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Saudization and Structure of the Labour Market in Saudi Arabia

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Economics Paper 24

UHBS 2000:11

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Salah Mahdi

Abstract:

Until 1960s, most of the population in Saudi Arabia lived a nomadic or semi-nomadic existence with only a small pockets of settled population. Under the impact of the oil boom revenues of 1970s, the Saudi economy grew from a poor subsistent economy into a rich modern one. The main economic activities were mainly subsistent farming , livestock raising and serving the pilgrims of the holy places. The country has adopted a five year development plan approach since 1970, which required importation of foreign workers to fill the gap of skilled and unskilled workers to meet the accessive labour demand of the development projects. This paper is divided into four section . The roots of the current situation can be traced back to the way in which the labour market developed in Saudi Arabia. The next section will consider human capital development in the country . Section three is about the regulations which govern the labour market in Saudi Arabia and their effects on this market. The fourth section is devoted to discussing current labour policies and their effects on the economy and business. The paper concludes that inequality in the application of the labour regulations between Saudi and non-Saudi workers has distorted the labour market in the country and created a monoposony situation. It also argues that the localization or Saudization of the labour 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.

JEL classification: J40, J68, J24

Key Works: labour market, labour policy , human capital

Introduction¹

Saudi Arabia is a world leading oil producing country. Its daily average production is estimated as 801 million barrels in 1997. The oil boom revenues of 1970s helped to develop its economy. Saudi Arabia is different from many developing countries in that it is abundant in capital. Since 1970, the economy has been directed through five year development plans, that set down general economic policies of different economic activities. The main economic objective of the development plans has been to diversify the economy through the expansion of manufacturing and the cultivation of different products. The implementation of the development plans required the importation of many types of raw materials in-order to create a non-oil sector. They have also required the importation of workers from different countries. In the period between 1970 to 1990, Saudi Arabia developed a basic infrastructure of transport and communication, well equipped large industrial cities, developed financial institutions, and established big joint ventures between public and private sectors.

Table (1) shows that between 1970-1985, the contribution of the manufacturing sector to GDP increased gradually from 9.2 per cent in 1970 to 12.1 per cent in 1985, then reached 14.2 per cent in 1997. Although there are many factors restricting its development, such as severe desert climate, lack of arable lands, and scarce water resources, the agricultural sector, composing both traditional and modern farms, gets a great deal of public finance and subsidies and various other facilities. A significant effort has been made to help this sector increase its contribution to GDP from 5.1 per cent in 1970 to 8.6 per cent in 1997.

The contribution of crude oil to GDP was not stable over the period of 1970-1995. Its share of GDP decreased, from approximately 50 per cent in 1970 to about 42 per cent in 1980, then to only 23 per cent in 1988. This is reflected in the fall in oil prices from their peak, in 1981, at US\$ 34.23 dollar per barrel (average for the Arabian Light crude oil) to its lowest level in 1988 at US\$ 13.40 dollars per barrel (SAMA: 1998) . An increase in the oil contribution to GDP happened in recent years when it rose slightly over 29 per cent in 1997.

The contribution of the construction sector to GDP was high during the period of the

¹ I am grateful to Armando Barrientos, Al Rainnie and Ahmed Abdal-Rahman for helpful comments and suggestions and for the encouragement they provided me to write this paper.

second and third development plans of 1975 -1985 when transport, communication and other basic infrastructure projects were undertaken. These projects absorbed considerable financial allocations of resources with a budget of US \$145 thousand million dollars.

Despite the immense efforts to detach the economy from its dependency upon a single source, the contribution of oil still represents the dominant factor in the economy, and changes in its revenues still have a strong influence on other economic activities. It is the leading economic sector that determines, through government procurements, the dynamism of other sectors of the economy.

However, the successes of the development plans over the last quarter of the century are apparent as the country has been transformed from a subsistence and nomadic economy and society to a modern and developing economy with important industrial, agricultural and services enterprises.

Table I

Contribution of Oil and Non-oil Sectors to GDP (1970-1997)

(at Constant Prices) (%)

Sector/ Year	1970	1975	1980	1985	1990	1995	1997
Agriculture	5.1	3.5	3.3	7.0	9.6	8.8	8.6
Oil & Gas	49.8	50.8	42.2	16.3	25.8	29.2	29.6
Manufacturing:	9.2	6.3	6.5	12.1	12.3	14.0	14.2
-Refining	6.8	3.9	3.3	5.3	6.3	8.3	8.4
-Other	2.4	2.4	3.2	6.8	6.0	5.7	5.8
Construction	4.8	9.6	10.6	9.4	6.1	5.9	5.8
Other Non-oil	31.1	29.8	37.4	55.2	46.2	42.1	41.8
Total GDP(SR)	19907	34462	53282	45304	56243	62877	64969

Source: Saudi Arabian Monetary Agency (SAMA) " Annual Report : No Thirty Four ", 1998

I The emergence of a labour market in Saudi Arabia

While it is not the aim of this paper to trace the historical evolution of the labour market in Saudi Arabia some background information is needed to understand the present situation.

These are set out below. The core of this section will discuss the development of the labour market in the years following oil exploration, and particularly during the 1970s to the 1990s,

when a large finance facilities and subsidies were pumped by local development financial institutions .

