

Saudi Labor Force: Challenges and Ambitions

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Abstract. This study aims to provide some background information on the efforts made towards the development of local manpower and replacement of foreign labor in Saudi Arabian society, especially during the last three decades of the 20th century by the end of the year 2000 A.D. The study adopted the exploratory method of a number of studies and efforts that have been made with regard to human resource development as well as the process of job replacement in Saudi society. The importance of the study is to draw attention to the fact that, despite the efforts and steps taken at the levels of education and training and the development of some job-placement policies and the quest to create career opportunities, there is still a need for further efforts for the development of local human resources and reducing dependence on foreign labor particularly in the private sector. The study adopts in addressing the subject, three axes. The first axis focuses on the growth of the labor force in Saudi Arabia and the efforts that have been made for its development and training to meet the local needs of labor market. The second axis explains the policy of Saudization (the process of increasing indigenous labor force participation in order to reduce dependence on foreign manpower) and its applications in Saudi Arabia in recent years. Attention is paid to some obstacles that still face the government in achieving its goals of Saudization of the labor force, particularly in the private sector. The third axis discusses the labor market in Saudi Arabia, in relation to the country's economic structure, labor market structure and labor market policies and challenges. The study concludes by drawing attention to the importance of harmonization between the educational system and the actual requirements of the labor market, and that the massive unplanned capital expenditure on education will bear fruit only through rehabilitation and preparation of qualitative not only quantitative human resources, and corresponds to the creation of job opportunities to accommodate the tremendous increase of graduates and applicants for employment. On the other hand, the interest in qualifying the labor force has begun to outstrip domestic policy change to the economics of globalization; since that human resources

must be prepared not only at the level of domestic competition, but at the level of international competition, which is needed to look for the 21st century.

Introduction

Saudi Arabian society has been through an unusual transformation from the simple nomad life to the present modern life it's living today. This transformation required a lot of efforts, plans and policies during the last century to form a man who is changeable and participating in changing. The efforts for developing and preparing the human resources come at the head of these efforts, in particular, since the establishment of the five year plans in the year 1370 A.H. accordant to 1970 A.D. Since these efforts were the first step to create opportunities for the participation of Saudis in the development process, the current study tries – as a reference study – to uncover some of these efforts, followed by the period of discovering and exporting oil in the Saudi Arabian society in the last 20th century by the end of the year 2000 A.D.

This study examines three critical issues by using the exploratory method of a number of studies and efforts that have been made with regard to human resources development as well as the process of job replacement in Saudi society. The first issue is studying the growth of labor force of the Saudi Arabian society and efforts conducted to enhance it theoretically and practically. The second issue is discussing the Saudization process, as it is the plans and policies taken to reduce the dependency on the foreign labor and replacing it with the local one in addition to discussing some of the obstructions which have faced these governmental policies in accordance of Saudizing jobs, especially in the private sector. The third issue is related to the labor market and its relation to the economic structure – in general – in Saudi society, and on the other hand, mentioning the structuring of the labor market itself along with its related policies and challenges. The study tries as it concludes to diagnose these efforts by its actual role in enhancing human resources and the ability to represent the future in spite of the increasing population and the changing into the global economy.

1. Saudi Arabia's Labor Force

Labor force, a concept variously defined in different countries and by different authorities such as the International labor Office (ILO,

1967), is most generally accepted to encompass all those who are employed by others or work for themselves and those who are seeking employment. According to Marshall (Oxford Dictionary of Sociology, 1998), this concept refers to the number of people (over 16 or the working age 16-65 years) in work and unemployment and those seeking work, as a proportion of a specified baseline population. In Saudi Arabia, the concept of labor force, before the discovery of oil, was limited to application and did not exhibit a clear division of classes, as was the case in Western societies. The great majority of the people were engaged in traditional types of employment or self-employment. The physical environment of the country reinforced the social and economic patterns of unsettled nomadic life for the majority of the population. There was no strong central government, no complex division of labor or large economic institutions, and no formation of a working class dependent on wage labor. However, with the discovery of oil in 1938, Saudi economic activities faced the dawn of economic transformation that would make the oil industry the real backbone of the Saudi economic system. In Saudi Arabia, the labor force has a number of unique aspects. The most obvious difference between Saudi Arabia's workforce and that of most other countries is the relative size of the expatriate labor force. There are roughly as many foreigners as natives working in Saudi Arabia. Second, the number of women in the labor force is quite small, compared to the labor forces of the rest of the world. A third difference is the rate at which the domestic labor force is being transformed, a phenomenon which reflects overall economic changes (Johany, 1986).

1.1 Growth of the Labor Force

The beginning of the formation of the waged labor force was with Arabian-American Oil Company (ARAMCO), the first employer to plant the seeds of a new working class in Saudi Arabia; and Saudi manpower amounted the majority of ARAMCO'S total employees (see Table 1). Although these figures represented a tiny fraction of the total Saudi population, the effect of the oil industry was of enough magnitude to attract many Saudis, not only for oil production, but also for other related job activities, such as railroad construction, services, and small manufacturing. However, the discovery of oil, initially, had a minimal effect on society as a whole, so that during the decades of the 1940s through 1960s the Saudi labor force was limited to oil production and

other minor economic activities (Alogla, 1990). During the early years of planned development, it was apparent that the Kingdom's population and the size of its national work force were insufficient to meet the total manpower requirements of the rapidly developing economy. Recognizing this constraint, the development strategy in the early phase opted for importing as many expatriate workers as were needed to facilitate achievement of the Kingdom's development objectives.

Table 1. Saudi Arabian operations manpower history in Saudi Aramco.

| Year | Saudi | % | Non-Saudi | % | Total |
|------|---------|------|-----------|------|-------|
| 1935 | 115 | 81.6 | 26 | 18.4 | 141 |
| 1940 | 2668 | 87.5 | 382 | 12.5 | 3050 |
| 1945 | 8037 | 71.5 | 3159 | 28.5 | 11196 |
| 1950 | 10767 | 63.8 | 6099 | 36.2 | 16866 |
| 1955 | 13371 | 65.1 | 7163 | 34.9 | 20534 |
| 1987 | *33046 | 76.0 | 10435 | 24.0 | 43481 |
| 2000 | **54501 | 85% | 8175 | 15% | 62676 |

Source: Viola, J. W. 1985. Human Resources Development in Saudi Arabia. P.7.

*: ARAMCO Annual Reports 1987:28.

** : Central Department of Statistics, Annual Economic Survey of Establishment N40, 2004.

However, the decade of 1970s can be looked upon as an unusual era in the history of Saudi Arabia. In it, the implementation of the first two five-year development plans paved the road for a new epoch of industrialization. In this decade, the foundations of the economic infrastructure were established, such as home and building construction, roads, airports, petrochemical industries, energy production, communication networks, water distillation, schools, and hospitals. The full range of human needs was addressed in these development plans. Two factors made these achievements possible: capital from the Saudi government and a labor force imported from outside the country. Thereafter, reliance on imported foreign labor increased dramatically every year. As a result, from the beginning of the Second Plan (1975-1980) to the end of the Third Plan (1980-1985), over 3 million expatriate workers were added to the labor force (Alogla, 1990). In the 1970s the majority of foreign workers in Saudi Arabia were from regional Arab countries. Quite a large proportion were Yemenis, who were working in Saudi Arabia without work permits until 1990, when a large group of them decided to leave

Saudi Arabia before and during Iraq's invasion of Kuwait in 1991. Smaller, but quite important, groups are from other Arab countries: Egyptians, Palestinians, Lebanese and Syrians. These are disproportionately represented in the professions.

The proportion of Arab immigrant labor in Saudi Arabia, however, has declined steadily since the end of the 1970s. Several reasons have been given for this:

- The rapid increase in the rate of development after 1973 found the traditional Arab-exporting countries increasingly unable to send more workers abroad. Jordan, for instance, had nearly one-third of its labor force outside the country. Thus, Saudi employers were increasingly obliged to look elsewhere. Shortage of available Arab labor forced the Saudis to tap other labor pools.
- The massive increase in the number of foreign workers made the Saudis apprehensive over the political and social implications stemming from the imbalance between indigenous and foreign labor. The creation of a fast-growing population of effectively second-class citizens (the Saudis are extremely reluctant to grant citizenship to immigrants) was felt to be too risky in terms of possible social strains and political turbulence.
- The Saudis apparently felt that immigrants from radicalized Arab states presented a particular menace – hence the Saudi preference in the latter half of the 1970s for immigrants effectively isolated from the indigenous population by their inability to speak Arabic or engage in religious activities (Birks and Sinclair, 1980).
- Increasingly, the Saudis adopted the practice of controlled labor contracts whereby foreign workers are brought into the Kingdom for stipulated periods of time on specific jobs, under block visas. Many Yemenis have entered on this basis and are increasing as a percentage of the foreign work force.
- The substitution of Asians for Arab workers has been the major change in geographic composition since 1975, with the proportion of immigrant laborers brought in from the Far East and the Indian subcontinent growing from less than 5 percent in 1975 to 30 percent by 1980 (Loony, 1982).

