Enforcing Nationalization in the GCC: Private sector progress, strategy and policy for sustainable nationalization

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Introduction/Background of problem

The Gulf Cooperation Council (GCC) countries have been continuously struggling to develop effective Nationalization strategies that will provide adequate government enforcement, training programs and employment opportunities for Nationals in the private sector industries. Yousef (2010) states one of the main problems related to this topic is that the GCC nations have many Nationals who are university graduates with BA, MBA or PhD degrees, yet they have little actual workplace knowledge and no job skills or work experience. Henderson (2011) states another problem is the GCC governments do not want to alienate multinational corporations by forcing them to hire Nationals who may not be qualified enough to fill their job vacancies.

This paper examines qualitative and quantitative data. A literature review of published academic materials related to GCC Nationalization made up the secondary research, while the primary research involved interviews with three questions distributed by email to 350 GCC University students seeking jobs. 279 of those responded. The theoretical frameworks were then applied to the survey results to develop analysis, conclusions and proper recommendations for how GCC governments can improve their strategies to become knowledge economies where Nationals will gradually become proficient, experienced and qualified knowledge workers. The GCC countries have recently been developing more suitable Nationalization enforcement strategies that they hope will compel private sector companies to hire Nationals in order to train them and give them work experience in all private sector markets. GCC governments can enforce Nationalization by upgrading knowledge, education and job skills training for Nationals to prepare them for working in the private sector (Carson, 2013, 1-24)

Research Question

“How can GCC governments enforce Nationalization to upgrade knowledge, education and skills training for Nationals to prepare them for working in the private sector?”

Background of GCC

According to the GCC Council (2013), the Gulf region is a regional economic trade agreement established in November 1981 that consists of six nations, including the UAE, Saudi Arabia, Qatar, Kuwait, Bahrain and Oman. According to the CIA World Factbook, the GCC has over 42 million people and an annual Gross Domestic Product (GDP) of over $1.4 trillion with an average GDP per capita of $33,000 per person. According to the World Economic Forum (2013), the GCC economies will earn over $2 trillion by 2020, and the population will increase by 30% to reach almost 53.5 million people (Fahad, 2013, 1-5) (Carson, 2013, 1-24) (Al-Makahleh, 2013, 1-9).

The Economist Intelligence Unit stated this will be mainly due to the many global strategic alliances of government and private company partnerships in industries like alternative energy, construction and tourism. Davis (2013) states this increase in population will provide many problems for GCC Nationals needing jobs since the developing economies will attract even more experienced qualified foreign workers to the region. According to the Saudi Arabia Central Bank Governor Muhammad Al-Jasser, as of March 2012, the GCC has finalized preparations for developing the regional trading bloc into an official confederation that will eventually have a single universal Khaleeji currency and Arab Common Market to encourage and facilitate more commercial business activity between these nations. “The economic conditions in the Gulf are excellent for forming a monetary union and that a plan to launch a Gulf single currency was on track”, stated Al Jasser (John, 2011, 1-6) (Martin, 2013, 1-4).

According to UAE Central Bank Governor Sultan bin Nasser Al-Suwaidi, the main objectives of the GCC include establishing governmental regulations for trade, finance, legislation, tourism, customs and administration and to develop regional joint ventures. In the majority of the GCC nations such as the UAE, there are up to 88% foreign expatriate workers who have overtaken the private sector markets. International Monetary Fund (IMF) liaison Kent Larson (2012) states this has created problems for the GCC Nationals who are often overlooked due to being less qualified than many global expatriates for various private sector positions. Fasano (2013) states the GCC governments have
begun to realize that Human Resource Management (HRM) job skills training programs and private sector on the job work experience are needed to coordinate with university education institutions to provide a proper knowledge and skills foundation for all GCC Nationals (Anderson, 2012, 1-8) (Al-Khouri, 2010, 1-25).

