



THE IMPACT OF THE REVISED EXPAT LEVY ON THE SAUDIZATION RATIO

Ahmed M. Asfahani, Ph.D.

University of Business and Technology, Collage of Business Administration, Human Resources Management Department, Jeddah, Saudi Arabia

ABSTRACT

KEYWORDS:

employment, expat levy, average rate, income, foreign workers, private firms

Saudi Arabia government introduced Saudization in its employment policies to control the high number of expatriates taking away jobs at the expense of the Saudi citizens. Most recently, the Saudi government revised the expat levy on the Saudization ratio. The new expat taxes we operational as from May 2017. These costs are largely expected to raise costs for the private sector. The impact is likely to be felt more on the labor-intensive sectors like retail and construction. Currently, the Saudi firms pay SAR200 levy per expat worker, and this figure is expected to double to SAR400. Every year to SAR800 in 2020. This paper explores literature and gathers evidence of the possible impact of the revised expat levy on the Saudization ratio.

1.0.INTRODUCTION

There is a number of reasons, both economic, social and political, which explains why the Saudi Arabian government has recently adopted the stringent approaches used to deal with the Saudi unemployment issues and labor market. When there is unemployment, it implies that there is a low level of production, low standards of living and high levels of dependency rates in the economy. Studies show that the Saudi Arabian dependency rate reaches 56 for every 100 workers, which is about 2.4 times the global average rate of dependency (Al Sheikh, 2003). Therefore, any significant reduction in the worker income, or when there is no work, the living standards of the citizens is directly impacted. The local Saudi press has in the recently reported increase in the crime rates in the country, and this is attributed to the high rates of unemployment (Al Munajjed and Sabbagh, 2011).

However, the Saudi government faces two primary challenges in its effort to create employment and to raise the standards of living; Firstly, Saudi Arabian age structure is young, with the new number of entry workers increasing every year. This is supported by the fact that Saudi Arabia has one of the greatest birth rates globally. Secondly, Saudi Arabia receives several workers every year from foreign countries. The system does not, however match the availability of jobs with the market skills for the foreign workers. This means that the foreign workers are bringing in skills already existing in Saudi Arabia. The problem is even further propounded by the sponsorship scheme by the private firms, referred to as the *Kafeel* system

In an attempt to solve the unemployment situation in the country, the Saudi Arabian government has introduced

the program and policy referred to as "Saudization." The program is directed to replace the expatriate workers gradually with the Saudi workers (Looney, 1992). The private sector is being encouraged and directed to increase the proportion of the citizens in the employment through a policy of punishments and inducements, which charges for *Iqamas* or work permits and re-entry/exit visas significantly raised. As a result of the policy, the private sector finds it very challenging and expensive to hire expatriate workers. The issuance of the foreign labor visa is also being strictly and rigorously screened.

2.0.EXPAT LEVY

The Saudi Arabia expatriate levy can have a significant impact on the private sector. From May 2017, the government started collecting a new fee on a monthly basis amounting to 100 Saudi riyals for every foreign worker dependent, with plans to increase the charge on gradual basis every year until 2020. Initially, it was not clear who will shoulder the levy, but it has come out clear that the foreign workers are the ones to pay for the charges, and not employees. It is the expats to pay for the levy as described by the executive vice president of Kuwait Financial Center, Mr. Markaz.

The firms that have employed more foreigners compared to the local Saudi citizens on their payrolls are presently spending 200 riyals on the monthly basis for every foreign worker. The charges only apply to the foreign workers, and the companies have to adhere to the specified number of foreign workers they employ to escape the monthly charge. The fee will apply to all companies, not just companies' dependent on the foreign workforce. For the expatriate workers that do not exceed the number of the Saudi workers,

the levy will no longer be waived but will be taxed at a discounted rate as reported by PwC.

The revised Saudi Arabia expat levy could easily put pressure on businesses that possess a high number of foreign workers. This implies that the cost of doing business for such companies could definitely go up year on year alongside the increase in the levy. Again, the companies that employ more Saudi citizens to render them services will also not be exempt from the policy but will have to pay a discounted tax.

