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# The Socio-Political Background and Stakes of 'Saudizing' the Workforce in Saudi Arabia: the Nitaqat Policy

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# The Socio-Political Background and Stakes of ‘Saudizing’ the Workforce in Saudi Arabia: the Nitaqat Policy

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**Abstract:** The paper addresses the historical and institutional background of labour management policies in Saudi Arabia. It envisages it as a long-term, structural impediment to the successful and rapid implementation of Saudization (localisation) of the labour force in the Kingdom. The paper thus emphasises the socio-political stakes and challenges to localisation of the labour force and, more generally, economic and labour reform in the Gulf States. Since the onset of the Arab uprisings, however, unemployment among Saudis, and especially women, has become a burning political issue. Governmental actors had no choice but to attempt to regain control over the economy and the management of the labour market. In September 2011, in spite of a spurt in foreign labour recruitment since the mid-2000s, a voluntary policy called “Nitaqat” aiming to “Saudize” the Kingdom’s workforce was enacted. This paper reviews its characteristics and points to its all-encompassing design as it addresses the socio-political context of Saudization and therefore is more likely to have a lasting effect than previous workforce localisation initiatives.

**Keywords:** Saudi Arabia, Foreign Population, National Population, National and Foreign Labour, Policy, Unemployment, Statistics, Saudization, Irregular Migration, Amnesty, Deportation, Citizenship.

## Introduction

The Nitaqat campaign for the Saudization<sup>1</sup> of the workforce was launched mid-2011. This programme is the latest of many initiatives aiming to replace foreign workers in the private sector with Saudis, previously largely accomplished through various employment quota targets.<sup>2</sup> Such past policies have met with little success, and many studies have provided explanations for the failure of these initiatives.<sup>3</sup> In marked contrast with previous labour-indigenisation endeavours, the “Nitaqat” (“ranges” or “zones”) policy endows new Saudization measures with exceptional urgency. The govern-

ment's approach to the issue, indeed, shows extreme voluntarism. Moreover, it combines incentives and rewards as well as sectorial quota rules with price-oriented tools (subsidies and taxes). Above all, it is a very wide-ranging policy, which also addresses some socio-political features of labour market management specific to Saudi Arabia (and to other GCC countries) such as the sponsorship issue. Existing assessments of Nitaqat and its outcomes concentrate on the economic aspects of the policy.<sup>4</sup> Indeed, the Saudization issue (and that of localisation of the workforce in the GCC states in general) is most often taken as solely an economic issue. Similarly, Saudization (and localisation) policies, and the explanations given for their failures, are most often viewed or studied only from the economic point of view. Therefore, reasons for the repeated failures of earlier policies, and Nitaqat's potential input in enticing local workers to the private sector are hard to capture.

In order to propose an explanation for the persistent difficulties encountered by policy-makers in localising the private sector's workforce in Saudi Arabia, the paper resituates the issue in a wider perspective that includes the political stakes of labour and socio-economic segmentation between nationals and foreign citizens. Moreover, the paper emphasizes Nitaqat's socio-political ambition beyond that of reforming the Saudi economy. First, the paper identifies and highlights the background, long-term socio-political factors that constrained the implementation of previous Saudization policies. Among these factors is the embedding of the dependency on foreign labour and sponsorship (kafala) in the Kingdom's political history, which endows attempts to regulate foreign labour inflows with high political stakes. A second set of long-term challenges to rapid Saudization of the labour force are of a demographic nature: the increasing numbers of new applicants to the labour market every year and the low, yet regularly increasing levels of economic participation of Saudi women. The third section of the paper describes shorter-term issues stemming from these structural factors that compelled the regime to take drastic action to address the mounting claims for better redistribution of resources voiced during the Arab uprisings. This context emphasised the necessity for the Saudi state to regain control over the management of workforce to face international commitments to migrants' rights and non-discrimination, to fight unemployment, especially among women, and to accommodate rising numbers of young highly educated Saudis. The fourth section focuses on the specifics of the Nitaqat programme and the extent to which Nitaqat-led overhauling of the Saudi labour market will address the previously mentioned socio-political challenges to Saudization. The first results of the programme, in addition to those of the irregular workers' amnesty period and crackdown campaign conducted during 2013, show mixed results in terms of replacement of the foreign workforce by locals. As regards the labour recruitment decision-making process, however, the programme had important consequences. The paper thus concludes that beyond the issue of economic reform attached to Nitaqat lies an ambition of deep social and political reform in the Kingdom.

## Socio-political Obstacles to Saudization Initiatives

### *Dependency on Foreign Labour, Its History and Characteristics*

The presence of numerous foreign labourers in the Gulf States' labour markets, which spurred labour nationalisation policies such as Nitaqat, and policies applied to them are rooted in the political history of these countries. As stated by Secombe and Lawless,

While international labor flows were considerably accelerated by the events of the 1970s, the region’s dependence on foreign workers dates from the first oil-induced economic boom which followed the initial discovery of oil on the Arabian shore of the Gulf in the 1930s.<sup>5</sup>

Oil was first discovered in Saudi Arabia in the early 1930s. Elsewhere in the region, the British rulers and British oil companies received concessions from local Sheikhs to exploit the oil reserves and organize workers’ recruitment: the workforce was recruited from Western countries, Iran, Iraq, and the Indian subcontinent. In Saudi Arabia, by contrast, American companies (CASOC – later Aramco – and the Standard Oil Company of California [SOCAL]) had an exclusive concession over oil fields in Al-Hasa in the eastern region. From the onset, in the concession agreements, King Abdul Aziz Ibn Saud imposed provisions for Saudi workers to be employed in priority, and the employment of foreign workers was subject to prior Saudi government approval.<sup>6</sup> In 1949, for instance, Aramco employed 10,000 Saudi workers, of which 1,600 were skilled or semi-skilled. Ten years later, in 1959, 11,682 of the 16,000 employees were Saudi nationals, making up 66 per cent of the qualified personnel. Saudi Arabia thus witnessed the emergence of a local proletariat that conducted strikes and labour protests during the 1950s to obtain better material conditions and social packages than expatriates.<sup>7</sup> Indeed, the Italian and Eritrean labourers recruited by Aramco as well as labourers of other nationalities, among which were some Indians working for other companies, also had to resort to strikes to protest their appalling living conditions.<sup>8</sup> After the 1948 Arab-Israeli War, the recruitment patterns increasingly shifted towards Arab workers, including Palestinians, to meet work force needs. This first phase of the onset of oil exploitation was thus characterised by the progressive fostering of a workers’ movement, whose nationalist claims were channelled through demands for preferential employment. Beyond the issue of labour, therefore, lies the issue of nation-building: in Saudi Arabia, like elsewhere in the Arab Gulf, the nation-building process spurred the need to define who would be entitled to a share of the oil “rent”<sup>9</sup> hence shaping the “nationals” as opposed to the “foreigners.” Political allegiance to the rulers was negotiated for in return for redistribution of the oil wealth, which conditioned citizenship and marked the onset of the rentier “social contract.”<sup>10</sup> In the Kingdom, the dependency on foreign labourers is thus not only economic (performing specialized economic tasks), it is also has a political aspect: the presence of foreign nationals and their subordination to citizens in terms of rights associated with citizenship (including benefitting from the oil wealth) actually enhances the nationals’ privileged status.

