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Oman's Economic Diversification from Oil and "Omanization" Policies

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Since the 1990s, under the leadership of Sultan Qaboos bin Said, the Sultanate of Oman, like other GCC (Gulf Cooperation Council) member-states, has been attempting to reform its economy. Oman has attempted to shift its economy away from oil towards a sustainable, innovation, and knowledge-based economy that also prioritizes industrialization and tourism. This is due to the decline in the supply of crude oil and gas and fluctuating prices. Since the late 1980s, the Omani government has been dealing with another matter of significant controversy, specifically the high percentages of non-native residents in Oman lacking Omani citizenship. To combat this phenomenon, the Omani government has initiated an "Omanization" process for the purpose of increasing the native Omani labor force's participation rate in both the country's private and public sectors through government provided education and training.[1]

In 1995, Oman launched its economic "Vision 2020" initiative, which was a significant attempt to deal with its large expatriate population and diversification efforts, implemented through several five-year plans. This venture had several pillars, specifically economic diversification, the establishment of a diverse and broad private sector, and to ensure financial stability. It also sought to improve and upgrade Omani workers skills through training and globalize the economy to lead to an eventual increase in FDI.[2] Although this was an ambitious policy to facilitate Oman's efforts to thrive in the coming century and expand on its sources of revenue, the plan produced mixed results, especially in relation to economic diversification. In 1995, oil made up approximately 66 percent of Oman's revenue, and the government's intention was to have it capped at 40 percent by 2020, but in 2016, oil made up more than 80 percent of Oman's revenue.[3]

According to the IMF (International Monetary Fund), Oman has, in recent years, acquired unprecedented levels of internal and external debt.[4] In 2016, its budget deficit was 21 percent of its GDP, a 6 percent rise from the preceding year. There are several reasons for this, including the fact that the Sultan doubled his personal allowance, and increased the salaries of state employees. The Sultan in recent years also increased government expenditure by 70 percent due to the widescale protests which occurred across Oman as part of the "Arab Spring" in 2011.[5] Since Vision 2020's inception, Oman has made efforts to diversify and modernize its economy and invested heavily in improving infrastructure, including building a new airport terminal in the capital, Muscat, and expanding the country's ports, such as in Duqm. As a result, the number of expats residing in the country and partaking in the labor force has increased significantly instead of decreasing, as was the intention of Vision 2020. This is the case as there is a lack of qualified professionals among the native Omani population, in relation to technical and professional jobs. Unskilled expatriates tend to fill occupation vacancies in roles that native Omanis find undesirable, such as construction workers.[6] The latter explanation is evident in infrastructure projects designed to diversify the economy. In 1995, as part of Vision 2020, Oman established expected quotas of increasing Omanization from 68 to 95 percent in the public sector and from 15 to 75 percent in the private sector by the year 2020.[7]

In 2002, expats were 26 percent of the country's population,[8] whereas, in 2017, they made up approximately 45 percent of the population.[9] In 2010, Sultan Qaboos attempted to change the ever-growing expat population in Oman by introducing labor laws restricting expat employment in both the public and private sectors. Nonetheless, they were not in effect for long, mainly due to the decline in the global economy and social unrest in the MENA region.[10] In 2013, another big step taken occurred when Sultan Qaboos' advisory council, the Shura, issued a ruling in 2013. It recommended capping the percentage of expats within the total population at 33 percent but did not present a time frame for achieving this.[11] The expat population comprises of individuals from varying parts of the world, including from Bangladesh and India and they dominate "white" and "blue collar" jobs in the private sector, including in construction.[12] Despite the high supply of "blue collar" jobs, many native Omanis opt not to take them, especially university graduates, due to the low wages and harsh work conditions.[13] The largest companies operating in Oman's private sector tended to employ mostly Omani nationals, whereas most small and medium-sized enterprises (SMEs) were likely to hire expats. This is the case as foreign workers usually demand lower wages and require lower welfare benefits than their Omani counterparts. In 2015, due to public pressure, the government began providing SMEs, such as start-ups, more lenient treatment and allowed them to employ non-Omani nationals during their first years of operation.[14]

In 2016, Sultan Qaboos and his government began pursuing a more aggressive form of Omanization in both the country's public and private sectors. On January 24, 2018, the government intensified these efforts when the "Ministry of Manpower" (MoM) announced a temporary six-month ban on issuing new visas to expatriates intending on working in 87 different professions. This included in the fields of engineering and information and communications technology. The main reasons for this ban were due to the ministry's attempts to create 25,000 jobs for Omani citizens, particularly in the private sector, as part of the "Omanization" policy, in under six months, and to reduce unemployment in the country, particularly among youth. This is because Oman is experiencing one of the worst job crises since Sultan Qaboos rose to power in 1970. Towards the end of 2017, over 60,000 native Omani citizens were looking for work but were unsuccessful in these efforts.[15] In April 2018, the World Bank issued an economic outlook of the Sultanate of Oman, which found that Oman had a total unemployment rate of approximately 17 percent. The World Bank also concluded that the unemployment rate among youth, who make up more than 40 percent of the Sultanate's population, stood at approximately 49 percent.[16]

