

COVID-19 and Employment in Saudi Arabia: An Initial Assessment

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Introduction

In the space of a few short weeks in March, the COVID-19 pandemic took over every aspect of our lives and caused the global economy to grind to a standstill. Health concerns over the spread and mortality rate of the virus understandably took priority in the first phase of the pandemic, as governments issued travel bans and lockdowns in an attempt to limit uncontrolled community spread and prevent overloading of national health systems. One of the aspects of our lives most affected by these decisions has been employment, as social distancing, curfews and quarantines disrupt employment in many sectors. The sectors that have continued employing staff have done so mostly through remote working. In the space of a few days, millions of workers all over the world switched from commuting to working from home.

Working from home is only possible in certain sectors, however. As we shall see in this short note, the distribution of these sectors is skewed heavily against those who are less educated and earn lower wages. Those who could not work from home or were not employed as essential workers were highly at risk of being laid off during the early days of the pandemic. Indeed, over 26 million workers in the United States (U.S.) filed for unemployment benefits in April (Chaney and Guilford 2020). In the United Kingdom (U.K.), unemployment filings for the last two weeks of March dwarfed those at the peak of the 2008-2009 Great Recession by a factor of five (Brewer and Handscomb 2020).

Governments across the world have introduced policies aimed at supporting businesses during the COVID-19 crisis in the hope of making as much of this early unemployment as temporary as possible. In many countries, unemployment assistance coverage has been expanded to incentivize businesses to lay off workers rather than covering high wage bills in the face of limited revenue during the lockdown and the global economy on the verge of a steep recession. Businesses are expected to rehire laid-off workers once the crisis abates, thereby alleviating the burden on governments and positioning their economies well for a rebound.

However, even with government interventions, the pandemic is set to have a large effect on global employment. The first wave of lockdowns will be followed by indefinite transitional periods during which economies will reopen, but the virus will remain very much a threat. The International Labour Organization (ILO) initially estimated that up to 25 million jobs will be lost as a result of COVID-19, a figure similar to that of the Great Recession (ILO 2020). Further, dire predictions of a global recession from organizations such as the International Monetary Fund (IMF) have begun to affect confidence in global labor markets. Surveys conducted in the U.S. and U.K. in April 2020 indicate that, of those workers still employed, 40% believe they will be unemployed by August 2020 (Adams-Prassl et al. 2020). Add to this the emerging realization that social distancing measures may be required for the medium term, and the possibility of second and third waves of the virus before a vaccine is found, and it is understandable that many are nervous about their job security.

This note looks at the Saudi Arabian labor market and analyzes how employment in certain sectors will be affected in the medium term as a result of the ongoing crisis. There are large variances in risk between activities made difficult by the early lockdown measures and those that can be performed remotely. What is most noteworthy, however, are the different employment shares of Saudi nationals and

non-Saudi workers in activities deemed to be high and low risk. This insight argues that migrant non-Saudi workers who dominate the Saudi labor market are much more at risk of losing their jobs in the current crisis. It concludes that, if this risk were to materialize, it could have significant consequences for the post-pandemic Saudi economy.

Saudi Arabia and COVID-19

Saudi Arabia took decisive early measures to curb the spread of COVID-19. In early March 2020, a series of travel bans slowly stifled an early uncontrolled community spread. Over the course of one week in mid-March, as the threat of the pandemic grew, schools were closed, and staff in all sectors of the economy were ordered to work from home if possible. The government followed this travel and workplace shutdown in subsequent weeks by gradually increasing curfews that discouraged all but vital travel outside the home. These measures have succeeded in flattening the curve of the first wave of COVID-19 as the national health system has not been overwhelmed.