Before the oil discovery, the country was dominated by nomadic and semi-nomadic pattern of life, known as Bedouin style of life. The population of nomads and semi-nomads was estimated as 50 per cent of the total population (Al-Mutairi: 1998). This population began to decrease, reaching about 46.2 per cent in 1966 and gradually reducing further to 7 per cent in 1992. Significant efforts were made, over 1910-1968, to settle nomads and changing them into farming societies.

On the other hand, some public departments were established in 1915. Manufacture was almost not exist up to 1927. Handicrafts, cottage enterprises, fishing and pearl diving were sources of employment in the bigger cities in the country. The workers involved in these types of work were few in number due to the poor income of the country and the limited resources at that time.

The first oil discovery in the Middle East was in Iran in 1908, and from that time oil companies and the relevant authorities concentrated their attention on the Gulf shore, where oil was discovered in Bahrain in 1932 by the Standard Oil Company of California. This company started oil exploration in Saudi Arabia a year later. In 1938 oil was discovered in Saudi Arabia, but commercial production was delayed until after World War II. As it was the case in the other Gulf countries, the growing oil industry in Saudi Arabia faced labour shortages and particularly a lack of experienced workers. This forced the oil companies to import foreign workers (Seccombe and Lawless:1986). After the onset of commercial exploitation of oil in 1945, the number of foreign workers employed by ARAMCO (Arabian American Oil Company), increased rapidly from 2180 workers to 8609 workers in 1951.

Oil prices increases generated large public revenues which were allocated in part to finance the large public and private projects set up by the five year development plans. These plans increased demand for labour from 1.103 million workers to 1.522 million workers, according to estimates of the development plan of 1970-1975. The number of workers doubled over the Second Five Year Development plan to more than 3 million workers in 1980. The annual growth rate of the labour force over the thirty year period 1965-1995 is estimated as 6.6 per cent, as in Table 2.

Table (2)**Number and Structure of Labour Force in Saudi Arabia By Activities 1965-1995**

(in thousands)

Activity/Year	1965	1970	1975	1980	1985	1990	1995
Agriculture	464.8	445.8	426.1	545.6	538	393.2	377.2
Mining	25.2	25.7	45.6	47.0	62.9	52.3	59.1
Manufacturing	41.1	36.1	46.5	170.4	424.1	494.7	566.9
Utilities	8.3	12.2	18.3	67.0	112.2	66.5	79.7
Construction	104.0	141.5	314.2	638.9	1470	916.7	1060.7
Commerce	95.8	130.2	211.0	323.1	688.7	921.9	1026.7
Transportation	44.0	62.1	103.2	180.0	316.5	274.9	319.9
Services	218.9	250.2	357.2	654.6	1163.1	2218	2549.8
Others	4.5	-	-	-	-	-	-
Government	-	-	-	399.4	469.1	711.2	817.7
Total	1006.6	1103.8	1522.1	3026.0	5244.6	5771.8	6867.7

Source: Ministry of Planning " Five Year Development Plan", years from 1970 to 1995.

The structure of the labour market in both the private and public sectors has changed greatly over the period 1970-1997. Table 3 shows data for private sector workers insured with the General Corporation for Social Insurance Organization (GOSI) in 1997 (see page 17 for details). The share of workers in small firms employing less than 40 workers represents 16.4 percent, the share of workers in firms employing between 40-99 persons represents about 12.7 percent, and the share of workers in firms employing over 100 persons makes the majority as they represent 70.9 per cent of total number of workers insured with the GOSI.

Employment in the public sector has also developed over the same period. The number of workers increased from 82.5 thousand employees in 1972 to more than 609 thousand employees in 1995 with an annual growth rate of 9 per cent over the period 1972-1995, as indicated in Table 5. Working women in the public sector represent about 30 per cent of employees in this sector, the majority of them work mainly in education and health departments. The number of women working in the public sector increased from 18,3073 in

1995 to 225,824 in 1997 with a yearly growth rate of 7 per cent over the two years.

Table 4 shows the importance of employment in the public sector. Labour demand in this sector rose rapidly as the role of government departments grew in line with government intervention in the management and organization of public utilities in line

Table 3 Distribution of Workers in the Private Sector in 1997

Class	No. Workers	Per cent
< 20	124311	8.5%
20-39	116188	7.9
40-59	78199	5.3
60-79	58911	4.0
80-99	50017	3.4
100-199	178781	12.1
200-299	122762	8.3
300-399	85249	5.8
400-499	74145	5.0
>500	584974	39.7
Total	1473537	100%

Source: GOSI" Annual Report " , No.19,1997.

with the development plans. The government has expanded employment of Saudi nationals, as part of its strategic goal of creating a domestic labour force, and to meet the needs of skilled labour for the large public development projects. Over the period 1972-1985, Saudi graduates were supported by the government to meet the increasing demand for skilled labour. Many of those who did work in the public sector left by personal choice. Before 1985, Saudi workers preferred to work with large private firms, but when the advantages of working with private firms declined, they moved on to work for the government. Government employment provided many advantages such as, a high minimum level of pay, promotion, training, and suitable office hours, which were not available in the private sector. This explains the large rises in employment in this sector, which led to various managerial problems such as low productivity among workers in the public sector, disguised unemployment due to over manning and excess numbers of the approved posts in the General Budget (Al -Shakhawi: 1994). In 1972 the number of the approved government

posts for Saudis was 96.7 thousand posts, with only 58.8 thousand posts occupied and 37.9 thousand posts vacant. This trend has continued over time as indicated in Table 4. Some other factors are also responsible for the increased numbers in the labour force in Saudi Arabia. They include internal and external migration. Since 1931, agricultural, transportation, and mining projects have been set up, which, in addition to commerce and scattered handicrafts, persuaded people to migrate from rural to urban areas looking for work. In 1932, the urban population of Saudi Arabia amounted to 300 thousands or 20 per cent of the total population of the country, and increased to 800 thousands or 24 per cent of the total population in 1962 (Al -Hammad: 1987). The population census of 1974, shows the total net internal migration from rural to urban areas was about 22.4 per cent of the total population of Saudi Arabia (Al-Mutairi: 1998). As far as external migration is concerned, it is difficult to migrate to Saudi Arabia to obtain a permanent residency. The official and regular way to stay in the country is through temporary residency. The majority of foreigner residents are workers.

