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Working in Saudi Arabia: A Labor Market Update

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Abstract:

This report discusses the underlying issues pervasive in Saudi Arabia's labor market and the resulting challenges faced by both employers and job seekers. It highlights recent statistics, the mechanisms at work in the supply and demand side of the market, and recent initiatives outlined by the Saudi Government, especially the Ministry of Labor and Social Development, as well as private companies. Data from Saudi Arabia's Labor Force Survey and Regional Economic Models, Inc. (REMI) support discussion of broad workforce trends along with occupational forecasts in the private sector, broken down by occupation and industry. Other outcomes include labor productivity by industry sector. Data from REMI are derived from an input-output (I-O) model that uses Computable General Equilibrium (CGE) techniques, econometric estimation, New Economic Geography theory, and agglomeration effects from broad access to labor and commodity markets.

Vision 2030 and the way forward

In recent years, a series of challenges have marked Saudi Arabia’s labor market, framing labor and human capital issues as a central topic of discussion for both policymakers and the business community. The Kingdom has strategized to improve job matching and to expand the number of suitable jobs by working with the private sector. Yet, intrinsic to Saudi Arabia’s demographics and culture, broader obstacles have underpinned Saudi’s labor market. High levels of unemployment among Saudi youth, a large number of foreign nationals in the workforce, and relatively low rates of economic participation among women have emerged as themes for Saudi Arabia along its path to fully realizing its goals.

Last year, Saudi Arabia released Vision 2030 and the National Transformation Program (NTP) 2020, a strategic blueprint for economic transformation and the adjoining key performance indicators and initiatives across various ministries and levels of the Saudi Arabian Government. This transformation involves a multipronged approach spanning public-private partnerships, new policies and programs, and reorganization of government entities. As part of this transition in Saudi Arabia’s economy, Vision 2030 intends to create over 450,000 jobs.

The Ministry of Labor and Social Development (MLSD) was formed through the merger of the Ministry of Labor

and the Ministry of Social Affairs, and the newly formed entity is tasked with strategic objectives and targets as part of Vision 2030.

Not only will Saudi Arabia need to expand the number of jobs, including those in the private sector, to employ its young population, but it will also be critical to cultivate a stable and sustainable labor market in the medium and long horizon to transform the economic landscape. Indeed, Vision 2030 and the National Transformation Program strongly account for these labor needs, especially related to training and hiring. As **table 1** highlights, the Kingdom aims to provide suitable jobs for citizens through job creation and training programs for positions with the greatest demand.

As the Government continues to rollout training programs and establish joint ventures with the private sector, Saudi Arabia has the potential to equip its labor force with the skills needed for the Kingdom’s future.

A picture of Saudi Arabia’s labor market

With Saudi Arabia’s large expatriate workforce, increasing role of women in the labor force, shifting demand for skills, and rollout of Vision 2030 initiatives, gaining a thorough understanding of underlying labor market failures and ways to remake the Saudi labor

Table 1: Labor Highlights from Vision 2030 and the National Transformation Program 2020

Objectives	Key Performance Indicators	Initiatives
Develop employment in ICT sector	Rehabilitation of specialized Saudi human capital increased to 20,000 employees	<ul style="list-style-type: none"> · Boost university training in information technology · General Authority for Small and Medium Enterprises empowerment of SME growth · Leadership and online training programs · Evening training programs · National Qualification Framework · Reducing the cost difference between Saudis and non-Saudis · Hiring of women in public sector · Vocational rehabilitation for basic education students · Directed localization · Establishment of national councils · Part-time work opportunities · Expanded vocational training colleges · Support for career guidance · Framework for resolution of labor disputes · Professional assessments for technicians · Adequate and affordable transportation options for working women · Weighted Nitaqat · Payroll Management Systems · Labor committees and work awareness programs
Increase job opportunities in small and medium enterprises	Raise the share of employees in SMEs to 53 percent	
Develop quality standards	Decrease unemployment of Saudis to 9 percent	
Improve work culture in government sector	Increase the share of females in civil service to 42 percent from 39 percent; raise the share of females in top positions to 5 percent	
Provide suitable jobs for citizens	Raise the share of females in labor market to 28 percent from 23 percent	
Match Saudi skills with labor market needs	Increase the share of high school graduates in vocational training from 7 percent to 13 percent	
Meet labor market needs through technical and vocational training	Reduce percentage cost difference of employing Saudis to non-Saudis from 400 to 280	
Develop mining sector opportunities	Increase the number of job opportunities in the mining sector to 90,000	
Improve human capital efficiency	Raise the number of leaders completing the National Program for Preparation and Development of Management Leaders	

Source: USSABC, Saudi Arabia Vision 2030, National Transformation Program 2020

force remain central topics for the Saudi Government, private companies, and individuals residing and working in Saudi Arabia. The labor market in Saudi Arabia has been characterized by a large expatriate workforce, high rates of unemployment among Saudis, and low levels of female labor force participation. As shown in **figure 1**, in 2016, men comprised 86 percent of Saudi Arabia's labor force, while women accounted for only 14 percent. Economic participation of men was 79.5 percent, and the economic participation of women was 22.8 percent.¹

According to data from the General Authority for Statistics (GaStat), Saudi youth, classified as those ranging 20-29 years, make up nearly 30 percent of the Saudi working age population. This data shows there were over 2.8 million employed persons in Saudi Arabia ages 20-29 at the end of 2016, with approximately 920,000 employed Saudis in this age group. This group continues to make up a growing proportion of the Saudi labor force, contributing to increased youth labor force participation but also higher unemployment, including among bachelor's degree holders. The number of unemployed youth in Saudi Arabia has increased over the past year. According to estimates from the International Labor Organization, the percentage of the youngest unemployed youth (classified as ages 15-24) increased from 27.1 percent in 2015 to 31.2 percent in 2016. With the large share of a young workforce, Saudi Arabia can expect to have sufficient supply of workers for years to come.