GCC Country Socio-Economic Profiles

According to the CIA World Factbook, the GCC country economic profiles can be broken down by population, Gross Domestic Product (GDP), GDP per capita (per person), and real growth rate or similar traits for comparison:

- **Bahrain**: 1.2 million people; $32 billion GDP; GDP per capita of $28,200; 2% growth rate
- **Kuwait**: 2.6 million people; $166 billion GDP; GDP per capita of $43,800; 6% growth rate; 9% of world’s oil reserves
- **Oman**: 3 million people; $91 billion GDP; GDP per capita of $28,500; 5% growth rate
- **Qatar**: 1.95 million people; $189 billion GDP; GDP per capita of $103,000; 6% growth rate; 13% of world’s gas reserves; 3rd worldwide for natural gas provision
- **Saudi Arabia**: 26.5 million people; $741 billion GDP; GDP per capita of $25,700; 6% growth rate; 9% of world’s oil reserves
- **UAE**: 5.3 million people; $271 billion GDP; GDP of $49,000; 4% growth rate

The chart below explains how the GCC countries differ greatly in population and National participation in the private sector workforce for diverse socio-economic and cultural reasons. Saudi Arabia has the largest National population by far and an almost equal and the only majority workforce (51%) of Nationals and non-Nationals in the private sector. This is mainly due to Saudi’s limited freedom, conservative laws for women like not being able to drive, and lack of recreational activities for foreigners involving alcohol, nightclubs and bars (Carson, 2013, 1-9).

Bahrain has the most equal National and non-National population and the second highest National workforce in the private sector at 36% due to not being as wealthy and Bahrainis having an almost equal population to foreigners in the country. Oman has the fourth highest National workforce in the private sector at 29% since many Omanis work in lower social class jobs like as taxi drivers due to the country not being as wealthy as the other GCC nations. Kuwait has the fourth highest National workforce in the private sector at 17% due to having many private sector partnerships and options for Kuwaitis (Gernal, 2013, 1-7).

UAE has only 6% Nationals in the workforce, mainly to the combination of being one of the wealthiest and most westernized countries that has all the major attractions for foreigners, such as
as high salaries, low competition for jobs, and many recreational freedoms. UAE has the second largest difference between foreigners and Nationals in the entire population after Saudi, yet with all the appeal that many of the other nations lack, including the oil wealth, westernization and many job opportunities with the fun lifestyle for foreigners, making it the most attractive of all the GCC countries (Fasano, 2013, 1-6).

Qatar as the wealthiest country worldwide is similar to UAE for the many benefits, high salaries and freedoms, yet it lacks the many diverse recreational fun activities because it is such a small country. For UAE and Qatar, the GCC Nationalization strategies are most important since the governments have the oil wealth, foreign private sector partnerships, innovation and new technologies, highly educated Nationals, and other necessary resources, but the Nationals still lack the practical knowledge, job skills and work experience needed to be efficient performers in the private companies (Faizy, 2012, 1-6) (Forstenlechner, 2013, 1-17).

The GCC country workforce comparisons from the past are shown in the chart opposite to display the changes over time in the region from 1975, 1985, 1990, 1999 and 2008.

Focus on education...

According to Shehadi (2011), GCC Nationalization requires a comprehensive strategic approach to resolve the many issues related to preparing Nationals for Human Resource Management (HRM) recruitment in the private sector. “Addressing this challenge will require companies to overcome significant cultural, social, and legal issues. Booz & Company has developed a framework to help companies in this effort, consisting of three key elements: defining a company’s strategic vision in employing more GCC women, developing strategies to attract, develop, evaluate, and promote the right Nationals for their workforce needs, and implementing a change management strategy to ensure success during the transition,” stated Booz & Company manager Tom Richardson (Shehadi, 2011, 1-24).

Bashar (2012) states that to aid Nationals in earning competitive salaries that will help them cope with the rising inflation costs, some GCC governments like the UAE have given all public sector employees raises of between 70%-100% within the past few years. This included the UAE National police, immigration, military and governmental ministry employees. According to the United Nations Human Development Report 2012, the GCC governments have been gradually increasing their social services sector allowances in accordance with the federal budgets to improve the education and training services provided to Nationals from the Ministries of Health, Education, Social Affairs and Culture and Youth and Community Development (Bartridge, 2005, 51-67) (Abu Baker, 2013, 1-4).

GCC Nationalization Strategies

According to the Ideas Group (2013), an international Human Capital Development and Learning Company based in the GCC that specializes in teamwork and leadership development to develop organizations into high performance firms showing sustainable growth, due to the immense wealth of the GCC oil sector, the region has attracted millions of highly-qualified expatriate workers seeking employment with high tax-free salaries. Peterson (2011) states to respond to the huge amount of foreign workers in the GCC region that has caused high unemployment rates for Nationals, the governments have launched many Nationalization strategies (Atallah, 2011, 1-8) (Ghafour, 2012, 1-8).

