**Omanization: The Way Forward**

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The labor market nationalization policy, *Omanization* has been pursued since 1994 merely by setting quotas and securing jobs for nationals in various sectors. Albeit some modifications to the *Omanization* policy since its implementation, it is critical that the government takes an even more sophisticated approach in tackling the issues of unemployment whilst equally improving human capital.

In order to provide an overview of the current situation, figure 1 below shows that the total number of Omanis employed in the private sector has surpassed the number of employees in the public sector since 2007. Despite the slight stagnation in the years 2011-2012, there is an increasing trend of private sector employment, which potentially indicates that *Omanization* has been successful to a certain extent in reducing the gap between private and public sector benefits. The following factors; an increase in the minimum wage for Omanis, alignment of private and public sector holidays as well as free mobility of expat workers since 2006 led to this increase in private sector employment among Omanis.

Source: Central Bank of Oman

However, the proportion of Omanis in the private sector compared to expatriates is disappointinglylow and has decreased from 21% in 2007 to 13% in 2015 as shown in figure 2 below. This decrease could be attributed to an increase in the number of expatriates[[1]](#footnote-1). Further, more than 50% of registered Omanis on PASA have salaries less than 500 OMR a month, which implies that the majority is employed in low skilled jobs[[2]](#footnote-2).

Source: Central Bank of Oman

Changes to the *Omanization* policy must work in parallel with the *Tanfeeth* initiative that aims to reduce unemployment by at least 3% by 2020. In addition to providing more opportunities in the private sector, it is likewise important to prevent the practice of employing under qualified Omanis for the sake of achieving the *Omanization* percentage which causes companies losses as well as harm the economy and labor market in the long run.

Currently, the Sultanate is encouraging the private sector to invest in new projects in order to reduce reliance on oil revenue, which will accordingly create more job opportunities. However a big portion of jobs created will account for construction workers who are typically expats. This will make it tougher for firms to meet their *Omanization* targets and further encourage the recruitment of under qualified nationals. Or, in extreme cases, firms will hire nationals to simply turn up and register their names daily.

One way to overcome the issue of hiring under qualified nationals just to meet the *Omanization* quota is to ensure employees go through a period of training before they are employed full time. This assures that nationals employed have skilled jobs and greater mobility to shift to other jobs in the future, as they will be more competent. For example, a company could hire an employee with minimum wage during the training period and then offer a full time job with a higher salary. As a way of encouragement, employees who perform better during the training period could receive a higher salary or more benefits when employed full time.

An excess supply of labor due to a large number of new entrants to the job market coupled with increasing government debt owing to the budget deficit will limit the availability of public sector jobs in the coming years. Therefore, the *Omanization* policy must be reformed to generate additional high-paying private sector jobs to make up for the decline in public sector jobs. Dividing the quota of local workers based on the job level instead of having one fixed quota for all job types can be used to ensure Omanis have more opportunities for higher skilled and better paying jobs. For instance, a large private company will be required to have 65% of senior level employees to be Omanis, 55% in middle level jobs and 45% in lower level jobs. Nonetheless, this approach necessitates a greater analysis of how it could be implemented, monitored and if it should be imposed to only certain companies depending on size and sector.

Ultimately, any intervention in the way firms manage their human resources whether by setting quotas, subsidizing the recruitment of nationals or imposing fees on expats will lead to distortions, deadweight losses and evasion. Prominently, the government must decide on a policy that will not only favor nationals over expats but to have a longer-term strategy of how this policy will affect economic diversification. Developing the skills of Omanis through investments in education and training to provide them with higher skilled job opportunities is a long-term strategy, but taking advantage of low-cost foreign labor to increase the competitiveness of the non-oil sector will have more effect in the short to medium term. It is worth examining the implementation of both options to achieve economic diversification whilst also developing human capital in the long term.

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1. Expats currently make up 45.5% of total population as opposed to 29% in 2010. <http://gulfnews.com/news/gulf/oman/oman-s-expatriate-population-rising-rapidly-1.1843475> [↑](#footnote-ref-1)
2. Oman road map 3 – Info graphic [↑](#footnote-ref-2)