

‘Nitaqat’ Law: Labor Market Reforms in KSA and its Impact

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Abstract

Purpose of international migration is to transfer skilled resources from less opportunistic region to a more opportunistic region. Labour as the factor of production is always considered less mobile and less predictable even in the ideal conditions. The research paper evaluates migratory trend that originates with oil exploration in the gulf regions and contribution by expatriates in the economy. Expatriates not only provide unskilled labor but also should be given credit for present day progressive education system and developed infrastructure. The same expatriates are now been questioned and their status has been redefined under the new challenges faced by the Kingdom of Saudi Arabia and gulf countries in which educated young Arabs are facing unemployment and Arab society is passing through radical changes due to more informed and expressive young Arabs. Recent implementation of Saudi Arabian Law ‘Nitaqat’ is responsible for expulsion of lakhs of illegal expatriates to their native countries; the law is aiming to regularize the job market and stop the illegal unaccounted migration of unskilled labor to Saudi Arabia. The law is also responsible for reforms in private sector where incidences of exploitation have been reported regularly. The research paper deeply studies the impact of expulsion of expatriates on the Saudi Arabian economy and also evaluates policies of promoting and also developing young generation with aim to replace remaining expatriates with locals.

Keywords: Labor Mobility, Unemployment, Labor Discrimination, Labor Policy, Immigrant Workers, Immigrant Worker Policy

JEL Classification: J610, J680, J710, J82

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Introduction

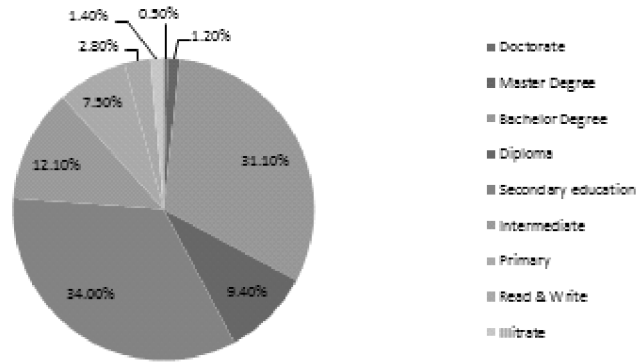
Job Reservation system in the Kingdom of Saudi Arabia

Kingdom of Saudi Arabia (KSA) is an oil based economy, having second highest reserves of petroleum products. Since 1938, KSA is on the path of development as they seek cooperation from the world to utilize their vast oil reserves.

In spite of having rich resources, Saudi Arabia depends on foreign workers, as their education system is still in infant stage. More than 50% jobs of specialist and professional, technical and humanitarian fields are occupied by foreigners; similarly Saudi nationals are less in numbers in

the field of sales, operational jobs and occupation of supporting basic engineering. Recent statistics show that the share of Saudis in the labor force is 42.32% (2012).

Graph 1: Distribution of Saudi Labour Force (Education wise) age over 15 years (Year 2012)



Source: KSA, Central Department of Statistics & Information 2013

The lack of Saudis at highest professional level is due to their lack of proper educational qualification in highly specialized professions. Another area where they avoid work is where they needed to do physical labor. Thus both higher and the lower ends of employment categories are covered by foreign workers while Saudi nationals are employing themselves in other areas.

The Ministry of Labor in its resolution in 2011 has announced the Nitaqat system to focus on the increasing Saudi employment rate in the economy through offering concessions and penalizing the firms that fulfill or lag behind in implementing the policy. Under the Nitaqat system, the market is divided into 41 main activities and further sub divided on the basis of number of workers employed into 5 categories, starting with more than 3000 employees as huge to less than 9 employees as the very small establishment.

According to the reservation policy, the Saudi companies are placed in four categories primer green and green categories for companies who are compliant with the Saudi law and will receive benefits, while Yellow and Red category Companies will be punished for their non-compliance.

The strength of Saudi persons depends on the size of the company and activity they enlist in. The companies (primer green & green categories) get benefit in terms of, permission to employ more foreign workers, preference in government tenders and monetary concessions as a part of the motivational package under Nitaqat system. The companies (Yellow & Red categories) who fail to comply with the law, penalties like no renewal work permit (Iqama), and bar workers to switch jobs to any company under the green category without taking permission from the employer, and most importantly the company can be barred from applying for fresh loans, government subsidies or government tender.