Al-Lamki (2010) states the main purpose of these GCC workforce Nationalization programs is supposed to be increasing employment opportunities within the private sectors. Each individual GCC government has launched their own Nationalization initiatives called Emiratization in the United Arab Emirates (UAE), Saudization in Saudi Arabia, Qatarization in Qatar, Kuwaitization in Kuwait, Bahrainization in Bahrain, and Omanization in Oman. However, there has been limited success in enforcing these strategies in the past due to the private sector companies refusing to comply with governmental initiatives. Megarbene (2001) states stronger enforcement with benefits for adherence and penalties for private sector companies who refuse compliance to Nationalization initiatives must be developed in order to adequately implement these strategies for the future.

The GCC strategies are explained by country in order of their future potential effectiveness (Anderson, 2012, 1-4) (Fasano, 2012, 1-5).

The Saudi Arabian government recently launched one of the most effective Nationalization programs referred to as Nitaqat which allowed the Ministry of Labor to categorize private sector companies into various color-coded classes. Firms who have refused to hire any Saudi Nationals are considered Red

<table>
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<td>Bahrain</td>
<td>73</td>
<td>101</td>
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<td>Oman (a)</td>
<td>167</td>
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<td>230</td>
<td>251</td>
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<tr>
<td>UAE</td>
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<td>805</td>
<td>1001</td>
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<td><strong>5,218</strong></td>
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</thead>
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<td>1,005</td>
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<tr>
<td>Bahrain</td>
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<td>194</td>
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<tr>
<td>Oman</td>
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<td>503</td>
<td>815</td>
<td>61.7</td>
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<tr>
<td>Qatar (b)</td>
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<td>244</td>
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<tr>
<td>UAE (b)</td>
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<td>1,289</td>
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<td><strong>11,093</strong></td>
<td><strong>64.1</strong></td>
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<th>% Foreigners</th>
</tr>
</thead>
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<td>140</td>
<td>438</td>
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<td>Oman</td>
<td>374</td>
<td>795</td>
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<td>68.0</td>
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<tr>
<td>Qatar (c)</td>
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<td>766</td>
<td>828</td>
<td>92.5</td>
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<td>UAE</td>
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<td>3,043</td>
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<td><strong>10,647</strong></td>
<td><strong>16,293</strong></td>
<td><strong>65.3</strong></td>
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</table>

Table 2: Source - Thompson, 2009.
Class, while Yellow class relates to companies who have employed a few Nationals. The Green class refers to companies who have adhered to the minimum requirements the Saudi government have proposed from the Ministry of Labor in the past. The Excellent class is set aside for the private companies who have a majority of Saudi National employees in their workforce. This system is now the center of all Saudi Ministry of Labor services, and there are many benefits that are included for companies who comply with the highest Nationalization standards (Faizy, 2012, 1-6) (Carson, 2013, 1-9).

If a firm has an Excellent Nationalization rating, then they are fast-tracked through the Ministry of Labor processing, they get more employee visas allowed, and they can hire expatriates from the other categories without the need for sponsor company approval. This means the companies that adhere to the Excellent class will be able to hire the most qualified expatriate workers from all over the country without having to worry about any restrictions from stealing them away from lower category firms. This strategy shows how the companies that hire the most Saudi Nationals will be allowed to have the most skilled and experienced expatriates to help them train them. They will become the market leaders with the most capable employees who have the capacity to train Saudi Nationals and enjoy more efficiency and productivity resulting in higher market share and profitability in the long term as their reward (Faizy, 2012, 1-6).

The UAE has shown gradual success in their Emiratization program over time due to new Ministry of Labor penalties for non-compliance and governmental strategic alliances, personal contacts and business networking shown as benefits to private firms who comply with the program. Many UAE firms have also started realizing the long-term advantages of Emiratization privatized training programs since the Nationals remain in their companies longer than many other expatriates who often leave after about three years. By 2012, 72% of the UAE banking sector had complied with the 20% Emiratization quota due to partnerships with the government. By 2006, 88% of all private firms employed 2% of Emiratis, totaling 3700 employees (Verma, 2011, 1-7).

In Kuwait by 2008 the Ministerial Decree 1104 stated 15% Kuwaitization was needed for real estate firms and 2% in manufacturing sectors. The Kuwait National Assembly then passed a law stipulating extra government subsidiaries would be paid to private companies and additional employee salary allowances would be paid to Kuwait Nationals who took private sector jobs. This helped Kuwait National unemployment rates decrease from 8.5% in 2000 to 2010’s rate of less than 4.9%. Since Qatar’s rapid expansion over the past several years has made them the wealthiest country in the world attracting hundreds of global firms, their 25% population is made up of Qatari Nationals. The Qatar government has launched a National Qualification Framework to increase English skills and vocational educational opportunities for Qatari. Both the Bahrain and Omani governments have similar Nationalization strategies and Oman now issues Green Cards to firms that reach their Omanization quotas so they receive preferential treatment in government processes (Randeree, 2012, 1-20) (Beaugrand, 2012, 1-6).