The largest group (non-Arab workers) in Saudi Arabia is from the Indian subcontinent: Pakistanis, Indians, Bangladeshis and Sri Lankans.

In addition to these are numerous Koreans, Thais, and Filipinos, and a lesser but substantial number of Japanese, Taiwanese and Westerners. Each group tends to provide a disproportionate amount of a specific type of labor. Koreans are almost entirely construction workers. Westerners are found almost entirely at management levels. Thais, Filipinos, and those from the Indian subcontinent are concentrated in service industries (a large number of Pakistanis and Indians hold clerical positions). The composition of the expatriate work force is subject to rapid change in Saudi Arabia. For example, the first Korean workers arrived in 1975, and the first Sri Lankans in 1977 (Johany, 1986).

In line with the overall development of the country, the size of the labor force (Saudi & Non-Saudi) has for a long time maintained a steady increase. In 1975, for example, the civilian labor force amounted to 1.923m (million). This number had reached 3.2m. in 1980 and 4.34 in 1985. The total civilian employment in 1990 reached about 5.772m., and by 1995 had increased to 5.98m. (see Table 2).

Table 2. Saudi and non-Saudi labor force increase, 1975-1995 (thousands of workers).

| | 1975 | % | 1980 | % | 1985 | % | 1990 | % | 1995 | % | 2000 | % |
|-----------|--------|------|--------|------|--------|------|--------|------|--------|------|--------|------|
| Saudi | 1439.7 | 74.8 | 1818.7 | 47.3 | 1621.1 | 37.3 | 1923.2 | 33.3 | 2357.1 | 39.4 | 3172.9 | 44.2 |
| Non-Saudi | 484.0 | 25.2 | 1694 | 52.7 | 2721 | 62.7 | 3848.6 | 66.7 | 3628.2 | 60.6 | 4003.4 | 56.8 |
| Total | 1923.7 | 100 | 3512.7 | 100 | 4342.1 | 100 | 5771.8 | 100 | 5985.3 | 100 | 7176.3 | 100 |

Source: 1. GCC Secretariat-General (1987), Economic Review, p. 248.

2. Ministry of Planning (1996). Sixth Development Plan (1995-2000), Saudi Arabia.

* Ministry of Planning (2001), Saudi Arabia.

In the same year, the Ministry of Interior estimated the expatriate population at 6.2m, drawn from different countries (the Middle East and North Africa: Year Book, 1998). According to the official statistics by the Ministry of Planning, the total of manpower in Saudi Arabia reached 7.2 by the end of 2000, Saudis constituting 44.2% (3,12 millions) and non-Saudi Arabia workforce 56.8% (4.02 millions). It is worth mentioning that according to a Manpower Council report, the money registered as transferred by expatriates has reached SR15 billion each year during the 1990s, which represented 11% of GDP. This makes the Kingdom come as the second country after USA with regard to the size

of transferred money by expatriates (AlMobarak, 2003). This may reflect the improved training and education of the Saudi labor force as well as the authorities' efforts to encourage hiring of Saudis by the private sector.

Despite the massive efforts made, during the Development Plans (1970-2000), to increase the supply of qualified Saudis through rapid expansion of the education and training systems, and although the size of the foreign labor force participation in the government sector has significantly diminished, Saudi Arabia still relies to a large extent on a foreign work force which is of higher quality than its Saudi counterpart.

One of the problems hindering the Saudi labor force is the limited participation of women in all economic sectors. In fact, deliberate planning freezes and limits this huge social resource. Shabon (1981:55) sums up how the Saudi economic system ignores women and restricts their role: *"In spite of the increasing demand for labor, about one half of the Saudi population does not participate in economic activities outside the home. The female labor force in urban areas contributes only about one percent to the economy. This small percentage works only in social institutions. Rural women participate more in providing a livelihood for the family, but their low productivity reduces their share in the total national product"*.

The percentage of working females within the total working population is shown in Table 3 as 5.3% compared to 54.4% for males (Ministry of Planning, 1990). One of the Fifth Development Plans (1990-1995) objectives was to increase Saudi participation in the private sector and to increase the participation of women in the work force. This is illustrated in Table 3. Total Saudi employment was projected to increase by 4.2% per year, while non-Saudi employment was expected to decline at a 1.2% annual rate. Employment growth for Saudi women was targeted to be higher than for Saudi men. Although total employment was targeted to increase by 213,500, the Saudi labor force was projected to grow by 433,900 over the Fifth Plan period. Therefore, a reduction of 220,400 in the size of the non-Saudi labor force was expected.

Table 3. Saudi working age population and civilian labor force.

| | | 1989/90 | 1994/95 | Net increase 1990-1995 | Average annual growth rate (%) |
|--|------------|---------|---------|---------------------------|-----------------------------------|
| Working age population (000) Saudis. | Males | 3223.7 | 3937.6 | 713.9 | 4.1 |
| | Females | 3200.5 | 3909.1 | 708.6 | 4.1 |
| | Total | 6424.2 | 7846.7 | 1422.5 | 4.1 |
| Labor force participation rate (%). | Males | 54.4 | 54.4 | | |
| | Females | 5.3 | 5.5 | | |
| | Total | 29.9 | 30.0 | | |
| Civilian labor force (000) | Males | 1754.3 | 2142.1 | 387.8 | 4.1 |
| | Females | 168.9 | 215.0 | 46.1 | 4.9 |
| | Sub-total | | | | |
| | Saudi | 1923.2 | 2357.1 | 433.9 | 4.2 |
| | Non-Saudis | 3848.6 | 3628.2 | -220.4 | -1.2 |
| | Total | 5771.8 | 5985.3 | 213.5 | 1.25 |

Source: Ministry of Planning (1990). Fifth Development Plan, (1990-1995) Saudi Arabia.

The majority of working women at the present time work in the public sector, mainly for two particular organizations, the General Presidency for Girls' Education (Ministry of Education) and the Ministry of Labor and Social Affairs (Ministry of Labor). The total segregation between the sexes makes it virtually impossible for women to find suitable jobs in the wider community. Women's participation in private sector organizations is almost non-existent.

In sum, there are several reasons for the number of expatriate workers in Saudi Arabia. First, their increase was due to the growth of the private sector. Second, the Saudi population is relatively small, but more importantly many Saudis are inadequately trained for the existing work demands. Third, employment of women is severely restricted because of traditional customs and religious beliefs. Fourth, many types of work are negatively valued. Fifth, the population is mainly young; around 60% of Riyadh's population, for instance, are under 20 years of age in 1991 (Riyadh Development Authority, 1992).

1.2 Development of Manpower

Planning is an essential task, especially for the underdeveloped countries or those in the process of developing, such as Saudi Arabia. Economic planning cannot reach its objectives unless combined with planning for manpower development that can meet the requirement of economic development. It is useless to establish factories without preparing the manpower to operate them efficiently. Economists realized long ago that development must mean a combination of economic and social change along with manpower and educational planning. Many believe that human capital is often the most beneficial kind and that it provides the best return of any investment. Regarding this belief, Harbison and Myers (1965, p. ix) state:

“The wealth of a country is based upon its power to develop and to effectively utilize the innate capacity of its people. The economic development of nations, therefore, is ultimately the result of human effort...Indeed, if a country is unable to develop its human resources, it cannot build anything else, whether it be a modern political system, a sense of national unity, or a prosperous economy”. Harbison and Myers (1965, p. v) also stress the importance of manpower: *“The building of modern nations depends upon the development of people and the organization of human activity. Capital, natural resources, foreign and international trade, of course play important roles in economic growth; but none is more important than manpower”.*

Palmer (1950) discussed this problem and points out that these states depend heavily on exporting raw materials, but they do not possess the productive capacity of industrialized states. Consequently, they are dependent upon foreign labor; and they are not developing a truly diversified economy based upon the skills of their own subjects. The International Labor Organization (ILO, 1965, p. vii) stressed the fact that the human factor is the most important element affecting the development of society. It states that: *“There is great insight into the importance of the human factor in development, and the urgent need to mobilize human resources. Economic growth in the advanced countries appears to be attributable in larger part than was previously supposed to human skills rather than to capital. Moreover, the widening of man’s*

horizons through education and training, and the lifting of his vitality through better health are not only essential pre-conditions for development, they are also among its major objectives”.

