals that the key to solving this issue lies in reforming MOL efforts through number of policy lines, as well as, in addressing the inefficiencies in the labor market that resulted from structural deficiencies of the economy itself.

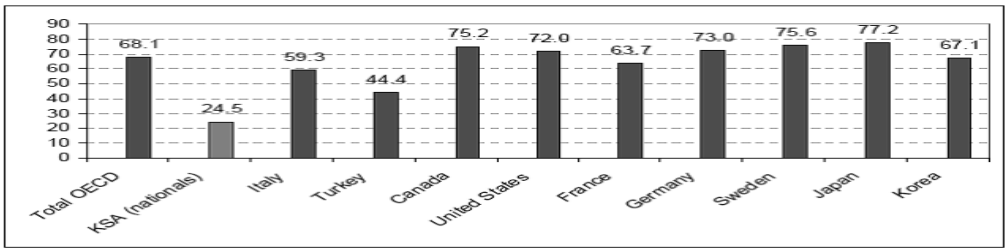
Currently, MOL sets high Saudization targets for economic activities that already enjoy high rates of Saudization, while setting low targets for other economic activities with low Saudi-nationals participation rate. This is due to the structure of the economy itself as it is visible that issues such as wage differentials play a huge role in setting the labor market structure; a point which quota policy could only remedy to a certain point. MOL, realizes that setting high Saudization targets for the construction sector, for example, will hamper growth in that sector, yet it is such sector that relies heavily on foreign labor and could in return play a huge role in increasing levels of employment among young Saudis.

So far, as Mellahi(2007) puts it: conformity with laws is not a straightforward relationship, and that organizations in general are not passive implementers of laws and regulations as obedience is usually dependent on a set of many varieties, which include the public support to such regulations, legal loopholes, and ability to influence law enforcers. Thus, the huge research body done on government interference in HRM [Human Resource Management], such as affirmative action in the U.S and South Africa, gender-based quotas

in Sweden, and Malaysia's New Economic Reform Policy program; all indicates, "Legal interventions in HRM are often costly, highly ambiguous and riddled with loopholes". In addition: "Quotas and occupational bans are policies of micro-management that demand a monitoring capability that is beyond even the most modern of bureaucracies. They create incentives for manipulation, fake employment and corruption. Rigid Saudization ratios moreover are insensitive to the cost caused to individual companies, which can imply a very uneven burden on the private sector and can stymie the development of particular industries".(Hertog, 2012). The analysis reveals that market-based wage and employment policies are weak in KSA, in comparison, to policies based on legal enforcement through the quota-based regime.

What the analysis reveals reaffirm what Hertog(2012) mentions as unemployment vs. underemployment, that the "Labor market segmentation is the main explanation for the low labor market participation rate in Saudi Arabia. Low participation, rather than unemployment per se, indicates the scale of the employment challenge. Unemployment put in 2007 at 11.05% is a lesser challenge than underemployment" (Figure 39)

Figure 39: Employment Rates KSA vs. Other Countries 2007 (Percent)



Source: OECD, CDSI, SAMA and MOL in (Hertog, 2012)

In general, the policy of Saudization relies on a number of streamlines through interventionist methods under the new Nitaqat Program:

- Employment quotas of Saudi-nationals set for each company according to its size and type of economic activity.
- Levying fees on foreign workers, which raise the cost of expatriate labor to balance the market between nationals and non-nationals.
- Increasing the flexibility of foreign labor mobility by relieving the sponsorship system

- Investing in the development of Saudi-nationals skills through training and education
- Providing wage-subsidies for hiring Saudi-nationals in private sector companies.

The analysis reveals that the wage structure in the private sector lies on the heart of the unemployment problem. The average private sector wage has declined over time (Table 24), in contrast with the public sector wages. Wages are actually one of the reasons for low levels of Saudi –nationals' interest in private sector jobs

Table 24: Average Private Sector Wages for Nationals and Non-Nationals 2004 -2007 in SAR

Years	2004	2005	2006	2007
Saudi	4367	3878	3596	3624
Non-Saudi	1037	1028	1060	1011
Average	1385	1360	1384	1354

Source: Ministry of Labor

Finally, the analysis shows that availability of cheap labor as (Hertog, 2012) mentions: "might in fact have stymied efforts at increasing productivity. To some extent, therefore, higher wage levels will by themselves induce a quest for higher productivity... Generally speaking, market-based nationalization will lead to fewer nationals replacing more expatriates. The assumption of a one-to-one substitution on which some of the past labor market plans have been based are unrealistic, as they include numerous low wage jobs that will (and should) disappear in the course of nationalization. Expected national-expatriate substitution ratios for Gulf countries have been estimated at 30 percent. This means that wages up to three times as high can be paid presuming that the labor of higher will be utilized more productively".