Table 4
Number of Workers, Approved and Vacant Posts in the Public Sector Over 1972-1995

Year	Posts (for Saudis)		Employment			
	Approved	Vacant	Foreigners	Saudi Workers	Total	Increasing Rate
1972	96781	37918	23629	58863	82492	-
1975	142940	61023	34748	81914	116662	13.8%
1978	196931	98484	50976	98447	149423	9.4
1980	244546	132776	64182	111770	175952	8.9
1983	353229	170330	86233	182899	269132	17.6
1985	411619	205762	121331	205857	327188	10.8
1988	413369	169809	144523	261560	406083	8.0
1990	445793	152692	150116	293101	443217	4.6
1992	419491	99737	151658	319754	471412	3.2
1993	467266	121594	159612	345672	505284	3.6
1995	N.A	N.A	128698	480313	609011	10.3

Source: Mohammed Al-Taweel " Public Administration In Saudi Arabia"
Institute of Public Administration, Riyadh, 1995

The occupational distribution among the main two groups of workers, Saudi and non-Saudi , is shown in Table 5 for 1992. About 48 percent of the Saudi labour force are involved in managerial and defense employment within the public sector, 16.8 percent are in educational services. About 85 percent of the Saudi working women are engaged in educational service within the public sector. Saudi workers in the manufacturing sector were only 2.7 percent of employed Saudis in 1992. In agriculture there remain significant numbers of Saudi workers, around 6.8 percent compared to 7.9 percent of the non-Saudi employed in that sector in that year.

The occupational structure of the non-Saudi workers in 1992 shows that about 24.3 percent of them are to be found in the building and construction sector, followed by 16.5 percent in wholesale and vehicle maintenance services. About 12.6 percent of non-Saudis work in domestic services as housekeepers, domestic servants, and similar occupations. It is worth-mentioning that about 69.3 percent of non-Saudi working women are employed as housemaids. In the manufacturing sector, as Table 5 shows, non-Saudi workers are about 12 percent of the employment, and only 3 percent of them are engaged in educational services.

Table 5 Distribution of Labour Force in Various Activities in Saudi Arabia In 1992

(in Per cent %)

Activity	Saudi		Non-saudi	
Manufacturing	53781	2.7%	343901	11.7%
Agricultue	134729	6.8	231980	7.9
Fishing	5217	0.3	6867	0.2
Mining & Quarrying	57866	2.9	19341	0.7
Utilities	31059	1.6	22503	0.8
Building & Construction	31036	1.6	713418	24.3
Wholesale & Retails	116440	5.9	483874	16.5
Storage & Transportation	103928	5.3	97090	3.3
Financial Services	29231	1.5	17951	0.6
Estates Services	27624	1.4	166722	5.7
Defense & Public Works	946173	47.9	73619	2.5
Education	330866	16.8	87798	3.0
Health & Social Services	70211	3.6	117981	4.0
Domestic Servants	4892	0.3	371588	12.6
Other	32169	1.4	184553	6.2
Total	1975222	100%	2939186	100%

Source: Saudi Council Chamber of Commerce, “ The Project Of National Employment”, Riyadh , March 1998 (in Arabic, unpublished)

In conclusion, when nomadic patterns of life started to disappear over the period 1960-1992 the settled population practiced cultivation, which helped to create a waged labour force the oil revenues and the five year development plans have contributed to the development of a labour market in Saudi Arabia. A large portion of the labour force came from outside the country sicne 1930 but particularly during 1970-1990. They have made an important contribution to economic development by helping overcome shortages in skilled and unskilled workers.

2 Human Capital Development:

This section examines education and training developments in Saudi Arabia and assesses their contribution to the labour market in Saudi Arabia .

Saudi Arabia sees education and training as the main mechanism for closing the skills gap. Formal education in Saudi Arabia has been in place for a relatively short period by comparison to other countries in the region. Elementary education started in 1920s, intermediate and secondary education started in the early of 1940s, higher education was first set up in 1953, and vocational and technical education only began in 1961 (Al-Houqail:1998). On the other hand, the indicators of the outcomes of formal education show a continued improvement. Table 6 shows the rise in the numbers enrolled, and graduates, at all levels over the recent period of 1992-1996.

Males and females are segregated at all educational levels, but also as regards educational institutions, course specialization and learning syllabuses. Females, cannot access adequate technical and vocational training and education, which are mainly reserved for male students. Teaching and health care training are considered, in Saudi Arabia, the only technical education available for females, and vocational training for women is very limited and restricted to clothes designing and production only. The growth rate of enrolled female student in intermediate education is about 8 percent per year in the period 1992-1996, while for male student it is only 7 percent. Graduation rates among females in intermediate education are greater than among male, in 1996 the graduation rate was about 22 percent for male and 29 percent for female of the enrolled student of each group. The coefficient of variation (CV) rate of secondary school graduates is calculated as 15 percent for females , which compares well to a rate of 19 percent for males. These figures indicates comparable flows of female and male student towards higher education, although females have lower dropping out rate compared to males, who can get work more easily, and of good quality, even with secondary school qualification.