The MoM has also set goals of creating 40,000 to 50,000 jobs over the next five years, on an annual basis, to cater to Omani nationals seeking employment.[17] Nonetheless, there are many Omanis that are not part of the country's labor force participation rate. According to the International Labor Organization (ILO), in 2017, 70.18 percent of Oman's total population was, in fact, a part of the labor force participation rate, including non-Omani citizens.[18] As part of government-led efforts to guarantee Omanization since the end of 2016, it has adopted a policy requiring firms operating in Oman to have a minimum of 10 percent of their employees be Omani nationals. Since the beginning of 2018, the MoM has begun checking to see if companies operating in Oman were complying with the regulations.[19] In February, the ministry discovered that 199 companies were not complying with this policy, as most of these businesses were exclusively hiring expats, leading the government to end previously established deals with them.[20] In May 2018, the Omani government fined 161 companies for not complying with the Omanization laws.[21]

The goal of finding jobs for 25,000 Omanis, as established in January 2018, was met in May. Despite Omanis accepting efforts to heavily “Omanize” the economy, the attempts to integrate the local population into the labor force participation rate has led to a major property crisis. The government forced roughly 115,000 expats to leave the country between March 2016 and March 2018, due to the Omanization process. This has left hundreds of commercial property owners facing potential bankruptcy, as rent from foreigners was their major source of income.[22] Additionally, oil prices have been on the decline, especially since 2014, and as Oman has been attempting to shift its economy from oil-centric to more innovative, it has faced a double-digit deficit. Notwithstanding efforts to reduce this through diversification efforts and reforms like Omanization in the private sector, there had not been much success, but this begun to change slightly. In June 2018, the Omani government invited the IMF Executive Board to assess the country’s economic situation and issue a report on it. In its findings, the directors concluded that the overall budget deficit in the country went down from 21 to 13 percent of its GDP, as a result of rising oil prices and restraint in government spending. The IMF urged Oman to introduce economic reforms, like introducing a VAT (value-added tax) to minimize the debt, diversifying the economy and providing more jobs to reduce unemployment.[23] The GCC states agreed in 2016 to each implement a VAT of 5 percent, but only two states have implemented this, namely the UAE and Saudi Arabia. Regional commentators claim that this will likely increase inflation and have a minimal effect on their GDP’s in the short run and that the impact from the VAT can be offset through the use of incentives like bonuses, as well as potentially establishing an income tax to increase government revenue.[24]

In June 2018, the “Implementation Support and Follow-Up Unit” (ISFU), a government unit, issued its annual report on the economic situation in 2017, concluding that the Omanization efforts had not helped progress the private sector. According to the ISFU, this was due to the government-led attempts to force businesses to exclusively recruit Omanis for employment. The ISFU argued that this could have potential ramifications on FDI and that this method would lead to lower productivity due to an increase in underemployment.[25] In July, despite the ISFU's findings, Oman extended the ban on foreign workers in certain jobs, which it had originally imposed in January 2018.[26]

Most GCC states face a similar situation to Oman, in that they have high numbers of expatriates in their workforce, most notably in the UAE, Bahrain, and Saudi Arabia. These countries governments, like Oman, have gone to great lengths to "nationalize" their economies, primarily their private sectors, to provide more employment opportunities for their people and to ensure that they are not dependent on foreign workers. However, similarly to Oman, the monarchical Gulf regimes have been unsuccessful in these efforts and expats remain a high percentage of their labor force.[27] For example, according to the Saudi Arabian government's "General Authority for Statistics," in the first quarter of 2018, "Saudization" of the private sector stood at 20.31 percent.[28] Economists like Dr. Usama Alfarhan and Dr. Samir Al-Busaidi argue that a significant reason for the failed attempts to nationalize the economies of GCC states is because local workers are overpaid. They assert that this is due to the establishment of employment quotas and forcing private firms operating in these countries to abide by them or face punishment, including fines.[29]

A problem that has arisen in recent years as Oman has amassed billions of dollars in debt is regarding loans it has received from parties, such as, China and Saudi Arabia as part of its efforts to diversify its economy. In 2016, Oman adopted the "National Program for Enhancing Economic Diversification" (Tanfeedh), its ninth "five-year development plan" to increase economic diversification.[30] Since 2016, the Chinese government has heavily invested in Oman and other Persian Gulf states as part of its "Belt and Road Initiative" (BRI). Since 2016, China has contributed heavily to the development of Duqm, an Omani port town, and it agreed to contribute up to $10.7 billion to build an industrial park. As Oman is in high levels of debt, it is dependent on FDI and loans, but there are concerns regarding Chinese funded projects and increased amounts of land owned by China's government. There is a fear that Oman will not be able to repay its debts to China and if this occurred, it might make

Oman vulnerable to the Chinese government.[31] Also, in January 2018, Saudi Arabia agreed to invest $210 million in Oman, intended for the industrial project in Duqm, as part of Oman's efforts to transform it into a major fishing hub.[32] The Kingdom agreed to give Oman the money despite strong disagreements it has with it on several policy issues, including disapproval of Oman's political and economic relations with Iran and with Qatar. This decision was taken as part of Oman's attempts to overcome its budget deficits, in light of the significant decline in oil prices since mid-2014.