The dependency on foreign labour grew tremendously after the October 1973 war, which triggered a four-fold increase in oil prices. The phenomenal increase in the Gulf States’ incomes spurred large-scale construction, industrial, and infrastructural projects. The demand for migrant labour rose, and they performed an increasing part of the productive work over the years. The benefits of these productive activities as well as the oil rent itself were transformed into material wealth and welfare packages for nationals – which led to the emergence of a class of “white collar,” well-paid but unproductive state employees – in return for citizens’ political allegiance. This second period of the “oil boom” achieved the formation of “dual labour markets.” The supremacy of nationals over non-nationals in the economy was viewed by Gulf citizens as essential for the reproduction of the fragile rentier social contracts binding them to their rulers, but this also led to the formation of “dual societies.” The benefits of citizenship could only be enhanced by the political distinction between citizens and non-citizens based on descent (*ius sanguinis*). The Gulf countries therefore do not conceive of themselves as immigration countries that

would allow long-term settlement, and family reunion and citizenship acquisition are not an issue. As temporary contractual labourers, expatriates are expected to leave upon the termination of their employment contracts, and this explains the skewed demographic structure (mostly men of working age) of migrant communities in the region.

### *Sponsorship and the “Privatization” of Labour*

The Gulf States’ migration policies which forbid non-workers’ entry and long-term settlement are different from guest workers programmes, which were/are overlooked by states. The Kafala (sponsorship)<sup>11</sup> institution, which is instrumental in subordinating expatriates to Gulf nationals, actually delegates to citizens the responsibility for controlling and regulating the presence and activities of foreigners on the national territory, everywhere else a state prerogative.<sup>12</sup> In the Gulf countries, a sponsor (kafeel), a placement agency, a company/institution, or any individual under the condition that he or she is a citizen of the given GCC country issues the employment contract. The system requires the local employer to bear full economic, social, and legal responsibility for the employee during the contract period. In return, the kafeel has the upper hand on salary and work conditions, and movements within and outside the country (symbolically, the sponsor often retains the worker’s passport).<sup>13</sup> Until recently, as explained previously, switching sponsors was also impossible without a “no-objection certificate” from the first sponsor.

For these reasons, the kafala underlies the formation of the “dual labour markets” characterizing Gulf countries: the impossibility to switch kafeel bars expatriates from professional competition and upscale mobility, i.e., from a real labour “market.” The sponsorship system, which delegates to citizens the responsibility for controlling and regulating the presence and activities of foreigners on the national territory, thus also reproduces the socio-political “structural dependence”<sup>14</sup> of the foreign worker vis-à-vis Saudi (and other Gulf countries’) citizens. This “privatization” of foreign recruitment not only allows “keeping migrant workers at check.”<sup>15</sup> It also makes the kafeel an intermediary between the foreign worker or investor, the receiving country’s society, and the state. The sponsorship system thus holds a structural role in the definition and reproduction of citizenship and the rentier social contract in the Gulf. Probably as a response to citizenship claims, which erupted in the 1950s among Saudi workers, the kafala became formalized and appeared, for example, in Saudi Arabia’s 1952 Residency Law as a mandatory prerequisite for every foreign temporary resident. Thus, sponsorship’s high political stakes explains the reluctance of regimes to repeal it, and more generally, to strongly intervene in the management of the foreign workforce.

### *The Issue of Foreign Labour’s Management*

The sponsorship system benefits the citizens economically in an indirect way by transferring oil revenues to nationals. Traditionally, and until the early 2000s in Saudi Arabia, every citizen was entitled to a certain amount of work visas, depending on his/her social influence; sometimes, these could number thousands.<sup>16</sup> The assumption was that the kafeel would employ the expatriates he/she sponsors. Sponsors were therefore economic agents, earning a living from the import of workforce. However, by facilitating the process of importing work force, the kafala contributed to pushing up the foreign labourers’

population. Indeed, sponsors having a personal economic interest in bringing more expatriates into the country contributed to disconnecting the management of the workforce from the dynamics of supply and demand.

Moreover, the trade of visas, now a matter of legal procedure in Saudi Arabia, also sustained high numbers of expatriates. In some cases, the prospective sponsor would grant the expatriate a work visa but leave the person responsible for finding employment once he/she arrived in the Kingdom and would then either sell his sponsorship rights to another employer<sup>17</sup> or expect from the worker/ business person a regular fee, a share of benefits, or a participation in the latter’s activities. In 2004, the then Saudi Minister of Labour Dr. Ghazi Al-Gosaibi acknowledged that 70 percent of visas issued were actually sold on the black market.

However, a careful planning of human resources in Saudi Arabia is also hampered by other political factors. Business elites, for instance, have their own agenda as regards supply of workers; moreover, they have the socio-political agency necessary to resist governmental attempts to regulate the labour market. The state-supportive bureaucracy, which emerged during the boom years of the 1970s, has been siding with the strong business class created through the distribution of contracts and investment incentives to allies of the ruling families operating from Chambers of Commerce (of whom many are from the Nejd region) to persistently oppose any reform of the economy.<sup>18</sup> After the mid-1980s and the “bust” years of falling oil prices, reform measures taken by the state had repeatedly to be withdrawn, and neither limitation of labour imports nor Saudization measures could be implemented.<sup>19</sup>

Nevertheless as Gwenn Okruhlik (1999) suggested, the business classes in the Gulf States cannot be characterised either by their so-called “rentier mentalities” or by some speculative orientation of private investors in the region. In fact, the nature of the rentier state itself, fuelled by the distribution of resources and assets along personal and patronage lines, makes a confidence-based and predictable business environment unlikely; it thus forbids long-term planning and development. This feeling of insecurity is reflected in the movement of workers’ stocks and flows: Birks, Seccombe, and Sinclair (1986) noticed that a drop in new work permit issues rapidly followed cuts in government expenditures. However, renewal of permits simultaneously increased, “a reflection of labour-hoarding by some employers” (p. 810). This suggests that the feeling of insecurity of business owners leads to under-employment of foreign labourers. They are kept in reserve until economic recovery for fear of drastic shifts in the labour supply policies, known to depend greatly on political decisions.<sup>20</sup> Added to the ease of entry and sojourn in the Kingdom (many foreign pilgrims could overstay their Hajj and Umrah visas while other migrants enter illegally, especially through the 1,800-km-long and porous border with Yemen), this created large pools of irregular workers, thus cheap and easily available. The scale of the 2013 “correction campaign,” which led to the departure of more than one million expatriates and five million cases of status correction,<sup>21</sup> is a measure of the magnitude of the problem; after the campaign, estimates of irregular workers and sojourners in the range of five million circulated in the Saudi press.

The socio-political context of migration and population (non-)management also explains why until the 2000s available data on Saudi Arabia population was scarce, scattered, and of questionable reliability.<sup>22</sup>

## Challenges to Saudizing the Workforce

### *The Enduring Demographic Pressure on the Labour Market*

So far we have reviewed factors explaining the structural difficulties and socio-political stakes of enforcing Saudization and sponsorship reform measures under governmental control. Against this backdrop, we now move to a major long-term structural issue that explains why labour and economic reform is urgent in Saudi Arabia: the high demographic growth rates of the Saudi population.

Indeed, available data, though scarce, indicate that the rate of growth of the Saudi population in the mid-1970s was around 4.2 per cent per year. This was due to high levels of fertility (natural increase), since naturalisations were few and accounted for no more than 0.03 per cent of the increase.<sup>23</sup> In 1987, the Gulf Child Health Survey estimated the Saudi TFR at 6.5 children per woman.<sup>24</sup> The policies governing population growth were pro-natalist in effect: oil wealth catered generously for the needs of large families and high fertility rates were promoted by traditional and religious sectors of society.<sup>25</sup>

**Table 1: Some indicators of Saudi fertility (2004–2013)**

	<b>Total Fertility Rates (children per women)</b>	<b>Live births</b>
<b>2004</b>	3.60	474,932
<b>2005</b>	3.53	482,252
<b>2006</b>	3.46	488,980
<b>2007</b>	3.39	495,063
<b>2008</b>	3.31	499,095
<b>2009</b>	3.24	503,689
<b>2010</b>	3.17	507,079
<b>2011</b>	3.10	510,495
<b>2012</b>	3.03	n.a.
<b>2013</b>	2.96	n.a.