Not so long ago, manpower in Saudi Arabia was characterized by being largely expatriate, even in the government sector. Since the emergence of the country the government has recruited as many Saudis as possible, but Saudi manpower was not qualified enough to assume a new structured life style to meet the requirements of government as well as private employment, which demanded discipline and education. King Faisal was once reported as saying, “*While we can import factories and equipment, our real needs are to train the local human element to use this equipment*” (Middle East Economic Consultants, 1975 p. 33). Since then, development economists have repeatedly stressed that the key to Saudi Arabia’s economic future is the development of its manpower resources.

The efforts made by Saudi planners to prepare the manpower required to meet the development prerogatives, both social and economic, have not been limited to formal education but were also deployed for the promotion of those training programmes most relevant to the Saudi needs. To meet the manpower needs of the Kingdom in the long term and the increasing demand for higher education, sixteen universities and colleges have been established, offering subjects from engineering, medicine, and geology to social and Islamic Studies. The Sixth Development Plan (1995-2000) targets for female and male graduates in general education and graduates at bachelor degree level by university are presented in Tables 4 & 5.

Table 4. Sixth plan targets for male and female graduates in general education (thousands).

| Stage | 1994 | | 1995 | | 1996 | | 1997 | | 1998 | | 1999 | | Total | |
|-----------------|------|-----|------|-----|------|-----|------|-----|------|-----|------|-----|-------|-----|
| | M | F | M | F | M | F | M | F | M | F | M | F | M | F |
| Elementary | 141 | 135 | 144 | 143 | 148 | 152 | 150 | 163 | 153 | 171 | 157 | 181 | 893 | 945 |
| Intermediate | 89 | 79 | 92 | 89 | 95 | 95 | 97 | 105 | 101 | 113 | 104 | 125 | 578 | 606 |
| Secondary | 40 | 51 | 43 | 55 | 47 | 59 | 51 | 64 | 56 | 70 | 61 | 77 | 298 | 376 |
| Teacher College | 4 | 6 | 5 | 7 | 5 | 8 | 6 | 10 | 6 | 11 | 6 | 12 | 32 | 54 |

Source: Ministry of Planning, Kingdom of Saudi Arabia, 1995.

Table 5. Sixth plan targets: higher education new entrants and graduates at bachelor level by university (1995-1999).

| University | New entrants | | | Graduates | | |
|---------------------------|--------------|---------|---------|-----------|--------|---------|
| | Male | Female | Total | Male | Female | Total |
| <i>King Saud U.</i> | 26,000 | 14,595 | 40,595 | 21,880 | 9,730 | 31,610 |
| <i>King Abdulaziz U.</i> | 27,176 | 17,936 | 45,112 | 15,002 | 12,970 | 27,972 |
| <i>King Faisal U.</i> | 6,833 | 4,538 | 11,371 | 3,418 | 3,129 | 6,547 |
| <i>King Fahd U.</i> | 6,000 | ----- | 6,000 | 3,322 | ----- | 3,322 |
| <i>Islamic University</i> | 5,990 | ----- | 5,990 | 3,034 | ----- | 3,034 |
| <i>Imam University</i> | 33,280 | 7,285 | 40,565 | 24,515 | 4,085 | 28,600 |
| <i>Umm AL- Qura U.</i> | 10,825 | 9,195 | 20,020 | 6,945 | 6,340 | 13,285 |
| <i>Girls' Colleges</i> | ----- | 75,396 | 75,396 | ----- | 50,885 | 50,885 |
| Total | 116,104 | 128,945 | 245,049 | 79,382 | 87,139 | 166,521 |

Source: Ministry of Planning, Sixth Development Pan (1995-2000), Saudi Arabia.

Substantial progress has also been made in the field of technical education and vocational training through the establishment of well-equipped and properly-staffed training institutes. The formation of a skilled Saudi labor force raises productivity levels and thereby makes important contribution to economic development. The Saudi government has exerted tremendous efforts to expand the Kingdom's vocational training system, both quantitatively and qualitatively, to meet the challenges of economic development and technological change.

Beginning with the First Five Year Development Plan in 1970, the Kingdom started building specialized schools to meet the growing need for highly skilled technical manpower in all of the nation's expanding industries. Several programs have been put in place at government and private levels to train young people with aptitudes for work in specific trades or occupations. Both the Ministry of Education and the Ministry of labor and Social Affairs have allocated significant resources to these efforts, as have regional chambers of commerce and industry, as well as the General Organization for Technical Education and Vocational Training (GOTEVT).

The GOTEVT (1989) stated that the general objectives of technical education are to:

- “Prepare the individual for performing the required activities in the industrial, commercial and agricultural fields as well as the

services that help to develop national economy through working in public establishments, ministries, private sectors companies, or free work.

- Provide the individual with the Islamic and general culture that helps to form a high moral standard, strong belief, and the ability of thinking and mutual understanding as well as adaptation to different conditions.
- Offer a broad scientific base for technical manpower to increase individual response to rapid technological progress.
- Allow every person the opportunity to learn a trade or to continue training according to his mental and physical abilities. This is known as “open training” scale.
- Develop technicians’ skills and upgrade their vocational knowledge continuously.
- Emphasize the dignity of manual work and its role in the development of society.
- Stop the internal migration to big cities by spreading vocational training centers throughout the Kingdom” (pp: 34-35).

In the following sections a brief description of higher and secondary technical education, and vocational training provided by the GOTEVT will be presented.

1.3 Higher and Secondary Technical Education

1.3.1 Higher Technical Education

The General Organization for Technical and Vocational Training currently provides higher technical education in its Junior Colleges of Technology for both industrial and commercial studies. In the past, this type of education was offered in two separate establishments, that is, in the two Higher Institutes for Financial and Commercial Studies established in 1975 in Riyadh and 1977 in Jeddah – for commercial and general secondary school graduates – and in the Higher Institute which was established in 1972 in Riyadh, for industrial and general secondary (science section) graduates. In 1982, the Junior Colleges of Technology were established in Riyadh. In 1993 the Higher Institutes for Financial and Commercial Studies were merged with the Junior Colleges of Technology to be under one establishment (Ministry of Planning, 1994).

The aim of this type of education is to prepare highly skilled technical manpower to meet the growing demands of this type of expertise, and also to create new opportunities for higher technical education in the Kingdom (GOTEVT, 1993). The duration of study in higher technical education is two years, and it is based on the credit system in which the student should complete 90 credits, spread over four semesters. At the end of every semester there is a theoretical examination. In addition, there is a practical examination at the end of each year. The study in these colleges consists of lectures, laboratory work, and workshop training. There are six colleges of this kind all over the Kingdom. They offer courses in various fields of specializations such as mechanical technology, electrical technology, electronic technology, oil and minerals technology, auto/engine technology, computer accounting, and office management (GOTEVT, 1990 & 1993).

1.3.2 Secondary Technical Education

1.3.2.1 Secondary Industrial Education

The aim of industrial education is to prepare the required manpower to perform different industrial jobs in the fields of mechanical engineering, electricity, industrial electronics, radio and television, and petrochemicals. Industrial education was established long before the establishment of the GOTEVT. It has passed through many stages of development and changes. The first school of this type was established in the city of Jeddah by King Abdulaziz in 1949 under the name *The Industrial School*. The duration of study was three years, for graduates of primary school age 12 to 14 (GOTEVT, 1989). As a result of the poor performance of its students, the duration of study was extended to five years. In 1962 the Industrial School was changed to an *Intermediate Industrial School* for the same age group. Between 1949 and 1973 nine intermediate industrial schools were established in different parts of Saudi Arabia. A few years later these schools were upgraded to secondary level. By the end of 2000 there were eight technical industrial secondary institutes all over the Kingdom. They admit students who hold the Intermediate Education Certificate (age 16 +). The duration of study is three years after which a Diploma of Industrial Secondary Institutes is awarded. During this period trainees can choose from a variety of specializations in these institutes which cover most of the technical

sections, such as Mechanics, Electricity, Auto Mechanics, and Electronics. Upon completion, students are allowed to continue their industrial studies in the Higher Colleges of Technology.

Statistics show that the performance of industrial education is not impressive in respect of the number of graduates. Comparing the total number of industrial education applicants during the period 1969 to 1992 to the number of graduates in the same period, there was a large number of dropouts. Of 80,370 students who joined industrial education, only 17,995 of them (24.4%) graduated (Murtada, 1996).

