

*Saudi Workers Security Or Insecurity?
The Government Response & Policies to the Uncertain
Future of Unemployment*

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Introduction: Demographic Growth in Saudi Arabia & GCC

- **Unprecedented population growth over the past few decades**
- **Natural population growth rate is high per international standards**
- **Distinct progressive change in the Age and Sex Ratios of the demographic composition**
- **Growth in the unplanned reliance on foreign labor in production**

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- In 2000 the GCC leaders agreed to implement a set of policies that will gradually establish a balanced demographic composition and control foreign labor , and these policies include:
 - Establish a maximum allowable ceiling for each GCC state for its importation of foreign labor based on its population and national manpower structure
 - Increase the cost of the foreign labor to the level which makes it uneconomical to import
 - Control the importation of marginal and unskilled labor force, and emphasize the use of specialized and experienced workers needed in these GCC states

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Demographic trends: A comparison of Saudi Arabia and the world

| Description | Year (Period) | Saudi Arabia | Arab Countries | Developing Countries | OECD | The World |
|--|---------------|--------------|----------------|----------------------|---------|-----------|
| Total Population (Million) | 1975 | 7.3 | 126.4 | 2,898.3 | 924.4 | 3,987.4 |
| | 1999 | 21.3 | 240.7 | 4,609.8 | 1,122.0 | 5,862.7 |
| | 2015 | 31.7 | 332.7 | 5,759.1 | 1,209.2 | 7,048.2 |
| Annual Growth Rate of Population (%) | 1975-1999 | 4.2 | 2.7 | 1.9 | 0.8 | 1.6 |
| | 1999-2000 | 3.0 | 2.0 | 1.4 | 0.5 | 1.2 |
| | | | | | | |
| Urban Population (Ratio to Total) | 1975 | 58.4 | 40.4 | 25.9 | 70.4 | 37.8 |
| | 1999 | 85.1 | 54.0 | 38.9 | 77.2 | 46.5 |
| | 2015 | 89.7 | 61.9 | 47.6 | 81.3 | 53.1 |
| Population below 15 years (Ratio to Total Population) | 1999 | 40.8 | 40.8 | 33.1 | 20.6 | 30.2 |
| | 2015 | 28.1 | 28.1 | 28.1 | 17.3 | 25.8 |
| Fertility Rate (Infants Per Woman) | 1970-1975 | 7.3 | 6.5 | 5.4 | 2.5 | 4.5 |
| | 1995-2000 | 6.2 | 4.1 | 3.1 | 1.8 | 2.8 |
| | | | | | | |
| Life Expectancy (years) | 1970-1975 | 53.9 | 51.9 | 55.5 | 70.4 | 59.9 |
| | 1995-2000 | 70.9 | 65.9 | 64.1 | 76.4 | 66.4 |
| | | | | | | |

Source: Central Department of Statistics, Ministry of Planning, 2003, and Human Resources Development Report of 2001, UN Development Program, 2002.

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Manpower demand and supply projections (1999-2020)

| Description | Thousands | | | Average Annual Growth Rate % | |
|---------------------------------|----------------|----------------|-----------------|------------------------------|-----------------------------------|
| | 1999 | 2004 | 2020 | 7th Plan (2000-2004) | Long Term Perspective (2000-2020) |
| 1. Demand | | | | | |
| Government Services | 916.2 | 923.3 | 984.0 | 0.35 | 0.34 |
| Crude Oil & Gas | 98.9 | 100.4 | 127.0 | 0.30 | 1.20 |
| Private Sector | 6,161.2 | 6,472.2 | 9,635.0 | 0.99 | 2.15 |
| Total Demand | 7,176.3 | 7,504.9 | 10,746.0 | 0.90 | 1.94 |
| 2. Supply | | | | | |
| Saudi Population | 15,658.4 | 18,520.3 | 29,717.0 | 3.41 | 3.10 |
| Saudi Labor Force | 3,172.9 | 3,990.2 | 8,263.0 | 4.69 | 4.66 |
| 3. Demand/Supply Balance | | | | | |
| Non-Saudi Labor Force | 4,003.4 | 3,514.7 | 2,483.0 | (2.57) | (2.25) |

Source: *Ministry of Planning*, 2002. (Figures in brackets denote negative values)