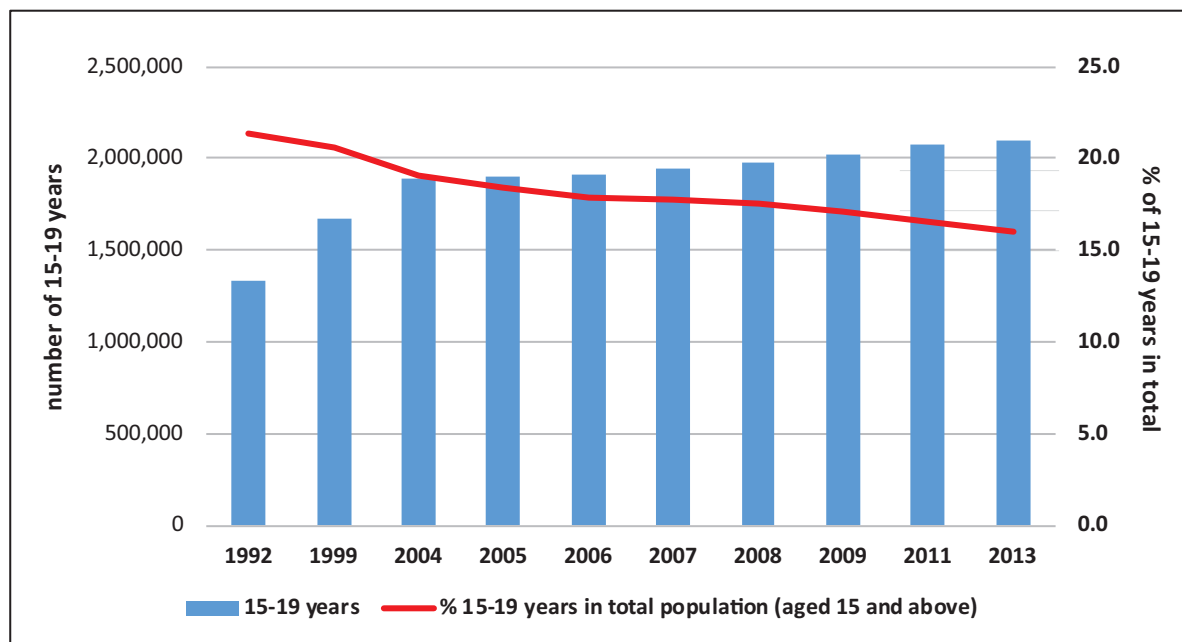
Source: CDSI (<http://www.cdsi.gov.sa/socandpub/facomunty>)

Available data on fertility are very scarce and cannot be assessed for lack of comparable alternative sources. Nevertheless, data that emanates from CDSI (Table 1) suggests that relative fertility has been decreasing for at least a decade. Saudi women who were born at times of high fertility (until the early 1990s) now give birth to less children on average. Consequently, the share of the children (aged 0 to 14) dropped from 49.2 per cent of the total Saudi population in 1992 to 35 per cent mid-2013.

Yet, this remains a high figure. Even though youth's relative share is decreasing, their numbers are still expanding (6.1 million in 1992; 7.1 million in 2013). As the number of live births has also been increasing (Table 1), it is expected that the demographic pressure on infrastructure (education, health, leisure, etc.) will continue for some years.



**Figure 1: Evolution of the number and share of youth in Saudi population (selected years)**



Source: CDSI, censuses and Labour Force Surveys

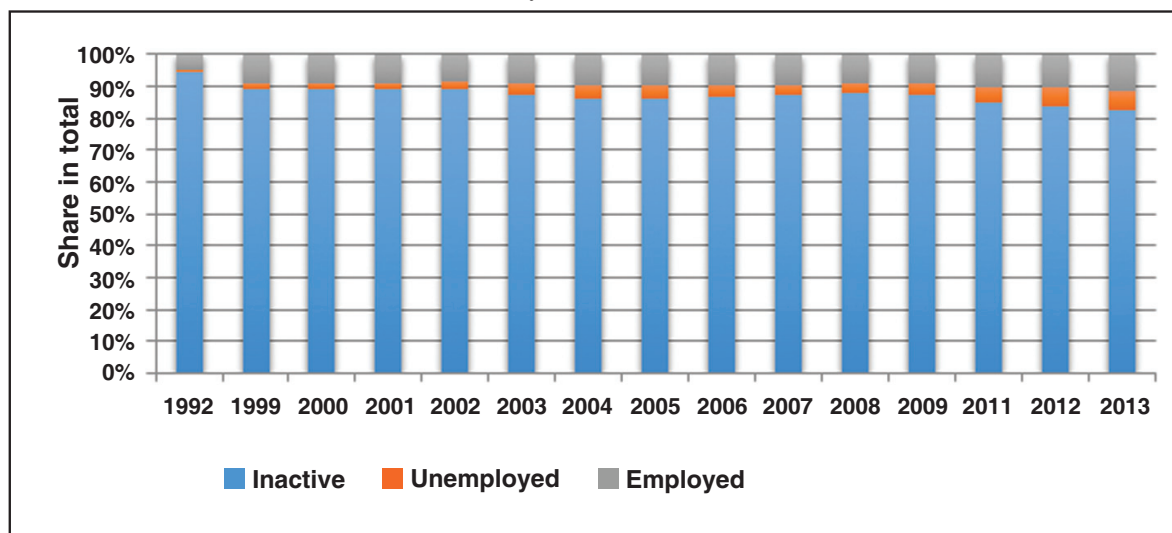
Moreover, even though the Saudi demographic growth rate came down to 2.21 per cent in 2013, the number of prospective new entrants to the labour market (aged 15 to 19 years) continued increasing until that year in absolute terms (Figure 1). Those reaching the age of 20 were about 400,000 in 2013, up from a quarter of a million two decades earlier in 1992.

### *Most Saudi Women are Inactive, for Now*

Until very recently, however, the demographic pressure on the labour market was minimised by the very low rates of activity of Saudi females.

As can be seen from Figure 2, the Saudi female labour force is very small: 193,786 females in 1992, increasing to 1,064,387 in 2013. By comparison, active men were 4,135,000 in 2013. The overall share of active women (employed and unemployed seeking employment), or female activity rates, also moved up from 5.6 per cent of the total female population in 1992 to 17.2 per cent in 2013,<sup>26</sup> a trebling of the rate in twenty years. Yet, Saudi females’ level of economic participation is still very low, even by the region’s standards: in Kuwait, for instance, females’ activity rates reached 47.4 per cent in 2013 (PACI data).