1.3.2.2 Secondary Commercial Education

Commercial education in Saudi Arabia aims at preparing and qualifying manpower to perform office and commercial jobs and organize related production and distribution, business, finance and commercial work for both the public and private sectors. It started with four intermediate commercial schools in 1960 for primary graduates (age 12-14) (Ministry of Education, 1986; GOTEVT, 1993). Later on, these Institutes were upgraded to the secondary level and their number was increased. During the period 1972-1979 fifteen commercial secondary institutes were established the number has remained the same to the present. These institutes offer a variety of subjects, such as accounting and bookkeeping; administration, secretarial correspondence and typing; banking transactions; purchasing and warehousing; sale and purchase transactions; collection and cash affairs and computers. They admit students who hold the Intermediate Education Certificate or equivalent (age 16+). The duration of study is three years. Secondary commercial education offers training in morning and evening sessions for employed persons and others who want to upgrade their qualifications and experience. Those who successfully complete the study are awarded the Secondary Commercial Education Certificate.

Statistics indicate that the performance of commercial education in respect of students / graduates ratios is as weak as that of industrial education. The total number of applicants who joined the secondary commercial schools in the period 1981 to 1992 was 83,336, while the number of graduates was only 19,732 students, *i.e.* 23.7% (Mortada, 1996).

1.3.2.3 Secondary Agricultural Education

Agricultural education aims at preparing trained manpower to meet agricultural needs and to develop this field, especially in the rural areas. It is worth noting that the Kingdom of Saudi Arabia was not an agricultural country. Nevertheless in 1955 efforts were made to establish the first agricultural school in the city of Al Kharj. At that time the Ministry of Agriculture was responsible for supervising this school. In 1957, this responsibility was transferred to the Ministry of Education. This school was abolished later because of the small number of applicants. In 1960 the Ministry of Education established five Intermediate Agricultural Schools in different parts of Saudi Arabia. Those schools were also closed because of the small number of applicants and the weak performance of their graduates. In 1977 the Model Technical Agricultural Institute was established in Buraidah and in 1992 another institute was established in the Wadi Adwaser area. The duration of study in these institutes is three years after the General Intermediate Education. Those who successfully complete the course are awarded the Agricultural Secondary Education Diploma (GOTEVT, 1993). The agricultural Institutes provide training in three fields: Agricultural production (plant production, plant protection, water, irrigation and drainage, crops, bee keeping); Animal husbandry (animal production, milk production, poultry, meat production, animal health, animal breeding), and Agricultural machinery (agricultural industries, horticulture, agricultural mechanization, agricultural guidance, and architectural drawing) (GOTEVT, 1989 & 1993).

1.3.2.4 Secondary Technical Supervisors Institutes

The need for more houses and roads became urgent in the 1970s. Due to the oil boom, many expatriates from all over the world came to Saudi on a contractual basis to implement certain development projects: these numbers had to be accommodated and fed. Therefore, the concentration of government planning on infrastructure became necessary. As a result the Secondary Technical Supervisors Institutes became the primary supplier of required manpower. The aim was to supply the market with national qualified workers in the field of survey, construction, and environment (GOTEVT, 1993). The first institute of this kind was established in 1964 in Riyadh, another was established in

Abha in 1977 and finally a third one was established in Tabuk in 1983. These Institutes were called Technical Assistants Institutes, and the duration of study then was two years. After the establishment of GOTEVT, the duration of study was extended in 1985 to three years for General Intermediate Certificate holders; the graduates are awarded the Secondary Technical Supervisors Institute Certificate. There are at present five such institutes. They provide training courses on surveying, construction, architectural drawing, road construction, water supply, sanitary work and hydrology.

The total number of students who joined this type of education in the period between 1981 to 1992 was 8,787 students, but only 2,295 of them graduated *i.e.* 26%. (Murtada, 1996).

1.4 Vocational Training

Vocational training is the other part of training provided by the General Organization for Technical Education and Vocational Training. It was designed for adults to acquire different vocational skills and it did not require a specific type of qualification. Vocational training centers admit those who have completed at least the fifth grade of primary education with minimum age of 17 and maximum of 42 years. The courses in the vocational training centers are offered in the morning and evening sessions. The duration of the morning courses is 14-18 months, according to the nature of the course. The evening courses last for six continuous months. The main objectives of this kind of training are to:

- Qualify workers to meet industrial requirements.
- Upgrade the level of ordinary workers to technical workers depending on their trades for their living.
- Provide work opportunities necessary for people not having scientific qualifications, or those who completed limited stage of education.
- Provide opportunities for employees to join vocational training centers.
- Create moral and religious values in the trainees, and encourage them to respect manual and vocational work.
- Meet industry requirements for qualified manpower. (GOTEVT, 1989: 86).

Vocational training centers offer morning and evening courses which care for a variety of trades and crafts such as carpentry, painting, plumbing, welding, aluminum work, commercial and office work, diesel, and sheet metals. Vocational Training is delivered by three departments: Vocational Training, Pre-vocational Training and On-the-Job Training. Due to the short length of the study, this provision enjoys a large number of both applicants and graduates. The number of trainees who joined the morning and evening programs in the period 1981 to 1992 was 109,519, while the number of graduates was an impressive 77,134 graduates, *i.e.* 70.4% (Murtada, 1996).

In order to maintain an instructional staff with the highest qualifications and extensive practical backgrounds, GOTEVT created the Instructors' Training Institute and Institutional Materials Development Centre (ITI/IMDC). ITI/IMDC seeks to improve the standard of instructors' teaching at all vocational training centers, provide new Saudi instructors for all vocational programs, develop existing and new training materials, prepare training programs and undertake research and studies which will improve the curricula. Technical and vocational training also extends to Saudi women. The Presidency of Girls' Education (PGE) has established 31 schools for such training in the Kingdom. During 1995, enrolment at these schools was 3,514 students. Graduates of these programs go into both private and public sector jobs in hospitals, schools, banks run by women and other businesses (GOTEVT, 1995).

The Sixth Development Plan (1995-2000), according to one of its targets which is to "reduce the number of low-skilled workers and increase the capability of the Saudi labor force in order to realize productivity improvements"(Ministry of Planning, 1995) – will continue to enhance and broaden the main objectives of the previous development plans and meet Saudi Arabia's needs of manpower. Table (6) shows the sixth development plan targets for graduates of technical education during the plan period 1994-1999.

Table 6. Sixth plan growth targets for graduates of technical education.

| Field of study | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | Total |
|---------------------------------|-------|-------|-------|--------|--------|--------|--------|
| Technical College | 1,945 | 2,147 | 2,362 | 2,653 | 2,985 | 3,362 | 15,454 |
| Industrial Secondary Schools | 2,100 | 2,740 | 2,952 | 3,189 | 3,457 | 3,758 | 18,196 |
| Commercial Secondary Schools | 2,250 | 2,927 | 3,220 | 3,610 | 4,150 | 4,943 | 21,100 |
| Agricultural Secondary Schools | 226 | 303 | 373 | 446 | 521 | 598 | 2,467 |
| Technical Supervisors Institute | 476 | 506 | 576 | 682 | 843 | 1,101 | 4,184 |
| Electronics Institute | ---- | ----- | 180 | 200 | 230 | 260 | 870 |
| Total | 6,997 | 8,623 | 9,663 | 10,780 | 12,186 | 14,022 | 62,271 |

Source: Ministry of Planning, The Sixth Development Plan. (1995-2000).

In any case, after these efforts, it should be that the national manpower is relatively better educated and trained to the degree that it can run the country's economy efficiently enough by the end of 2000. Nevertheless, and according to many indicators, Saudi Arabia still relies to a large extent on a foreign workforce which is of higher quality than their Saudi counterparts. In particular, Saudi employment is severely limited in the private sector. The next section will discuss Saudi Arabia's efforts to replace non-Saudi manpower by Saudis, "*Saudization*".

2. Saudization

The term "*Saudization*" came into being as a new economic term in the late 1970s. Viola (1986:77) points out that it means to nationalize some economic organizations, as well as to increase the indigenous labor force participation in the local productive market. Since Saudization represents new potential for personal economic advancement, Saudi Arabia's economic planners have made it a buzzword for the nation's human resource development. In theory, it identifies the replacement of expatriate labor with similarly skilled, trained, and highly educated Saudi nationals.

Besides the development of human capital, the Saudization policy included other aspects of development which were meant to nationalize some foreign firms in an indirect way. For example, the Arabian-American Oil Company (ARAMCO) was Saudized so that *“In 1973 the government of Saudi Arabia acquired 25% interest in crude oil concession rights, facilities and production, in 1976 increased to 60% and in 1980 to full 100%”*(Viola, 1985:33). The Third Development Plan (1980-1985) also increased chances for Saudi participation by stating: *“Priority in awarding contracts for projects will be given to Saudi contractors. When contracts are awarded to foreign contractors, they will have the stipulation that some of the work must be sub-contracted to Saudi companies”* (Third Plan: 86). Furthermore, a change was effected in the policy of the Saudi Government toward foreign banks. In the late 1970s, the government of Saudi Arabia started to Saudize the foreign banks by buying their financial assets and increasing the number of Saudi personnel in their operations (Mackey 1988:175).