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Saudization impact on selected Saudi industries

| | <i>Sector's share in total employment</i> | <i>% of Saudi participation</i> | <i>% of Non-Saudi participation</i> |
|---|---|---------------------------------|-------------------------------------|
| Oil & Mining | 4.19% | 9.3% | 90.7% |
| Manufacturing | 19.70% | 11.5% | 88.5% |
| Public Utilities | 0.70% | 55.7% | 44.3% |
| Construction | 17.07% | 9.8% | 90.2% |
| Wholesale & Retail | 31.66% | 13.4% | 86.6% |
| Hotels & Restaurants | 5.55% | 4.7% | 95.3% |
| Transportation & Storage | 6.59% | 28.8% | 71.2% |
| Banking & Insurance | 1.64% | 52.4% | 47.6% |
| Real Estate & Business | 7.14% | 25.4% | 74.6% |
| Education | 1.36% | 16.9% | 83.1% |
| Health | 2.05% | 9.8% | 90.2% |
| Community & Personal Service | 2.36% | 13.1% | 86.9% |

Source: *National Commercial Bank*, 2002, *SAMA*, 2002.

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Saudi Arabia: Establishments by classes of insured employment size and by nationality of ownership (2002)

| <i>Class of Insured Employment</i> | <i>Saudi</i> | <i>Joint Ownership</i> | <i>Foreign Ownership</i> | <i>Total</i> |
|------------------------------------|---------------|------------------------|--------------------------|---------------|
| Less than 20 | 20,834 | 186 | 195 | 21,215 |
| 21-39 | 6,800 | 46 | 80 | 6,926 |
| 40-59 | 2,382 | 31 | 52 | 2,465 |
| 60-79 | 1,217 | 19 | 36 | 1,272 |
| 80-99 | 770 | 17 | 23 | 810 |
| 100-199 | 1,517 | 23 | 70 | 1,610 |
| 200-299 | 509 | 8 | 26 | 543 |
| 300-399 | 290 | 6 | 27 | 323 |
| 400-499 | 175 | 5 | 15 | 195 |
| 500 plus | 526 | 17 | 28 | 571 |
| Total | 35,020 | 358 | 552 | 35,930 |

Source: CDS, Statistical Yearbook, 2003, p. 310.

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Saudi Arabia: average compensation, gross and net return per employee by major economic sectors (2001)

| <i>Sector</i> | <i>Average Compensation/Employee(SR)</i> | <i>Gross Return</i> | <i>Net Return</i> |
|------------------------------|--|---------------------|-------------------|
| Petroleum/Minerals | 202,000 | 3,970,000 | 3,528,000 |
| Wholesale/Retail | 20,500 | 234,000 | 32,700 |
| Electricity/Water/Gas | 95,000 | 371,000 | 25,900 |
| Construction | 24,800 | 120,000 | 18,600 |
| Manufacturing | 31,000 | 307,000 | 71,400 |
| Real Estate | 14,200 | 82,300 | 32,100 |
| Restaurant | 16,800 | 93,000 | 21,000 |

Source: Table 7.3, CDS, Annual Statistical Yearbook, 2003.

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Select labor force participation rates*

| | <i>Male</i> | <i>Female</i> | <i>Total</i> |
|---------------------|-------------|---------------|--------------|
| Saudi Arabia | 32% | 6% | 19% |
| Middle East | 49% | 17% | 33% |
| Sub-Saharan Africa | 51% | 37% | 44% |
| Latin America | 55% | 27% | 41% |
| East Asia | 61% | 51% | 56% |
| Europe | 72% | 18% | 45% |
| United States | 77% | 23% | 50% |

*Labor force as percentage of the total population

Source: Saudi Central Department of Statistic for Saudi Arabia, 2001, World Bank "Social Indicators of Development" for all others, 2001.

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Saudi unemployment and potential GDP losses 1993-2002

| <i>Year</i> | (1) <i>Non-Oil GDP at Producer Prices (SR bn) (Y)</i> | (2) <i>Unemploy- ment Rate % (U)</i> | (3) <i>% Natural Rate of Unemploy- ment % (U*)</i> | (4) <i>Output Gap (%)</i> | (5) <i>Value of Output Gap (SR Bn)</i> | (6) <i>Potential Output (SR Bn) (Y*)</i> |
|-------------|--|---|---|--------------------------------------|---|---|
| 1993 | 296.8 | 7% | 5% | 4% | 11.9 | 308.6 |
| 1994 | 304.1 | 8% | 6% | 4% | 12.2 | 316.3 |
| 1995 | 314.9 | 9% | 6% | 6% | 18.9 | 333.8 |
| 1996 | 328.9 | 9% | 7% | 4% | 13.2 | 342.1 |
| 1997 | 347.5 | 11% | 8% | 6% | 20.8 | 368.3 |
| 1998 | 351.8 | 12% | 9% | 6% | 21.1 | 372.9 |
| 1999 | 361.9 | 13% | 9% | 8% | 28.9 | 390.8 |
| 2000 | 379.6 | 15% | 10% | 10% | 37.9 | 417.5 |
| 2001 | 390.9 | 18% | 11% | 14% | 54.7 | 445.6 |
| 2002 | 402.6 | 20% | 12% | 16% | 64.4 | 467.0 |

