800,000 expats have left Saudi Arabia, creating a hiring crisis: 'Employers say young Saudi men and women are lazy and are not interested in working'

Ambrose Carey, Alaco
Business insider, Jul 9, 2018

Reuters/POOL NewSaudi Arabia's Deputy Crown Prince Mohammed bin Salman, center, at a meeting at the Elysee Palace in Paris.

- **The Saudisation policy of Saudi Crown Prince Mohammed bin Salman has coincided with an "expat exodus" and a drop in foreign investment.**
- **Saudi businesses are complaining that locals don't want to do "low-status" jobs that many expats worked - creating a real problem for the economy.**
- **In November, a paper by the Institute of International Finance projected capital outflows in 2017 at $101 billion, 15% of gross domestic product.**
- **A recent rebound in oil prices has temporarily rescued the ailing Saudi economy, but it will not be a long-term solution.**

Saudi Crown Prince Mohammed bin Salman may have portrayed himself as a moderniser rolling back the country's stultifying social restrictions - but he is struggling to turn the country's financial fortunes around, with the economy suffering a crisis of confidence.

Hit hard by the oil-price collapse, the kingdom is now experiencing a plunge in foreign investment and high levels of capital outflow as its de facto leader, MBS as he is commonly known, attempts to consolidate power and steer a new economic course.

The uncertainty caused by his ambitious, some would say unrealistic, plans to modernise the economy has been further stoked by Saudi Arabia's apparent struggle to fill private sector jobs vacated by a growing exodus of expats. As of April, more than 800,000 had left the country since late 2016, alarming domestic companies concerned that the foreigners cannot be easily replaced.

Their departure is part of MBS's attempt to wean the country off its dependence on oil through economic diversification, a significant element of which involves trying to persuade Saudis in undemanding state sector jobs - which make up two-thirds of domestic employment - and those out of work to take up the new vacancies. The authorities want to generate 450,000 openings for Saudis in the private sector by 2020.

MBS has sought to expedite the exodus of foreign workers, who constitute about a third of the population, by stepping up the process of so-called Saudisation - essentially the creation of a more productive local workforce. He is hiking up levies on companies employing non-Saudis, requiring foreigners to pay fees for dependents, and restricting the sectors in which they can work, with employment in many areas of the retail and service industries now strictly confined to Saudis. The measures are said to be driving the expat exodus, evident in the marked downturn in the rental real estate market and empty shopping malls.

While among high-earning Western professionals Saudi Arabia has long been viewed as a hardship posting compensated by their tax-free status, the majority of foreigners in the country are from the Middle East and Asia, many employed in low-paid jobs in the sectors now earmarked for Saudis.

But Saudi business owners are having difficulty getting locals, accustomed to undemanding work in the state sector and generous unemployment benefits, to work for them. Reports suggest many Saudis are put off by what they regard as poorly paid, low-status jobs. The recruitment problems have seemingly sparked so much concern that they have been played out on the pages of the Saudi Gazette, the government's mouthpiece, which normally features anodyne stories about life in the kingdom.

In February, the publication reported that a number of heads of chambers of commerce and industry had called on the government to exempt the private sector from "100%" - or full - Saudisation, especially posts that are hard to fill, such as in construction, amid concerns that many businesses may close down. In May, an item revealed that over a three-month period over 5,000 fines were issued to businesses flouting Saudisation rules in sectors ranging from telecoms to hotels to car rental.

Many companies are reported to be circumventing the policy's local employee quota requirement by hiring Saudis and paying them small salaries for what are in effect bogus jobs - a process termed "fake Saudisation" - prompting some to call for the nationalisation of the jobs market to be reconsidered. In December, columnist Mohammad Bassnawi provided an intriguing insight into private sector concernsover the policy and its possible consequences.

"Employers say young Saudi men and women are lazy and are not interested in working and accuse Saudi youth of preferring to stay at home rather than to take a low-paying job that does not befit the social status of a Saudi job seeker," Bassnawi said, adding that fake Saudisation "could create a generation of young men and women who are not interested in finding a job and who prefer to get paid for doing nothing."

Nonetheless, the authorities seem unlikely to row back on Saudisation. MBS hopes to generate some $17.33 billion through the new expat taxes by 2020 in order to help address the budget deficit - projected to be $52 billion in 2018 - and finance new economic projects. Yet critics question whether the projected tax haul will compensate for the loss of consumer spending resulting from foreigners' departure, as even those who remain are likely to send their relatives home because of the fees on dependents.

"Taxation of expatriates, before Saudi Arabia turns into a productive economy that depends on industry, is like putting the cart before the horse," Tariq A. Al Maeena, a Jeddah-based commentator, said in Gulf News in October. Karen E. Young of the Arab Gulf States Institute in Washington, writing in the institute's blog in February, said it will take a decade or more to create a working class of Saudis willing to do service sector, retail, and construction jobs.

In the meantime, MBS's hopes of raising capital elsewhere, and making public expenditure savings, are dimming. His ill-judged roundup of princes and businessmen late last year in an anti-corruption drive, which seemed more like a shakedown, generated a fraction of the $100 billion target, in the process shaking investor confidence. And a plan to slash public subsidies has had to be curbed in the face of public grumblings.

And though a much-publicised tour of Western capitals earlier this year enabled MBS to burnish his self-image as a social and economic reformer to largely uncritical audiences, it's unclear whether the round of diplomacy has salved the concerns of the Saudi business community and Western investors. Foreign direct investment slumped from $7.5 billion in 2016 to $1.4 billion last year, a fourteen-year low, UN figures show. Moreover, in November, a paper by the Institute of International Finance projected capital outflows in 2017 at $101 billion, 15% of GDP. The IIF said capital flight from Saudi Arabia has contributed to the sizeable decline in official reserves. There are strong anecdotal indications that a proportion of these outflows represent concerned businessmen shifting as much of their liquid assets abroad.

Fortunately for MBS, a rebound in the price of oil has provided some financial respite. Foreign reserves, which have in part been used to finance the budget deficit, experienced a month-on-month rise of just over $13 billion, to nearly $499 billion, in April, still way down from their peak four years ago, when they stood at $737 billion.

While he may have more funds at his disposal, MBS can't continue indefinitely to draw them down, nor rely on bond issues, to plug budgetary shortfalls. Yet he might have no choice. With Saudi business and foreign investor confidence in the economy at such a low ebb, and Saudisation under strain, it will be a while before private sector wealth-generation will be able to help him balance the books.

Ambrose Carey is a director at Alaco, a London-based business-intelligence consultancy.