As mentioned earlier, the First Development Plan (1970-1975) recognized the huge shortage of human resources needed to implement development plans. Similarly, it was indicated at the beginning of the Second Development Plan (1975-1980) that a great obstacle which might affect development in Saudi Arabia was the scarcity of Saudi human resources, in terms of both quantity and experience, and in both the public and private sectors. During this period of 1970-1980, the main aim of the government was to encourage Saudi graduates to join the public sector to meet the requirements of the population for administration services, education, health, *etc.* During that period, not only were graduates given jobs, but other incentives were also offered to all Saudis who participated in these jobs in the public sector.

The Kingdom's Third National Development Plan (1980-1985) emphasized this issue and pointed out the importance of Saudization for all economic sectors in the near future when it stated as one of its goals: *“adopting incisive manpower development policies with the objective of replacing foreign manpower with Saudis to the maximum possible extent, through increasing the number and the skills of the Saudi labor force and raising its productivity, both by greater efficiency within sectors and by intersectional mobility”*(Saudi Arabia, Third Plan: 17).

In the Third and Fourth Development plans (1980-1990), the government found that the number of graduates was starting to outstrip the capacity of the public sector, raising a new problem, that some well qualified Saudis could not find jobs in the public sector. At the same time, the private sector was occupied by a huge number of non-Saudis, as a result of the development situation of Saudi Arabia during the previous twenty years (1970-1990). Consequently, a new strategy was developed, to employ Saudis in the private sector by placing them in positions formerly held by non-Saudis or by creating new vacancies in the private sector.

As part of the nation's Saudization drive, regional chambers of commerce and industry participate in the training of the nation's work force. Through the offering of specialized training programs, regional chambers assist young Saudis in qualifying for jobs in the private sector that might have been beyond their reach without such instruction. Such programs last anywhere from one week to one year and include administrative, computer, language, and maintenance and repair courses.

The Jeddah Chamber of Commerce and Industry (JCCI), for example, holds more than 130 training courses and seminars each year at its training facility. Courses are targeted to cover all of the private sector's labor needs, including marketing, sales, maintenance, photography, customs clearance and navigation studies. Such courses are planned after considering the labor requirements of the private sector. JCCI has also established agreements with corporations whereby they will hire Saudis who have participated in the JCCI's training programs. In addition to the Ministries of Education and Labor, other government agencies have pursued programs that will increase the number of Saudi youth entering technical and commercial fields. The Ministry of Communications has a training program that has offered instruction for more than 20 years to young people seeking work in broadcast production (Saudi Embassy; USA, 1997).

In spite of these efforts, the achievement of Saudization still faces obstacles, especially in the private sector. For instance, in 1987 the total labor force in the private sector was 1,540,998 workers. Only 289,411 of these were Saudi, which means that there was only 18.8% indigenous participation in the private sector, while 81.2% of workers were non-Saudi (Riyadh Chamber of Commerce and Industries 1989).

According to the Fifth Development Plan (1990-1995), it was expected that there would be, during the five years, 354,400 new jobs, 96% of which would be in the private sector, and that 574,800 local employees would enter the work market during the plan period. Therefore, to find jobs for the local employees, concerted efforts were to be made by the private sector, not only by employing 354,400 in the new jobs which would become available, but also by placing another 220,400 local employees who could be entering the work market for the first time, in positions which used to be held by non-Saudis.

However, the aim of Saudization was very difficult to achieve as a result of a number of factors. For example, the wage and salary differential between Saudis and non-Saudis made employment of Saudis unattractive to private companies. Therefore, to ensure the employment of the expected number of Saudi employees, especially those lacking professional skills, measures were needed to decrease the differences in salaries to the level at which private sector companies would prefer the Saudi employees. Another factor was businessmen's expectation regarding the quality of the new Saudis entering the work market. They saw it as easier to employ non-Saudis not only because it was cheaper, but also because it was easier to find professional workers. Furthermore, despite the economic incentives which were provided by the development plans for young Saudis to learn special skills, they are still reluctant to take the initiative.

To encourage employment of Saudis, the government introduced several new policies in the Fifth Development Plan (1990-1995), including: replacing the focus on quantity in education (*i.e.* number of graduates) with emphasis on quality in education, establishing mechanisms for careers guidance, and encouraging links with industry and commerce, in an effort to tailor educational programs to employers' needs. Other measures taken during the Fifth Development Plan to help Saudis seeking jobs in the private sector included specifying the minimum number of Saudis who should be employed by the private sector, based on company size.

Research efforts were also directed toward Saudization. One such study was a research study made by the Chamber of Commerce in Riyadh (1989), which presented its findings in the national labor symposium. Another was that of Al-Nemer (1993). These studies

highlighted Saudi businessmen's preference for employing non-Saudis, and gave the following reasons:

- Foreign workers join the work directly, without need for any training program, because the companies do not sign contracts with such employees unless they already have the required qualifications, experience and skills. On the other hand, Saudi employees are rarely found to be ready to start work, which means the companies have to put them in a special training program which means that extra cost will be incurred if Saudis are employed.
- Foreign workers accept lower salaries than Saudis, because non-Saudis in general come from poor countries. In this regard, overseas workers' wages or salaries are 25%-50% of those which might be accepted by Saudi workers.
- Non-Saudi workers can work in any area within Saudi Arabia, according to the company's need, whereas Saudi workers are usually tied by family commitments to one area.
- There is a high turnover among Saudi labor, because they usually try to find better positions and higher salaries in other companies, whereas non-Saudi workers tend to stay in the same company, because they feel that they will benefit from the success of their companies and they do not want their contract to work in Saudi Arabia to be terminated.
- If companies are dissatisfied with non-Saudi employees, they can simply terminate their contracts, but Saudi employees can only be dismissed after lengthy procedures under the umbrella of the Saudi labor law.
- It is very easy for companies to find non-Saudis employees in other countries that have surplus labor.

In addition to the previous considerations, most Saudi employees do not favor private sector work for the following reasons:

- Working hours are comparatively long, with two periods of daily work, morning and afternoon or a shift system (eight hours during the 24 hours without break), and only one day off each week. The public sector offers more favorable conditions in this respect.

- Employees' promotion and the gradual increase of salaries and wages in the private sector is not mechanical, but is subject to employee appraisal and the economic situation of the company.
- Supervision of workers is stricter in the private sector, and there is less toleration of inactivity or negligence.

Saudization was a major aim of the Sixth Development Plan (1995-2000), and to encourage the private sector to generate more job opportunities for Saudis, around 95 percent of the net growth in aggregate employment was expected to occur in the private sector. On the other hand, employment growth in the public sector was to be limited to health and education.

The government urged the private sector to create 660,000 new jobs for Saudi citizens by the end of the decade. From the beginning of 1996 the government began to enforce quotas for the employment of Saudi citizens in various sectors of the economy, including some types of manual and clerical employment. The minimum Saudi element which the affected industries were required to employ varied from 5% to 40% of the company work-force. Local private sector employers held consultations in 1996 with a view to adopting standard contracts of employment and standard salary ranges for different occupations, the suggested minimum salaries for Saudi citizens being significantly higher than the suggested maximum salaries for expatriates doing similar work. At the end of 1996, government figures estimated the expatriate population to be 6.5m. Employment sectors targeted for Saudization in 1997 (including the shipping industry) employed 8% of the total labor force, where in 1996 only 2% of the work force were Saudis. The number of expatriates employed by the government in that year was 104,000 (including 51,000 in the health sector and 44,000 in education), compared with 119,500 in 1992 (Middle East & South Africa Year Book, 1999). It was expected that during the period 1995-2000 total civilian employment would increase from 6,867,700 in 1995 to 7,059,400 in 2000 (See Table 7).

Table 7. Civilian employment during (1995-2000).

| | Employment | | Net increase | |
|----------------|------------|---------|--------------|-----------|
| | 1995 | 2000 | Percentage | |
| | ('000) | ('000) | ('000) | Share – % |
| Private sector | 6,050.0 | 6,232.2 | 182.2 | 95.0 |
| Public sector | 817.7 | 827.2 | 9.5 | 5.0 |
| Total | 6,867.7 | 7,059.4 | 191.7 | 100 |

Source: Sixth Development Plan (1995-2000).