The suffering population of workers under new system mainly belong to India, Egypt, Pakistan, Yemen, Philippines and Bangladesh Under the Nitaqat system illegal foreign workers residing in the KSA after the expiry of grace period, will be punished. Under the grace period they were given option to either legalize their job status or leave the country. The deadline for the grace period was July 3rd 2013, and it has been reported (Times of India) that there are over two million Indians working in KSA, and by May 20th 2013, most of them have returned with the help of Indian government.

At that time many problems faced by the authorities, like people with no legal documents, the expired work permit or expired passport or visas; still they are able to serve the huge population in limited time. At crucial time foreign embassies and Saudi government authorities worked hard to provide exit visas.

Literature Review

Expatriates contribution in an economy is unquestionable and sufficient research material is available on the subject. Topics like challenges faced by expatriates in GCC countries are covered by Naithani and Jha (2010). Expatriates contribution in terms of cost and benefit for MNCs explained by Tan and Mahoney (2006) in their research, evaluation of expatriate's performance in international assignment is done by Ghafoor and Khan et al (2011), management of expatriates in cross culture MNCs is defined by Sumona Kundu (2015), the papers are helpful in defining the need for research on the subject.

But the research is more focused on the impact of Nitaqat program on the expatriates and the reservation policy promoted in 2011. As the law was applied and its deadline for illegal works ended in 2013, few studies are available on the topic. Mohamed Ramady (2013) in his paper provides characteristics of Saudi labour market, discusses objectives of Nitaqat and expectation from it. Jenifer R. Peck (2014) studies effect of the Nitaqat program on Saudi Private sector. Asad Sadi (2013) in his research deeply evaluates the implementation process of Nitaqat and implications of various events on the program. Rita Marsh (2016) in her comparative analysis studies economic conditions before and after implementation of Nitaqat program and conclude her results in terms of economic outcomes. khalfan and Maqsood (2015) found that there are localization barriers and their study questions the market preparedness for implementing the Nitaqat program. Women perspective was studied by Hassan et al (2014), it focus on the opportunities for Saudi women after the law is implemented.

Dumant and Lemaitre (2005) in their research on immigrants and expatriates in OECD countries probe into details regarding expatriates skill selection, educational background and their country of birth. The valuable inputs from their research conclude that countries benefit from the process but it is proven that migration rate is higher in few countries in comparison to OECD block as a whole.

De Smet (2013) report submitted to the World Bank Group, studies the positive correlation between the employing skilled expatriates index and FDI inflows. The study also provide details regarding the process to obtain temporary work permit in different countries, for middle east it is 11 weeks, which is longer when compare to other fast growing economies.

International Organization for Migration in its report (2012) examines the dynamics of Arab expatriates communities. It focuses on complex relationship between expatriates communities and their home in MENA in terms of their political, social or economic relevance. The report establishes the fact that while developing countries worker are eager to work in gulf region, MENA migrants are looking for western avenues for life style purpose.

A background paper on Saudi Labour Market produced by Harvard Kennedy School for Ministry of Labor KSA (2015) provides detailed framework of Saudi Labor Market and the existing policies. It studies the steps required for human capital development for future jobs. It also provides various reasons for failure of Saudi labor market.

Baldwin Edwards (2011), studies the GCC labour market and concludes that each country has some common points and some differences in its labour policies and their future needs specifies the labour structure present in the country. He also highlights the gap between the labour cost and labour mobility between the gulf citizens and foreigners, while gulf citizens lack the necessary skills and experience to handle the prevailing infrastructure avenues.

Even in western societies demand for reservation exist but that is to promote gender participation without compromising standards, no other system in the world is applying the reservation system as it is applied in India and Saudi Arabia. The two unique systems are promoted to provide relief to their citizens and their suffering class faces different challenges, this paper deeply evaluates the implications of such reservation policy.