Legend: *Y* = Real Output; *Y** = Potential Output
U = Unemployment Rate *U** = Natural Rate of Unemployment

Sources: Author's own forecasts for (U*)

Central Department of Statistics, Media Reports, SAMA, 2002

Footnotes: "Output Gap" is measured by subtracting (3) from (2) and multiplying by a factor of 2 as per Okun's formula. The resultant % is multiplied to actual GDP (1) to arrive at value of output gap in (5). Potential output (6) is derived from adding (1) plus (5).

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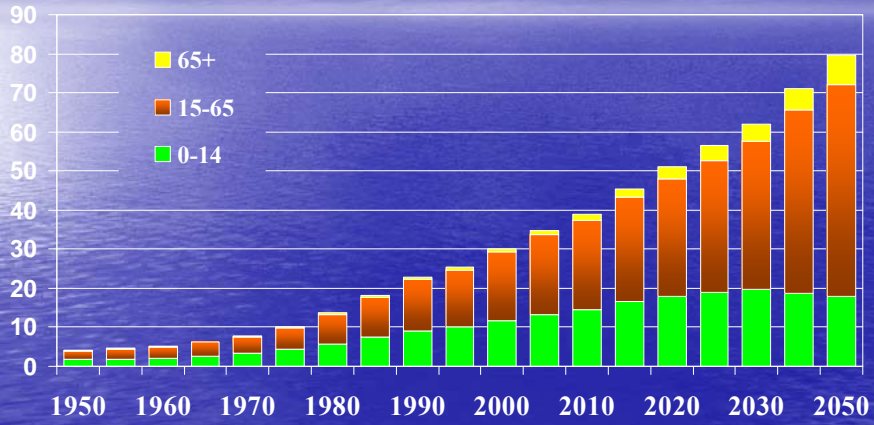
Labor Force Percentage Distribution: Nationals Vs Expatriates

| | | |
|------|-----------|------|
| 1975 | Nationals | 57.0 |
| | Expats | 43.0 |
| 1985 | Nationals | 28.0 |
| | Expats | 72.0 |
| 1997 | Nationals | 36.0 |
| | Expats | 64.0 |
| 2003 | Nationals | 39.9 |
| | Expats | 60.1 |
| 2005 | Nationals | 44.5 |
| | Expats | 55.5 |

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Demographic Transitions and Labor Market Challenges