The net increase in employment during the period 1995-2000 was expected to be 182,200 workers in the private sector and 9,500 workers in the government sector, a total net increase of 191,700 workers. It was also expected that some 319,500 jobs in the government and private sectors would be Saudized during the period. One of the steps taken to achieve this goal was a decision (Decision 50, date 2/4/1415H, 1995) making it compulsory for private sector firms, which employ not less than 20 workers, to employ at least 5% of local labor. This decision comes into force according to the high decree (no. 7/5/4010 dated 20/3/1416H, 1996) (Al-Bugami, 1999).

In addition, a study has been carried out by the Economic Studies Centre sponsored by the Saudi Chambers of Commerce, which has recommended review and revision of university admissions polices and curricula, to ensure production of graduates possessing the skills required in private sector companies (SAIC, 1998).

3. Saudi Labor Market

As indicated previously, a distinctive feature of Saudi Arabia is the significant proportion of expatriate workers in the labor force and the segmentation of its labor market. Better educated nationals traditionally have been attracted to the government sector because of higher wages and generous benefits, early retirement with pension, and job security and social status associated with government employment. Private sector activity is heavily dependent on expatriate labor, which is readily available on the basis of fixed term, job-specific contracts under the sponsorship of nationals. Wages of expatriate workers are substantially

lower than those for nationals at similar skill levels, and there are no significant non-wages benefits in the private sector.

The labor market condition in Saudi Arabia is expected to tighten in the coming years, with a rapidly growing number of young, educated nationals entering the labor force at a time when the government can no longer act as employer of first and last resort. Budgetary considerations in Saudi Arabia are giving rise to a greater emphasis on private sector activity and employment for efficiency reasons. Indeed, labor market issues are clearly recognized as constituting pressing challenges for policymakers in the period ahead, especially in a global economy.

Accordingly, the Saudi government and the other Gulf Cooperation Council (GCC) governments have already embarked on formulating labor market strategies to create employment opportunities for nationals within a broader framework of fiscal consolidation and structural economic reforms. The policy instruments to achieve the employment objectives have included an array of measures affecting the quantity (quotas and employment targets), price (wage subsidies to private sector, government wage restraint, and fees and charges on foreign labor), as well as the quality (education and training) of labor.

The key challenge is to develop an effective strategy to increase the efficiency of the labor market and reduce its segmentation by relying more on market forces and less on mandatory employment policies, which could prove counter-productive in the long run and would raise labor costs (Sassanpour, 1998).

In this section, the structure of the Saudi labor market, labor market challenges, and labor market strategy are discussed. Before that, it is necessary to give an idea about the Saudi economic structure, in general, to illustrate the major factors influencing the Saudi labor market during the last three decades.

3.1 Saudi Economic Structure

The pace of economic activity and the labor intensity and efficiency of production processes largely influence employment. The endowment and the price of labor relative to other inputs (capital, natural resources, and land) determine the optimum mix between labor and other inputs. Some inputs are internationally mobile (capital, natural resources, and

labor); others are non-tradable (land). As such, labor market issues in Saudi Arabia would need to be viewed in the context of factor endowments and relative prices, and in relation to evolving structure and economic growth. A number of features and developments stand out:

- Saudi Arabia with the rest of the GCC countries have become major exporters of natural resources and capital, and major importers of merchandise goods and labor.
- The oil sector dominates the Saudi Arabia economy: oil gross domestic product (GDP) has a direct relation to oil production and prices, and non-oil GDP is greatly influenced by government expenditure, which itself is a function of oil revenue. Indeed, government expenditure policies have supported economic activity in the past, and the budget has been used as a vehicle to distribute the oil-export proceeds, either explicitly (*e.g.*, employment, wages, and benefits) or implicitly (free or below-cost provision of utilities, health, and education services).
- High oil prices in the 1970s and the early 1980s were associated with periods of rapid economic growth combined with large fiscal and external current account surpluses. This allowed Saudi Arabia to embark on ambitious investment programs to build up its physical and social infrastructure and diversify its production base. The service sector began to emerge as the main contributor to non-oil economic activity and as the principal source of new demand for labor. The shift in sector emphasis also implied a change in the composition of labor toward lower skill levels.
- Through the second half of the 1980s with the continued decrease of oil prices, economic condition weakened, and a large internal and external financial imbalance emerged, prompting the government to implement adjustment policies primarily involving substantial cuts in expenditure. From the mid-1990s, Saudi Arabia intensified and broadened its efforts to reduce its fiscal imbalance and promote private sector growth and employment creation. The expenditure rationalization policies had to consider not only the relative efficiency of expenditures, but also the social dimension of expenditures, with specific reference to employment, wages, and benefits in the public sector.
- Given the limited resource base of Saudi Arabia, economic growth required large imports of materials and labor. Changes in

the pace and composition of economic activity were reflected in the inflow of foreign labor. Expatriate workers comprise about 65-70 percent of the Saudi labor force (Nur, 1995).

Taken together, these factors have contributed to the current situation of the labor market and are defining the broad parameters for labor market issues and policies in the period ahead. In summary, an uncertain oil market outlook has underscored the importance of prudent macroeconomic policies and improved resources allocation to insulate the economies and support the growth of non-oil sector. Budgetary and efficiency considerations have also required a reassessment of government expenditure policies including those on wages and employment. At the same time, the consolidation of economic growth and shifts in the structure of production in favor of services have moderated the demand for labor, possibly with a bias against higher skill levels. The link between economic growth and employment generation probably has also weakened over the years due to efficiency gains, industrial development based on capital-intensive technologies, and structural shifts in the nature of dependency on expatriate labor. As a result, the demand for foreign labor appears to have become less sensitive to fluctuations in overall economic activity.

However, given the open economic systems of Saudi Arabia or GCC countries – as an economic unit –, the prices of foreign labor, capital, and natural resources are largely determined by international market conditions, but the price of domestic labor is, to a large extent, a policy variable and a social choice. This relative input price mix has created a bias against the use of national labor in Saudi Arabia and the GCC countries generally, especially, in the private sector (Al-Qudsi, 1997).

3.2 Saudi Labor Market Structure

3.2.1 Growth and Structure of Population and Labor Force

Over the past three decades, Saudi Arabia with the rest of the GCC countries as a group have recorded one of the highest rates of population growth in the world (averaging 5 percent a year during 1970-2000), reflecting the high rate of indigenous population growth as well as the large influx of expatriate workers. The rapid rate of growth of the national population is attributable to the high fertility rates in the GCC countries and significant advances in the areas of health and education.

The growth of the indigenous labor force has been also influenced by the population's young age profile (40 percent below the age of 15) and the low participation rate of nationals in the labor market (Table 8).

Table 8. GCC Countries: Population and labor force indicators.

| Year 1993-1995 | Bahrain | Kuwait | Oman | Qatar | S. A. | U.A.E | GCC |
|--------------------------------------|---------|--------|-------|-------|-------|-------|-------|
| Demographic Indicators | | | | | | | |
| Population (millions). | 0.58 | 1.66 | 2.20 | 0.64 | 18.98 | 2.46 | 26.52 |
| Age 0-14 (percent of total). | 35 | 35 | 46 | 30 | 44 | 29 | 41 |
| Age 15 and over (percent of total). | 65 | 65 | 54 | 70 | 56 | 71 | 59 |
| Population growth. | 3.6 | 5.4 | 5.1 | 6.4 | 4.1 | 5.7 | 4.4 |
| Population Gender ratio (men, women) | 57:43 | 56:44 | 53:47 | 63:37 | 55:45 | 63:37 | 56:44 |
| Age dependency ratio* | 0.6 | 0.6 | 1.0 | 0.5 | 0.9 | 0.5 | 0.8 |
| Urban population (percent of total) | 90 | 97 | 13 | 92 | 79 | 84 | 75 |
| Labor force Indicators | | | | | | | |
| Total labor force (millions) | 0.25 | 0.82 | 0.55 | 0.33 | 6.26 | 1.14 | 9.35 |
| Male (percent of total) | 82 | 73 | 85 | 88 | 88 | 89 | 86 |
| Female (percent of total) | 18 | 27 | 15 | 12 | 12 | 11 | 14 |
| Labor force growth (%average). | 2.3 | -1.6 | 5.2 | 3.9 | 3.3 | 3.9 | 3.0 |
| Participation rate (percent). | 44 | 49 | 25 | 52 | 33 | 46 | 35 |

Source: The World Bank, Social Indicators of Development, 1997.

*Population under the age of 15 and over the age of 65 as a share of the total working-age population.