**Figure 2: Saudi female population by relation to labour force (selected years, 1992 to 2013)**



Source: Census 1992; Labour Force Surveys 1999 to 2013

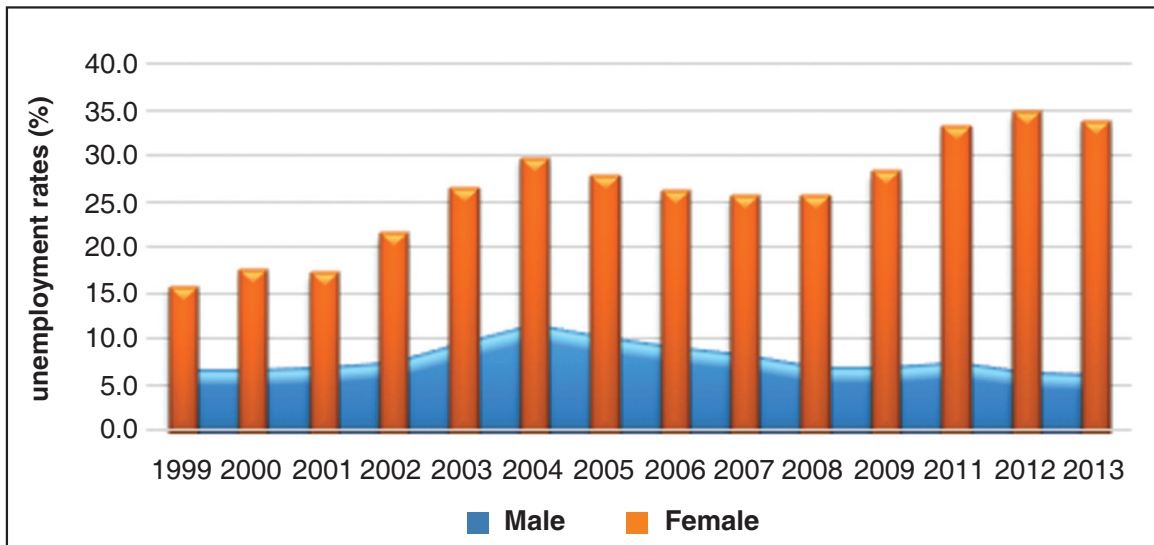
These very low rates of activity raise two sets of issues: one is the socio-political stakes of persuading women to join the labour market. The very fact of females taking on jobs even in gender-segregated sectors such as the retail of lingerie, for example, has spurred very violent opposition from some parts of the citizenry and even direct death threats to government actors.<sup>27</sup>

Another issue at stake in females' high rates of inactivity today is their future demographic pressure on the labour markets when rising numbers of female citizens will seek jobs. To date, indeed, more than 80 per cent of all Saudi women and 70 per cent of the most active age groups (25-29 and 30-34 years) are out of the labour market. Therefore, one can say that the worst pressure is yet to come.

### *Emergence of Unemployment*

Saudi females have been hard hit by unemployment: the rates tripled between 1992 and 2013 (from 11.8 per cent to 35.3 per cent of females aged 15-64 years). This is a sign that Saudi females increasingly look for opportunities to enter the labour market, even if some measures passed in the framework of Nitaqat may also have led to enhancing the rates since 2011.<sup>28</sup> Of active Saudi women, 363,269 were unemployed in 2013, which is a very high total rate (35.3 per cent), and up to 60.3 per cent of the youngest age groups (15-25 years) alone. Comparatively, Saudi males seem less affected by the phenomenon, assuming that data is accurate.<sup>29</sup> Indeed, the issue of unemployment is said to have emerged after the First Gulf War of 1990-91 that tremendously tightened the government's budget and compelled it to emphasize Saudization of the private sector in the Fourth and Fifth Development Plans. Unemployment started affecting university graduates in particular: 20 to 30 per cent of them were said to be looking for employment as of the mid-2000s.<sup>30</sup>

**Figure 3: Evolution of unemployment rates by sex since 1999 (Saudi population)**

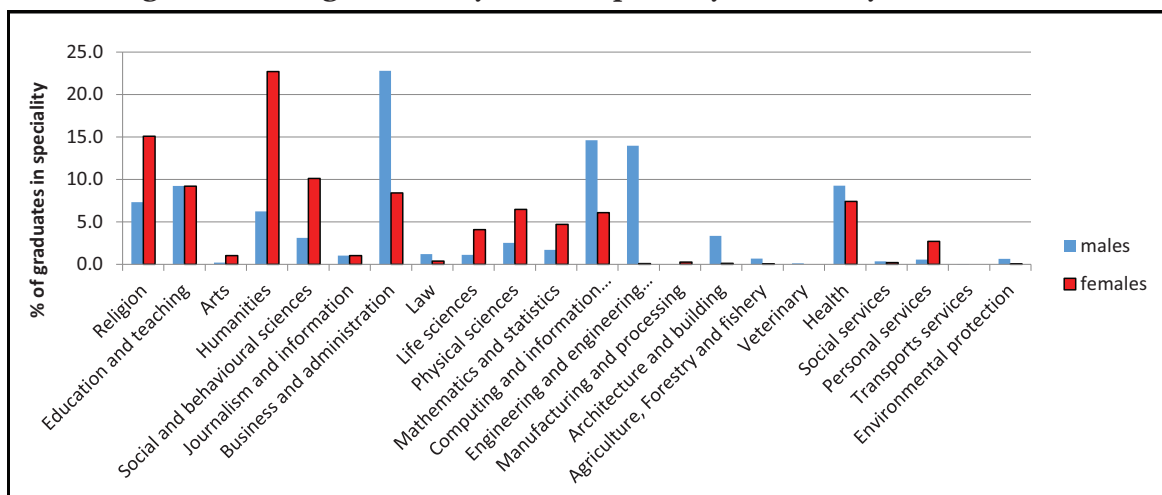


Source: Census 1992; Labour Force Surveys 1999 to 2013

***Education: Mismatches but Levels Are on the Rise***

Saudi females are no less educated than Saudi males nowadays. University graduates make up 16.5 per cent of both male and female populations aged 15 and above (bachelor’s degree and above) in 2013. As compared to 1992, the evolution of literacy has been striking: twenty years ago, university graduates were only 6.2 per cent (men) and 2.7 per cent (females) and almost half of all Saudi women (and 20 per cent of men) were illiterate. Saudi students who graduated in 2010-2011 were mostly specialised in humanities, religion, and teaching (60 per cent of female graduates, for instance), which employers say are ill suited to the current labour market demands. In spite of this, however, graduates and their families expect socioeconomic returns from such educational achievements, an expectation that has to be addressed by the regime in terms of provision of employment.

**Figure 4: Saudi graduates by sex and speciality, academic year 2010-2011**



Source: Ministry of Higher Education, 2012

Saudi students enrolled in several study abroad schemes, such as the King Abdullah Scholarship Programme, numbered as high as 174,645 for the academic year 2011–2012. Such programmes aim at encouraging young Saudis to acquire world-class academic training in scientific and related specialities (medicine, engineering, law, accounting, and marketing, for instance) in overseas universities, so as to upgrade the skill level of future Saudi manpower in line with international standards. Since its inception in 2005 up to the end of 2013, 47,000 young Saudis graduated from that programme. Some may choose to stay abroad but others will come back to Saudi Arabia. Those who return will expect to find gainful and socially-rewarding professional opportunities and career prospects in the private sector there.<sup>31</sup>

## Saudi Arabia in the World: Political Pressures to Reform

### *International Membership*

A short-term factor compelling Saudi Arabia to enforce labour reforms is the Kingdom's embedding in the global economy. The Gulf States in general, and Saudi Arabia in particular, are increasingly active in international organisations, which compels them to commit to the observance of certain labour policies and internationally recognised core labour standards. For instance, since 2005, Saudi Arabia has been a member of the World Trade Organisation (WTO). This commits the Kingdom to “further liberalize its trade regime and accelerate its integration in the world economy, while offering a transparent and predictable environment for trade and foreign investment in accordance with WTO rules.”<sup>32</sup> The increased economic participation of Saudi labourers in the private sector is also part of the commitments made by Saudi Arabia.