Research Methodology/Research Methods

This paper includes both primary and secondary research methods using qualitative and quantitative analysis. A literature review of published academic materials related to GCC Nationalization makes up the secondary research, while the primary research involved interviews distributed to 350 GCC University students seeking jobs. 279 responses was an excellent response and clearly showed the topic is of keen interest to students.

This project also includes information about how the GCC governments are developing new Nationalization initiatives to replace their outdated or ineffective strategies from the past. The data gathered was compiled on related Nationalization strategies that are proving to be most effective in the GCC countries. The examination of the secondary research method results will be analyzed to provide useful insight into the GCC governments’ future Nationalization strategies to enforce the initiatives throughout the countries in all private sector industries. The qualitative research will involve providing an overall analysis of how the theoretical frameworks and models from the literature review could be applied to real-world scenarios for the GCC governments. Suitable conclusions and recommendations will be formed to develop effective strategies that could be implemented into the GCC government to enforce Nationalization for the future. This project will use the

Epistemology Approach

Everest (2012) states the study of epistemology is the division of philosophy that researches knowledge in order to answer the basic question of “what distinguishes true (adequate) knowledge from false (inadequate) knowledge?” This concept relates to scientific methodology because it studies how scientists can develop theories or models that are superior to those that already exist. This idea also refers to the study of cognition, which developed from artificial intelligence studies and the data processing approach to psychology. It is used to create computer programs that copy people’s ability to use knowledge intellectually (Heylighen, 2008, 116-139).

Cochran (2000) feels the original theories of epistemology involve how knowledge emphasized its total, enduring nature. However, more current concepts relate to its reliance of specific situations, how knowledge changes over time, and how it interacts with the world around it. Knowledge is adaptable to different circumstances, and according to ancient Greek philosophers like Plato, “knowledge is merely an awareness of absolute, universal ideas or forms, existing independent of any subject trying to apprehend them”. Aristotle stresses more logical and empirical processes for obtaining knowledge, and he believes that “knowledge is an apprehension of necessary and universal principles” (Heylighen, 2008, 116-139) (Cooper, 2012, 61-84) (Johnson, 2011, 61-93).

This project will use the
ontological epistemology positivist approach and deductive reasoning to test the assumptions about GCC governments enforcing Emiratization to provide more jobs for Emiratis in the private sector. This positivist approach will use empirical evidence gained from the research methods and qualitative research analysis to provide an overall perspective on the GCC government Nationalization programs (Zikmund, 2012, 173-185).

Overall Interview Results & Analysis

An overall analysis of the interview results shows many valuable insights from National perspectives related to the topic of how to enforce GCC Nationalization. The interviewees stated some of the problems relating to GCC Nationalization being fully integrated and successful for the long run deal with Nationals’ attitudes about longer working hours, increased duties, commitment to the companies and feelings of entitlement due to their past cultural experiences. Although the GCC governments have tried to request Nationalization strategies to be accepted, they need to create stricter guidelines and punishments for private sector companies that do not adhere to these policies if they want them to be properly implemented. The interviewees stated all of the GCC nations have strived to create more enforcement for their individual Nationalization strategies to help locals get jobs in private sector companies. Although many governmental initiatives have been passed, enforcing them has been difficult due to the governments in each country not wanting to alienate multinational corporations by forcing them to hire Nationals who may not be qualified enough to fill their job vacancies.

The interviewees explained how many GCC nations are formulating innovative approaches to coping with this ongoing problem. The UAE has continuously faced the challenges of promoting Emiratization in order to compel private companies to at least hire Emiratis for one year as part of probation training programs with government subsidies contributing to their monthly salaries. This has led to partial acceptance on the part of some private firms who are willing to participate in the Emiratization training programs as long as the government continues to subsidize their salaries. However, other GCC nations have not always been so successful in persuading private sector companies to accept the changes being proposed.

