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Chapter Author(s): Iram Ansari and Jacqueline McGlade

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Omanisation, Youth Employment and SME Firms in Oman

Iram Ansari and Jacqueline McGlade

Introduction

As reported by Oman’s National Centre for Information and Statistics (NCIS) as of 2014-2015, only 14% of Omanis worked in private companies compared to a rate of 84.5% in government employment. In a NCIS April 2016 study, “The Youth in Lines,” numbers in the 15-29 age group – the prime group for first time and/or professional workers, now constitute 30% of the total Omani population. With young males outpacing females at 51% to 49%, the total Omani population as of spring 2016 sat at 2.4 million representing a 3.73% increase largely due to the expanding youth group (NCIS, March 2016). However, the employment prospects for young Omanis, especially males, in both the government as well as private job sectors, remains a troubling one.

In a 2014 report on the Omani labor market, Crystal A. Ennis and Ra’id Z. al-Jamali also note that based a 3.9 per cent annual population growth rate, Oman had climbed into the top five countries globally in terms of population increase by 2012 (Ennis and al-Jamali, Chatham House, 2014). Along with sizable annual indigenous population growth, expat levels also rose at the astonishing rate of 17.7 percent in 2012 alone, placing Oman at the top of the World Bank’s ranking of imported labor markets. The drive for oil extraction and exports, which climbed since 2000 to 80% of Oman’s GDP, certainly facilitated a rapid expansion of corporate-based job. However, foreign workers occupy almost 60% of such employment vs. only a third of Omanis. Also, Omani unemployment rates overall has persisted at around 15 per cent with youth unemployment at above 30 per cent (Buckley, Graeme and Rynhart, Gary, 2011). As a result, the negative nature of the Omani indigenous labor market demonstrates that “the livelihood of a majority of nationals is intricately tied to the state, notwithstanding the welfare benefits that extend to the total national population” (Ennis and al-Jamali, Chatham House, 2014).
This evidence also counters the assertion by Steffan Hertog in his 2012 work, “A Comparative assessment of labor market nationalization policies in the GCC” that Oman’s “use of market-based incentives make national employment more attractive,” when compared with its GCC neighbors (Hertog, 2012). However, the NCIS 2015-2016 figures reveal that the large imbalance between public and private employment opportunity has not significantly been reduced despite such policies and efforts by Oman’s Sultanate government. At the heart of a market-base strategy sits two initiatives -100% “Omanization” of the workforce employed in the nation’s private sector and deliberate diversification of Oman’s corporate sector beyond oil and gas production. Presumably, these two inter-twined initiatives should favor greater opportunity and absorption of young Omanis into an expanded, innovative private business-driven economy.

As of 2016, however, this has not been the case with signs that, even the government sector especially in light of the recent world oil prices crisis, no longer rests as a “safe haven” for Omani employment. Overall, the languishing, low wage private employment base and disappearing government jobs presents a depressingly daunting landscape for Omani youth employment at all educational levels and training backgrounds. In terms of public jobs, members of the youth group from 18-29 years of age constitute only one quarter of the total workers in the Oman government sector, which encompasses almost 85% of all national employment. As the male-female ratio of young workers sat equally at 50%, males whose numbers are 2% higher than females in the same age group, suffer further disadvantages in terms of government employment. The percentage of young people working in the private sector reached about 43% only out of the total Omanis with youth unemployment rates hovering overall at 25.6% (NCIS March 2016).

In light of the continued imbalance in favor of expats over Omanis in national employment rates, especially in better-paying, higher skilled/education level jobs, the overall employment picture remains stubbornly segmented in the composition of national workers to the disadvantage of Omani youth. While the majority of expats still occupy manual/low skilled labor positions unattractive to Omani nationals, nevertheless, trends for the private employment of higher educated young Omanis remains out of balance with employer preferences for imported foreign professionals. (NCIS March 2016).

This study then probes the serious constraints involved with Omani youth employment, especially the clear preference of both Omani as well as foreign owned companies to hire and retain expats over Omani workers. This study will also examine the persistence of employment prejudice revolving around perennial employer arguments that Omanis lack the “soft” as well as hard job skills necessary for companies to function and compete. The authors will note that employers may have been justified in the 1990s through the early 2000s to make such arguments in terms of hiring practices as the Sultanate had just started the originsations of national universities, colleges, and training centres (both public and private). As a result, Oman at that time lacked a “critical mass” of higher-educated/trained
Omani nationals to occupy the highly-technical and skilled jobs demanded by the country’s emerging oil and gas business sector.