In essence, KSA government should address the private sector's labor market inefficiencies of education, wage differential, public sector competition and labor productivity if it aims to trigger more levels of Saudization and employment beyond the stagnant levels witnessed so far.

VIII. Policy Recommendations

There are number of policies worth consideration by KSA government in order to improve the Saudization policy, as well as to address the challenge of unemployment among youth. Such policies might not target the challenge of unemployment in its entirety; however, it tackles the major current inefficiencies in the labor market.

1. Data Proliferation:

Saudization is a complex and new policy, so far, the amount of data and types of datasets provided by the government are limited and linear in most cases. There is a lack of proper datasets, which hinders efforts to investigate the effects of this policy at the needed level. For example, MOL counts any Saudi-national hired by the private sector for less than the minimum public wage of SAR 3,000 per month as a half-point in Saudization quotas. On the other hand, disabled and other nationals with certain conditions are counted for more than one-point in Saudization. Thus, fulfilling the quota is not a direct numerical process and it does not reflect a linear rate of Saudization. In addition, MOL publishes its data on yearly basis and there are no quarterly updated statistics on unemployment. In this respect, KSA could look into increasing its unemployment data proliferation to allow more in-depth analysis that could yield a better understanding on the dynamics of the labor market.

2. Role of SMEs:

The role of SMEs is underutilized in KSA despite it representing 90 percent of private sector enterprises. On the first hand, SMEs are used by many firms in the private sector for shirking practices to bypass quota requirements since micro companies are exempted from Saudization quotas currently. On the second hand, SMEs lack much-needed financial assistance to reach its potential. In this respect, KSA could look into a set of laws that favors SMEs by establishing a quota in government contracts that requires big companies to subcontract a percentage of their tenders to SMEs, in addition, establishing financial institutions that cater to SMEs need of capital and banking services. SMEs in

return could play a huge role in increasing the level of employment among Saudis provided that such benefits are tied to the quota system.

3. Rectifying Educational Imbalance:

The educational imbalance in KSA results from a huge popular demand on higher education, against a huge demand for technical and vocational education by private sector companies. One way KSA could rectify this is by ending the free-education regime in higher education institutions, thus, forcing more young students to opt for technical and vocational education. As Al-Sheikh and Erbas(2012) puts it: "the endowment effect may serve as an incentive for delaying labor force participation, for example, by extending the duration of university education because education is provided free of charge". This could be done by reducing the endowment provided to students to study in universities, or by increasing the endowment to those opting for vocational and technical institutions, creating a bigger incentive for such institutions. In addition, the government should rectify the imbalance of a higher demand for humanities and social science studies vis-à-vis natural sciences by limiting the seats available for such schools within universities.

4. Citizenship Income:

This idea was proposed by Hertog(2014a), it suggests providing cash grants for all citizens not employed in the public sector.Suggesting thatthis incentive will drive more demand by nationals for private sector jobs, as such income will make private sector jobs worthy and will reduce the wage differential between public and private sector jobs for nationals, and drive the reservation wage down.Such arrangement is similar to the current arrangement in the state of Alaska where U.S citizens who reside in the state for at least a year are entitled to receive a dividend check from interests earned on oil rents (Hartzok, 2004).The Citizenship income for private sector employees tackles another important point; as put byAl-Sheikh & Erbas(2012): "The rising disparity between increasing public and declining private sector wages of Saudis indicates that oil income is not distributed equitably between workers of the same generations because public sector workers—making up more than 50 percent of total Saudi employment—receive a substantially higher share in the form of salaries and benefits than private sector workers".

5. Building Base for Capital-intensive Economy:

KSA government could address the issue of labor-productivity through incentivizing private sector investment in technologies that raise level of productivity per employee and expand the knowledge-based economy. The government could facilitate this through linking public expenditure with laws that require proliferation of such technologies, thus, pushing the private sector towards such needed investment. The Saudi government can use its huge public expenditure as a tool to drive the economy towards more capital-intensive activities, thus, paving way for reducing cheap unskilled foreign labor and substituting them with more educated national labor-force.

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