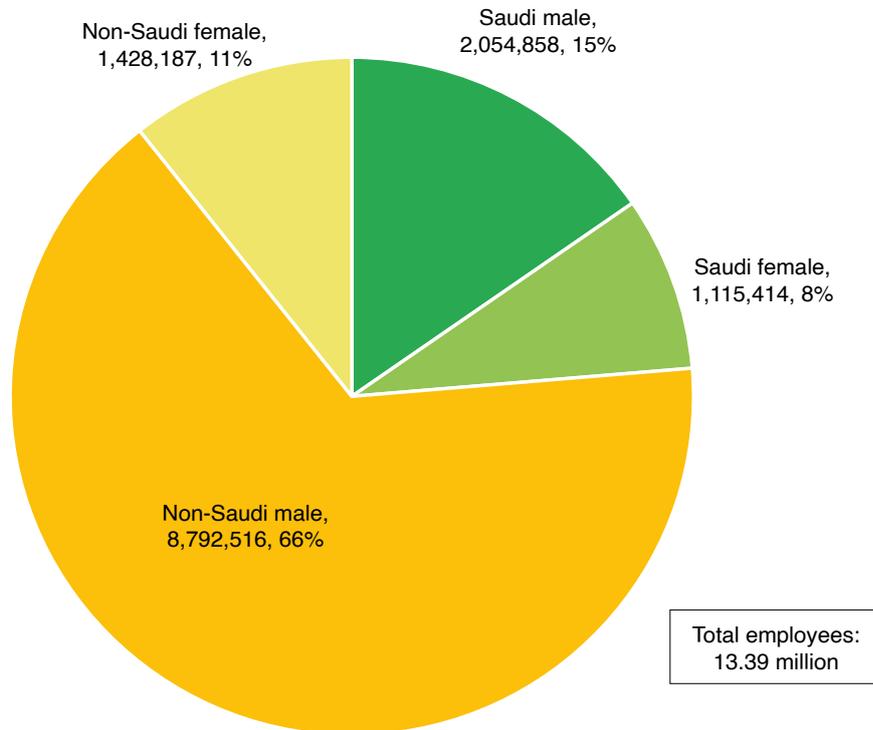
Given that these measures curtailed the early spread of the virus, it is worth analyzing their potential effects on employment in Saudi Arabia. As mentioned in the introduction, the government's directives, aimed at alleviating the pressure on the national health system, made employment very difficult for those who could not perform their jobs remotely. Those who could work remotely needed to learn how to do so very quickly.

The most recent data available for employment in Saudi Arabia comes from the Saudi Arabian Labor Force Survey (LFS) from the fourth quarter (Q4) of 2019. The true effects of the virus on employment will likely be seen in the data for Q2 2020. However, the lagged release of the LFS means that this information will not be available until later this year. Therefore, the data used in this analysis is a snapshot of conditions before the pandemic. The ability to infer from this snapshot is limited; however, certain observations are possible.

Initial conditions

Figure 1, below, shows employment shares in all sectors in Saudi Arabia by gender and nationality at the end of 2019. Of the 13.39 million people employed, over 75% were non-Saudi. This over-representation of non-Saudis is a crucial issue for the Saudi labor market. As in many Gulf countries, employment in Saudi Arabia is dominated by migrant workers, mostly from South Asia and neighboring Arab countries. These migrant workers are employed mostly in low-paid unskilled work, and residency in the country is conditional upon employment. On the other hand, Saudi citizens have traditionally tended to be employed in the public sector. Higher than desired Saudi unemployment has led authorities to implement several waves of 'Saudiization' policies over the past years, meaning that the Saudi share of private sector employment is increasing rapidly.

Figure 1. Saudi employees by nationality and gender.



Source: Saudi Labor Force Survey Q4 2019.

Identifying unemployment risks

Given the sudden onset of the COVID-19 pandemic, and the lack of available data to carefully analyze its effect on employment in real time, several novel methods have been suggested. Most of these focus on assessing the risks for various sectors, professions or groups. This study uses the approach given by the St Louis Federal Reserve and organizes sectors into “high risk” and “low risk” (St Louis Federal Reserve 2020). The criteria used to organize the sectors between the two categories are then applied to the data in the latest release of the Saudi Arabian Labor Force Survey.

High risk

A sector might be deemed high risk if it mostly requires high personal proximity and its activity is therefore complicated by social distancing regulations. The most obvious examples of this are the food and hospitality sectors. While food deliveries are gaining in popularity, employees in the sector are at risk of unemployment because fewer of them are needed to deliver food than would be the case if dine-in restaurants were still open.

Another reason an activity can be deemed high risk is if a sector is particularly influenced by the business cycle, as it is generally agreed that the pandemic will precipitate a steep recession. The construction sector, for example, is historically heavily influenced by economic sentiment.

Low risk

Essential workers, such as those in the health sector, who are crucial in fighting the COVID-19 virus, have a low risk of unemployment.

Other sectors that are comparatively low risk are those where remote working is feasible and employees can carry out business functions at home, thereby enabling their employers to keep earning revenue during the lockdown and subsequent transition periods.

Jobs not so impacted by social distancing regulations are deemed to be low risk. Many jobs in the agricultural sector, for example, fall into the low-risk category: workplaces are often spread over vast stretches of land and workers are judged to have low personal proximity.

Finally, a sector is deemed to be low risk if its employees are mostly salaried and employed on long-term contracts, rather than earning hourly wages or relying on invoiced work. Saudi public sector employees are deemed to be in this category.

Table 1. Risk assessment of Saudi sectors.