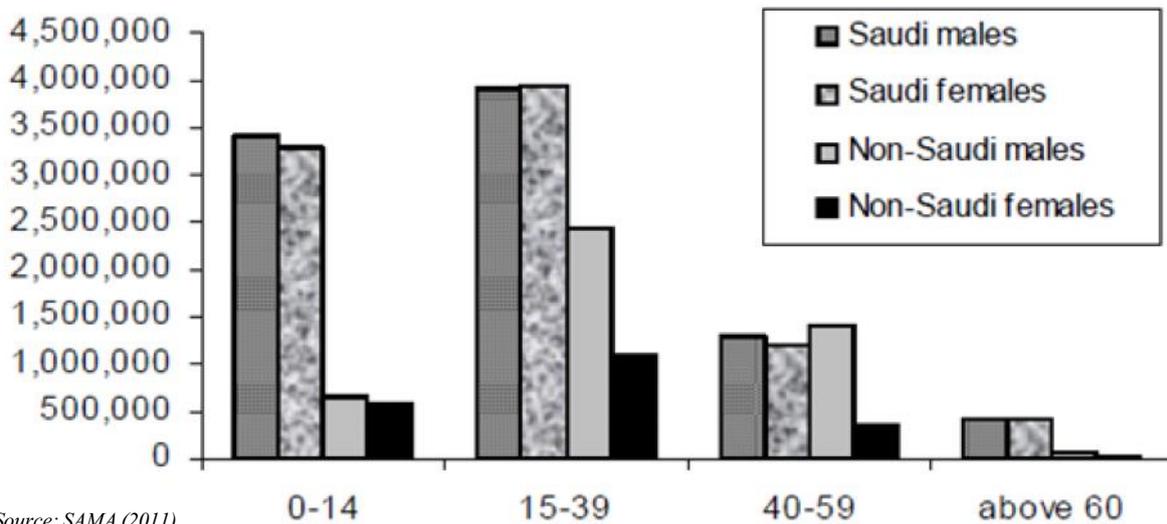
The organizations that employ a high number of the workforce from foreign countries will be impacted with the increasing levy per head. If the expats have dependents, they will not only have to pay a monthly fee but will also be required to face higher costs, with the upcoming VAT and increasing utilities and fuel coats that eat into their savings. As a result, there is a likelihood of a general decline of savings by about 6 to 15 percent. These levies are not bad for the Saudi economy, provided that they don't take away the attractiveness of doing business in Saudi Arabia, especially in the private sector which significantly relies on the foreign

labor. It is projected that the newly revised expat tax and dependents levy will generate for the country an income of about 65 billion Saudi riyals by the year 2020.

