

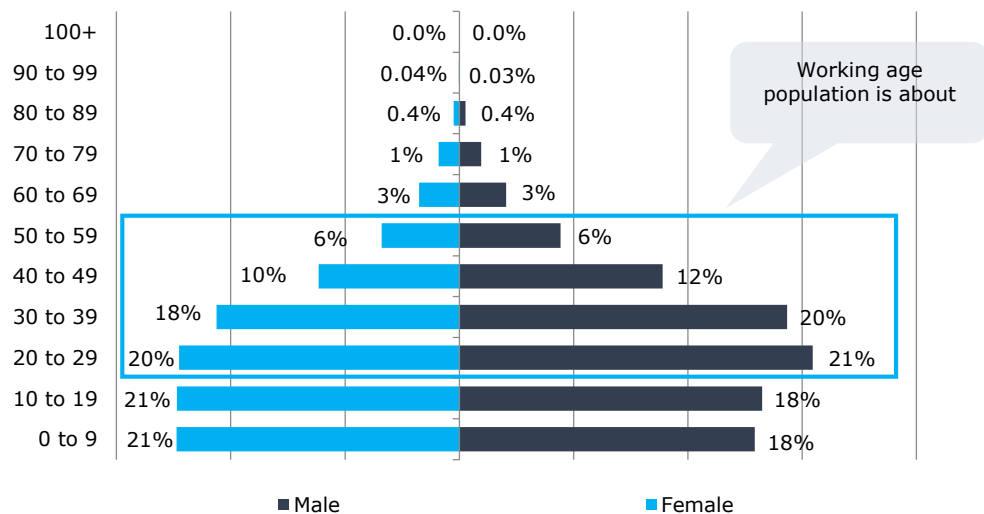
Analysis of Saudi Unemployment

10th March 2014

Youth unemployment is now emerging as a key challenge for the government

- Saudi population has grown at an annualized rate of 1.8 % (From 22.3 million in 2002 to 26.1 million in 2012), while its youth population has grown at a much higher rate at 2.6%. (from 4.3 million in 2002 to 5.5 million in 2012)¹
- Youth population (20 to 29 years) entering the workforce in Saudi Arabia accounts for 21% (5.5 million) of the total demographic pie compared to 17% (4.2 million) two decades ago.

Saudi Arabia Population 2012



Source: US Census Bureau

- **Youth unemployment rate is as high as 27% in KSA**, while the overall unemployment rate is 12.2%. Youth unemployment for the Arab region as a whole is 23.2%, while the world average is 13.9%²
- **Over 43% of those with tertiary education are unemployed in Saudi Arabia**, while the number in other Arab countries is far lower- UAE at 14%, Morocco at 22%
- Prolonged high levels of youth unemployment have **significant social and political implications** such as high crime rates, social unrest and young people delaying marriage.

¹

<http://www.census.gov/population/international/data/idb/region.php?N=%20Results%20&T=10&A=separate&RT=0&Y=2012&R=-1&C=US>

² According to a UN International Labour Organization (ILO) report

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Rapid urbanization demands more jobs

- Urbanization in the Kingdom increased from 48% in the 1970s to around 80% in 2000. CDSI expects urbanization to be as high as 88 percent by the year 2025³
- The inflow of job seekers due to migration has been higher than the capacity to absorb this supply, putting additional pressure on the labor market

Lack of compatibility between educational goals and labor market demands

- Mismatch in skills acquired at university and the requirements of businesses is cited as the key reason by employers for not hiring locals
- Weak linkages between curriculum and labor market requirements
- Lack the necessary soft skills, experience and an exposure to international practices and standards
- Majority of the students enroll for courses in social sciences and the arts, while a relatively smaller proportion of students pursue disciplines required by the job market
- Only 24.6% and 14.8% enroll for science and technology-related subjects in the UAE and Saudi Arabia
- Failure of the education system results in frustration amongst youth
- Despite impressive advances, education outcomes lag in most GCC countries
- GCC countries rank lag peers in both quality and quantity of education. The quantity is measured by a World Economic Forum Index (based on enrollment rates in secondary schooling) while quality is measured by the 2011 Trends in International Mathematics and Science Study (TIMSS) math score. Among the GCC countries, only Saudi Arabia ranks above the international average in the measure of quantity of education, while all GCC countries rank below the average in terms of quality.

³ <http://www.arabnews.com/news/451566>

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Labor force participation is low; women participation is a serious issue

Demographics of Saudi Labor (million)	
Total Population	26.5
Working age population (%)	57%
Working age population	15.11
-Number of females	6.49
-Number of males	8.62
Female participation rate	14%
Male participation rate	45%
Female workforce	0.92
Male workforce	3.90
Total active domestic labor force	4.82
Unemployment rate	12.20%
Unemployed population	0.588