Saudi Arabia also ratified a number of international agreements on labour and human rights,<sup>33</sup> including both ILO Convention No. 100 (1951) on Equal Remuneration and ILO Convention No. 111 (1958) on Discrimination (Employment and Occupation) in 1978 that prohibits racial discrimination. Therefore, the existing “dual labour market” characterising the Saudi economy whereby nationals are systematically, by virtue of their nationality, paid less than the non-nationals, as well as the kafala institution which entails a political hierarchy and unequal access to basic socio-political rights between citizens and non-citizens, stand in contradiction to international commitments on migrants' rights attached to WTO membership.<sup>34</sup>

### *Oil Revenues and the Social Contract*

Saudi Arabia is under international pressure for reforming its economy, but domestically, the Kingdom is also facing the urgency of restoring popular support to the regime, which has deteriorated since the 1980s. Dwindling oil revenues after 1985, combined with the high levels of Saudi population growth, drastically limited the redistributive capacities of the state. Cuts were made in public sector job offers, which threatened the stability of the rentier social contract. Youth unemployment and even poverty became increasingly visible in the early 2000s, aggravated by the liberal adjustment policies implemented as part of the requirements for WTO membership. Moreover, as oil prices and domestic revenues had risen again since 2003, the Kingdom undertook massive infrastructure projects; 2.5 million jobs were created, yet to the sole benefit of foreign labourers.<sup>35</sup> Surging oil revenues did not translate into significant job creation for citizens in the productive sector where work hours are longer, job security unguaranteed, and

pressure on productivity is high but salaries are much lower, and not sufficient for a young national to sustain family expenditures.<sup>36</sup> This greatly affected what remained of the rentier social contract<sup>37</sup> during the decade.

### *Arab Uprisings*

Protests voiced in the Kingdom during the 2011 “Arab Uprising” indeed focused on lagging income in the first place, alongside corruption, “discriminatory clientelism”<sup>38</sup> and unequal access to oil revenues. In view of the deterioration of the social contract in the country, the risk of unrest among the roughly 20 million Saudis, of who a quarter were in the age group of 15-29 years, was taken very seriously. Emergency redistribution measures were decided at the highest political level. Among these were a massive \$130 billion subsidy package to fund new housing programmes, the setting of a minimum wage for nationals in the private sector to SR3,000 (\$800), and the launching of the Hafiz programme that provided a monthly allowance of SR2,000 (\$533) to male and female Saudi job-seekers for up to one year. Additionally, the government also raised the minimum wage of public servants and created more employment opportunities in the government sector.

## **The Nitaqat Campaign: Addressing Socio-Political Issues and Challenges to Saudizing the Private Sector**

### *Nitaqat: Main Features*

The previously-mentioned measures were connected to the Nitaqat campaign for the Saudization of the workforce formally launched in June 2011. The implementation of the programme started in September 2011, when all companies were asked to update their employee information, both at the General Organization for Social Insurance (GOSI) and the Ministry of Interior, to calculate their nationalisation quotas. Nitaqat combines incentives that encourage firms to hire Saudis and sanctions for non-compliant ones. The system classifies businesses by band (red, yellow, green and excellent/premium), based on nationalisation performance (percentage of Saudi employees in the total workforce). The objectives set vary in relation to industry (45 categories) and to the size of workforce employed in the company: micro (0–9 employees), small (10–49 employees), medium (50–499 employees), large (500–2999 employees), and very large (3,000+ employees). Micro entities are exempted from the programme, but are required to employ at least one Saudi. Hence, 180 different nationalization quotas (45\*4) were defined, according to the size and activities of business entities.

**Table 2: Target percentage of Saudization in size of business category**

Business Size	Red	Yellow	Green	Premium
Small (10 - 49)	0 - 4%	5 - 9%	10 - 39%	≥ 40%
Medium (50 - 499)	0 - 5%	6 - 11%	12 - 39%	≥ 40%
Large (500 - 2,999)	0 - 6%	7 - 11%	12 - 39%	≥ 40%
Huge (3,000+)	0 - 6%	7 - 11%	12 - 39%	≥ 40%

Source: Ministry of Labour

The Saudization rate also takes into account the employee’s salary: since a minimum salary for nationals of SR3,000 was set in 2013, lower salaries cannot be incorporated in the Saudization ratio. Hence, an employee granted a salary of only SR1,500 counts as half a Saudi recruit. Additional credits are granted for businesses employing females, disabled Saudis, ex-convicts, citizens of other GCC countries, non-Saudi spouses of Saudi citizens, non-Saudis with Saudi mothers (“special foreigners”), part-time workers, students, and members of displaced tribes from the Rub’al Khali with a Saudi passport but no national identity card.<sup>39</sup> The calculation of the firm’s Saudization rate is performed using as a thirteen-week moving average of the number of Saudi workers registered with the GOSI.

Companies that come under the “Excellent” zone enjoy a number of advantages and are provided certain services, incentives, and facilities by the Labour Ministry. Companies falling within the yellow and red zones that do not meet the Saudisation quotas are deprived of services, as described in Table 3.

**Table 3: Implications of Nitaqat classification of companies**

<b>Excellent/ Premium</b>	<b>Incentives</b>	<ul style="list-style-type: none"> <li>• Complete freedom in hiring employees</li> <li>• Easier visa processing</li> <li>• Freedom to issue new visas for opened professions</li> <li>• Freedom to change profession of employees even for some restricted categories</li> <li>• Condition-free visa transfer: Freedom to hire employees from Red and Yellow zones and transfer their visas without approval from former sponsor.</li> </ul> <p><b>Grace period:</b> One year to improve Nitaqat record</p>
<b>Green</b>	<b>Incentives</b>	<ul style="list-style-type: none"> <li>• Freedom to apply for new visas</li> <li>• Freedom to change foreign workers’ profession</li> <li>• Freedom to renew work permits</li> <li>• Freedom to recruit employees from Red and Yellow zones and transfer their visas</li> </ul> <p><b>Grace period:</b> Nine months to improve Nitaqat record</p>

<b>Yellow</b>	<p style="text-align: center;"><b>Incentives</b></p> <p style="text-align: center;"><b>Punitive Measures</b></p>	<ul style="list-style-type: none"> <li>• Freedom to issue one visa after the departure of two expatriates</li> <li>• Freedom to renew work permits but only for workers below maximal duration of stay</li> <li>• No freedom to issue new visas</li> <li>• No freedom to transfer visas and change professions (since November 2011)</li> <li>• Barred from renewing work permit (capping of stay) after workers completed four years (since mid-2014)</li> <li>• Fines for redundant expatriates (\$26,700)</li> <li>• No possibility to open files for new businesses and/ or new branches</li> </ul> <p><b>Grace period:</b> Six months to improve Nitaqat record</p>
<b>Red</b>	<p style="text-align: center;"><b>Punitive measures</b></p>	<ul style="list-style-type: none"> <li>• Banned from: changing profession, transferring visas, issuing new visas and opening files for new branches</li> <li>• Fines for redundant expatriates (\$26,700)</li> </ul> <p><b>Grace period:</b> Six months to improve Nitaqat record</p>

Source: Hussein, 2014; MoL, undated; press sources quoting government officials.

### *The Socio-Political Concerns of Nitaqat*

Compared to previous Saudization initiatives, the setup of Nitaqat is characterised by its all-encompassing approach. Indeed, beyond the issues of reducing unemployment by attracting Saudis, and especially women, to the private sector and apart from starting to abide by international commitments, it also tackles the socio-political context of Saudi Arabia’s high dependency on foreign labour.