The increasing availability of free education explains the growth in the number of Saudi job seekers, mainly men, with secondary school qualifications, who represent about 21 per cent of the job seekers in 1996 (Ministry of Labour:1996). Vocational training is provided by many institutions, both in the private and public sectors. Technical education is only available through the General Organization for Technical Education and Vocational Training

(GOTEVT) which supervises and provides technical and vocational training in the private and public sectors. Technical education in the GOTEVT covers commercial, agricultural and industrial education and it is available only to Saudi students. The total number of graduates in this type of education, at the secondary level, increased at a rate of 5 percent over the period 1992-1996, compared to the growth rate of 1.9 percent for enrollments over the same period.

Table 6 shows that Saudi students do not join this type of education and prefer to continue their higher education at university. This is due to prevailing social attitudes against manual and technical occupation. It produces, at the same time, a crowding of university graduates in certain specializations such as social studies, literature and arts, theology and the similar humanities studies.

Table 6
Distribution of the Enrolled and Graduates of Intermediate , Secondary ,
Technical And Vocational Education In Saudi Arabia (000) 1992-1996

Year	Female				Male				graduates	
	Intermediate		Secondary		Intermediate		Secondary		Tech- nical*	Voca- tiona l
	Enro l	Grad	Enrol	Grad	Enrol	Grad	Enrol	Grad		
1992	269.4	73.44	142.77	39.18	347.20	74.94	169.80	33.24	9.373	6.39
1993	303.2	84.24	152.35	42.56	390.02	86.83	188.54	43.68	10.24	6.24
1994	336.8	93.86	173.62	50.64	434.07	84.44	212.14	36.00	12.15	6.10
1995	371.5	99.24	202.02	51.94	462.20	98.52	233.06	41.95	12.65	5.80
1996	394.5	115.62	232.17	57.84	493.37	111.57	266.49	54.40	11.98	5.79

* Both secondary and post-secondary levels.

Source: Ministry of Planning "Achievements of Development Plans", 1997

Statistics for 1995 shown in Table 7 indicate that 80 percent of all graduates of local universities are student of humanities that include: arts , education, sociology, religious (theology) studies, and economics. The remaining 20 percent is distributed among other vocational studies that include: medicine, architecture, agriculture, engineering, architecture and similar fields. Saudi students' attitudes toward manual occupation makes them prefer white-collar jobs. A field study conducted in 1989 showed that about 80 percent of Saudi

job seekers refused manual work, 74 percent prefer high status work, 64 percent select occupations with a good reputation rather than those with higher wage levels, and a similar proportion prefer work in the public sector rather than run their own business (Al-Obaid and Ateiah: 1994). This explains the decreasing rate of trainees in the vocational training centers from 2.8 percent of the enrolled student at the intermediate level in 1992, to about 1.5 per cent in 1996.

Table 7
Field of Study for Saudi Graduate from Local Universities over the period 1992-1995

Specialization	1992		1993		1994		1995	
	No	%	No	%	No	%	No	%
Humanities	13165	76.6	15479	78.5	16251	79.9	19856	80.8
Agriculture	457	2.7	435	2.2	457	2.2	369	1.5
Pure Sciences	1692	9.9	1645	8.3	1421	7	1523	6.2
Medicine	591	3.4	635	3.2	654	3.2	813	3.3
Engineering	770	4.5	1038	5.2	992	4.9	1549	6.3
Computer Sc.	193	1.1	198	1.0	261	1.3	246	1.0
Pharmacy	203	1.2	184	0.9	224	1.1	127	0.5
Meteorology	22	0.1	32	0.2	14	0.1	28	0.1
Environ. Stud.	17	0.1	31	0.2	11	0.1	20	0.1
Geology	37	0.2	33	0.2	15	0.1	13	0.1
Marine Scien.	29	0.2	16	0.1	15	0.1	26	0.1
Total	17176	100%	19726	100%	20315	100%	24570	100%

Source: Statistics Department, Ibid.

Table 8 shows the distribution of university students, which is restricted to Saudi students, over the period 1992-1996. It indicates that enrolled females account for 47 percent of total enrolled students in the local higher education institutions, with a growth rate of 13 percent over the period 1992-1996. The ratio of the females graduates to the total over this period is 49.6 per cent, close to their enrollment ratio. These rates are compared to 53 percent for enrollments of males, and 50 percent for male graduates. However, the overall rate of graduation is 13 per cent to the total enrolled students over the period 1992-1996.

This outline of education in Saudi Arabia gives a clear view of the efforts of the Government to develop native human resources. Public expenditure on education represents about 6 per cent of the total GNP (World Bank: 98/99). Human resource development policy emphasises

knowledge acquisition rather than knowledge application. A recent study on Saudization shows that about 26 per cent of the Saudi job seekers among males consider the mismatch between the offered job with their study specialization as the main reason to refuse a job. This applies to females with equal force, and about 35 percent of female job seekers refused such an offer for the same reason. And 15 percent of managers in the private sector consider this mismatch as the main reason that makes Saudi workers quit the work. (Saudi Council of Chambers of Commerce & Industry: 1998).