The degree of labor market participation in GCC countries (35 percent) is lower than that of other countries at the same stage of economic development and with similar per capita income levels. This reflects a combination of demographic, economic, social, and cultural factors (see Loony 1994 & Sassanpour, 1998). First, a relatively large proportion of the population is below working age. Second, there is a predominance of expatriate labor. The rapid economic growth opened the door to employment opportunities. With this came a demand for labor that the native population was unable (or unwilling) to meet, leaving the majority of jobs in many sectors to be filled by expatriate labor. Third, there are incentives to delay entry into the labor market and continue education, at least to university: education is free; a university degree significantly increases the chances of securing a government job or other highly paid job; and there is a social premium associated with university education. Fourth, the rate of illiteracy in the local population is high. Fifth, a low retirement age in the public sector – typically about 45 years

with 20 years of service – allows early exit from the labor force (although many retirees establish private businesses and remain active). Sixth, many national workers refuse to undertake any kind of manual and vocational work. Managerial, professional, and government jobs are considered more prestigious. Finally, the female participation rate in the GCC countries is low, despite the growing number of educated and qualified women (see Table 8).

3.2.2 Legal Framework of Labor Market

The legal framework and institutional regulations governing the labor market in Saudi Arabia has many common features. There is no minimum wage legislation and no tradition of collective bargaining in the public or private sector. Moreover, in some sectors, there is still no legal provision in the existing labor laws to allow the establishment of social security pension schemes in the private sector. Other legal provisions, however, protect the rights of workers, and there are laws against child labor and against discrimination on the basis of race, religion and gender (Al-Qudsi, 1997). In Saudi Arabia, the right of every citizen to work is formalized by legislation. Regulations and conditions governing downsizing and staff retrenchment are practiced less widely, particularly in the government sector where job security for nationals is a key feature. In the private sector, as mentioned earlier, the difficulty of dismissing a national increases the attractiveness of hiring expatriate workers on a fixed-term contract.

The employment of expatriate workers in Saudi Arabia is based on renewable sponsorship visas and work permits. Visas and job-specific work permits are issued once the sponsor demonstrates the need and guarantees employment for the duration of the contract. Sponsorships are either transferable only subject to restrictive terms and conditions or not transferable at all. Generally, there are no strict numerical quotas for hiring foreign workers – either by activity, nationality, or qualifications – but sometimes the government has limited the issue of visas to specific sectors or the number of workers sponsored by small businesses. The terms and conditions of employment, including compensation packages, are typically agreed bilaterally and specified in binding contracts. There are indicative sector-specific wage guidelines for hiring expatriates, but for all practical purposes, wages are based on market conditions.

Expatriate workers have recourse to local legal channels in the event of contract dispute, on the same basis as nationals (Sassanpour, 1998).

3.2.3 *Labor Market Segmentation*

The labor market in Saudi Arabia is segmented along several dimensions: between public and private sector, between nationals and non-nationals, and between skilled and unskilled labor. The segmentation of the labor market reflects a number of factors. Perhaps most important among them is the significant disparity in wage and non-wage benefits between the public and private sector, even for comparable skills, and between nationals and non-nationals employed in the same sector. Nationals and non-nationals of similar qualifications typically follow different career ladders, and certain positions are reserved for nationals even in the private sector. There are also marked dissimilarities in educational background, training, and qualifications between the national and non-national labor.

Direct comparisons between private sector and public sector wages are difficult because of very dissimilar market structures between the two sectors and the lack of relevant data. It is hardly disputed, however, that wages in the government sector are substantially higher than those in the private sector for comparable job content and skills. Moreover, in many cases, government workers receive guaranteed annual salary increments, and promotion through the public sector grade structure is virtually guaranteed for nationals. Even within the government sector, nationals command higher wages for similar grades, enter employment at higher levels, and move up the ladder faster. Wages for expatriate workers in the private and public sectors seem to be much more comparable across skill levels. Saudi Arabia's open border policy with regard to foreign labor has ensured the availability of a sufficient supply of labor at competitive wages at all skill levels (Al-Qudsi, 1996).

In addition to high wages, some of Saudi Arabian employees in the public sector benefit from generous family, housing, and transportation allowances, which together provide a significant income supplement. Also there are incentives to continue training and education while on the job. Benefit packages in the private sector are generally less attractive, particularly at lower skill levels. Typical employment contracts in the private sector provide no family allowances and there are no provisions

for formal training. Housing allowances or free accommodation allowances supplement the basic pay.

Market segmentation also arises from mismatch between the qualifications of new entrants to the labor market and the requirement of the private sector even at the upper end of the market and at higher skill levels. Consequently, highly specialized technical positions, as well as low-skilled menial jobs, are filled by expatriate workers, whereas nationals tend to gravitate toward administrative positions (ESCWA, 1995).

3.2.4 Employment Conditions and Prospects

Unemployment among nationals in Saudi Arabia is still largely of a voluntary nature. Those registered as unemployed include recent university graduates seeking government employment; job holders searching better jobs; and cultural factors and family ties limiting labor mobility, particularly among women. Nevertheless, in some cases, unemployment is emerging as more immediate economic and social concern, and the government is facing the challenge of creating opportunities for productive employment for its nationals (ESCWA, 1995).

In Saudi Arabia where unemployment is a relatively recent phenomenon, the evolving supply-demand dynamics of the labor market suggest further tightening. More specifically, the rapidly growing supply of labor – reflecting both the high population growth and the rising participation rates – is outpacing the demand for labor, which is moderating due to slower economic activity and shifts in the structure of production. The situation is further complicated by the growing mismatch between the educational and technical qualifications of the new entrants and the skill requirements of the market.

On the demand side, the government – the major employment outlets in the past – can no longer act as employer of first and last resort for efficiency reasons and because of the need to trim the high government wage bill. Also, given the traditionally strong link between public spending and domestic economic activity in the GCC countries, government expenditure restraint is affecting labor demand. At the same time, the private sector has not been able to pick up the slack because of labor market rigidities (El-Erian, 1997).

3.3 Labor Market Policies and Challenges

3.3.1 Current Policy Approach

The prospects of tighter labor market conditions have already prompted a policy response in Saudi Arabia to facilitate the absorption of a large number of nationals expected to enter the labor force. The *Sixth Development Plan* (1995-2000) was aimed to create 319,500 jobs and reduce the number of non-Saudi workers by an average of 1.5 percent a year through a combination of incentives and targets, including financial support to firms committed to training nationals; minimum targets for employment of Saudis; restrictions on employment of skilled and semiskilled workers; and a national information campaign. In April 1995, all private sector establishments with more than 20 employees were required to increase their Saudi workforce by no less than 5 percent annually and a ban was placed on hiring non-Saudis in certain job categories (see also sections 1.1 and 1.2).

However, these policies have many common features. Most importantly, labor market policies are formulated within a broader framework of government expenditure containment and structural reforms aimed at increasing the economy's resilience to adverse oil market development and enhancing efficiency by creating a more conducive environment for private sector activity. With the recognition that in the period ahead, the responsibility for economic growth and job creation will primarily rest with the private sector, policies are being defined in Saudi Arabia to facilitate the employment of nationals and increase labor market flexibility.

The policy instruments to achieve the employment objective have included measures that affect the quantity, price, and quality of labor. Measures influencing the quantity of labor include quotas and targets on employment of nationals and the regulation of the foreign labor force through administration means. The relative prices of national and foreign labor are being influenced by government wage policy, direct wage subsidies to the private sector, and fees and charges on foreign labor. At the same time, the quality of national labor is being upgraded by proper education and training. Moreover, measures are being implemented to increase market efficiency by facilitating labor mobility in the private sector.

3.3.2 Labor Market Strategy

Policymakers in Saudi Arabia recognize the importance of sustained economic growth for generating employment opportunities. Growth and development strategies are being formulated consistent with the country's comparative advantages and resource constraints, and policies currently stress the role of the private sector as the principal source of employment creation in the future. Linkages between the labor market and private sector activity run in both directions: a more efficient labor market would contribute to economic growth, which would in turn support job creation. Consequently, broadening the role of the private sector would also need to consider policies that would involve transfer of responsibility between the private and public sectors, including those related to deregulation and privatization.

Labor market measures already adopted or being considered in Saudi Arabia range from market-based strategies (e.g., wage and employment restraint, increasing labor mobility) to mandatory and administrative policies (e.g., quotas on employment of nationals, market regulation through work permits). In between there is a mix of other measures (e.g., taxation of foreign labor, direct employment subsidies) intended to achieve these objectives. An effective strategy to reduce labor market segmentation and improve market efficiency would need to consider (1) determining wages and benefits on the basis of market conditions; (2) minimizing market distortions; (3) limiting mandatory employment policies; and (4) improving human capital (Sassanpour, 1996).

A menu of mutually consistent and reinforcing options to achieve these objectives would include the following:

- *Terminating the policy of guaranteed government employment to nationals.* A commitment to provide gainful employment opportunities for nationals, should not be interpreted as a policy of guaranteed government employment. Reducing total government employment in a phased manner through attrition, elimination of vacancies, and trimming redundant workers would send a clear signal that the government can no longer be viewed as a source of permanent employment. Over time, this would reshape the expectations of nationals, alter their educational objectives and priorities and, together with measures to reduce

relative wage and benefit disparities, encourage them to seek employment in the private sector.