This is no longer the case, however, as post-secondary national graduation rates reaching into the thousands and over 250 colleges and universities operate all throughout the Sultanate’s largest population areas. In examining the continued preference of imported professionals over young Omani college graduates, the authors will explore the use on the part of Oman companies, whether owned by nationals or foreign sources, of a deliberate application of labor arbitrage strategies common to modern corporations in hiring operations worldwide. In this way, the authors consider that, unlike the past where a lack of national education and training centres constrained the preparation of an indigenous professional workforce, labor arbitrage, not an inherent deficiency in the capacity of Omani youth to master and employ useful higher-level jobs skills, may be in play here as a further justification for continued large numbers of expat hiring.

Overall then, this study seeks to provide an in-depth update on the actual landscape and future challenges facing Omani youth employment taking into account both job trends and activities in both the government and private employment sectors. As part of this study, the authors will share their efforts to begin a research study in cooperation with the Muscat Securities Market of 197 publically-listed Oman/foreign companies, which represent a small but potentially important sector for the acceleration of national employment expansion. The list constitutes the basis for an ongoing research project that a) analyzes the potential of medium-sized Oman/foreign firms for jobs growth expansion and b) provides detailed business case studies on the level of corporate modernization in line with international/regional competition standards and management imperatives.

When taken together, the two aspects of research and analysis hopefully will reveal firms positioned for market share advantages that, through development efforts, could lead to real jobs creation and employment expansion for young Omani. As this is a long-term project, the authors for the purpose of this study, will attempt to offer preliminary analysis of this corporate group as a way to provide a clearer view of the realities of the actual and potential private employment position for young Omani in the nation’s non-oil and gas business sectors.

However, this study will also note that the viability of the private hiring landscape seems to be taking a negative turn in light of the world drop in oil prices, resulting in sizable market constrains for new employment growth and opportunities for Omani college graduates. Also, this study probes the double negative effect on the Omani youth employment picture related to the tendency of private firms, whether local or foreign owned, to employ the global corporate trend of labor arbitrage. As a general worldwide managerial strategy to hold down labor costs, labor arbitrage in the context of Oman has resulted in the corporate favoring of short-term costs and benefit commitments attached to expat hires over long-term, higher benefit commitments involved with a largely indigenous workforce. When taken together, the dual impact of a stagnating/receding corporate growth environment
tied to falling oil prices plus the long-time application of labor arbitrage strategies further challenges the success, let alone the future feasibility, of Omanisation and other forms of government policy pressures to convert the national private employment base away from expat in favor of indigenous professionals and workers.

**Rising Omani Youth Unemployment despite Omanization and Higher Educational Attainment**

Since its inception by Royal Decree 95/97 in 1988, the Omanization program has been intended to replace foreign workers and expatriates with trained Omani citizens. While the number of Omanis in government services exceeded the set target of 72% by 1999, Omanisation has lagged far behind in private business with current workforce composition rates at 47.4 per cent Omani against 52.6 per cent expatriates (Muscat Daily, April 8, 2015). While targets were also set for six industries: transport, storage and communications at 60%, finance; insurance and real estate at 45%; industry at 35%; hotels and restaurants at 30%; wholesale or retail trading at 20% and contracting at 15%, only Omani established and Islamic banks have reached such sectoral targets (OmanInfo.com). A mismatch between Omani youth educational skills training and development in line with employer expectations and needs, often emanating from foreign-managed companies has been targeted as a central problem in the achievement of Omanization labor policies and goals.

With unemployment reaching a peak in April 2015 at 11.75%, the youth un/under employment picture despite Omanization policies remains troubling, especially in light of Oman levels sitting among the highest in the GCC region. As reported by the National Centre for Statistics and Information (NCSI), overall unemployment rates in age categories rest at young adults (15-29) year-old at 30 per cent with 60 per cent between 15 and 64 in age. However, when broken further by age ranges and education, Omani job seekers in the 25-34 in age range have increased year on year since 2010 with the largest rise among those with postsecondary education rising to 58.9 per cent (Times of Oman, February 9, 2016). This rise of the highly educated un/under employed young Omanis poses new disturbing trends that seem to match trends across the MENA region.

In a 2010 report, the World Bank noted that higher education in the MENA region had increased by 20 to 30 percent from 2000 to 2008, with women comprising 62 percent of total college enrollments in GCC countries. Oman currently sits below this high average for female college students though just-released 2014-2015 admission figures by the Ministry of Higher Education placed women students at 57.7 per cent vs. men at 42.4 per cent out of 131,760 enrollees (Muscat Daily, May 18, 2016, p. 5). Nevertheless, the overall rising female and falling male higher education numbers pose new challenges for Oman as well as many countries in the MENA region in terms of traditional gender separation and family employment roles. Again, the 2010 World Bank report underscores the socio-cultural shifts looming connected to gender and work roles, especially in traditional Muslim societies, as
gross higher education enrollment rates climb from 25.8 percent in 2010 to an expected 40 percent by 2030 based on the regional expansion of secondary education capabilities and current MENA population trends. The rising condition of unemployment among higher educated MENA youth also matches Oman's experience with the World Bank reporting that 2010 MENA youth unemployment rates, with the Middle East at 21% and North Africa at 25%, sat as the highest of any world region and that college graduates comprised “nearly 30 percent of unemployed in MENA” (World Bank, 2010).