Table 8 University Students and Graduates in Saudi Arabia Over 1992-1996

Year	Enrolment (in 000)			Graduate		
	Female	Male	Total	Female	Male	Total
1992	68	84	152	8467	11331	19898
1993	75	88	163	10820	10909	21729
1994	83	87	170	10893	10996	21889
1995	87	99	186	11650	12600	24250
1996	113	109	222	15542	12721	28263
Total	426	467	893	57372	58557	115929

Source: Ministry of Planning , Ibid.

Saudi Arabia adopted education and training as the main instrument to create a skilled labour force. The advantages and ease of recruitment procedures of the public sector have attracted Saudi students, thus leading them to prefer technical rather than vocational and technical education. This has resulted in open and disguised unemployment among Saudi graduates.

3 What governs employment relations in the Saudi Labour Market?

This section focuses on the regulations which apply to the labour market in Saudi Arabia, where worker organisations are non-existent and the mobility of foreign workers is severely restricted.

Labour regulations, laws, rules and practices, are one of the main factors affecting the operation of the labour market. They aim to cover pay, work conditions, and relations between employers and employees. It is generally the case in other countries that labour unions enter into negotiations with employers over workers' rights and entitlements over and above those recognised by labour regulations (Beal et al: 1976). In Saudi Arabia, the situation is different as there are no labour organizations. Unionizing of workers is completely forbidden by the Labour Law, and various punishments for such behaviour are stated. Unions and syndicates have been prohibited since 1958, as well as the incitement to strike.

In Saudi Arabia, there are many labour regulations, some apply to workers in the private sector and others cover only workers in the public sector. Saudi workers prefer to work in the public sector rather than the private sector due to labour regulations that give them various privileges and rights. Many of these regulations apply only to Saudis. For example, non-Saudis in this sector are not entitled to a pension, even though they may get other privileges which put them in a better position than their colleagues in the private sector. These distinctions are a key feature of the pluralistic society centered around Saudi citizenship and tribalism as a system of values, which gives Saudi nationals many privileges, as mentioned, over foreign residents (Barsalou: 1985).

Labour regulations, governing work in the private sector are different from those in the public sector. The statement of personal contract between the employer and the employee is the main cornerstone of the work relation in the private sector. This is not a uniform contract. It may not only differ from one firm to another but also between workers in the same firm. This results in wage differential between workers of the same occupation and experience whether in the same firm or another; and especially since pay is based on nationality.

Barsalou (1985), stated that " in most other parts of the world it would be inconceivable to pay a supervisor less than a subordinate simply because of nationality, but it is common in

Saudi Arabia “. It is also the case that experienced workers may be supervised by a less experienced and better paid worker simply because the latter has Saudi nationality. This is an important factor in the distribution of income. A recent study showed significant income differentials among Saudi and non-Saudi households in Riyadh area. About 38.3 percent of Saudi households get an average annual income of US\$ 32 thousand dollars and above, while only 15.8 percent of non-Saudi households can be found in this category of income. The study also looked at the mean wages for different managerial, production and services occupations for both Saudi and non-Saudi households. Wage inequality was obvious between the two groups at different occupations. For example, a Saudi production manager gets an average annual wage of US\$ 32.7 thousand dollars, while his non-Saudi counterpart gets only US\$ 13.4 thousand dollars. And a Saudi engineer gets an average annual wage of US\$ 31 thousand dollars, while a non-Saudi Engineer get US\$ 21.1 thousand dollars. These differentials can be observed for all other listed occupations, including medical doctors as well as taxi drivers. The report also showed that average annual wages for the two groups were also quite different. The mean wage was about US\$ 35.3 thousand dollars for Saudi workers and only US\$ 5.4 thousand dollars for non-Saudi workers. The overall wage differential is estimated as 84.7 per cent (High Commission for Riyadh Development, 1996).

There are some groups of foreign workers who are not subject to labour law. They include farm workers, family drivers, domestic servants and other having similar status. There are no regulations governing the employment relations between workers in such occupations and their employers, and they are not subject to any part of the Social Insurance scheme.

Residency regulations (Iqama) play a crucial role in the labour market in Saudi Arabia. They only apply to foreign workers, though they are not direct labour regulations. The influential power of these regulations extends to procedures of how to enter the country, mobility of workers (as regards employment and also in his movement from place to another within the country), and all other aspects of his residency in Saudi Arabia.

According to Iqama regulations, foreign workers are only allowed to work in Saudi Arabia if they first have a work contract with a Saudi who acts as the worker's sponsor (Kaffel), and this should be arranged before proceeding to enter the country. When Saudi Arabia launched its first development plan for the years 1970-1975, it faced a big gap of skilled and unskilled labour. The gap was estimated as 154.6 thousand workers of various occupations and skills. The door was opened to attract foreign workers to fill this gap. The number of

foreign workers, or non-Saudi as is usually indicated, has been on the increase since 1970s. The population census of 1992 estimates their number as 4.6 million which is 27.4 per cent of the total population. The labour force of this group is estimated as 3 million workers. Currently the number of non-Saudi workers is estimated as 4.8 million workers (Business Middle East: Nov. 1998).