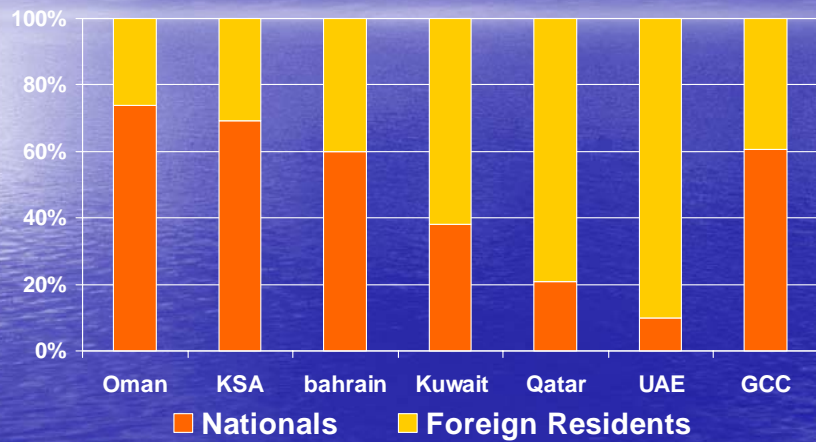
High Population Growth Rates in GCC



SOURCE : WORLD POPULATION PROSPECTS, 1996 - UNITED NATIONS, NEW YORK, 1998

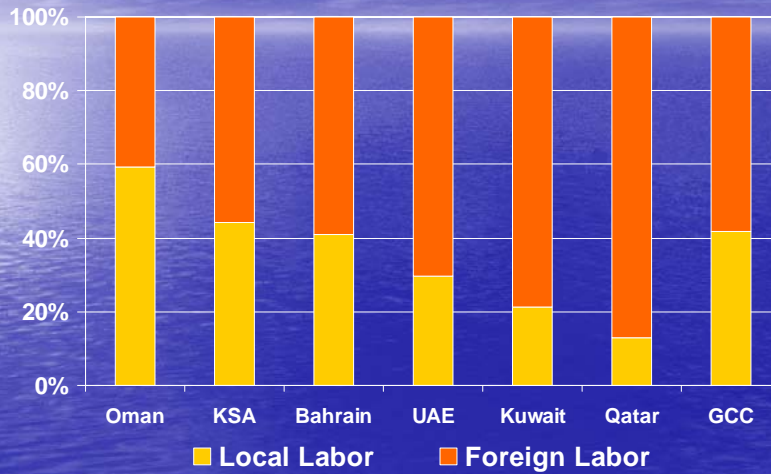
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GCC Nationals vs. Foreign Residents



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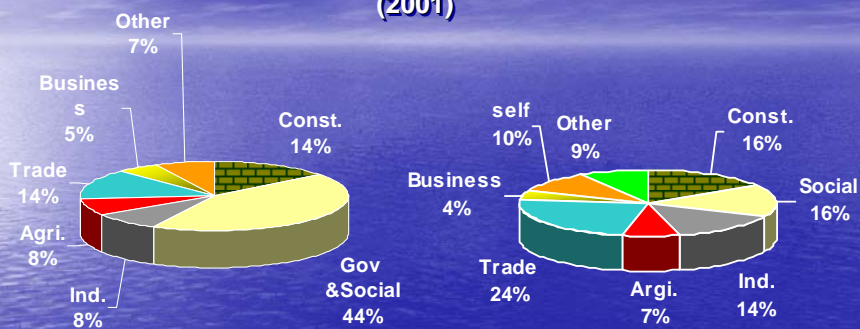
GCC Local Labor vs. Foreign Labor Force



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Labor Force By Economic Activity

(2001)



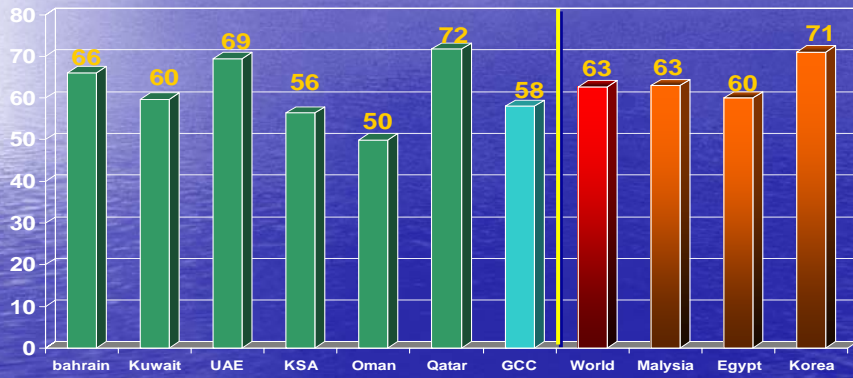
Saudi Arabia

UAE

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Economically Active Population

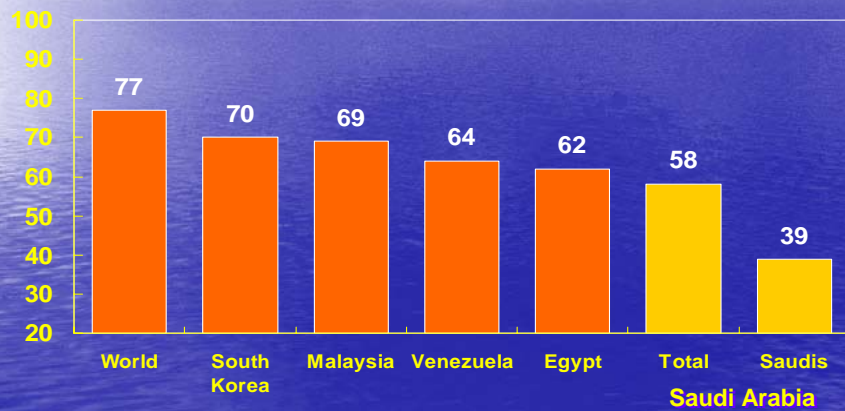
(2001)