Need for Nitaqat Law

Present government statistics states Saudi unemployment rate is 12.1 % and the Saudi government wants to push development to a new level, for the purpose educational expenditure is increased and the result was at the primary level (school) 96% enrollment rate is achieved, also opening of new universities is the step in the right direction to fulfill higher education needs for the citizens of Saudi Arabia.

In Saudi Arabia, government offers scholarships for higher education and, school education and health facilities are free. Due to free education policy there is an increase in unemployment rate, in order to cover youth aspiration, strict law is needed to control the employment structure and reverse it in favor of Saudi citizens.

Table 1 Employment Force in Saudi Arabia (Education wise)

Education Status	Saudi Unemployed		Saudi Employed		Non Saudi Employed	
	Female	Male	Female	Male	Female	Male
Illiterate	-	169	5,399	68,467	28,699	167,324
Read & Write	697	2,122	6,565	136,435	177,233	783,565
Primary	3,698	14,713	13,362	364,047	149,935	1,028,468
Intermediate	7,091	27,533	16,497	583,759	149,513	1,255,532
Secondary	74,260	145,339	81,976	1,489,174	31,538	901,239
Diploma	19,555	40,119	88,583	343,306	31,971	214,354
Bachelor Degree	256,668	34,256	448,844	896,687	58,768	897,538
Master Degree	1,650	1,174	12,998	47,766	7,508	68,840
Doctorate	-	-	5,638	21,614	6,324	45,267
Total	363,619	265,425	679,862	3,951,255	641,489	5,362,127

Source: KSA, Central Department of Statistics & Information 2013

Through 'Nitaqat law', Saudi government was not only able to create new jobs in place of illegally employed foreign workers but also able to regularize the job structure allowing foreign workers to work in a field where Saudi nationals are either not qualified or less in numbers. The emphasis is on to prepare Saudis to get sufficient qualification as fast as possible. Education profile states that there are 31.1% of Saudi graduates and 34% secondary level and equivalent, these are the two main groups that build unemployment pressure, while only 1.2% population holds the master degree and 0.5% that hold the doctorate degrees clearly establish the fact that Saudi Arab still needs persons with higher professional qualification. The main focus of Saudi employment law (Nitaqat) was to grant work permit in the deficient fields only and reduce dependency

on foreign workers (at present 56% working force consist of non-Saudi persons) in mid-level positions where their citizens are ready to do the job.

Impact of Nitaqat

Rich nations do have the luxury to turn any situation in their favor; The Kingdom of Saudi Arabia is one of them. The contribution by the expatriates no doubt is huge in the development of the kingdom, but they are well rewarded for it. Today circumstances are different, Saudi citizens are now ready to take over the responsibilities, and government authorities are aware of the situation, and they are now downsizing foreign workers and controlling their numbers and area of job they do.

Saudi Arab is a rich market, where every big brand is available and every company wants its share of profit. The government's ambitious project to develop six economic cities is the proof that their efforts are in the right direction for an industrial nation. In the coming years, Saudi Arab wants to align itself with the developed nations, for the purpose it is necessary to control the job market and fulfill the aspiration of its citizens. Nitaqat will prove to be the base through which organize and control expansion of job market will take place. Industry is adopting as per government order and regularizing the number of foreign workers. So that they remain in the green category. Companies don't want to spoil a rich market by non-compliance of a law which is in the interest of Saudi citizens.

The implementation of Nitaqat and its consequence are evaluated as under:

1. Majority of illegal workers are unskilled and work in uncharted categories where skills are less important, their return opens business opportunities for the less educated Saudi citizens. It also opens business opportunities for Saudis in a legal way.
2. People who stay without legal papers more often are ill-treated and exploited by their Saudi employers, many cases are regularly reported in media, the law will stop such practices and it provided safe exit to those who are forcefully placed in the situation.
3. Companies are adjusting their strength according to the new rule, giving more jobs to Saudis and overall reducing the unemployment numbers.
4. The law is responsible for the competition among the companies for the Saudi educated class, as of now number of professionally educated applicants are less resulting in higher pay and benefits for the qualified Saudis. Saudi students from developed and well established universities are benefiting from the situation.
5. The social environment is changing and Saudi youths are now compelled to study hard for higher pay packages.
6. Companies under the yellow and red categories are feeling the heat as their foreign employees now have the option to switch job in green category companies, without being penalized and without taking their permission. It is now a threat to company existence thus companies are taking remedial measures.
7. The overall productivity and circulation of money is increasing, giving the necessary boost to the economy and the market.
8. The law has some negatives; like it is seen that in the shorter run, huge numbers created a vacuum in the lower level job market resulting in a setback but in the long, requirements are fulfilled through proper channels.