Iqama regulations, are of concern of police authorities who have the right to request any foreigner, at any time and place to show his Iqama identity card. This card is issued by the passport authority on conditions that a foreigner has a Saudi sponsor (Kaffel) and has entered the country legally. Once this card is issued the foreigner has the right to reside in the country and the obligation to work. He should had his passport to his Kaffel and recover it when leaving the country for a vacation or for any other necessary reason. Sponsorship is an absolute precondition. No worker or alien can stay in the country unless he has a sponsor, with exception of pilgrims who are allowed to enter and visit only the holy places for a short period and have no right to pass to other places in the country. The foreign worker cannot settle unless he has this card, which stands in place of his passport. He cannot move from his job to another unless he gets a release from his Kaffel and gets another Saudi firm or individual who is interested in his services to be his new Kaffel. This monoposony state in the Saudi labour market limits the labour supply of foreign workers in the market. It is common to read in the newspaper announcement of a Saudi sponsor requesting information the whereabouts of a missing foreign employee, in Saudi or in the other GCC countries such as Emirates (see *Gulf News , Classified , Vol. 20 No. 268 dated 10th July, 1998*). The sponsor, announces the disappearance of his sponsored and asks for any information to be reported to the police (see *Riyadh Newspaper, No. 11152 dated 5th Jan.99 and No. 11409 dated 19th sept.99, in Arabic*).

A foreign resident cannot move out of the district where his Iqama was issued unless he gets a permission from his sponsor and this permission is authenticated by the Passport department, and a foreigner can not move around without carrying his residency card. Foreign workers, must work in the same occupation as shown in his residency card, otherwise he must apply to Labour Office and Ministry of Interior to adjust this situation. The number of foreign workers who were permitted to alter their occupations increased from 4.2 thousand workers in 1992 to 62 thousand workers in 1996. The Ministry of Interior has the right, according to Residency Regulations, to cancel any foreigner's residency card and to deport individuals without stating the reasons.

Foreign workers, with university qualifications and technicians of secondary education or post-secondary education have right to bring their family with them. Other workers with a low levels of education are legally not allowed to bring their families with them, but they have a right to invite them for a short visit.

Social Insurance Law applies to workers in the private sector. It parallels the Pension law that applies to workers in the public sector. The General Organization for Social Insurance (GOSI) was set up as a public firm in accordance with this law. Its role covers insurance against occupational diseases and work risks and workers' pension. These two types of insurance are only available in full for Saudi workers, and partially to foreign workers who could only be insured against occupational diseases and work risks. The latter are not allowed pension insurance. Subscription to GOSI is compulsory for both workers and firms that employ ten workers and above. Insurance subscription rates are different for Saudi and Non-Saudi workers. They are 15 per cent of the gross monthly wage for Saudi workers divided into 5 per cent to be paid by the employee and 10 percent to be paid by employer. The contribution rate for foreign workers is only 2 percent and is paid by the employer.

In summary, the Saudi labour market is a dualization of workers. Application of these regulations create two groups of workers, they also create two groups of workers, Saudi and non-Saudi workers get different treatment concerning pay income, mobility in the labour market, pension and other aspects of employment. Regulation applying to the residency of foreign workers have strong effects on existence of the monopsony situation and distorted the labour market in the country.

4 Saudization

This section discusses recent labour policy, aimed at substituting foreign workers with Saudi nationals, the reasons for its adoption, its effects on business, and the factors likely to constrain its application.

In the labour market, Saudization indicates the substitution of foreign workers by Saudi nationals, with the aim of increasing the reliance on a local or domestic labour force in the long run. In the six GCC countries, the policy is referred to by each country's name. It is Saudization in Saudi Arabia, Bahranization in Bahrain, Qatarization in Qatar, but in Oman and Emirates it is referred to as Localization. As a labour policy it has been adopted

throughout the Gulf Cooperation Council Countries (GCCC) during the 1990s. Its roots can be traced back to the start of oil exploration in the region, and oil exploration and exploitation agreements in the Gulf region in the 1920s included the employment of local workers as a condition. Seccombe and Lawless (1986) provide some examples of this, such as the agreement of Kuwait Oil Company signed in 1943, which stated that the "company shall employ subjects of the Sheikh as far as possible for all work for which they are suited under the supervision of the company's skilled employees". And in Qatar, the agreement with the Anglo- Persian Oil Company(APOC) stated that the "labourers employed by the Company must be from amongst the Sheikhs own subjects or from amongst those approved by the sheikh, excepting technical employees and the managers and clerks whom the Company may require and whom it can not find in the country "

The population census of 1992 in Saudi Arabia showed the size of the labour force as 5.3 millions (including those aged between 12 and 64). The number has been estimated as 7.2 millions in 1996. The labour force in Saudi Arabia, as the other GCC countries, comprises, beside natives, foreign workers from different countries. In Saudi Arabia foreign workers represented about 57 percent of the labour force in 1992, with Saudi workers constituting the remaining 43 percent. Although foreign workers had been in the country since 1930s, their numbers have increased since 1970, when Saudi Arabia decided to set in place the five years development plans approach. As the country with a small population and shortage of skilled workers, its economic development depended on importing labour from outside. During the first two development plans of 1970-1980, labour policies encouraged the inflow of large numbers of foreign workers from different occupations, both skilled and unskilled workers.

Table 9, shows population and employment in 1992. Employment among Saudis represented 59.3 percent of the total Saudi population, while employment among non-Saudis represented 81 percent of the foreign population. The labour force of Saudi nationals was 43 per cent of the total population in 1992, while among non-Saudis it is 57 percent. Women represented only 10.9 percent of the labour force, the rate of labour force participation for women is thus 11 percent, while the rate unemployment among them is about 7.5 percent. Saudi women were 8.5 percent of the total Saudi labour force, while non-Saudi women represent 12.7 percent of the non-Saudi labour force in 1992.