Besides aiming to reduce dysfunctional employment of the foreign workforce (in yellow and red zones) by making it more expensive for local employers, Nitaqat seeks to transform the economy by making private employment attractive for locals. Apart from the incentives described earlier and linking high salaries to better Saudisation credits, a wage protection system was set up. On November 11, 2014 the Labour Ministry announced that the minimum wage for Saudis in the private sector would be raised to SR5,300 in 2015.<sup>40</sup>

Within the Nitaqat policy, a feminisation drive was also launched: besides additional Saudisation credits granted for the employment of females in private businesses, the policy seems to tend towards the much publicised full feminisation and Saudization of certain sectors of the economy relevant to females, especially in the retail sector. After King Abdullah signed a decree banning men from working in lingerie and cosmetics shops, for instance, the Ministry of Labour issued two ministerial decisions requiring certain businesses in the retail sector to employ Saudi females, first those selling beauty products and lingerie and later shops selling women’s evening and wedding gowns, accessories and the traditional female cloak (abaya). A third phase of the project would target shops selling women’s perfumes, maternal care goods, shoes, vanity bags, readymade dresses, women’s clothing and dressmaking materials. As of late May 2014, other sectors are also being considered for feminisation in the industrial sector. Women are also entitled to own or manage their own businesses.

Other measures taken within the realm of Nitaqat suggest that the enhancement of foreign labourers' protection schemes is another target of the policy. In March 2014 at the 25th session of the UN Human Rights Council in Geneva, Saudi Arabia agreed to 181 out of 225 recommendations on human rights reforms made by UN member states. These recommendations not only included commitments to improve protection for labour rights, but a number of measures that had to be enacted before the approvals were formally announced. For example, Saudi Arabia recently ratified the International Labour Organization Convention's article 138 requiring a minimum working age of 15. In 2013 alone, agreements protecting migrant workers have been signed with the Philippines, Sri Lanka, India, and Indonesia. These agreements address key concerns over worker pay, holidays, health insurance, possession of passports, as well as the right to change employers (change of sponsorship) as mentioned previously.<sup>41</sup> For instance, a measure passed mid-2014 allows the workers to seek new employers if their sponsors fail to provide them with work and residency permits within three months of their arrival in the Kingdom and not only if sponsors are in the red or yellow zone of the nationalisation scheme. Under the scheme, stranded workers can seek a job with employers whose job opportunities match their profession. Workers are also allowed to contact private recruitment companies in the Kingdom for temporary work. The issue of expats' minimum salary is also discussed and would be implemented in 2015 at an amount of SR2,500 monthly.

The labour inspection department within the Ministry of Labour also significantly enhanced its activities and mandate. New inspectors were recruited, new technical means were granted to them in order to report and act upon labour violations more efficiently (systematic labour inspection plans, palm tablets and standardised reporting templates, and improved connection of all regions with a central investigation centre). The department also held awareness campaigns for business owners in order to inform them on violation-free working environment. Joint actions with other ministries and entities were also conducted, for instance with the Ministries of Commerce and Industry and Interior (the police department) and with municipalities.

Nitaqat also addresses some aspects of the kafala (sponsorship) rule. Certain categories of expatriates had been already exempted from the sponsorship rule since 2000 (i.e., investors). Yet, the rule would apply to all other expatriates: each foreign national (with the exception of other GCC countries' citizens) willing to work in Saudi Arabia must have a local Saudi entity or national sponsoring the individual for work and residency visa purposes. This authorisation is obtained by the employer through the Ministry of Labour and the Passport Office of the Ministry of the Interior. In addition, a transfer of sponsorship from one sponsor to another would not be considered before the expatriate has completed two years with a sponsor, who additionally would have to provide a No Objection Certificate (NOC) permitting the transfer. As per the Nitaqat programme, the employees in the "red" and "yellow" categories can transfer their sponsorship to "green" and "excellent" categories without NOC from the previous sponsor. This applies only to the workers who have resided six years or more in the Kingdom and who have completed at least two years of service in the company they wish to leave. However, this amendment to the sponsorship rule may benefit long-term expats, especially those with much in demand training and skills: they can now, more than before the onset of Nitaqat, enjoy some degree of mobility within the labour market and put companies in competition with each other in line with their career's interests. Since October 24, the Labour Ministry has also formally authorised expatriates' family dependents to work in the private



sector without transferring their iqama (residency) to the employer. Again, this suggests that highly skilled, well-paid expatriates, who are most likely to have their families with them, may enjoy a privileged status as far as sponsorship is concerned.

Another blow to the sponsorship institution was witnessed in the early stage of Nitaqat with the anti-“cover-up” business (tasattur), a pillar of the sponsorship system, whereby sponsored expatriates run businesses in the name of a Saudi citizen. The amended Labour Law carries a one-year prison sentence and a fine of up to SR1 million, in addition to deportation, for this. The law also calls for banning the citizen involved from travelling abroad.

One of the main features of the Kingdom’s political economy, i.e., the political leverage of business classes and their close relations with the successive ruling regimes, has been an obstacle to recent state attempts at reforming the Saudi economy. Yet, in order to address the very pressing need of massive job creation in the private sector for Saudi youths, the government had to regain the upper hand on economic decision-making, hence the implementation of Nitaqat. Indeed, the programme has tremendously limited the power of business classes over workforce recruitment. All Nitaqat measures actually designate the private sector as responsible for citizens’ employment and leave no room for yellow and red zone companies to pursue business as usual in case of violations, as described earlier. Not only do business owners have to recruit through replacing the foreign workforce with a national one, they also have to create new opportunities for locals and upgrade the work conditions in the private sector to entice Saudi workers to join it. By so doing, the regime regains the upper hand on the management of the labour market from the private sector. Additionally, it beefs up its wavering base of popular support, as labour is part of the process of redistribution of resources to citizens. In any case, if Nitaqat were to fail, businesspeople would bear the political costs of this failure.

### ***First Outcomes of Nitaqat: a Success?***

In two and half years of Nitaqat’s implementation between September 2011 and the end of 2013, the stocks of Saudi workers have increased by 1,063,669 of which about 430,000 (40 per cent) are women. The number of Saudi working females has doubled since 2011, when it stood at 437,511.

However, it should be noted that 41 per cent of the jobs created for Saudis were actually in the public sector. In view of the Kingdom’s international commitment to privatizing its economy, such choices appear unsustainable in the long run, and labour market reform towards opening more job opportunities for nationals in the private sector will be a matter of international credibility for Saudi Arabia.