High risk		Low risk	
Activity	Justification	Activity	Justification
Manufacturing	HPP/downturn	Agriculture, forestry and fishing	WFH/LPP
Construction	HPP/downturn	Mining and quarrying	LPP
Wholesale and retail trade; repair of motor vehicles and motorcycles	HPP	Electricity, gas, steam and air conditioning supply	Essential service
Transportation and storage	HPP	Water supply; sewerage, waste management and remediation activities	Essential service
Accommodation and food service activities	HPP	Information and communication	Essential/WFH
Real estate activities	HPP	Financial and insurance activities	WFH
Administrative and support service activities	HPP	Professional, scientific and technical activities	WFH
Arts, entertainment and recreation	HPP	Public administration and defense; compulsory social security	WFH
Other service activities	HPP	Education	Salaried
Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use	HPP	Human health and social work activities	Essential
Not specified	Probability	Activities of extraterritorial organizations and bodies	WFH
Domestic worker	HPP/downturn	Saudi public sector	Salaried

Notes: HPP = high personal proximity; LPP = low personal proximity; WFH = working from home; Probability = “not specified” is a residual category in the sectoral breakdown, consisting of 97% non-Saudi workers. Based on this distribution and market volatility in the near-term, the sector is deemed ‘high risk.’

Table 1 segregates the high-risk and low-risk sectors, justified by the reasons cited above.

Results and discussion

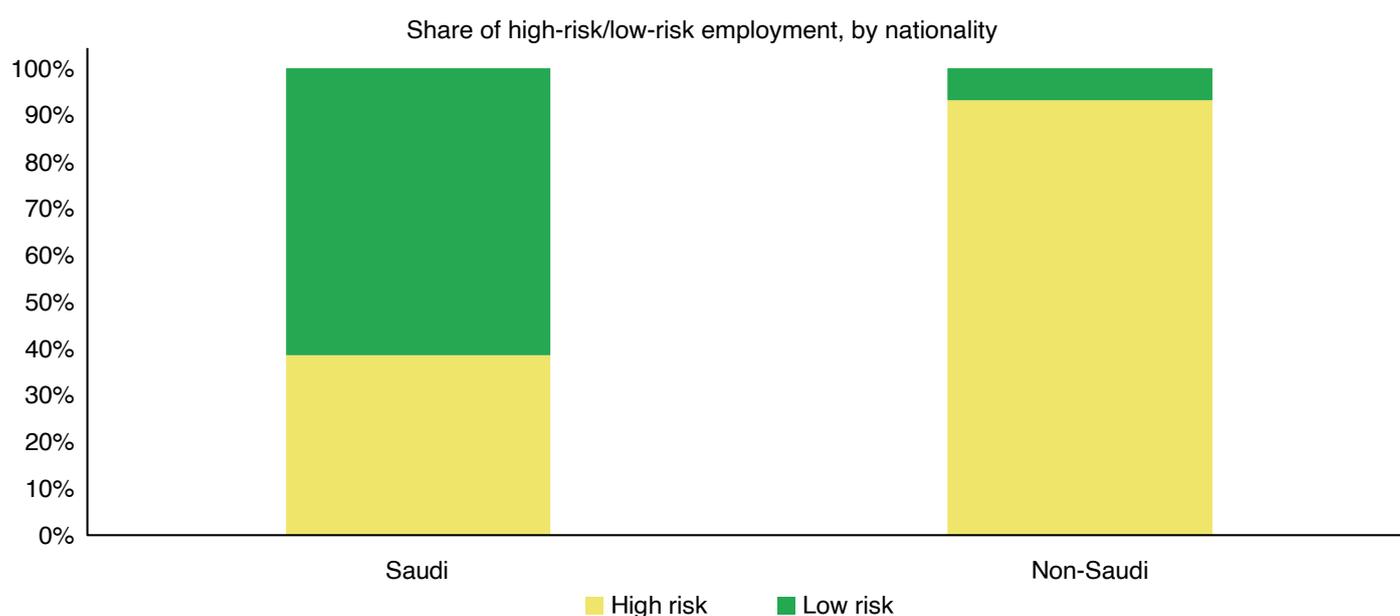
Overall, 80% of employment in Saudi Arabia is deemed to be at high risk during the COVID-19 pandemic and the economic downturn that will follow. However, as shown in Table 2, the result varies between Saudis and non-Saudis. While 39% of Saudi employment is estimated to be high risk, the share jumps to 93% for non-Saudis. Figure 2 illustrates the difference in this share.

Table 2. Results of risk assessment.