7.2 million Expats are employed

- Of the 15 million people in the working age population (age 20 to 59 years), the total workforce accounts for just about 4.8 million, or less than one third the working age population
- **Labor participation rate for the youth in KSA is about 39% in 2012** is the lowest compared to work force participation rates in the developed economies of US and UK, which stands at about 64% and 77% respectively. The active labor force for KSA is about 4.82 million in 2011, while for the US the labor force stands at around 154.7 million (civilian labor force), and for UK it stands around 30.1 million⁴
- On the other hand, approximately 7.2 million expats are employed, leading locals to believe that expats are encroaching on their share of jobs
- Female participation rate in 2010 was significantly lower at 14% compared to other GCC countries. Unemployment level amongst educated Saudi women is very high.
- About **78% of university graduates and over 1,000 doctorate Saudi women are currently jobless.**

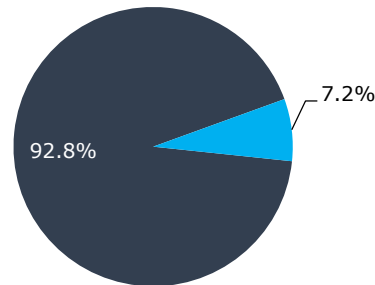
⁴ <http://www.ons.gov.uk/ons/publications/re-reference-tables.html?edition=tcm%3A77-296703>, <http://www.bls.gov/news.release/empst.t01.htm>

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Labor imbalance: Locals dominate the public sector while private sector jobs are taken by expats

- Saudi nationals account for over 92% of the jobs in the public sector. Nationals accounted for a total of 919,108 positions. By contrast, their share of the private sector labor force in 2010 was only 10.4% with nationals holding a total of 724,655 positions⁵
- Public sector jobs are preferred by locals over private sector ones, given the fixed working hours and remunerative wages

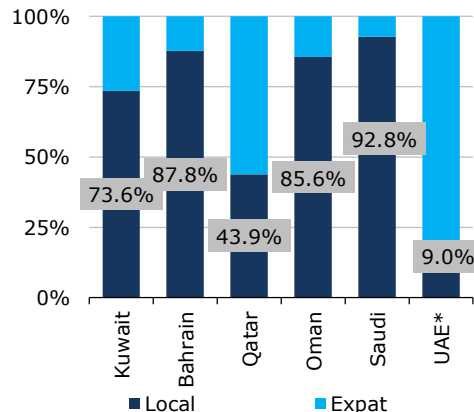
Public Sector Employment



■ Saudi Locals ■ Expatriate

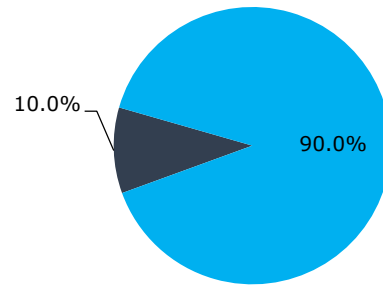
Source: GIC Monthly Economic Review- September 2012

Ratio of Workers in Public Sector in 2010



Source: Gulf Investment Corporation*2008 Est.

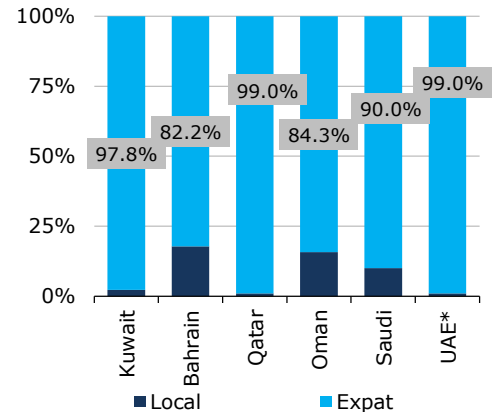
Private Sector Employment



■ Saudi Locals ■ Expatriate

Source: KPMG

Ratio of Workers in Private Sector in 2010



Source: Gulf Investment Corporation * 2008 Est.

⁵ <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20120801131722>

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- Rising number of local job seekers vying for the limited public sector opportunities
- ‘Wait unemployment’ phenomenon -Most labor market entrants voluntary remain unemployed than take up available jobs in the private sector in the hope of getting public sector employment. Every year around 100,000 graduate in KSA.⁶ According to a survey from Saudi Arabia’s Central Department of Statistics, a total number of 699,199 jobs were created between 2011 and 2013 for both Saudis and non-Saudis. A total of 211,153 non-Saudis were employed, mostly in the private sector, while close to 488,046 jobs were taken up by Saudi nationals, of which 209,859 jobs were from public sector.⁷
- In the GCC countries, the public-sector wage bill is considerably higher than in other oil exporters

Public-sector wage bill(% of GDP)	
GCC (excl. UAE)	9.0%
Non GCC Oil exporters	4.9%
Bahrain	12.0%
Kuwait	10.0%
Saudi Arabia	10.0%

- Countries in the GCC region allocate close to 9.0% of the GDP on central government wage bill, compared to a global average of 5.4%.
- Private businesses, where opportunities exist, depend heavily on the supply of foreign labor on account of higher productivity and lower costs
- IMF report states -private sector wages for foreign labor are significantly lower than those for nationals, at similar education levels

Resentment against Expats

- Over the decade (2000-2010), the GCC region has created about 7 million new jobs, almost 18% of the total population of about 40 million in the region. However,