While the International Labor Organization (ILO) reported in October 2015 that global youth unemployment rate had “stabilized at 13 per cent” after a rise from 11.7% in 2007 to over 20% by 2010, the Middle East and North Africa still sat with the highest youth unemployment rates at 28.2 and 30.5 per cent, respectively. The ILO also noted that, despite an overall decrease of 1.4% since its peak in 2009 of youth unemployment in Developed Countries, Developing Countries, especially in the MENA region, experienced increases in the youth unemployment rate between 2012 and 2014. As part of its new “school-to-work transition surveys (SWTS)” project, the ILO further noted that the transition period “attain a stable job” for most work-age youth (18-24 years of age) sat at an average of 19 months, with college graduates holding a edge at “one-third of the time needed for a youth with primary education.” While Oman's higher education graduate job attainment profile belies the ILO SWTS data that “in most cases the transition takes longer for young women than men,” the Omani college graduates mirror overall the overall ILO findings that, “more young people in developed economies are now finding work but the quality of jobs is below their expectations. And still too many remain stuck in long-term unemployment.” (ILO Youth Report, Oct 8 2015).

The New Unemployment Challenge: Under/Un-employed Higher Education Graduates

This rise of the highly educated under as well as un employed youth across the MENA region clearly reflects the experience of Omanis college graduates. Imbedded in these trends (which match the overall world experience of college educated youth in Developed Countries though at much higher rates) are disturbing trends that call into serious question the ultimate effectiveness of Omanization as well as higher education expansion as dual remedies pushed by the government to indigenize Oman's employment environment. The rise of a new sector of (potentially long-term) highly educated un/under employed young Omanis carry many disturbing challenges to traditional forms of Oman socio-cultural stability. Beyond general disappointment/dissatisfaction related to after-graduation job expectations, a prolonged under/unemployment struggle by Omani college graduates also damages their expectation of improved livelihoods as many have already come from or justifiably aspire to the attainment of middle and upper class living standards.
Such negative attitudinal responses are readily becoming apparent in the job seeking activities and efforts of the Omani higher educated youth sector. While college graduates only composed 9.3 per cent of all job seekers in 2015, a February 9, 2016 survey by the NCSI revealed that Omani college graduates now wait on average 3.5 years to find a job that matches their educational training and professional interests (NCIS, March 2016). In large part, this lag has been attributed to the long-held expectation and hold-out rates for Omani college graduates to enter public service jobs over employment in private enterprises. This sense of entitlement of a publically-funded job, in line with the experience of their families since the ascension of the Sultanate, now seems an elusive, if not unrealistic goal for many young Omanis in light of Oman’s current revenue crisis.

This negative public sector job environment, however, is particularly pronounced when applied to Omani college graduates, who while seemingly well-academically prepared, also struggle to displace expat competitors in the Oman private labor markets. In order to dig deeper into college graduate unemployment picture, the Ministry of Higher Education, conducted a new survey in fall 2015, which attempted to match the employment status of graduates with work qualifications and skills as outlined by employers’ hiring expectations and job needs. The survey involved 12,551 graduates of public and private higher education institutions and graduates of external scholarships for the years of 2009/2010 and 2012/2013. The results were profoundly disappointing, with only 47.7% of participants reporting active employment (Ministry of Higher Education, 2015 Graduates Survey).

Among the factors examined, the employed graduates’ time duration to first job emerged, according to the NCIS, as important “indication of the extent to which the labor market needs certain graduates in specific specializations.” While nearly half of the employed graduates received their first job opportunity in the first six months out of completing their degrees, the average time to securing a first job was 4 to 6 months. In a further breakdown, 32.1% of employed graduates were hired during the first three months after graduation, with 18.9% hired between 4 to 6 months, and 26.1% of the graduates waiting over a year to get job in their field of study. Hiring duration, however, shortened for graduates in 2012-2013 when compared with their peers who graduated in 2009/2010. 54.2% of 2012-2013 graduates secured their first job in the first six months after graduation compared to 47.2% of 2009-2010 graduates. Also, graduate numbers waiting more than a year also dropped from 33.8 % in 2009-2010 graduates to 19.6 % for 2012-2013 graduates. Among both graduate pools, the graduates who experienced the shortest employment time of three months or less rested in the fields of Health Studies, Education, then Engineering respectively and graduates in the fields of Creative Arts and Religion and Philosophy took as long as 10-12 months to secure a job (Ministry of Higher Education 2015 Graduates Survey).