Source: World Population Prospects, United Nations

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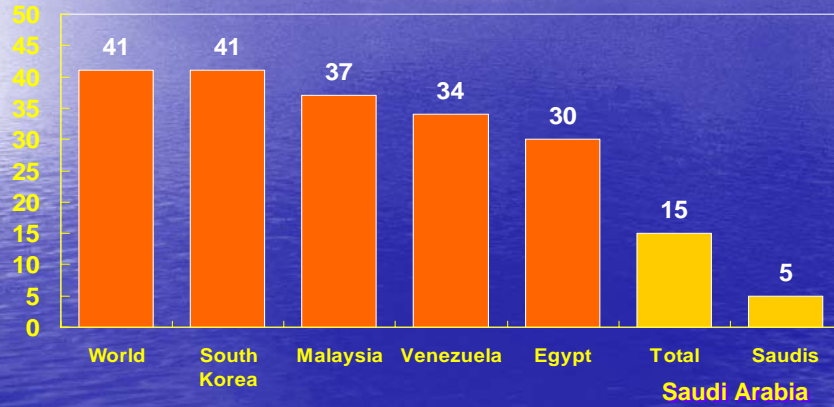
Labor Force as % of Total Economically Active Population



Source: World Economic Outlook & Ministry of Finance and National Economy

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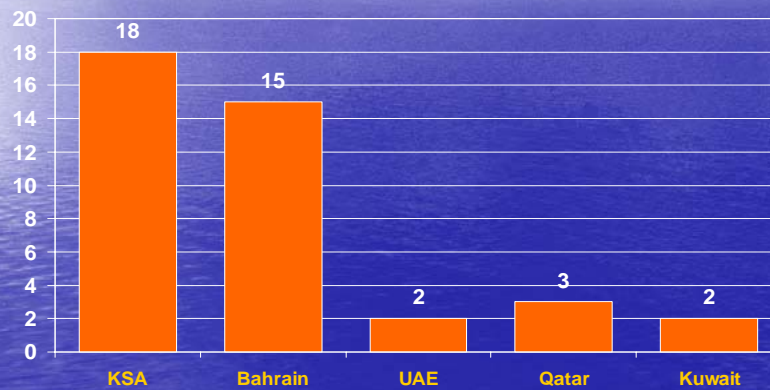
The Rate of Female Participation in Total Labor Force



Source: World Economic Outlook & Ministry of Finance and National Economy

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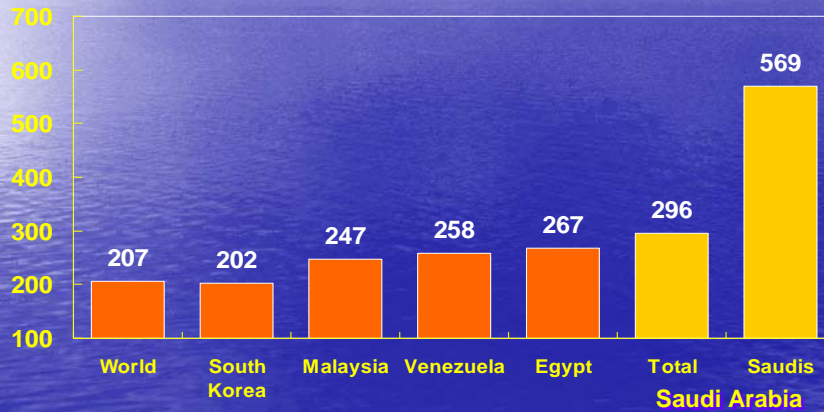
Unemployment in the GCC Area



Source: CIA, Word Fact book, 2002

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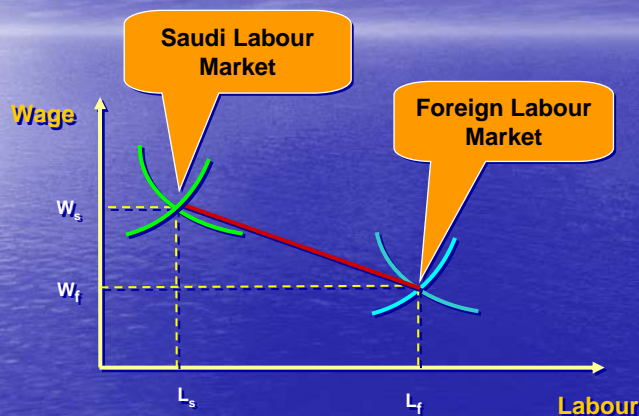
Comparison of Dependency Ratios (Per 100 Workers)



Source: World Economic Outlook & Ministry of Finance and National Economy

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Duality of GCC Labour Markets