3.0. CHARACTERISTICS OF THE SAUDI LABOR MARKET

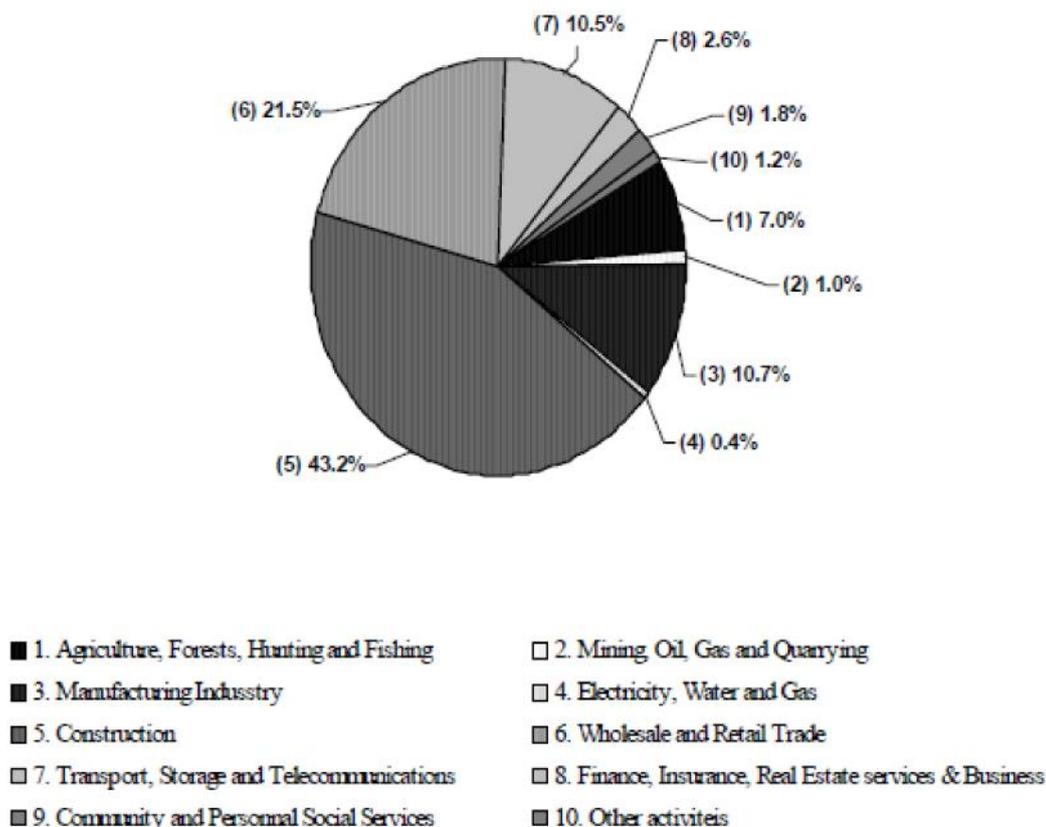
A labor market is either a formal or informal marketplace where the employees find work in exchange for payment, the employers hire the services of skilled workers and the wage rates in the market are determined by the demand and supply forces (Leahy, 2007). Again, a labor market can be either national, international or local in their scope, and constitutes smaller related and interacting labor market segmentation, geographic locations, skills, and qualifications. The labor market depends on the free exchange and flow of information between the job seekers and the employees regarding the conditions of employment, the wage rate and the location of the job. The Saudi Arabian foreign labor force and the imbalances in the youth demography are demonstrated in the figure below.

Figure 1 Saudi Arabia's population by age groups, gender, and nationality (2010)



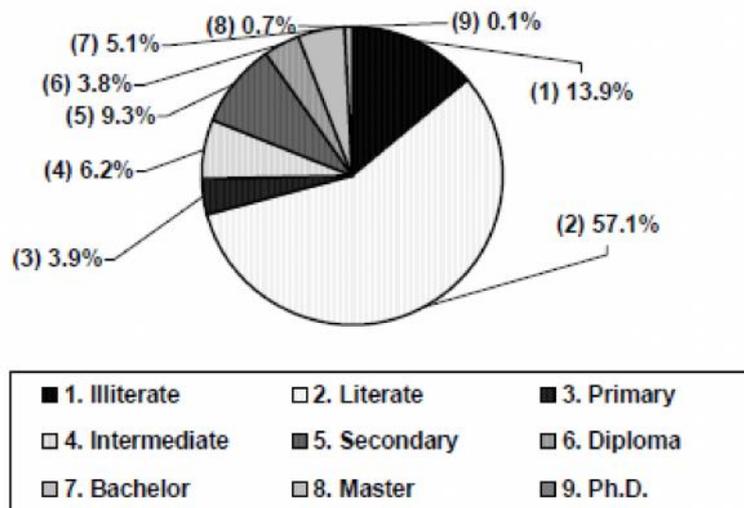
Source: SAMA (2011)

Figure 2: Distribution of Saudi Arabian workforce in the private sector in 2010



Source: SAMA (2011)

Figure 3: Saudi Arabian Workforce Breakdown in the private sector by educational level (2010)



Source: SAMA (2011)

Overall, the labor force in Saudi Arabia market is characterized by the growth of a significantly high level of youth participation, and very high rates of expatriate’s employees especially in the private sector, leading to increasing the levels of depression of the average general wages, reduced productivity and high levels of unemployment which is projected in the years to come if no critical action is taken. As provided by SAMA, the Saudi foreign labor accounts for

about 90% of the total national labor force as at 2010, amounting to about 7 million. On the other hand, only 725,000 Saudi citizens are employed in the private sector (Saudi, 2012b). The pattern of employment in Saudi Arabia is completely the reversal in the public sector, with about 885,000 Saudi citizens working in the sector in the year 2010, constituting 92% of the workforce.