While a potential mismatch of Omani graduates’ degree choices with real labor market demands may underpin the unemployment of Oman’s higher educated youth, traditional socio-cultural dynamics are also imposing countervailing effects. According to the fall 2015 NCIS survey, 16.5 % of the total number of unemployed graduates have rejected a job offer
with males demonstrating a slightly higher percentage of refusals at 17.5% to females at 16.4%. Gender differences for refusing work also emerged among single and married men and women. Married female graduates tended to reject more job offers than single female graduates did but men rejected jobs regardless of marital status. Male graduates’ reasons for rejecting jobs also differed from female graduates with “unsuitable salary” topping male reasons while “unsuitable field of specialization” was cited by females (Ministry of Higher Education 2015 Graduates Survey). In remaining unemployed longer, Omani male higher education graduates risk then occupying later (and in some cases at all) the important social status as the central “bread winner” in his family with females moving increasingly, even if underemployed, into this primary role.

While the NCIS study then reflects the World Bank and ILO conclusions that MENA, and by extension, Oman higher education graduates sit out longer in attaining postgraduate jobs and are generally under-employed in relation to their academic training and salary needs when hired. While Oman also reflects generally the GCC/MENA problem of lower male employment rates, it also provides a contrasting picture of MENA female un/under employment with Omani women increasingly achieving gender parity (or beyond) in overall graduation rates, higher-salaried employment opportunities and managerial job status. In the female lower employment portrait offered by labor economist Paole Verme, women in the MENA region tend to leave the workforce by 25 due to marriage, pregnancy and/or family care obligations. He also notes a lagging of services-based over manufacturing jobs, the former which tends to favor and absorb greater female employment (Verme, 2015, p. 19 and International Monetary Fund, 2013, p. 7). However, it must be noted that beyond higher college enrollments, Omani women may be gaining on men in labor markets, not solely based on educational training and job hiring parity, but due to an overall decline in male employment participation rates at home and across the MENA region.

**Oman and Global Labor Arbitrage**

Based on growing numbers of college graduates, presumably the older justification of employers for hiring expats, especially in well-paying jobs in Oman and other MENA due to a lack of available, scalable numbers of higher education trained nationals should be receding. Such upward educational trends should result in more Omanis advancing into positions of higher pay and managerial responsibility but recent NCIS data shows the continued stubborn preference for the hiring of foreign over indigenous professionals. While Oman’s Minister of Manpower set a target in 2013 to reduce expat worker numbers in the private sector to 33 percent by 2015, as of April 2016 the expat ratio still sat to at 38 percent of the total national population (NCIS, April 2016; Times of Oman, April 20, 2016).

Beyond the fact that over three-quarters of Oman’s expat workers occupy undesirable low paying, manual labor jobs, Middle East scholar Crystal A. Ennis cites the fact that private job creation remains constrained to “the largest Omani enterprises, comprising
10 per cent of the total, that are responsible for hiring almost 80 per cent of wage-earning nationals in the private sector.” She also notes that while Oman’s “largest companies contribute most to national employment” the “least capitalized ones … hire the highest percentage of expatriates. According to Ennis, often expat hiring preferences emanate, not only from multinational/foreign-owned firms, but also from “large family enterprises” which “wish to be seen as contributing to national employment and economic goals,” but nevertheless “benefit more from access to competitive foreign labour and large state contracts, and therefore have a vested interest in preserving the status quo” in expat hiring conditions (Ennis, 2013).

In this way, foreign and indigenous companies alike in Oman reflect the increasingly global presence and application of labor arbitrage strategies at all employee experience and education levels in corporate management. Since the 2008 Recession, subsequent waves of corporate downsizing and government spending cutbacks have generated grave public concerns and protests over the instability and declining position of employment markets and worker wage levels worldwide. According to the International Trade Union Organization Confederation (ITUC), the dramatic fragility of stable employment for workers has occurred due, in part to the “Americanization” of world labor relations – a model in workplace labor conditions and standards are “strongly tilted in favour of capital” posing “an extremely hostile environment” for independent worker organizational activities not driven by managerial prerogatives. (ITUC, April 2013).

As an illustration of growing managerial preference for labor arbitrage, noted economists Matthew Slaughter and Laura Tyson studied global dispersion of the jobs market relative to U.S. multinational companies since the early 2000s. According to Slaughter and Tyson, domestic employment in U.S. multinational firms, which experienced a 2 to 1 rise over the employment of foreign nationals from 1991-2005, has now reversed with a almost 2% loss in the hiring numbers American employees over overseas employees. (Slaughter (2004); Slaughter and Tyson, 2013). While workforce management strategies aimed containing costs has always been present in companies, global labor arbitrage or the replacement of homeworkers for equally qualified workers at the lowest wage population globally, has indeed accelerated in practice, especially in large and multinational firms.