Table 9**Structure of Population and Labour Force Participation in Saudi Arabia 1992**

Item		Population	Manpower	% Man.	Employment	Unemploy.	Labour Force	Unemp %
Saudi	Male	6215793	3676618	59.1	1803617	283606	2087223	13.6
	Female	6094260	3627267	59.5	171605	23005	194610	11.8
	Total	12310053	7303885	59.3	1975222	306611	2281833	13.4
Non-Saudi	Male	3264180	2820452	86.4	2560591	82783	2643374	3.1
	Female	1374155	944964	68.8	378595	6748	385343	1.8
	Total	4638335	3765416	81.2	2939186	89531	3028717	3.0
Sex	Male	9479973	6497070	68.5	4364208	366389	4730597	7.7
Total	Female	7468415	4572231	61.2	550200	29753	579953	5.1
Total		16948388	11069301	65.3	4914408	396142	5310550	8.1

Source: Saudi Council of Chambers of Commerce ,Ibid.

Unemployment among Saudis is 13.4 percent, and for non-Saudis it is about 3 percent. The lower rate of unemployment among non-Saudis is explained by entry restrictions, sponsorship regulations, and labour market mobility. The overall rate of unemployment was 8.1 percent in 1992.

During the first two development plans of 1970-1980, labour policies encouraged the inflow of a large number of foreign workers. The second development 1975-1980, planned for foreign workers to grow annually at a rate of 20.2 per cent over this period, and represented a strategic objective to increase labour force participation of both Saudi and non-Saudi workers. The development plans of 1985-1995 adopted a Saudization policy (see next section), which has remained in place since but there have been no concerted attempts at implementing it. Towards the end of 1995 serious steps were taken to implement Saudization. A ministerial decree instructed private firms which employ 20 workers and above, to increase the size of their Saudi labour force by reducing their foreign workers annually by a minimum rate of 5 percent of total firm's employees. The punishments for non-complying firms included: i) a freeze on firm's applications to import new foreign workers; ii) a freeze on firm's applications to renew residency cards (Iqama) for their

current foreign workers, which means these workers cannot transfer service to another sponsor; iii) excluding non-complying firms from competing for government tenders and to prohibit their access to government financial support; and iv) prohibiting firms to access government subsidies and facilities. The decree also establishes that some posts are to be filled by Saudi nationals only. These include: department staff, reception staff, government affairs (Muaqib) staff, cashiers, and security (guard) staff.

In addition, ministerial instructions restrict the presence of foreign workers in government departments. It limits periods of employment of foreign workers in the public sector to a maximum of ten years, and most contracts which reached this limit were terminated, with the sole exception of teachers and medical staff.

The sixth development plan, expects Saudization to cover around 62 percent of private and public posts over the period 1995-2000, and expects the private sector to restrict 72 percent of these posts to Saudis.

A. Why Saudization?

During the 1970s, particularly with the huge revenues from oil exploitation, the Saudi Government expanded its investment in public services and basic infrastructure projects. Its contribution to capital formation increased from one thousand million US dollars in 1970 to US\$ 9.9 thousand million dollars in 1995, with a maximum amount of \$ 44 thousand millions in 1991, during Iraq invasion to Kuwait. This was an important step in establishing the required agencies that could run and manage the development process, and setting up the basic infrastructure that connected the country's internal and external markets.

The Government provided better conditions of employment than the private sector to attract Saudi workers to join its service. Despite this, most Saudi workers did not consider these jobs sufficiently attractive compared to businesses, which, due to the huge oil wealth, secured better returns (Al-Khouli : 1985). But the decline in oil revenues, from US \$ 89.1 thousand millions in 1981 to less than half of this figure in 1985; then to US \$ 27 thousand millions in 1995 ,which slightly increased to US\$ 36.5 thousand million in 1997, once again Saudi workers began to seek work in the public sector services. A comparison of growth rate of Saudi employees in the public sector over two year periods, shows a significant change from 6.6 percent over the period 1971/72 to 1981/82, to 9 percent for the next ten

years, and to 6.3 percent over the next four years of the period from 1991/92 to 1994/95.

Saudi employees in the Government departments made up about 79 percent of the total employees in 1994/95, while they were not more than 10 percent in the private sector. The improvement of conditions in the public sector, in addition to easy access to employment for Saudis in the public sector, create over-manning due to the limited number of public units, and creates disguised unemployment. This, together with Saudization and balance of payment deficits, represent a significant burden on the public budget which has been in deficit over the period 1981- 1998 with the sole exception of 1985. Traditionally the government manages the budget deficit by issuing development bonds and treasury bills which are purchased by the commercial banks. In 1998, the Pension Fund and GOSI were asked to finance a large portion of the deficit. In addition to the above instruments, the government is planning to launch a privatization programme that has started partially in the telecommunication services.

As a result, the government has restricted recruitment to the government service only to teachers and workers in the health agencies, and expects the private sector, which depends mainly on government contracts, to take the lead in the creation of new jobs and Saudization.

B. Effects of Saudization on Business

Saudization, as discussed above means the intervention of the government in the labour market. It is a policy not unlike government intervention aimed to impose a minimum wage policy. The replacement of non-Saudi by Saudi workers is expected to have some effects on the business sector, and particularly on small and medium enterprises. As Saudi counterparts are reluctant to work at the same wage rates of their non-Saudi workers, wage are expected to increase. In addition, joining the World Trade Organization (WTO) is expected to have some effects on the prices of imports (Alkswani:1998).