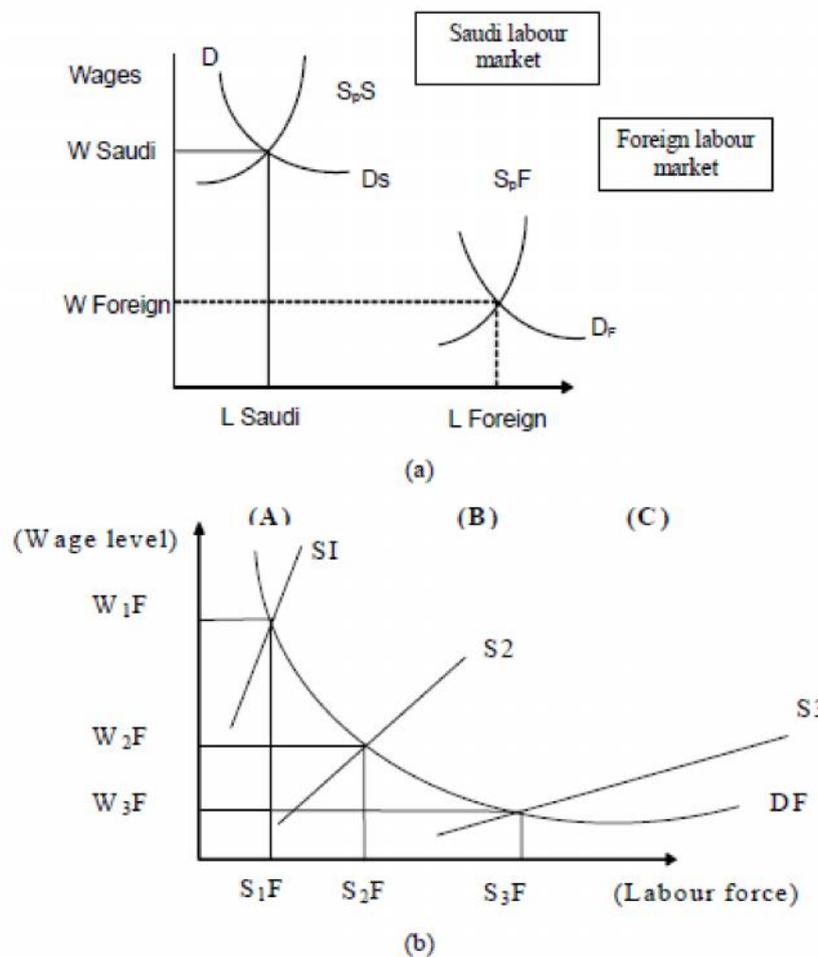
Table 1: Saudi Arabian Average wage (1994–2008)

	Saudis		Non-Saudis	
	Males	Females	Males	Females
1994	7,298	3,660	2,153	3,133
1995	7,896	3,864	2,142	3,016
1997	7,570	4,144	2,046	2,716
1998	7,473	3,812	1,934	2,740
2000	6,877	3,217	1,763	2,391
2001	6,684	3,151	1,710	2,403
2002	5,984	2,703	1,543	2,221
2008	7,650	3,100	1,650	2,480

Source: Ministry of Labor, SAMA

The subclasses of income compared to the native Saudis and aliens are broken down in terms of dual diverse labor markets (United Nations Development Programme – Regional Bureau for the Arab States, 2009) This finding was reported by a Saudi economist, and it is relevant to the bigger GCC employment market this is shown in figure 4 below.

(a) The difference of the Saudi labor market (b) the orders and deliveries for immigrant labor in Saudi Arabia by market divisions



The image 4(a) shows the idea in modes of specialized order and deliveries for Saudi and alien employment markets. In the diagram, D's and Sps mean order and deliveries of Saudi workforce, while DF and SPF mean the order and deliveries of the alien workforce (Urdal, 2006). As stated

before, there is a big difference in salary levels, not only amidst Saudi natives and aliens but also amidst diverse expert groups of aliens. Thus the foreign labor demand and supply in Saudi Arabia displays a big difference on delivery compatibility, thus giving the varied salary levels of alien

workers. By delivery compatibility, we mean the receptiveness of the delivery or workforce to fluctuations in the salary level. This is shown in 4(b).