Furthermore, the ITUC contends that the shift toward American-style managerial prerogatives over recognition of a universal set of labor rights, standards and protections has now been fully globalized in foreign as well as U.S. firms as “the asymmetry in power between capital and labour has been magnified in recent decades by open economies, financial market deregulation, tax competition, the erosion of the State and the growth of the service sector” (ITUC, April 2013). As part of the ITUC’s 2013 Frontlines report, economist Joseph Stiglitz also echoed the ITUC’s concern that “Globalisation, and the unbalanced way it has been pursued, has shifted bargaining power away from workers: firms can threaten to move elsewhere, especially when tax laws treat such overseas investments so favourably” (ITUC April 2013). As described by labor economists Raúl Delgado Wise
and David Martin, labor arbitrage also remains an essential part of the general corporate “shift towards global production chains” which accounts for close to 60% of [the] total assets and employment” of the world’s top 100 companies. According to Wise and Marin, the globalization of labor arbitrage tied to tighter supply chains has led to a new labor “nomadism” with locational decisions determined largely by where labor is cheapest” (Wise and Martin, 2015).

Labor and Business economists are increasingly pointing then to the accelerating ascendency of corporate aims as embodied by labor arbitrage as an unassailable assault on the protection of worker rights and collective employment standards.

Along with the decline of labor bargaining power, economists also point to a growing lack of resolve on the part of governments to reverse these alarming trends related to worsening position of workers. In some cases, this signals a historic shift in governmental alliances, especially in developed countries, away from workers towards companies as occurring in Germany, previously committed to strong, mediated corporate-labor partnerships and collaborative planning as the basis for national economic organization and progress (European Industrial Relations Observatory (EIRO), 2009).

In many ways, the case of Oman illustrates both trends in globalized labor arbitrage in which government first encouraged liberal private hiring practices to accelerate job growth but resulted in a grave imbalance of expat over indigenous workers (Beblawi, H., 1987). Now at the point in which the Oman government needs to re-orient its rentier relationship with private firms in favor of more costly indigenous over lower cost expat employment, eroding economic conditions are rapidly driving greater dependencies in favor of managerial over government labor controls.

Also, Oman’s long-standing expat over indigenous labor hires constitutes a form of worker “nomadism” in the extremist form where government policy enabled, if not encouraged, Omani locally-owned as well as foreign firms to engage in labor arbitrage practices. While this show of labor arbitrage is most noticeable at the lowest wage, manual jobs level, it also has gone on for decades in the most highly educated, higher paid senior ranks of employment. Driven mainly by Oman’s need to import foreign “knowledge workers” due to the lack of indigenous college graduates to meet job demands, the entrenchment of expat employment dependencies are particularly profound in the natural resources extractive and processing industries, university teaching, healthcare, advanced manufacturing, and information technology sectors. The issue to date then is whether the Oman government can quickly reverse and re-balance the labor arbitrage situation related to excessive knowledge worker importation in favor of indigenous college graduates fast enough and in large enough job opportunities numbers to staunch the negative flow of un/underemployed higher education Omani youth.
Re-Aligning Omanization with Knowledge Worker Segments

On May 18, 2016, Oman's Majlis Shura issued a report that expanded the Omanization targets to cover “senior posts” in corporate managerial ranks. Citing Ministry of Manpower figures that only 21 percent of Omanis hold managerial or “decision-making positions” in private companies vs. 79 percent expats, the Shura called upon firms to show a five percent increase in Omani managerial hires each year to reach a forty percent threshold by 2020. As the Shura's Head of the Youth and Human Resource Committee, Mohammad bin Salim Al Busaidi insisted that annual corporate hiring and training plans submitted each year for government approval demonstrate the five percent increase as “in the next two years most of the Omanis will be graduating … from universities and colleges…and every year there are about 44,000 Omani job seekers” (Times of Oman, May 18, 2016).

Such upward educational trends should result in more Omanis advancing into positions of higher pay and managerial responsibility but recent NCIS data shows the continued stubborn preference for the hiring of foreign over indigenous managerial professionals. In the April 2016 hiring bulletin, the NCIS reported “a marginal rise” of 0.2 percent in Omanis employed in the private sector at 210,074 with women only constituting less than a quarter of the total workers. Wage figures though showed an even gloomier picture for Omani workers with 62,577 out of 210,074 earning only 325-400 OMR per month – equivalent to 577.676 -710.981 GBP or 844.156 -1,038.961 USD (May 24, 2016 retrieved at: http://www.xe.com/currencyconverter). In the 400-500 OMR segment, Omanis though experienced the highest rise in numbers at 1.4 percent or 48,767 with the 900-1000 OMR and over 2000 OMR segments reaching 0.7 (5,422) and 0.6 percent (7, 812) increases respectively (Muscat Daily. May 22, 2016). With the majority of Omanis entering the private workforce at OMR wage levels comparable to minimum wage levels in the United Kingdom and the United States, 62% of Omani professionals surveyed by Bayt.com in 2016 stated that their salaries were not covering rises in living costs (54 percent in rent, 64 percent in food, and 58 percent in utilities) stimulated by price rises, the ending of government subsidies and general inflationary pressures (Muscat Daily. May 18, 2016.).