9. It is seen that Saudi nationals are not interested in doing jobs of odd nature which they think are less dignified, the jobs are again given to foreign workers and it has taken time and cost money.
10. There are cases where companies are hiring Saudi nationals in order to avoid yellow & red categories but Saudi persons are under qualified for the job, the result is they just draw salaries without any work, and their work too has been given to foreign workers.
11. The Kingdom of Saudi Arabia follows discriminatory practice of giving different salaries for the same job according to the nationality. For example, American or European working in the kingdom will get much higher salary in comparison to Indian or Bangladeshi person doing the same job. Economically the criterion is a success as any American or European citizen only takes the job when he or she is earning more than they earn in their nation, same is the case with Indian or any other nationality.
12. Saudi employees get higher salary than any other foreign workers doing the same job, this put pressure on profit margins. In the longer run company need results from the Saudi employees, competition for good candidates will certainly take place and there will be changes in the employment policies and job safety.
13. The outgoing population of expatriates from the kingdom is affecting goodwill of the country as they are sharing their experience in their native place. Future employment in the kingdom will be affected in a limited way as bargaining power of outgoing population is very low.

Overall new business plan is in process as companies are adjusting profit margins with the new structure. Long term planning from the company side is going to help them in fulfilling the targets, also new means of recruitment and talent hunt within the country is more important for secure future.

Future Business Model under the New System

The Nitaqat system's aim is to force sufficient number of Saudis in employment, the notable point is Saudi government is not demanding the reservation at the level of job position in employment, it means senior level positions are still open for the foreigners and their expertise is still required, but in near future this may not be the case.

Step two in future will result in opening of senior level positions for the Saudi nationals, it is either by the reservation or by merit, presence of Saudi national at the senior levels will complete the Saudi objective. The challenge for the companies is not only to increase the number of Saudi employees, but to promote them for senior positions before the Saudi government takes up the issue without affecting the productivity or quality.

The question before Saudi government is to prepare today's generation for future challenges. For the purpose, companies are to motivate their Saudi employees to earn specialized degrees under on the job study format as they remain on the job but study hard to improve their skills. Other option is to give them exposure in foreign conditions where they are exposed to international challenges and work in a more complex environment.

Companies must draw their Saudi employees' progress chart, incorporating the necessary skills set that are required for a prosperous career. Any future business model in Saudi Arabia must aim at providing international quality of product and services from Saudi nationals, it can be achieved only through recruitment and training the personals as per future requirements.

Conclusion

The Kingdom of Saudi Arabia with its rich resources is doing the right thing at the right time, as the petroleum reserve will end in the future they are in process of creating industrial resources and preparing their youth for future challenges. With infrastructure in place and educated youth to govern it, KSA is successfully writing its growth story. The future of international business in KSA under the new law is not under threat as it aims to boost economic growth. New avenues of employment will create more demand and new business opportunities, problems in the short term will be solved after the transitional phase is over and government efforts in education sector and development of economic cities in future will reduce dependency on the oil economy. To conclude, job reservation policy is an effective tool to promote national interest only when it is applied in its true sense and with proper resources.

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Author's Profile

Masood Ahmed has nearly 18 years of Research, International Consultancy (World Bank, Asian Development Bank, UNOPS in Afghanistan) and teaching experience in the field of Economics. His major activities consist of economic research studies that include economic & social analysis to assess project viability. His interest in development work especially in poverty related aspect is quite visible in his writings, accepted at various national and international conferences. He has also presented his views at various platforms of International and National importance (World Bank Washington D.C., IIM Bangalore, NIRD Hyderabad etc).