4.0.SAUDI QUOTA NITAQAT SYSTEM: OBJECTIVES, EXPECTATIONS AND ASSESSING THE COST

Measures by the government to reduce alien workforce and develop audition have gone both ways. It's been challenging to relay and follow up the rules that manage a number of aliens because the bringing in of the alien workforce has more support from the influential trading and commercial organizations. Cheap alien labor has made profits for these organizations. The backing of alien employees blocks market demand and supply ways thus the stagnant sectors with more than needed workforce and deliveries shortages in other sectors (Damanhour, 2017). The institution in governance can come up with a strategy to slowly remove the support system after reimbursement of employers for costs incurred. Some of these costs can be deducted from laborers salaries in a set system. Reduction of work visas has been taken as a measure by the Saudi government in order to regulate the number of workers so as to create a demand for supply. This is the origin of the prologue of the Nitaqat system to boost causation (Saudi Gazette, 2017).

Ahead of evaluating the goals and anticipation from the quota Nitaqat structure launching, inquiry on why the Saudi Arabian private segment is hesitant in employing the Saudi citizens, but choose to employ experts has to be answered. Various people claim that the hesitation comes from the cultural attitudes of the Saudi people towards work. Reality is that because of the negative mindset of Saudis about specific types of work, a lot of experts are found there, although it is a single most country in the GCC with a lot of inhabitants that are capable of carrying out the country's growth without help from any other country (Looney, 1992; Nur, 1995). In addition, the importation of workers overseas, and at the same time offering privileges to the citizens have contributed to the negative mindset of the Saudi Arabians towards working. This has isolated Saudi Arabians from the job market.

5.0.EXPAT TAX AND ITS IMPACT ON MARKET ECONOMY

The trickiest factor that is faced by the Saudi people is the existence of a big number of expatriates who came to Saudi Arabia during the 1970s economic boom. These experts have become part of the Saudi society since some perform their duties in some Saudi offices, homes, streets, hospitals, schools, universities government sectors and various other sectors.

The work or services that are offered by these experts cannot be forgotten or taken for granted during periods of Haj as well as Umar, whereby they clean and maintain the mosques in Makkah and Madinah. On the other hand, we should congratulate the government's efforts towards deporting illegal workers in the country, which is a good step in reducing violations (Damanhour, 2017).

Various measures have been put in place through the improvisation of technology at various passport departments. This has brought about the efficient renewal of passports and permits of the experts that come into the country. Muqem and Abshir websites, as well as the monitoring of violators and insurance payers, is another accomplishment towards efficiency in the country's labor market. On the other hand, the newly introduced expat dependent tax has brought about some difficulties in the expat sectors which create some negativity and thus bringing about low output. A lot of expats have taken back their families, which has led to the closing down of some stores (Saudi Gazette, 2017). These new laws have made a lot of expat families to go back to their respective countries, and this has a serious effect on the market.

Humanitarian cases tend to arise in these areas since the international laborers have no knowledge of any other state which they can migrate to. This because many workers were born inside this territory. Some of the workers started employment through the connection of their guidance and had no documents to show their qualification. This factor contributed to the state to get involved and trace these culprits who defy laws of iqama and work policies and rules. This manhunt for illegal nationals has been a great achievement by the government and a great success on part of the use of technology in this technical world (Ahmad, 2017).

The government has introduced the collection of expatriate levies to the private business community. It wasn't well received by the private investors because it was costly to them but in the part of the state, it was a source of revenue (Chaudhry, 1989). Moreover, a collection of levies will bring about a rise in prices the basic needs and services. In return, this will affect low-income earners, retired and even the old ones who require different services. This has seen countries such as the Philippines and the likes of Indonesia to seize the exportation of the house helps due to exploitation and late wages. The state of Saudi is trying to solve the issue of lack of work by the nationals by replacing the foreign workers with its people. Also, it is trying to avoid loss of money through international transfers which amount a lot annually. Also to stop narcotics trafficking and money washing.

The damages caused by taxing the experts have no humanitarian impact. The enterprises affected by this imposition of taxation are the small business. This caused when the state tax the experts in a variety of fees such as working document, insurances, iqama, visa fees when entering and when living, and much more which has been added. All these taxes are paid by the private sectors. According to business studies especially economies tries to help has understood that small businesses are the backbone of any economy of a state. Therefore, causing this small business to run down means damaging the entry countries gross domestic product. In conclusion, we hope the state through its ministries, especially of development and labor, will have the second opinion and rethink before taxing the small business to avoid damaging the economy of the country. They should conduct total research before imposing taxes on its people

Background: Here is the schedule implementation.