- *Reducing disparities in incentives between public and private sector.* In principle, wages in all sectors and activities should reflect market conditions and the scarcity value of the labor, and the incentives associated with allowances and benefit packages should be equivalent across sectors.
- *Phasing out mandatory employment quotas for nationals.* Establishing employment targets for nationals in relation to the total labor force or for specific sectors and activities would provide useful indicative guides for government's labor replacement policy, but mandatory quotas could be counterproductive in the long run in the absence of downward flexibility of wages.
- *Facilitating labor mobility across sectors and activities.* The existing system of hiring expatriate workers under the sponsorship of nationals has two major shortcomings: first, it creates rent-seeking opportunities, which could be easily exploited by potential sponsors; and second, it provides no or, in some cases, only limited scope for moving between sponsors and jobs. Allowing expatriate labor to move between sponsors and jobs would increase the efficiency of the labor market by channeling labor to its most productive uses.
- *Financial incentives to private sector employers for hiring nationals.* As an inducement for hiring nationals, consideration is being given to providing wage subsidies to private sector employers, typically on a declining scale to be phased out over relatively short period of time. Such direct incentives aim to close the gap between the public and private sector wages without significantly increasing the wage cost of the employer, and to finance on- the-job training. Direct wage subsidies may offer a strong and immediate incentive for hiring nationals – particularly if there are employment quotas in effect – but would be potentially costly and difficult to monitor. Moreover, they would not guarantee employment at the end of the subsidy period and are subject to misuse. From a practical point of view, it would probably be more efficient for the government to fund internships and on-the-job training organized and conducted by potential

- private sector employers, without any direct linkages to salaries and employment.
- *Reorienting education and training programs.* Labor market policies need to reinforce efforts to enhance human capital development through proper education and training programs geared to the future job requirements of the economy. Specifically, policies should stress vocational and technical training to respond to the skill levels. To be effective, national training programs require close co-ordination between the government and employers in the private sector with respect to the goals, management, and financing of training (see The World Bank, 1995).
 - *Creating an information bank on job seekers.* Some government agencies (usually Ministries of Labor and Civil Service) maintain a registry of national job seekers and attempt to match them with vacancies in the government sector. The private sector typically relies on market information network to advertise its vacancies and meet its labor demand. Other government agencies (usually ministries of interior and immigration authorities) maintain information on expatriate workers on the basis of visas, work permits, and sponsors. One of the problems contributing to the segmentation of the labor market is the insufficient information flow between the different labor market sectors. As such, the availability of up-to-date and complete information on job seekers and potential employers in the public and private sector would be an important element of an efficient labor market clearing system. A national data bank could be created with the purpose of matching national job seekers with the available positions in the private sector (see Riyadh Chamber of Commerce and Industries 1989, Feiler 1991, Nur 1995, & El-Erian, 1997).

Conclusion

It can be argued that much of the huge public funding which has gone into education in Saudi Arabia has been wasted if the new graduates, especially in general education, cannot find jobs. In the 1970s, local labor was comparatively scarce and expensive, and a substantial proportion of the workforce consisted of expatriate migrant labor. With population increases and oil price reductions, the situation in Saudi

Arabia has changed in the 1980s and 1990s, but, a large number of workers are still required in the vocational and industrial labor market.

In fact, there is a major employment problem across the Middle East, even in Saudi Arabia as one of the oil-exporting states of the Arabian Gulf. Jobs are scarce, not only for primary and secondary school leavers, but also for university graduates. The more highly qualified the job seeker, the more difficult it is to secure employment. Much of the unemployment is disguised, the costs not borne by the state but by the job seeker's family. There is no system for unemployment insurance or state benefits for the unemployed in the Middle East, including Saudi Arabia, and in such circumstances there is no point in registering as unemployed. Unemployment statistics which are published in the region are therefore unreliable; even those reported to the International Labor Organization (ILO). Increasingly, it is the difficulty of finding a job which induces the young to stay on in education (Wilson, 1995).

However, the continuing rapid rates of population growth with absence of rational planning for the future pose a real challenge for employment generation. And, there are many indications that, the ability of governments to generate employment has reached its limits in most of the Middle East, including GCC, countries.

Another challenge is that the local labor market needs to be seen in relation to international trends. Work and workers have been subjected to a number of trends, like globalization, which is not new but deepening. One aspect of globalization giving rise to concern is that an increasing proportion of the world labor force is engaged in activities that are linked to international trade and capital flows. This is largely a corollary of the growth in world trade and investment flows. The higher proportion of world output that is now internationally traded, the increasing flows of foreign direct investment, and the increase in cross-border production networks all imply that a higher proportion of the world labor force is affected by, and linked through, international economic relationships. The growing exchange of labor services that is effected through trade, investment flows and the international subcontracting of production is forging closer links between labor markets. *“Consider, for example, a British entrepreneur who hires an Italian company to design a new line of clothing, then has those designs sent for production in southern China, and has a shipping company in Hong Kong send the finished product for*

sale in the United States, without the entrepreneur or any worker having to cross a national border. This example involves the labor services of workers in five countries being exchanged" (Bloom & Brender, 1993: 4).

The emergence of a global labor market wherein "*the world has become a huge bazaar with nations peddling their workforce in competition against one another, offering the lowest price for doing business*" (Donahue, 1994: 47). Whether or not so starkly put, increasing economic competition that affects a growing number of workers across the world has been perceived as the most problematic implication of these developments.

In summation, there is a qualitative change in the global economic environment affecting workers across the world. It is therefore important to consider the policy implications of the development during this time and the future. A key implication for the developing countries, like Saudi Arabia, is that there is now a great need to supplement national employment and labor policies with co-operative action at the GCC countries and international level to safeguard basic labor standards in the face of growing globalization.

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قوة العمل في المجتمع العربي السعودي: تحديات وطموحات

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المستخلص. تهدف هذه الدراسة إلى تقديم خلفية عن بعض الجهود التي بذلت لتنمية وتطوير القوى العاملة المحلية، وإحلالها محل العمالة الوافدة في المجتمع العربي السعودي، وخاصة خلال العقود الثلاثة الأخيرة من القرن العشرين الميلادي. ولعل أهمية الدراسة هنا تكمن في لفت الانتباه إلى أنه بالرغم مما بذل من خطوات على المستويين التعليمي والتدريبي، ووضع بعض سياسات الإحلال الوظيفي، والسعي لخلق فرص وظيفية؛ إلا أن الحاجة لا زالت قائمة إلى المزيد من الجهود لتنمية الموارد البشرية المحلية، وتقليص الاعتماد على العمالة الوافدة، وبالذات في القطاع الخاص. وقد اعتمدت الدراسة في تناولها للموضوع على ثلاثة محاور: المحور الأول يتركز على قوة العمل ونموها في المجتمع السعودي والجهود التي بذلت لتنميتها وتدريبها لتلبية الاحتياجات المحلية من القوى العاملة. المحور الثاني يتعلق بعملية السعودية، وهي ما تبذله الدولة من خطط وسياسات الإحلال الوظيفي للمواطنين القادرين على العمل محل العمالة الوافدة، وكذلك المعوقات التي تقف إزاء هذه السياسات في إنجازها لأهدافها. والمحور الثالث يتناول سوق العمل السعودي وبنائه وأهم العوامل المؤثرة والمشكلة له؛ وخاصة علاقة سوق العمل بالبناء

الاقتصادي الكلي للمجتمع السعودي، وبعض ما يتعلق بسوق العمل السعودي من سياسات، وما يواجهه من تحديات. وقد حاولت الدراسة في خاتمتها - بناء على عدد من المؤشرات التي تم استعراضها- التنبيه إلى أهمية الموازنة بين مخرجات التعليم وبين المتطلبات الفعلية لسوق العمل، وإن الإنفاق الهائل وغير المخطط على التعليم لن يؤولي ثماره إلا من خلال التأهيل والإعداد الكيفي لا الكمي للموارد البشرية، وأن يقابل كذلك بإيجاد فرص وظيفية تستوعب الزيادة الهائلة من المتعلمين والطلابين لفرص العمل.. هذا من جانب، والجانب الآخر.. إن الاهتمام بقوة العمل وتأهيلها بدأ يتجاوز السياسات المحلية مع التحول إلى اقتصاديات العولمة؛ بمعنى إن الموارد البشرية يجب إعدادها ليس على مستوى المنافسة المحلية، بل على مستوى المنافسة العالمية، وهو ما يتطلبه التطور للقرن الواحد والعشرين.