⁶ <http://www.dawn.com/news/728179/saudi-arabia-struggles-to-employ-its-graduates>

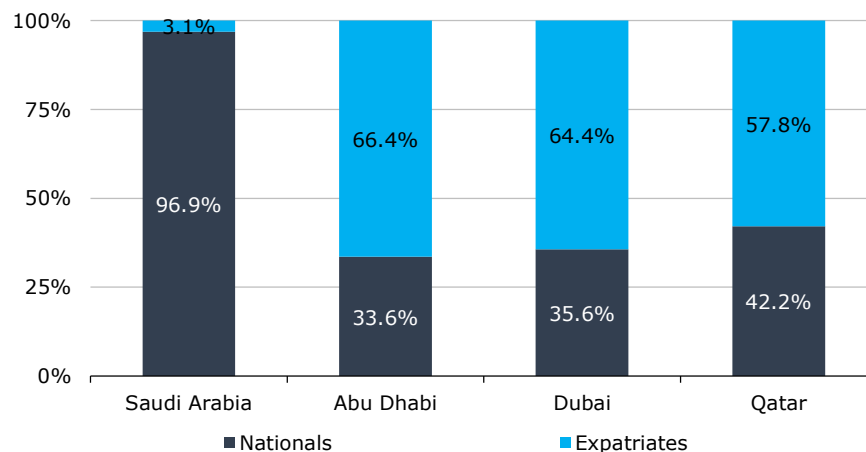
⁷ http://sustg.org/blog/2014/01/05/on-saudi-employment-the-numbers-do-not-lie/#.Ux2WM_7NtkR

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nationals have managed to tap only 5% of the newly created jobs, while a lion's share has been taken up by expats.

- **Of the 5.4 million private-sector jobs created, nearly 88% were filled by foreign workers.**
- Saudi Arabia ranks the highest in unemployed local population, while the unemployment levels amongst the expats is quite low, unlike its other GCC neighbors, where unemployment number among the expats and the locals is similar.

Nationality Breakdown of the Unemployment



Source: Saudi Arabian Ministry of Labor, SAMA, Abu Dhabi Statistics Centre, Dubai Statistics Centre, Qatar Statistics Authority

Localization policies have been a failure even after years of implementation

- Labor laws have resulted in ghost workers; where companies pay locals to stay at home just to have them on their books so that they could only recruit two expatriates for every local
- Bulk of expat labor is employed as low-skilled labor. 86% of the expatriates working in Saudi Arabia do lower end jobs commanding a monthly salary of less than SR2,000 (lower than the minimum wage target of SR3,000)

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- Even if an employer is willing to pay the prescribed minimum wages, Saudi natives refrain from taking up jobs considered to be less prestigious.
- Eg. there is a demand for about 100,000 nurses in Saudi Hospitals, but currently only about 1000 Saudi nurses in the kingdom, as compared to about 53,000 expat nurses
- Labor Minister Adel Fakieh made an announcement at the 3rd Social Dialogue Forum (Dec 2013), that 250,000 Saudis had been able fill the job vacuum left behind by the expats , however the crackdown has resulted in about one million immigrants leaving Saudi Arabia, and creating a gap of nearly 750,000 which is not yet filled in.⁸⁹

Failure to tap the potential of the private/ non-oil sector

- A 1% growth in non-hydrocarbon GDP contributes to an increase in employment of nationals, ranging from 0.45% in Qatar to 1.53% in Oman (IMF report)
- Between 2000 and 2010, about 7 million jobs were created in the GCC (excluding the United Arab Emirates, for which data are unavailable). About 5.4 million of these jobs were in the private sector, while only 1.6 million jobs were in the public sector
- The poor regulatory environment, nepotism and low rates of investments due to various barriers have failed to stimulate the private sector

What steps need to be taken?

- Need to focus on developing sectors involved in downstream activities which are labor intensive in nature.
- Governments should continue to undertake spending activities focusing on building infrastructure rather than subsidies

⁸ <https://www.peninsulatimes.org/2013/12/05/saudis-fill-250000-open-jobs-left-by-expats/>

⁹ <http://english.alarabiya.net/en/business/economy/2013/12/18/Questioning-Nitaqat-the-Saudi-job-nationalization-program-.html>

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- Encourage Small and Medium Enterprises (SMEs) and domestic start-ups and foreign investment. SME's could provide significant opportunities for employment. SME's in the Kingdom account for 63% of the employment
- Creation of economic zones to guarantee simplified business procedures and increased competitiveness that would not only create employment opportunities, but increase private investments and spur exports.
- Need to enhance the existing human capital, increase investments to develop and sustain home-grown technology, and improve overall organizational capabilities.
- Improve the quality of vocational training imparted to students on lines that are similar to that in Singapore which has faced a similar challenge. Establishment of accreditation and certification systems could be of help.
- The private sector needs to effectively communicate its skill-set requirements to the government so that a consensus can be formed and reforms can be undertaken by the government to overhaul the education sector that makes the prospective candidate industry ready.
- There is a need to relax labor regulations, by eliminating employment guarantee but supporting it by active policies, such as skills training and self-employment promotion and insurance.