Employer group	2018	2019	2020
Organizations that have less or equal employees than Saudi employees	RS300 for each foreign worker per month.	RS500 for each foreign worker per month	RS700 for each foreign worker per month
Organizations that overseas employees are more than Saudi employees.	RS400 for each foreign worker per month.	RS600 for each foreign worker per month	RS800 for each foreign worker per month

Charges are part of the government's hard work. Imposition of the fees is part of the government's efforts to persuade organizations in hiring Saudi employees. A new tax by the Saudi authorities has been imposed on relatives of the expatriate employees in July, while the new Saudization rules on the employers started working on the third of September.

BAL Analysis: The Saudi Arabian employers are to plan for the rise in charges for overseas employees in the coming 3 years as well as evaluate their proportion for overseas workers to Saudi workers to commence planning for a set of Saudization rules that will affect employment, and business costs.

6.0. THE IMPACT OF EXPAT LEVY

a) Expat levy has little impact on purchasing power

The tax imposed on expats has less effect on the power of purchase. According to the local experts, the tax imposed on experts and the choice of some families to leave the Kingdom does not leave an immediate effect on the economy's purchasing power. Various private sector organizations are imposing the expense they are gaining on their employees. On the other hand, according to Hattan Saaty, the number of experts willing to leave the Kingdom due to the new tax is not much. They are also willing to weigh the expense of leaving. Hattan Saaty is a managing stakeholder at Strategic Gears which is a local consulting company that issued a report that showed the amended expat tax and the effect it has on the economy. Rarely will the expats leave right away after the new tax is put into effect, and based on the research, most of these experts have stayed in Saudi Arabia for so long that the decision to move would be a tough one. Saaty adds that quite a number of the high-performing experts may expect a rise in their salary in the years to come. A survey of 1500 male experts that have families with different jobs and different income reveals that most of these workers will consider the tax to be too high at fifteen percent of their income (Robinson, 2017).

Saudi has about 11000000 experts nationwide, and at the same time, six hundred thousand jobless Saudi Arabians. According to the researchers, this escalating number of jobless people will force the government to come up with other ways of dealing with the situation. Saaty has the belief that the tax imposed on the experts will lead expert hiring being less or unattractive since the gap between Saudi experts and the Saudi employee's wages will be high (Robinson, 2017). In the long run, the expert tax will have a positive effect on the labor market in various ways, for example, private sector business structure change that mainly depends on cheap labor, Saudization increase, which will bring about high purchasing power for the Saudi families.

Six hundred and seventy thousand to leave Saudi Arabia in three years. By the years 2020, a report by Banque Saudi

Fransi claimed that approximately six hundred and seventy thousand overseas workers are to leave Saudi Arabia (Bank Saudi Fransi, 2017). The Saudi Arabian newspaper that goes by the name 'Mecca' stated that about one hundred and sixty-five thousand experts are anticipated to leave the nation each year. Additionally, it was claimed that the new tax charges that are imposed on the workers' partners would increase the next year's budget by twenty billion dollars (Saudi Gazette, 2017). Approximately, there are about 11,700,000 foreigners in Saudi, 7,400,000 are employed while the remaining 4,300,000 are the partners (companions). These sums up to 1,100,000 families. From 1st of July is when the Saudi Arabian authority began getting the fees from the expert partners during their ID card renewal (Ahmad, 2017). These partners (companions) pay about one hundred riyals every month which is about 27 dollars due to become four hundred riyals, about 107 dollars every month by the year 2020.