The interviewees described how when they have gone on job interviews they have seen how employers are reluctant to hire them because they feel they lack the work experience and may not perform well or be efficient in their jobs. They stated there has been major resistance to these Nationalization strategies by some foreign private companies that feel it may jeopardize their overall efficiency and profitability if they spend so much time and effort training new unqualified employees. The interviewees stated some firms said that with so many global recruitment possibilities providing specialists with exceptional qualifications to hire, it is not fair that they should sacrifice their potential profitability by being forced to hire unskilled or unknowledgeable employees. The interviewees stated that on the other side of the issue, the GCC governments explain that without their ongoing financial support and reforms that keep expanding the countries and providing new economic opportunities and projects for foreign companies, they would not even be able to operate in the region.

Conclusion

The topic of enforcing GCC Nationalization strategies and implementing them properly into the private sector industries to provide more job opportunities for Nationals has created many problems within the region. For foreign companies wanting to control their employee HRM recruitment and selection processes, the issue of compliance with governmental Nationalization quotas of up to 20% has been described as difficult for them to maintain their current efficiency standards. There has been a lot of change resistance by GCC private sector companies to hire Nationals due to their lack of skills, qualifications and experience in different sectors. However, by 2025, nearly 95 million people living in the MENA region will be between the ages of 15 and 24. This represents an approximately 8% increase from 2005 and it will peak at 100 million in 2035 (Hodgson, S., & Clausen, T. 2012) so with many GCC National college graduates seeking employment yearly and not enough available public sector jobs in government positions, it is essential that they enter the private sector to reduce unemployment rates.

The key to coordinating an effective solution to this complicated problem is for GCC governments to take a strategic approach to HRM recruitment by making Nationals much more appealing to private firms through extensive job skills training programs. This will require private companies to be included in this long-term strategy to help provide work experience and on the job skills training, so the GCC governments need to provide administration discounts and benefits like salary subsidies for it to be an attractive option for them. All the GCC governments are asking is for private sector companies to spend short periods of time helping them provide on the job skills training to assist in upgrading the qualifications and work experience of Nationals with sufficient subsidies to compensate their time and effort. This controversial issue has been ongoing for many years with only a few small successes being recorded. However, now that all of the GCC countries have strong governmental enforcement policies in place, there should be many more effective enforcement strategies being implemented in the near future. Developing effective Nationalization strategies to enforce private company participation in GCC governmental programs is a complex and challenging issue that is currently underway in the Gulf region. However, the key to long-term success is government-supported National knowledge sharing and job skills training programs. These programs will involve coaching and mentoring by private sector firms to help improve Nationals’ qualifications and provide more employment opportunities for them in the private industries. Many experts believe that as the GCC Nationals gain job skills and work experience in the private sector, the negative stereotypes and resistant
attitudes toward Nationals will also change. As more GCC Nationals enter the private sector and improve their skills and experience, they will prove their capabilities and that will result in making it easier to enforce Nationalization quotas in the future.

**Recommendations**

Due to the GCC labor market challenges and how they differ by country, the implementation of governmental strategies and policies must focus on creating new job opportunities for Nationals. This will involve altering the workforce to suit market requirements.

It will also involve encouraging GCC Nationalization in the private sector with motivational incentives like foreign partnerships with governments and fast-tracked trade license processes for firms who comply with set quotas. Some of the recommendation policies that will help the GCC governments upgrade their Nationalization strategies to make them more effective include:

- Create job opportunities in private sector by forcing companies to offer positions specifically made for Nationals to meet their Nationalization quotas
- GCC governments must launch new educational and economic reform policies and HRM job skills training programs for Nationals to better prepare them for the private sector workforce
- Barriers to entering the private sector workforce must be removed for Nationals, including cultural prejudices and a lack of qualifications
- Nationals should have job search assistance coordinated with local GCC recruitment agencies supported by governments
- GCC governments should launch educational awareness programs on new Nationalization initiative enforcement to motivate private firms to meet their quotas and to encourage Nationals to improve their job skills training and pursue higher educational opportunities or IT and computer institute training programs
- GCC governments should subsidize National salaries to help private firms afford them as employees and to encourage National applications for recruitment
- Enforce Nationalization strategies with appropriate governmental administrative measures, like private sector firm trade license registration and renewal involving compliance checks to ensure they have hired the minimum number of Nationals
- Enhance private sector benefits like reduced governmental fees for compliance with Nationalization initiatives
- Stricter regulations for monitoring private firm recruitment of Nationals
- Allow for Nationals to be dismissed like expats if their performance is not up to private sector managerial expectations
- Develop HR employee relations program for addressing possible future equity issues related to GCC Nationals earning higher salaries than expatriates for the same job

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Focus on education ...

Economic Forum.


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