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Average Monthly Wages (1996-2000)

| | Saudis | Non-Saudis | Total |
|-------------------|--------------|--------------|--------------|
| Occupation | | | |
| Technical | 8,390 | 3,987 | 4,365 |
| Managerial | 10,108 | 9,290 | 9,742 |
| Clerical | 4,612 | 2,704 | 3,401 |
| Sales | 4,300 | 1,693 | 1,867 |
| Services | 2,970 | 991 | 1,119 |
| Farmers | 3,465 | 942 | 984 |
| Construction | 3,738 | 1,272 | 1,368 |
| Others | 9,173 | 7,420 | 7,654 |
| Total | 5,704 | 1,901 | 2,292 |

Source: Ministry of Planning

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Distribution of Employment by Economic Activity in Saudi Arabia 1999 (%)

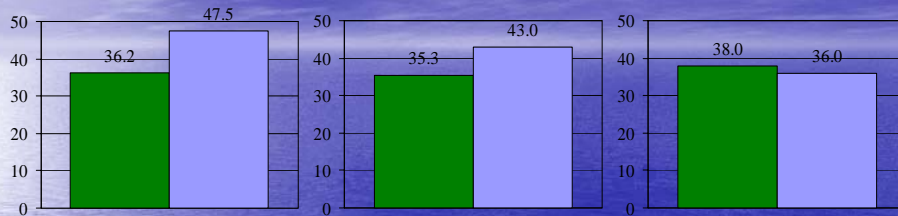
| | Saudis | Non-Saudis | Total |
|--------------------------|--------------|--------------|------------|
| Oil & Mining | 0.39 | 3.8 | 4.19 |
| Manufacturing | 2.26 | 17.44 | 19.7 |
| Public Utilities | 0.39 | 0.31 | 0.71 |
| Construction | 1.67 | 15.4 | 17.06 |
| Trade | 4.25 | 27.41 | 31.66 |
| Hotels & Restaurants | 0.26 | 5.29 | 5.54 |
| Transportation & Storage | 1.90 | 4.69 | 6.58 |
| Bank & Insurance | 0.86 | 0.78 | 1.64 |
| Real Estate | 1.81 | 5.33 | 7.13 |
| Education | 0.23 | 1.13 | 1.36 |
| Health Sector | 0.20 | 1.85 | 2.05 |
| Community Services | 0.31 | 2.05 | 2.36 |
| Total | 14.53 | 85.47 | 100 |

Source: Ministry of Planning

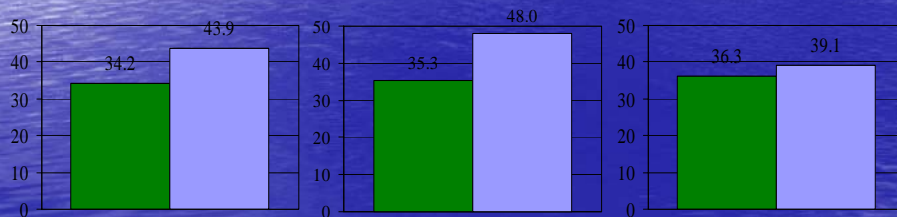
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Gini Index

Median Country



Population Weighted Average



Sub-Saharan Africa

Oil Exporters

Rest of the World

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The Origins of the Unemployment problem

- Causes of the Problem
- Factors that made the situation worse
 - The Development Strategy Adopted by the Government
 - Social Factors
 - Economic Factors
 - Labor and Recruitment Laws and Regulations related Factors
 - Lack of Effective Planning and Coordination among ETS establishments
 - Lack of proper Pre-Planning and Preparation for the adopted Development Strategy Consequences

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The Origins of the Unemployment problem: Cont'd

- Gulf War I, II and III
- GATT, WTO and Globalization
- Joining GATT and its implications on Saudi Arabia
- ETS Establishments Organizational structures and lack of their Coordination
- ETS Programs lack of Comprehensive Systematic Planning
- ETS programs did not respond to labor market needs and admission was not linked to it!

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- Lack of Research Centers to conduct studies , follow-up or Analysis of the labor market
- Easy access to the foreign labor alternative
- Lack of Religious and National Sentiments which lead to black market in Work Visas
- Illegal Immigration practices which allow foreign worker to keep working undercover after their work permit and visas have expired

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Negative Impact of Foreign Labor in Saudi Arabia

- Security Concerns
- Social Concerns

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Foreign Labor Negative Impact: Cont'd

- *Economic Concerns (Example)*

- Progressive growth in Foreign Labor outgoing Remittances, where in 2001 the total remittances were SR.70 Billion. Which is about 1/3 the annual budget of Saudi Arabia. In 1980 it was 13.616 Billion.

| Bahrain | Qatar | Oman | UAE | Kuwait | KSA | State |
|---------|-------|-------|-------|--------|-----|----------|
| 6,76 | 12,93 | 24,95 | 20,84 | 43,15 | 215 | Income |
| 8,25 | 15,79 | 22,15 | 23,22 | 64,54 | 215 | Expenses |

- This is equivalent to the total budget of Oman, UAE, Qatar and Bahrain combined, or Kuwait and Bahrain combined! These are SCARY and worrisome numbers in economic terms!!!