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Beyond the primary urgency of employing Omanis, especially in the young college graduate segment, several other economic pressures will continue to drive more draconian government policies aimed at reversing expat hires. As reported in the 2016 World Bank Migration and Remittances fact book, Oman sits fourth among world countries in terms of the highest rates for expat salary remittances at 12.6% of GDP (Times of Oman. May 12, 2016). At 27 billion in expat wage outflows, reversing remittance presents a large challenge as well as opportunity for the government in light of the dramatic loss of oil revenues. While remittance outflow in the past was “good for the country” in repressing local inflation, Omani officials, now recognized the necessity to capture the local buying and investing power of expat wages into national GDP goods and services percentage formulations to compensate for and re-balance corresponding deficits in oil-related revenues and business generation. As remittance outflows countermeasures, some Majlis Al Shura representatives have started to encourage the State Council to liberalize and relax expat labor laws in order to encourage greater residential benefits such as buying real estate, saving and investing locally, allowing full family visas, etc. (Times of Oman, May 12, 2016).

However, a shift in government policy towards greater visa/residency liberalization for expat workers to encourage a reverse flow internally of remittances runs counter to the equally urgent need to replace foreign labor with Omanis. At this point, expanding jobs creation through hyper-acceleration of the growth and diversification of private business in Oman poses the most viable strategy for the Oman government to balance any continuing needs for expat labor while significantly alleviating indigenous youth unemployment conditions. Also, the remittance GDP outflows problem should be alleviated by higher paid Omanis gaining private employment, who would spend more at home per capita than typically a low-paid migrant expat worker whose salary is constrained to purchasing power parity at a subsistence, not aspirational living standards level.

Oman SMEs: Current and Comparative Contexts

Worrying youth employment figures then, especially related to higher educated Omanis, have shaped recent government debates and initiatives in the areas of jobs creation, manpower capacities, educational training, and business development. By 2009, there were more than 100,000 registered job-seekers that led to the 2011 unemployment protests posing the greatest socio-political crisis that Oman had faced since the dynastic change in the 1970s (Chatham House 2014). The 2011 crisis, along with growing number of unemployed higher education graduates, has pushed government efforts, particularly since 2013, in the direction of accelerating the growth of the small and medium size enterprise (SME) sector.

In the past few months, the Sultanate’s focus on SME development tied to youth-centered entrepreneurship and employment has further intensified in light of current negative national revenue/budget situations that will limit public service jobs creation, if not retention, in the long as well as short-term. Reflecting an intensified drive to boost private
over public jobs creation, Khalifa Al Abri, chief executive officer of the Public Authority for SME Development announced on January 26, 2016, new classification levels for micro, small and medium enterprises intended to broaden the scope and opportunities for SME growth and private financing in Oman. (Times of Oman, January 25, 2016). This action is part of a long term strategy first set in 1996 by the Sultanate to intensify SME development to boost private business ownership and local jobs creation. (OmanInfo.com).

While strong government promotional efforts are evident, particularly since 2008, current data on the composition, growth rate, and overall state of Oman’s SME sector remains sketchy. Based on statistics offered by HSBC in the Oman Economic Review 2008, 15,000-20,000 SMEs were operating in Oman but employed less than 20% of the national workforce. (R. Ashrafi and M. Murtaza, 2011, p. 359). A 2012 study by P. Brinda Kalyani and L. Al Yahyaeeg pegged the number of “active enterprises” in Oman at 118,386 in 2009, of which “117,914 enterprises were SMEs” accounting for “more than 95% of the economic activity” (Kalyani and Al Yahyaeeg, pp. 163-170). In a July 27, 2015 online Oman Economic Review (OER) article, “All Round Effort,” reported that “around 121,000 SMEs constituting more than 90 per cent of the economic activity and around 20 per cent of the country’s gross domestic product (GDP)” in Oman. In terms of size and employment base, the OER also noted, however, that “a vast majority” of Oman’s SMEs “are micro enterprises employing five or less persons” (Oman Economic Review, July 27, 2015).