**Table 4: Evolution of Saudi Arabia’s workforce by sector and nationality (2011-2013)**

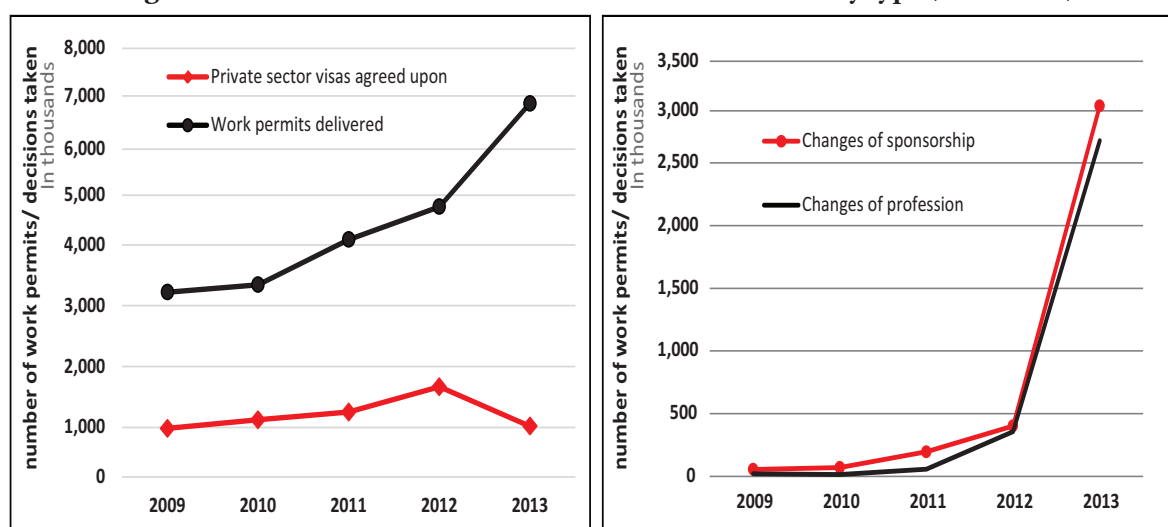
Sector	2011		2013				Evolution of numbers	
	Saudis	non-Saudis	before the correction campaign		after the correction campaign		2011-2013	
			Saudis	non-Saudis	Saudis	non-Saudis	Saudis	non-Saudis
Public sector	2,472,713(a)	120,691(a)	n.d.	n.d.	2,912,378(a)	255,000(d)	+439,665	+134,309
Private sector	844,476(b)	6,937,020(b)	1,182,562(d)	7,472,790(d)	1,466,853(d)	8,212,782(d)	+622,377	+1,275,762
Domestic sector	1,274(c)	937,869(c)	n.d.	n.d.	2,901(c)	1,834,000(d)	+1,627	+896,131
<b>Total</b>	<b>3,318,463</b>	<b>7,995,580</b>			<b>4,382,132</b>	<b>10,301,782</b>	<b>+1,063,669</b>	<b>+2,306,202</b>

**Source: Ministry of Labour; Ministry of Civil Service; CDSI.**  
 (a) Ministry of Civil Service figures+number of employees in the “General administration” sector in Labour Force Surveys, given years  
 Figures are for the mid-year (i.e., before the correction campaign of November 2013 for the 2013 figure)  
 (b) Ministry of Labour’s figures in SAMA and MoL Yearbooks, given years;  
 (c) Persons classified in the category “private households as employers” in Labour Force Surveys, given years  
 (d) Figures for December 2013, MoL Yearbook 2013, incorporating the outcomes of November 2013’ correction campaign.

Moreover, even if Nitaqat did create job opportunities in the private sector for Saudis, 67 per cent of all the jobs created in the private sector went to non-Saudis. This clearly illustrates the socio-political challenges hampering Saudization policies and the struggle between the government and the private sector’s actors as regards employing more foreign labourers instead of channelling Saudi labourers to these posts.

On the one hand, since the implementation of Nitaqat in 2011, an increasing number of foreign labourers have had to adjust their professional and residency status (change of professions and sponsors). Consequently, the number of work permits actually delivered in 2013<sup>42</sup> to foreign nationals has been very high (6.9 million), due to these adjustments and to renewals of permits. As for new labour permits, they will probably decrease, as indicated by the fall in number of work visas agreed upon for 2013. This resembles the situation described earlier in this paper, wherein at times of crisis, business owners resort to “labour hoarding” which manifests their defiance vis-à-vis state’ attempts at managing the supply of foreign labourers.

**Figure 5: Labour documents delivered and decisions taken by type (2009-2013)**



Source: Statistical Yearbook 2013, Ministry of Labour

However, Nitaqat may prompt new attitudes and behaviour towards foreign labourers. Labour inspections have become more frequent since the onset of Nitaqat: from 66,674 in 2009, they have more than doubled in 2013 and reached 148,575.<sup>43</sup>

The mobility of workers on the labour market may also increase. Ministry of Labour data emphasize the large number of sponsorship changes (“transfer of services”) involving more than a third of the recorded foreign labourers. In 2013, these figures soared due to the regularisation campaign conducted throughout the Islamic year 1435 (April 3 to November 3, 2013); sponsorship changes performed during 2013 but outside the campaign reached 441,000, up from the 403,000 such transfers achieved in 2012 and from the 198,000 of 2011. This may be the first step towards easing the kafala system, at least for certain categories of workers, even if the policy is advocated for by the Ministry of Labour as an incentive for companies to reach Saudization quotas if they want to retain their manpower. Though of a limited scope, the measure has opened the way for some mobility of workers within the Kingdom’s labour market, which may be a psychological more than a political breakthrough.

Another of the many outcomes of Nitaqat is the amount of business closures that occurred during the process of adjustment to the sectorial quota of Saudization and government’s campaign against illegal cover-up businesses and residency and labour law violators. According to some statistics from the Ministry of Labour, 200,118 private sector companies in the red zone of the Nitaqat programme closed down in 2013, out of a total of 1.8 million. According to the ministry, 58.6 per cent of these firms were classified as micro and small enterprises, which are required to employ at least one Saudi national.<sup>44</sup> Added to the fact that private sector actors are deemed responsible for the slow progress made in absorbing unemployed Saudis, the business closures may be viewed as a step displaying the Saudi government’s progressive take-over of the economy and the management of the labour market at the expense of the private sector. This suggests that the Nitaqat programme, because it addresses the socio-political context of Saudization, is more likely to have a lasting effect than previous workforce localisation initiatives.

### Conclusion: Nitaqat and Socio-Political Reform in Saudi Arabia

The paper addressed the socio-political background of the design and implementation of the Nitaqat policy of Saudization of the labour force as well as long-term, structural impediments to its rapid success. The dependency on foreign labour in the Kingdom as well as the policies governing their socio-political (non-)integration – also in other Gulf States –and the (non-)management of their flows into Saudi Arabia are indeed anchored in a specific historical and institutional setup. This does not imply that such policies cannot be changed. It means that they are part of a global system and their socio-political impact on citizens and business actors makes it difficult for governments to repeal them straight away. The economic reform process, therefore, has high socio-political stakes. Yet, the necessity of economic reform is linked to the international credibility of the Saudi regime and also to domestic politics. Governmental actors had no choice but to attempt to regain control over the economy and the management of the labour market.

However, beyond this struggle over the management of foreign labour, another element of Nitaqat is bound to spark a major social upheaval: the incentives for Saudi women’s employment. As we have said, most Saudi women have been inactive on the job market so far; their entry into the market would

create a demographic competition at all levels of skills, including the highest ones, with foreign labourers and Saudi men. Introducing Saudi women to the labour market has had a very far-reaching and politically groundbreaking effect on the country's social and religious institutions. It breaks the taboos of gender segregation and males' control over females' spatial mobility and allows social and economic empowerment. The violent reaction of the most conservative sections of society reveals the stakes attached to such a policy. Female employment is thus the battleground between various currents of Saudi polity, some willing to acknowledge the need for change in social norms in the Kingdom, and other political forces – among whom are conservative clerics – opposing such changes. More generally, females may become important political allies for the regime, which needs to widen its support base. All this endows the Nitaqat campaign with huge social and political stakes.