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Economic Concerns: Continued

- Foreign labor competition for jobs with nationals, given the higher standard of living of the nationals puts the advantage with foreign labor. This means unemployment of Nationals, which leads to:

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Saudi Labor Market Main Features

- Non Saudi residents are 27.1% of the total population of Saudi Arabia (2004 census). There are 6.1 M expatriates , 77.67% of them are in the labor force. 51% of the Expatriates are from India, Pakistan and Egypt. (16.5 M Saudis, total is 22.7 M)
- 95% of the Expatriates work in the Private sector.
- 85% of the Expatriate workforce is simple unskilled labor force. The rest (15%)are the Skilled and specialized (Technical and Professional Occupations)
- Expatriate force concentrate in large Cities, where 2/3 of the Expatriate force is located in the cities of Riyadh, Jeddah, Dammam, Makkah, and Madinah.

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Saudi Labor Market Main Features: Cont'd

- The Private Sector is the Main employer in the Labor Market, accounting for 86.7% of the labor force, and 84% of the Expatriate labor force. Public (Government) Sector is almost at equilibrium except for usual replacements for retirement, death or other special cases of replacement.
- In 12/4.1415 Ah Royal Decree #50 was issued which states that a set percentage of the total workforce of establishments whose manpower is over 20 is to be nationalized on annual basis. This set percentage stands now at 30%, and it is fixed for the next two years to be revised by the Minister of Labor.

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Unemployment problem in Saudi Arabia: Government Solution Methodology

- The Manpower Strategy has 4 Main Tracks:
 - Nationalization of the labor force (Saudization) and increasing the **Local Labor Force Participation Rate**
 - Improving the local labor force **Productivity Rate**
 - Develop National Labor Force **Skill Profiles** to meet the **Labor Market Requirements**
 - Develop **Labor Market Services** and **INTEGRATE** all Labor and Labor Market related **Key Players**

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Solutions to Improve Labor market Saudization

- Increasing Labor Market Saudization Rates can be done through two Different Sets of Solution Approaches :
 - **Economic** Approach Solutions
 - **Administrative** Policies and Regulations Approach, Solutions

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- **First: Economic Approach Solutions**
 - Minimum Wage Policy
 - Reduce Foreign Labor Visa Numbers through higher Fees
 - Foreign labor wages and benefits, taxation
 - Saudi Labor Wages Subsidy, which is currently tested by Human Resources Development Fund (**HRDF**), Funded through policy # 2 above!
 - Fixed Nationals Family Subsidy, currently implemented in Kuwait only.
 - Subsidize Saudi Labor Produced goods and services
 - Combine or mix any of the above policies as per Economy and Labor Market conditions

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Second: Administrative Policies and Regulations Approach

- These address the **Four Main Tracks of Policies** Outlined Earlier; The Details of which are as follows:
- **Nationalization of the labor force (Saudization) and increasing the Local Labor Force Participation Rate**
 - Provide Incentives for the private sector to absorb more Saudis, create more jobs for them, and continue to nationalize the workforce in government organizations
 - Limit labor importation to skilled labor by establishing strict recruitment guidelines for labor importation .
 - Expand support for small projects investments, especially through the government owned Saudi Loans Bank

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Increasing the Local Labor Force Participation Rate Continued

- The Government Announced the Adoption of a new strategic long term policy to ***Establish a 20% upper Ceiling as a foreign Labor Force percentage of Saudi Labor Market by the Year 1433 Ah (10 years time frame). No single nationality is to compose more than 10% of the foreign labor force also! Policy is to be evaluated every 2 years.***
- Launch media campaigns about the importance of Work and its social and religious value
- Maximize Female Participation Rate , and introduce more jobs for females in accordance with the Islamic Regulations
- Review Labor Law Articles to ensure Compatibility with Development Requirements of Saudi Arabia, **AND** Maintain a coordination between the Social Security and Civil Retirements Systems for best integration.