In the past few months in 2016, the Ministries of Commerce and Industry (MOIC) and of Manpower (MOM), along with the Public Authority for SMR Development (Riyada), have announced more initiatives to drive SME growth. Along with offering preferential rates for telecom and IT services, the Riyada has coordinated with MOIC and MOM agencies to organize job fairs for Omanis aimed at private job markets, by abolishing previous high levels of capitalization needed to start firms in Oman, and launching a new online “Cloud Smart Learning” platform intended to deliver low-cost certifications and vocational training modules aligned with growing business and job markets for young Omani entrepreneurs and job seekers (Times of Oman, May 23, 2016).

Comparatively then, Oman reflect overall trends in terms of SME composition and governmental development efforts in the GCC region, which according to the World Bank International Finance Corporation (IFC) 2015 figures, sits at 60% micro firms followed by 28% of small firms and 12% medium-size firms. At 20-25%, Oman’s portion of SME in the overall composition of and contribution to national business is line with the overall GCC SME sector average of 22% and 90% of all firms registered. However, Oman’s SME sector is dominated by micro firms (5 employees or less) at 90% and Oman SMEs overall employ only 20% of the national workforce vs. the GCC average of 40%. (Mahate, 2015; Blossom, Neelufer, and Al Said, 2014.)

When compared with U.S. and European SME rates of 55-70% in terms of business composition, GDP contributions, and 80-90% workforce participation, Oman lags far behind both GCC and world SME performance benchmarks (Saleem, 2012; Hertog, 2012; Amico,
2004). In general, international economic agencies including the International Finance Corporation of the World Bank, the International Monetary Fund, and the Organization of European Economic Development (OECD) have all targeted then SME development, especially in the GCC and MENA regions, as essential platforms for economic growth, business diversification, and employment expansion beyond the structural confines of oil-driven national business and wealth creation arrangements.

Important Growth Drivers-Oman Medium-Size Firms

However, can SME development realistically and quickly reverse the Omani unemployment crisis, which youth constitute 30% many of whom are higher educated graduates? As outlined by predominant Oman political commentator Saleh Shaibany, 2015 already stands as “the worst year for job creation in recent times” in which “the private sector created only 9,500 new jobs, compared to more than 33,000 registered job seekers” – a marked contrast to 2014 in which “over 14,000 new jobs were created for the unemployed pool of about 42,000.” Shaibany also warns that 2016 may top the dismal 2015 rates as “currently, more than 55,000 are unemployed and the figure is set to rise by more than 20 per cent when new graduates are awarded their certificates this summer” (Shaibany, 2016).

Just as disturbing are Shaibany’s figures in relation to new business development in Oman, which fell in terms of total numbers by 28% from 2011 to 2015 with less than 300 new businesses started each year. As Shaibany asserts, “new businesses, depending on the size, create an average 34 positions each within 12 months of their establishment,” so “2,000 new businesses [need to be]are created every year ….[to] absorb a significant number of new job seekers.” He also warns that business development needs to rapidly go beyond Muscat where 80% of all new jobs enter the national employment pool each year. “If the policy is to pull young people out from the streets, the number of new businesses needs to rise, not plunge south” and the creation of new businesses needs to happen “in different cities and towns [which] would help youngsters find employment in their own home towns” (Shaibany, May 21, 2016).

Despite Oman governmental enthusiastic support for jobs creation tied to SME development, the current position of SMEs as potential drivers of greater Omani youth employment are not known. Certainly Shaibany’s figures point to a reversal, not an acceleration of SME or any other real gains in terms of private business growth. While still under-developed, Oman’s SME sector, however, does possess encouraging signs that medium-size firms can be positioned to drive greater national business growth in terms of economic/sectors diversification, jobs creation, and larger output levels.

In all size categories, the annual growth rate of Oman SMEs has been small but steady at 1.5 per cent per annum since 2002. However, the importance of medium-size companies, especially in the area of industrial enterprise, in Oman’s economic activity and growth increases substantially when comparing values contributed by micro, small and large firms.
As reported by the Ministry of Commerce and Industry, out of 833 industrial units with a capital investment of RO 5,000 or more, 48% of Oman firms are considered small, with the medium comprising 43% of the industrial units, and only 9% considered as large (250 employees and over). While a large companies dominate in Oman business sectors at 59% of the employment generation activities and 63% of the value added, medium-size firms account for 35% of the employment and value added in Oman’s industrial economy. With small firms only contributing to about 6% of national employment and 2% of value added industrial activity, medium-size firms are clearly positioned to rise closer to the industrial performance levels of large firms, both in terms of employment, value creation, and output (Blossom, Neelufer, and Al Said, 2014).