The Kingdom has come up with an economic plan by not depending on oil as much and expand its economy. In the 2030 vision, taxes have been imposed, for example, the value-added tax on products, raise charges, and come up with new industries as well as weapons manufacturing.

b) Expat levy to add SR60bn economic burden on Saudis

Same as any other main strategy plan, Saudization causes conflict in sectors like transport expecting a disaster. A final objective of improvement and growth is associated with some expense in short-term in-between distraction. Measurement of effects of Saudization economically is still at its young or early stage. However, two major worries exist. Foremost, various organizations may have the feeling that Saudization minimize their competitive advantages, and so they may choose to leave the Kingdom to somewhere else that is more business-friendly. Organizations in the service sectors for example; banks are where the Saudi labor has applied Saudization. According to many bankers, Saudization would cause business failure to other neighboring banking institutions, mainly the ones in Dubai. This nation's poor regulations resulted into about two thousand five hundred Saudi organizations relocating to Dubai instead of the Kingdom. Various advocates from Saudi Arabia for example, the Saudi economist Ihsan Bu-Hulaiga argues that due to the fact that only 15% of the experts are skillful the, there will be no vacuum in the domestic labor market due to amendments in the quotas. The advocate's argument claims that the Saudi Arabian local market is already filled with overseas people, of which some are not employed, no skills or cannot read or write (Kerr, 2017).

Competition with the local Saudi Arabian job hunters is what they do in order to force the wages down. The other area that Saudization will affect is in the Kingdom's FDI

sector. Overseas organizations may end up assuming Saudization does not just inconvenience, but also the agenda is not predictable, which is not a good sign for them. Worry over Saudization effect on the foreign investors led to the change in foreign investors' tax from 45% to 20% (Kerr, 2017).

c) Saudi Arabia expel Egyptian workforce

The word Saudization was created by the journalist first after the broadcast of vision twenty thirty of the state of Saudi for reforms in the country was announced on television. This word has been tormenting the laborers of Egypt descend expatriates who work within the nation. This hatred began in January sixteen when there was a dispute between the two nation's governments over land. This land was the islands of Sanafir & Tiran of the red sea. During this period (January 16) the highest court of the land of Egypt administrative, the Supreme Court, nullified the nautical boundary separation accord among the two countries. The judgment made by the Egyptian courts was the main causes to trigger saudization hardship for the nationalities of Egypt descend expats in the state of the Saudi kingdom.

The vision twenty thirty of the state of Saudi Arabia is mostly concentrated on economic development and communal guidelines. This guideline to create work for its populace in order to avoid over-dependence of international expatriates and transfer this works to its citizen in order to reduce the percentage of the unemployed in Saudi to seven percent. The judiciary judgment by the Egyptian highest court was not the only factor that triggered saudization of the expert in Saudi Arabia. This tension of enmity between these two countries since Oct year twenty sixteen ignited the labor force of Saudi by giving the jobs which were being occupied by the Egyptians experts to its locals was due to the political instability as one of another factor (Robinson, 2017).

7.0.DISCUSSION

Incentive-Based Saudization Strategies

There is a significant number of teachings to learn from for other GCC nations while trying to construct work for its citizen populace.

- I. The petroleum industries find it very hard to provide enough work opportunities for its citizens and still compete effectively due to the resources strength.
- II. Instead of giving out works belonging to the internationals to its nationals, the government should rather create new vacancies to its nationals in order to have a lasting answer for housing increased workforce.
- III. The idea of developing new employment without expanding international express ventures is impossible, therefore foreign influence will always be a factor
- IV. The newly employed personnel should be trained well for the position and can be implemented in countries rules.
- V. The foreign employees send money outside the country making the survival of upper-class national needs hard.

Most Saudi new foreign experts tend to seek work employment in private industries rather than the government. This gives the opportunity to the nationals to grow economically through international trade and technological reliability.

a) The Role of Market Forces and Incentives

Saudization should concentrate more on economic factors initiatives rather than market share concentration. It should be focused on the development of environment with an increase also in international enterprises through some venture such as educational programmers. From these procedures involving supply and needs some rules must be implemented to create new work positions. These policies can be categorized in 3 wide groups which are; income and job expense, purchase of labor and investing on funds technological systems. These rules are organized focus on the economy and follow requirements such work shares which mostly influence competition and nonpetroleum increase by increasing expenses and maximizing job suppleness (Ahmad, 2017).

b) Regulations and policies affecting Wages and Costs of Employment

If payments on income for or earnings by the state sector employees is reduced, means that it will cause a shift of thought by the employees to seek alternative source which will be the private sector. Restriction on the state on employing also can bring a shift of thought by the locals to look for alternatives from the private investors. This creates a balance in the two sectors (Ahmad, 2017).