Labor laws in Saudi Arabia impact both Saudi and foreign families, alike. As of Q4 of 2016, data from GaStat shows that 78 percent of employed persons in Saudi Arabia were foreign nationals, who comprise approximately 30 percent of Saudi Arabia's 31.7 million population. Both the Ministry of Interior and MLSD oversee the regulation and recruitment of foreign labor. MLSD has said that it aims to reduce the share of foreign nationals to 20 percent of the population.

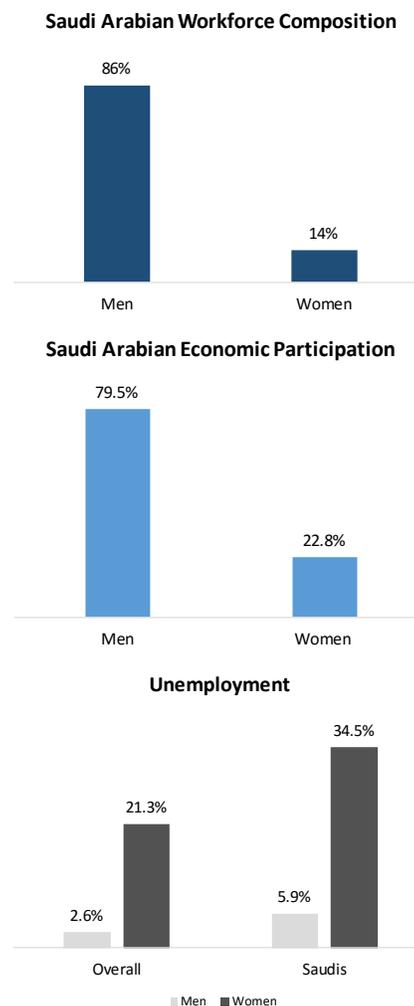
Nearly one-third of the total workforce is employed by the public sector and two-thirds at private companies. Historically, a larger share of Saudis have been employed in the public sector. Foreign workers are almost exclusively employed in the private sector. The high concentration of Saudi workers in the public sector is partially driven by a strong preference to work there because of higher salaries and the perception that jobs are more stable.

While unemployment among Saudis increased through the end of 2016, there was overall positive employment growth. The labor force consists of those employed individuals and unemployed workers who are actively

seeking work. There was a large improvement in labor force participation, especially among women, with participation rates for Saudis reaching approximately 20 percent.

However, unemployment and underemployment are both projected to persist. According to the General Authority for Statistics, at the end of 2016, Saudi Arabia's total unemployment was 5.6 percent (21.3 percent for women), and the unemployment rate among Saudis was much higher at 12.3 percent (34.5 percent for women). In addition, unemployment is much more prevalent among the youth of the nation with rates of nearly half who are unemployed. Underemployment is also increasingly an issue as young educated Saudis struggle to find work that uses their training and specialized expertise. Demographics amplify this issue, with nearly half of the population younger than 25, the labor market must accommodate a larger number of trained workers every year. By the end of 2016, there were 917,563 Saudi job seekers, of which 81 percent were women and 19 percent were men.

FIGURE 1: Key Labor Statistics 2016



Source: USSABC, General Authority for Statistics

¹ Refers to the active labor force, including those who are employed or actively looking for work.

To a large extent in Saudi Arabia, underemployment remains a significant issue, especially for women, leading to loss of efficiency at the firm-level and within the economy as a whole. Underemployment measures when individuals want to work more hours and are not being paid to do so, or when they are not making use of their full skillset in their work. When Saudi Arabian workers have skills that firms need, but firms are biased against those workers, this creates a substantial loss. Simultaneously, education is free to most Saudis, and unemployment is amplified when workers are over-educated and unwilling to take jobs in fields that are perceived as beneath them. This in turn, leads to firms hiring foreign labor. While there are many more women in the workforce than decades past, many women have high-level skills and college training but remain underemployed.

Labor force participation rate is the proportion of a population group working or seeking work, depending largely on regional population structure of age, gender, and ethnicity. Overall in Saudi Arabia, the total labor-force participation rate for persons 15 years and older based on 2016 GaStat data was 56.5 percent (22.8 percent for women). Among Saudis, the labor force participation rate was 42.2 percent (19.3 percent for women). While the extent to which participation rates adjust with economic factors depends on inherent characteristics of the underlying population structure, individuals are generally more likely to participate with higher wages and greater opportunities.

The status quo in Saudi Arabia is not sustainable, and unemployment and underemployment will remain an issue unless jobs can be created that are both satisfying to workers and productive in the economy at large. Saudi leaders recognize that these labor issues must be addressed and are taking initiatives with private sector participation to create new employment opportunities.

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