	Saudi employment	Non-Saudi employment	Total employment
Employed in 'low-risk' sectors	1,946,472	700,735	2,647,207
Essential occupations	216,467	243,813	460,280
Possible to work from home	383,360	270,428	653,788
Salaried	1,346,645	186,494	1,533,139
Employed in 'high-risk' sectors	1,223,800	9,519,968	10,743,768
High personal proximity	895,494	3,636,506	4,532,000
Business cycle	286,488	5,656,488	5,942,976
Other high risk	41,818	226,974	268,792
All occupations	3,170,272	10,220,703	13,390,975

Source: Saudi Labor Force Survey Q4 2019; author's calculations.

Figure 2. Results of sectoral risk assessment by nationality.



Source: Saudi Labor Force Survey Q4 2019; author's calculations.

While not an absolute predictor of impending unemployment, this risk analysis does give an idea of the precariousness of employment in certain sectors as a result of the pandemic and impending economic downturn. This is particularly true of non-Saudi migrant workers who are overwhelmingly employed in construction, manufacturing and the services trade, all of which are deemed to have a high risk of layoffs in the medium term. Over 9.5 million non-Saudi workers are in the high-risk category, and, although there is no certainty that so many will lose their jobs, it is certain that a significant number of workers in this category will do.

Indeed, the layoff process has already begun. Construction projects related to Vision 2030 have been scaled back, which will squeeze the construction industry (Saudi Gazette 2020a). Initial data on Saudi Arabia's industrial production also saw significant decreases in the manufacturing sector in the early stages of the pandemic (Alyusuf 2020). The global uncertainty around how to ease the lockdown, and the health and safety measures that should be imposed during the transition period before a vaccine is found, mean that negative market sentiment will most likely exacerbate these early trends.

What is noteworthy in our prediction is that non-Saudi workers who lose their jobs will not necessarily transition into unemployment. As their residency is dependent on employment, it is much more likely that these workers will return to their countries of origin. This will have consequences for both their home countries – a likely downturn in crucial inbound overseas remittances – and for Saudi Arabia. These high-risk workers make up a large segment of employment in the country, and their departure will lead to a significant contraction in the overall labor force. While this may not be reflected in unemployment rates, it will lead to dramatic changes in the structure of the Saudi labor market.

Outlook

Unemployment and layoffs are never positive, especially when unemployment numbers could run into the millions, and a large majority of these layoffs will be low-skilled workers from developing countries, where remittances are a significant portion of gross domestic product. Even so, this crisis may present Saudi Arabia with an opportunity. For decades, and especially over the last few years, the country has been attempting to transition from a reliance on cheap foreign labor – particularly in the private sector – to a more balanced labor force where Saudis are well represented in every sector. In Q4 2019, Saudi unemployment was 12% and the participation rate of Saudis was 46.7%. This is after years of policies aimed at improving these statistics (such as minimum quotas for Saudi workers mandated in every profession). A fall in the level of foreign labor undoubtedly presents an opportunity for Saudi Arabia to transform its labor market in the way it intended through these policies.

However, transforming the Saudi labor market is not as simple as labor substitution. The jobs that will be lost as a result of COVID-19, and the subsequent economic downturn, will mostly be in sectors and professions that Saudi citizens have traditionally shied away from. Saudi workers have not been well-represented in the construction, manufacturing or services sectors, despite the

many job opportunities available in these sectors and high Saudi unemployment rates over the past decade. Low wages and poor working conditions relative to the public sector have undoubtedly been factors. However, there is an opportunity to reform and regulate these sectors in order to attract Saudi workers.

Conclusion

The COVID-19 pandemic has transformed the world during the first few months of this new decade. Its effects will be felt for a long time to come: The IMF predicts the economic downturn it will precipitate will rival the Great Depression (IMF 2020). Millions of workers all over the world have already lost their jobs, and many millions more will be laid off due to the global economic slowdown that will follow. Low-skilled workers will be the most affected, and, in Saudi Arabia, this group are overwhelmingly migrant workers, making up over 75% of all employment in the country. A preliminary analysis of employment in Saudi Arabia finds that 93% of non-Saudi workers have a high risk of unemployment in the medium term. In comparison, just 39% of Saudi citizens work in these high-risk sectors.

This does not mean that the country's unemployment figures will match the number of migrant workers being laid off. Yet the ramifications of migrant workers losing their jobs will still be negative for both Saudi Arabia and their countries of origin. However, one positive consequence is that it presents Saudi Arabia with the opportunity to rebuild its labor market with a higher national representation.

The biological nature of a pandemic means that this crisis will not persist forever. Through the development of a vaccine or other societal measures, COVID-19 will be thwarted and society will return to normal. This also implies that economies will recover, and a return to business-as-usual will be possible. It is up to Saudi Arabia whether it uses the crisis to achieve some of its long-standing Saudization goals or returns to its reliance on cheap foreign labor.

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