c) Skill development

The ability to get skilled labor especially by the private enterprise in Saudi helps the country increase in job vacancies. Formulating a well-organized higher education system will help the locals to develop or acquired skills and knowledge for different departments such as the technological and much more. This can even help in entrepreneur skills and also create a nation of skilled workers.

d) Investment in capital and knowledge

The use of advanced technology especially buy private investors helps the sector to develop at the same rate as the rest of their competition. In order to keep that competitiveness, a larger workforce is required therefore the creation of jobs will arise. An increased fund means an increase in industrial development thus creating more job vacancies. The state should focus more on the efficiency of the state.

e) Costs and Benefits

If Saudization is rightfully managed, the possibility of achieving vision 2030 is most likely to succeed. However, expenses incurred during activities such as education are expensive and the intervention by the government is needed.

8.0.CONCLUSION AND RECOMMENDATIONS

Some of the kingdoms in Saudi Arabia do not fully agree with Saudization or the new systems put in place for economic development towards productivity such as job expansions, competitions, and market expansion (Kerr, 2017). There should be a diversion from focusing more on petroleum production but rather also other sectors. This helps to encourage the private sector to grow and even attract more multinational investors. The state should consider the following as it awaits transformation.

- Should make working conditions for private industries attractive and conducive to work. The income difference among private and state should be lowered.
- Equality among internationals and the locals
- Promote education and other skills required for entrepreneurial skills

- Efficiency and investing in funds/capital
- Using of price valuation rather than amount valuation economic connection.

REFERENCES

1. Ahmad, M. (2017). *Expat fees and tough personal decision*. Saudigazette. Retrieved 12 September 2017, from <http://saudigazette.com.sa/article/512434/Opinion/OP-ED/Expat>
2. Al Munajjed, M. and Sabbagh, K. (2011) *Youth in GCC Countries – Meeting the Challenge*, Booz & Company Ideation Center, Riyadh.
3. Al Sultan, A. (1998) 'Saudiization of labor market in Kingdom of Saudi Arabia: dimension, obstacles and suggested remedies', *Journal of Public Administration*, October, Vol. 38, No. 3, pp.106–115.
4. Bank Saudi Fransi, (2017). *Report: 670,000 expats to leave Saudi Arabia in 3 years*
5. *Companies weigh options to deal with new expat fee*. (2017). Saudigazette. Retrieved 5 September 2017, from <http://saudigazette.com.sa/article/512155/SAUDI-ARABIA/expat-dependents-fee>
6. Chaudhry, K.A. (1989) 'The price of wealth: business and state in labor remittance and oil economies', *International Organization*, Winter, Vol. 43, pp.101–45.
7. Damanhour, L. (2017). *Expat levy has little impact on purchasing power, experts say*. Saudigazette. Retrieved 10 September 2017, from <http://saudigazette.com.sa/article/513851/SAUDI-ARABIA/Expats>
8. Kerr, S. (2017). *Saudi expat levy weighs on property market*. Ft.com. Retrieved 11 September 2017, from <https://www.ft.com/content/3b12915a-60aa-11e7-8814-0ac7eb84e5f1>
9. Leahy, E, Engelman, R., Vogel, C., Haddock, S. and Preston, T. (2007) *The Shape of things to come: Why Age Structure Matters to a Safer, more Equitable World*, Population Action International, Washington, DC.
10. Looney, R. (1992) 'Factors affecting employment in the Arabian Gulf region, 1975–1985', *International Journal of Social Economics*, Vol. 19, No. 2, pp.72–86.
11. Robinson, G. (2017). *Saudi expat levy begins in confusion - International Investment*. International Investment. Retrieved 10 September 2017, from <http://www.internationalinvestment.net/regions/saudi-expat-levy-begins-confusion/>
12. Saudi Gazette (2012b) 'Qatar to allow trade union, scrap sponsorship', Jeddah, 2 May.
13. United Nations Development Programme – Regional Bureau for Arab States (UNDP/IRBAS) (2009) *Arab Human Development Report 2009 – Challenges to Human Security in Arab Countries*, United Nations Publications, New York.
14. Urdal, H. (2006) 'A clash of generations? Youth bulges and political violence', *International Studies Quarterly*, Vol. 50, No. 3, pp.607–629.