However, these outdated figures need serious revision to reflect the current state and contributions of Oman medium-size firms in relation to the composition of national economic activity, business diversification, industrial development, employment and growth. In order to examine the state and potential of Oman’s medium-size business sector in detail, the authors, in partnership with the Director’s Office of the Muscat Securities Market (MSM), have secured first of a kind data reports that profile key operational and financial characteristics of the sector including; industry of operation; major product/service; listing status; size in terms of sales, total assets and no. of employees; date of establishment; ownership details; founder information (at least the name); and other statistics available for 197 companies. Based on this list, the authors will conduct a broad survey and target specific companies in order to produce formal business case studies as well as sectoral and operational analyses of the participating firms for academic publication and public dissemination.

The project overall will use the data and information procured to consider the kinds of problems/challenges/difficulties Oman medium-sized companies face as state sources of investment/funding lessen and regional competition tighten. In particular, the authors will analyze the types of management development and/or re-structuring internal management organization/practices that have occurred or need to occur in order to achieve greater overall efficiencies and increased employment capacities. The project also examines which types of companies included in the study would be the most open and/or vulnerable to potential new volatilities in public/private financing, external competition (whether Omani or foreign-based), and other business pressures, e.g. profitable pricing, commodities sourcing, new markets access, etc. in light of their position as first generation and/or family-owned firms with little accumulated long-term wealth/capital reserves.

In all, these factors and others will be critical in determining the viability of Omani medium-size firms to attract and secure private investment, meet existing and future competitive pressures, and create job placements/absorb young Omani professionals and workers either constrained or unable to secure employment in traditional government and/or large-cap business enterprises. In this way, the research project will also offer important insights that can be useful for Sultanate policymakers, investors and business leaders as well as academic audiences.
Conclusion

The overall inability of macro government policy approaches (e.g. five year economic plans, Omanization, liberal/restrictive swings in expat employment laws, state support for SME development, etc.) to increase indigenous (and especially youth) employment in Oman can be seen as both possible state misdirection and also increasing corporate preferences for global labor arbitrage strategies and practices. In light of the globalization of labor arbitrage, the question arises as to whether the Oman government needs to insist on and then enforce stricter “hire nationally” commitments, especially in the case of large local companies along with SMEs, and also as part of existing and future rentier arrangements with foreign firms and employers. Tackling labor arbitrage in locally-owned firms will be difficult, however, based on mounting anecdotal evidence that Omani-nationals as business owners also prefer to hire expat over indigenous workers at all education levels. The advance of several generations of Omanis as college graduates, however, substantially weaken older employer arguments that Omanis lacked modern forms of work knowledge, skills and training necessary to assume and advance in corporate jobs. Again, the stubborn preference for expat hiring raises the issue that levering lowest labor costs through expat importation, not the lack of qualified indigenous professionals, has become a common business strategy held by Omani company owners and managers regardless of national or non-national affiliation.

If so, this reliance on labor arbitrage as a reflection of global macro trends in corporate hiring strategies, trends and patterns may pose a problem well beyond the current reach of Oman government authority solely. Indeed, ending labor arbitrage may be a viable platform for GCC unified policymaking. However, with the economies of UAE and Qatar thriving off of expat labor while also weathering any economic downturns related to the 2014 and forward oil prices crisis, achieving uniformity in labor laws across the GCC that restrict companies to high percentages of indigenous hires may not be achievable. Indeed the GCC as a region may have lost in times of high oil prices, especially since the 2000s, the economic well-being along with highly educated population base to force companies to hire large numbers of indigenous over expats workers. The collapse of oil prices now and in the foreseeable future is now increasing dramatically a new kind of dependence of GCC countries on accommodating corporate preferences in hiring practices, which still tend to favor highly fluid and shorter-term costing expats over long-term national hires.

As a result, corporate global labor arbitrage strategies and practices along with drastically diminished oil revenue flows may greatly hinder Oman and other GCC/MENA countries to re-shape national labor markets largely in favor of indigenous employment in high-skilled, better wage jobs. Only economic diversification into home-bound companies with potential for reaching and dominating home consumer markets along with some export capabilities may be the sector that Oman and other GCC countries need to target for expansion. Instead of broad strategies for sectoral expansions (e.g. tourism, logistics, mining, etc.) that lead to only further dependencies on large multi-nationals/regional/local firms
engaged in labor arbitrage, Oman should look to targeting medium-size local companies positioned for employment growth. Also, the Oman government needs to actively move large local firms to shedding expat employees in favor of hiring higher educated indigenous professionals, especially in the recent college graduates category. Finally, Oman government promotion of SME development also needs to align with encouraging businesses that support the greater employment of indigenous knowledge workers particularly college graduates. However, to do so the government must look to drastically limiting imports that could be offset by local start-up businesses and production, especially in the areas of consumer durables, perishable and non-food stuffs and agricultural products, and light manufacturing markets. These sectors, as opposed to tourism, mining and other natural resources extractive industries, hold the most promise for sustainable, higher paying jobs for young, higher educated Omanis as well as aiding Oman overall in greater national economic and business self-sufficiency.

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