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*Second: Administrative Policies and Regulations Approach,
Solutions: Continued*

- Improving the local labor force **Productivity Rate**
 - Improve work productivity in both Private and Public sectors through studies and Appraisals of the performance and work productivity methods.
 - Reconsider the size of the government labor force through redistributing it to public sector establishments that need them the most, and try to resolve the issue of declining employment offers out of major urban centers
 - Consider transferring surplus public sector employees to the private sector

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- Develop National Labor Force **Skill Profiles** to meet the **Labor Market Requirements**
 - Increase the Absorptive capacity of the ETS (Education & Training System) in majors critical to the national economy, and direct admission in the ETS to respond to the needs of the Labor Market.
 - Involve the private sector in the continuous Review of Programs and suggest New Educational Tracks that meets the Labor Market Needs.
 - Improve Continuing Education Programs efficiency, and concentrate on the literacy programs, and solving dropout problems to increase the productivity and participation of the Saudi Labor force in the market.

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Administrative Policies and Regulations: Continued

- Provide Professional Career counseling for students to allow them select educational or training tracks that are most appropriate to their abilities and talents
- Develop a Comprehensive Training Strategy to be used to draft a Long Range Nation Wide Training Program that covers all levels and specialties.
- Encourage the private sector to Invest and contribute in Training both before and on the job .
- Design special training programs for the Saudi worker who did not go through the ETS to enter and compete in the labor market.
- Support and fund more research in the field of Human Resources Development (HRD) in universities and other specialized research centers.

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- Develop **Labor Market Services** and **INTEGRATE** all Labor and Labor Market related **Key Players**
 - Activate and support local and private Employment offices, especially their Career guidance and placements services .
 - Develop a Nation Wide Manpower Information System linking all ML offices in Saudi Arabia, giving them instant access to accurate up to date data, which is updated regularly, that covers, manpower, establishments, students, and ETS to guide the ML in their job assignments and selection
 - Finalize jobs descriptions, classifications, specifications, and requirements, at a national level access system to allow job seekers to find jobs available and their requirements and which ones they meet their specifications and conditions. **ML** have done that recently.

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- Promote Planning Education and emphasize the importance of Manpower Planning at the establishment or organization level at the partial or total scope , and unifying methods, techniques and definitions in manpower.
- Ministry of labor should follow up and coordinate all efforts taken by organizations concerned with Saudi manpower planning, development, and employment, and should encourage the links and cooperation among them to better develop the Saudi labor force and solve any problems they may have in the future. related

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Other Recommendations

- Create robust and strict monitoring system to implement and follow up all regulations and policies related to Saudization. (The Ministry of Labor is doing that and **in 1421-1422 AH it carried 28,797 inspection visits covering over ONE Million workers with violation citations 194% over the previous year!!**)
- Limit certain occupations for Saudis ONLY, Ministry of Labor (ML) lately activated a new policy limiting 22 occupations strictly to Saudis ranging from Administrative Manager to Training Manager to Tourism Guide.
- Actively Implement the Comprehensive National Information System for the Labor Market Data Base. The **Minster of Labor effective March 2002** authorized suspension of all online services to establishments which did not update their data base on the ML main frame through its branches across Saudi Arabia (**These services include authorization for work permits, work visas, and Saudization Certificates!**)
-

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- Bridge the **Big Gap between jobs** in the **Private** sector and those in the **Public** sector in terms of salary, Working hours, Productivity and Work ethics
- Establish new Job Creating Authorities and tracks, such as the Supreme Commission For Tourism (1.4 million Jobs promised within 5-6 years)
- Establish Financial unemployment allowances up to 24 months to support the unemployed workers until their skill is improved through training

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Concluding Remarks

- This problem took a long time to develop , therefore it is expected to take longer to fix. Thus, steady, firm and strong commitment in the implementation of policies is Essential for its solution success
- Human Resources Development Fund was established to support and finance Saudi Human Resources development and Employment, support it and activate its programs!
- The Higher Commission for Tourism was established to train and prepare Saudis then employ them in the growing tourism sector, as a future absorption channel
- Establish Labor Consultative Standing committees across Saudi Arabia to utilize their expertise and support Saudization efforts

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- **Declare Short Range and Long Range Saudization targets with workable implementation mechanism and support the initiatives to implement them (Reduce Foreign Work force to 25% of the Labor Market!)**
- **Constantly publicize successes in the Saudization efforts (16-19% increase in Saudization efforts were achieved by the Government 2001-2002)**
- **Establish Cooperative Education and Training Programs to provide easy transition into the labor market of young Saudi graduates**
- **Hosting and supporting Career Day events in Saudi Universities, because they provide excellent education about labor market jobs available and manpower specialties available among graduates**
- **Encourage Industrial Localization in the GCC**
- **Encourage Chambers of Commerce, Charity and other NGO's to employ Saudis and train them.**

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*Thank You for Your
Kind Attention*

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