The effects are shown in Figure 1 below, illustrates labour force , demand and supply of import and domestic commodities . Labour force (E), combines supply of saudi workers who replaced foreign workers and the other foreign workers who are still in the labour market , i.e. who are not replaced .

New investments may flow to neighbouring countries, which have the same facilities provided for investors of GCC countries. The fall in revenues was the main factor affecting business in Medina which resulted in a decrease in consumption levels of both Saudi and non-Saudi after the application of the Saudization instructions in 1995. About 63 per cent of the interviewed firms, 206 firms, in this area considered that the application of Saudization had a negative effect on their business (Medina Chamber of Commerce: 1998).

C. Factors likely to constraint Saudization

The Sixth Development plan refers to constraints which may limit Saudization, Some recent research indicates these constraints may include the following:

Hours of work and the two shift system. In Saudi Arabia, a worker should work, as stated in the Labour Law, for 48 hours per week with a complete one day holiday. The practice in private firms, in contrast to the public sector, is for the working day to be divided to two shifts. Saudi workers dislike this regime. About 34 percent of male job seekers, among 413 Saudi workers interviewed, refused a job because of the two shifts work system (SCCI :1998). Another study showed that about 66 percent of job seekers, among 461 Saudi nationals interviewed, considered the two shifts system as main factor preventing them from entering into the private sector (Al –Gaith & Al –Maashouqi:1992).

Skills and Occupations. The strategy of human resource development in Saudi Arabia is based on education and training to provide the labour market with trained Saudi workers. Although great efforts have been made in this area there are still shortages in certain activities. This is due to two reasons: 1) the crowding of graduates in certain fields of study that are not responsive to demand conditions in the labour market as a result of traditional attitudes to education that emphasizes religious and general education rather than practical skills; and 2) social attitudes toward vocational training and manual work. Although there are many vocationally and technically trained Saudis, but they do not work in their field of specialization, because they despise manual works and prefer to work in managerial and office jobs. This creates shortages in various occupations that are prime targets for the replacement policy. Many firms face problems in finding experienced Saudi workers in certain occupations to replace foreign workers, (Medina Chamber of Commerce:1998).

Deficient of Work Ethics. Saudi workers have a weak attachment to the labour force,

and are less committed to work. This takes many forms such as work absenteeism or leaving before the working time is finished, or being late in coming to work. About 60 per cent of firms interviewed in the Medina area, considered the weak commitment of Saudi workers the main reason forcing them to refuse to employ Saudi persons.

Wage Differential. The sixth development plan mentions the preference of the private sector to employ non-Saudi workers in comparison with Saudi workers due to their lower wages. About 72 percent of Saudi male job seekers have refused a chance to work in the private sector , because of the low level of wages and 47 per cent of them refused such a chance due to poorer conditions by comparison to that of the public sector (SCCI:1998).

Job Creation Capacity in the Private Sector. It is expected that Saudization will increase operating cost of most Saudi firms. In addition, most of the private firms in GCC countries are reliant on Government contracts. This limits their capacity to absorb more Saudis, and it will lead to saturation of the employment of Saudi workers over a certain period. In particular, the overall employment growth rate decreased by between 5 to 6 percent during 1994-1996 (Medina Chamber of Commerce:1998).

This section has looked at Saudization. The attempt to increase the proportion of the labour force who are Saudi nationals. The policy has not been fully implemented due to the restrictions in the replacement of foreign workers with Saudi in the private sector , which prefers cheap , productive and skilled foreign workers

Conclusions

The paper has attempted to examine the structure of the labour market in Saudi Arabia and to explain factors influence carrying out Saudization labour policy , that aims to replace non-Saudi workers by their Saudi counterparts.

The paper concludes that since the early oil discovery in 1930s, Saudi Arabia has encouraged the importation of foreign workers, skilled and unskilled . This is because of labour shortages and the lack of experienced workers. With the start of the development plans of 1970s, the numbers of foreign workers started to increase gradually. They were about 57 per cent of the labour force in 1992 and about 90 per cent of the labour force in the

private sector in 1995, as estimated by the Sixth Development Plan.

The paper shows the trends in education and training. It concludes that, Saudi workers are influenced by entrenched social attitudes against manual work, which produces a crowding of students in general secondary school level, and low numbers in the technical and vocational education. This is also the case with university graduates, of which 80 per cent in 1995 were in humanities studies and particularly arts and theology departments.

The paper discusses the effects produced by the inequal application of the labour regulations between Saudi and non-Saudi workers . While employment regulations differ in both the private and public sectors, they generally discriminate against foreign workers in terms of pay, pension, and mobility. This creates a monopsony situation in the labour market and distorts its functioning .

The paper concludes that saudization, i.e. The replacement of foreign workers by natives, is an outcome of the pluralistic attitudes that prevail in the area, centered around citizenship. It is a policy much like the intervention of the government to impose minimum wage policy. Saudization will force the private sector firms to pay higher wages for Saudi workers with less training, experience, and lower productivity than foreign workers. The paper concludes that Saudi workers prefer white-collar employment, while resisting manual work, and especially dirty and hazardous work. This presents a challenge to the Saudization policy. Moreover , higher labour costs due to this policy, and the expected consequences of Saudi Arabia 's impending membership of the World Trade Organization (WTO), are expected to raise the operating costs of the domestic producers and increase the flow of imports into the country.

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