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### Endnotes

1. The term “Saudization” refers to the introduction of Saudi workers in the Saudi labour market, whether in replacement of foreign labourers or not. The term is used interchangeably with “localisation” or “indigenisation” of labour.
2. Looney 2004
3. As emphasized by Ramady (2010), several factors hamper the success of Saudization of the workforce in the private sector, among which are: 1. Labour costs: Saudi workers have high reservation wages which results in private sector reliance on imported cheap manual labour, deployed in labour-intensive occupations. This helps private sector profitability despite government attempts to increase costs of hiring expatriates (residency, visa renewals, etc.); 2. Social and cultural perceptions whereby Saudis feel socially degraded to take up and seriously pursue certain types of jobs; 3. Control over process of production: short-term employment contracts and sponsorship allow for controlling and disciplining expatriate workers as opposed to Saudi workers; 4. Reluctance of local populations to integrate into multi-cultural work environments, fearing that it might degrade their existing status. 5. Job tenure: it is more difficult to fire Saudi workers than foreign workers; 6. Inadequate qualifications of Saudi employees, lack of knowledge of English/foreign languages or a non-technical background; 7. Reluctance to move for taking on available job opportunities. Many other references can be cited, among which: Al-Dosary and Rahman (2005; 2010); Cordesman (2002); Looney (2004 a; 2004 b); Mellahi (2000; 2007); Mellahi and Al-Hinai (2000); Mellahi and Wood (2002).
4. Ramady 2013; Sadi 2013; Hertog 2014; Peck 2014.
5. Lawless, Seccombe 1986: 548.
6. Lawless, Seccombe, 1986: 570.
7. Longuenesse 1985: 176-178.
8. Lawless, Seccombe, 1986: 571.
9. A “rent” is an income earned from natural resources or trading of strategic resources, as opposed to income earned from capital or labour.

10. In the rentier state theory, guaranteed income from the state, coupled with the absence of direct tax levies in return for political allegiance to the rulers is seen as the oil-based “rentier” social contract, summed up in the aphorism “No taxation without representation” (Beblawi, 1990: 89).
11. The sponsorship probably dates back to a pre-Islamic practice later codified by Islamic law, originally referring to the protection granted by a tribal group to its guests and to travellers crossing its territory. In Muslim law, the term kafala designates the fact of adopting a child or that of becoming its tutor.
12. Beaugé 1986: 109.
13. For workers who are not in upper income brackets and/ or in certain categories of occupation, bringing family members depends on the goodwill of local sponsors.
14. Longva 1997.
15. Longva 1999.
16. Longuenesse 1985: 188.
17. Pakkiasamy 2004.
18. Okruhlik 1999.
19. Chaudhry 1997: 275; Kostiner 2009: 75.
20. The shift to Arab labourers after 1948 and their progressive outnumbering by Asians during the 1980s were the result of political decisions by local rulers. Asian workers, for instance, “were regarded as a more politically compliant workforce, removed from the currents of Arab nationalism and Islamism” (Humphrey, 1993: 7). This is not to mention the eviction of some one million Yemenis employed in Saudi Arabia after August 1990, for Yemen took a neutral stance and refused to support the Saudi invitation to join in the efforts to oust Iraqi troops from Kuwait.
21. A period of amnesty for labourers and sojourners in irregular situation (without residency or labour permits, having entered without visa, working for someone else than their sponsor, in a profession other than that stated on the Iqama (residency card), for instance) lasted from April 3 to November 3, 2013. On November 4 (first day of the Islamic year 1436), a crackdown on the remaining irregulars started. As a result of both campaigns, 2,423,779 changes of profession and 2,615,280 changes of sponsor, in addition to 3,890,916 labour permit issuances were achieved. Final exits recorded were 713,524 and an additional 1,086,593 workers left without leave of absence (Ministry of Labour, *Statistical Yearbook* 2013, table 36).
22. To date, Saudi Arabia has conducted five censuses: in 1962; 1974; 1992; 2004 and 2010. The first Saudi census (1962) is usually not used, as it did not cover the whole of the resident population. The 1974 census is the first comprehensive one in Saudi history. However, its rate of coverage and accuracy of data are considered weak. In 1992, census figures, along with ensuing estimates of the Saudi population and rates of demographic growth for the following years, were probably inflated (Winckler 2008). Between 2004 and 2010 censuses, Saudi population figures seem consistent with natural increase figures. As for non-national population, it is likely that it is underestimated in official counts.
23. <http://gulfmigration.eu/naturalisations-by-sex-saudi-arabia-1974-2000/>
24. Tabutin, Schoumaker 2005: 535.
25. Regional geopolitics probably played a role as well: given the political and symbolic role that Saudi Arabia aspires to play within the Arab and Islamic worlds, demography has always been a challenge of a political nature for the regime. The Kingdom cannot measure up to Egypt and Turkey in the region, and not even to Yemen and Iraq. Its all-time rival is Iran, its Shia political and ideological competitor for leadership over the Muslim world.

26. The labour force includes the occupied labour force (also called the “labour force with a job”) and the unemployed. Activity rates are the ratio of active persons (employed+unemployed) to the total population for the given age groups or sub-populations. Rates are calculated for the age groups 15-64 years, to allow for international comparison.
27. <http://english.alarabiya.net/articles/2012/12/26/257217.html>.
28. Such as the unemployment benefit granted to Saudi nationals since 2011. However, the rise of unemployment rates started in 2009 as witnessed in Figure 3.
29. Unemployment rates are the ratio of unemployed persons to the active population (i.e., in the labour force: employed+unemployed). This assumes that unemployment data is not underestimated, deliberately or due to imperfect registration or measurement methods. For example, unemployment in the early 2000s was estimated at 9.6 per cent, while unofficial estimates put it as high as 15-20 or even 30 per cent (Malik, Niblock 2006: 103 ; Al-Dosary, Rahman 2005 ; Mellahi, Al-Hinai 2000).
30. Al-Dosary and Rahman 2005.
31. <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20130311156300>.
32. [http://www.wto.org/english/news\\_e/pres05\\_e/pr420\\_e.htm](http://www.wto.org/english/news_e/pres05_e/pr420_e.htm).
33. <http://gulfmigration.eu/glmm-database/legal-module/?ls=1&ind=labmig>.
34. ITUC 2012.
35. De Bel-Air 2014.
36. For example, in Saudi Arabia, a teacher in the private sector’s primary and secondary schools receives SR1,800 to 2,000 (SAR), whereas the public sector teacher is paid SR8,000 to 9,000 (1,000 SAR=approximately US\$267 as of May 31, 2014).
37. The soaring oil revenues after 1973 could be transformed into material wealth, generous welfare packages, and white-collar, well-paid unproductive state employment opportunities for Gulf nationals, in return for citizens’ political allegiance. In the rentier-state theory, guaranteed income from the state, coupled with the absence of direct tax levies in return for political allegiance to the rulers is seen as the oil-based “rentier” social contract, summed up in the aphorism “No taxation without representation.” See Hazem Beblawi, “The Rentier State in the Arab World,” in *The Arab State*, ed. Giacomo Luciani (Rome: Istituto Affari Internazionale, 1990), 89.
38. Hertog 2006, 120.
39. Peck 2014.
40. <http://www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20141112224190>.
41. <http://english.alarabiya.net/en/views/news/middle-east/2014/03/28/Real-change-for-labor-rights-in-Saudi-Arabia-.html>.
42. The labour visa allows the worker to enter Saudi Arabia. It is issued by the Ministry of Foreign Affairs after acceptance of the worker’s application file by the Ministry of Labour, upon request from his/her prospective sponsor. The work visas are more than the actual workers present in the country, as some eventually do not complete the procedure, or are rejected at a later stage (entry visa; residency procedures etc.).
43. MoL *Statistical Yearbook* 2013, tab. 26, p. 56.
44. <http://ameinfo.com/blog/finance-and-economy/saudi-ministry-labor-announces-200000-nitaqat-hit-firms-close/>.

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