Another concern that arose over the past year is the issue of the GCC and its future, in light of the Qatar crisis, as well as the Yemeni Civil War. Historically, Oman has carefully preserved its independence from Saudi Arabia, including opposing the Saudi-led efforts to establish a monetary union system in the GCC. Oman has land borders with Saudi Arabia, the UAE, civil-war-torn Yemen, and a sea border with Iran through the Strait of Hormuz. Therefore, the government under Sultan Qaboos' leadership has adopted a carefully applied foreign policy.[33] Oman has attempted to maintain political and economic ties with all regional states and seeks to act as a neutral player to guarantee economic prosperity. Oman also pursues this approach to ensure its survival and as a way of preventing an imminent invasion by its powerful and much larger neighbors.[34] This strategy has led some to characterize Oman as "as a middle-eastern equivalent to Switzerland."[35] Oman has not joined Saudi Arabia and UAE in boycotting Qatar and opts to conduct extensive trade relations with it and it is not a part of the Saudi-led intervention in Yemen.[36] Experts like Dr. Abdullah Baabood argue that despite the attempts by Saudi Arabia and the UAE to pressure Oman to reduce its political and economic ties with Iran and oppose it altogether, Oman will likely maintain its regional foreign policy approach.[37]

In late October 2018, the Prime Minister of the State of Israel, Benjamin Netanyahu, visited Muscat and met with Sultan Qaboos. This was the first visit by an Israeli leader to Oman in over two decades, since former Prime Minister Shimon Peres' visit in 1996.[38] In November, after Netanyahu's visit, the Israeli Transportation Minister, Yisrael Katz, also visited Oman, as part of the IRU's (International Road Transport Union) 70th annual World Congress. During this conference, Katz presented his "Tracks for Regional Peace" initiative, a project aimed at connecting the Gulf states with Israel, through Jordan, by rail.[39] However, it is unclear what long-term implications these respective visits by Israeli figures will have on the Omani economy and on the regional geopolitical situation.

In November 2018, the IMF released its "Regional Economic Outlook for the Middle East." The IMF outlined that Oman's real GDP growth shifted from 5 percent in 2016 to -0.9 percent in 2017. It also predicted an increase in 2018 to 1.9 percent and in 2019 to 5 percent. Based on these estimates, Oman would have the GCC's fastest growing economy in 2019. Furthermore, it noted that Oman had committed significant restraint in government spending, which led to improvements in fiscal positions but asserted that to maintain fiscal and external sustainability, Oman needed to make significant adjustments to its fiscal policy. The report also outlined that the method used to implement Omanization, namely enforcing strict regulations on expatriate workers could affect economic activity in a negative manner in the short term as attempts to restrict access to labor could negatively affect economic activity. The IMF declared that in the long term, this policy could lead to distortions in labor costs, thereby reducing competitiveness.[40]

Sultan Qaboos' Omanization efforts since 2016 have produced mixed results. According to the Omani Government's "National Center for Statistics and Information" (NCSI), there was an increase in Omanization from 2016 to 2017 in the private sector from 11.6 to 13.7 percent, and in the public sector from 83.5 to 84.3 percent.[41] Yet, foreign workers still hold a sizeable majority in the sultanate's private sector, as most businesses prefer to hire expatriates as expatriates tend to demand lower wages and their productivity is usually higher than that of the native Omanis. When assessing the Omanization policy in the public and private sectors with the original goals set as part of "Vision 2020," the sultanate has witnessed an increase in terms of Omanization in the public sector. The native Omani presence in this sector has risen from 68 percent in 1995 to 84.3 percent in 2017.[42] Such an increase has not occurred in the private sector, as Omanization went from 15 percent in 1995 to 22.5 percent in 2005[43] to 13.7 percent in 2017. In 2017, Omanization in both the public and private sectors fell short of the Vision 2020 guidelines. As noted above, the MoM has, since January 2018, led significant efforts to increase Omanization by banning the issuing of visas to expatriates in over 87 sectors. Nonetheless, it is currently uncertain what the long-term effects the MoM-led policy will have.

To conclude, since 2016, the Omani government has increased efforts to pursue a more widespread effort to Omanize both the public and private sectors, as well as to expand upon goals to further diversify the country's economy from oil. This includes the opening of a new terminal at the Muscat Airport in March 2018, which was an attempt to expand the country's aviation and tourism sectors and the government expects the number of travelers to pass through the airport to increase from 13.6 million in 2017, before the new terminal opened, to more than 15 million in 2018.[44] Additionally, in December 2018, the MoM said that it was contemplating extending this ban on granting visas to expat workers for another six months in January 2019.[45] However, at this point, it is too early to know exactly how these policies will affect the representation of native Omanis in the private and public sectors, as well as on Oman's economic prosperity and growth in the long-run.

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