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Inbetween Prosperity and Distress: Oman and It's Neighbours

Sultanate of Oman and its citizens rank among 15% happiest nations globally, given the fact that it surpasses majority of its rich neighboring countries — members of the Gulf Cooperating Council (GCC) in the global ranking of the happiest nation.¹ This fact cannot be left unattended by the academicians, experts and decision makers and requires further consideration.

Due to an uneven geographical distribution of the hydrocarbon production centers, as well as to significant financial and economic expansion a number of Arabian peninsular monarchies — OPEC members — were brought to the forefront, leaving other countries of the Peninsular in the shade.

Nevertheless, such state of things does not seem to look just and objective. Oman is unfairly kept out of the loop of the Russian, as well as of foreign orientalists, taking into consideration that it ranks second after Saudi Arabia in terms of territory and leaves behind the rest of the GGC states, except Saudi Arabia, population-wise.² On one hand, particular interest is drawn to the United Arab Emirates, Qatar and Kuwait due to their apparent success in economic, social, humanitarian and cultural development, claimed to be one of the richest countries in the world in terms of GDP per capita. On the other hand, Yemen is in permanent focus because of its political instability as well as one of the lowest standards of living globally spread over its 25 million population. Yemen is referred to as a «failed state». Recent developments, terrorist threat originating from the Yemeni territory, ethno-confessional confrontation possess not only a local dimension but also significantly impact the overall regional context.

The Sultanate of Oman, within this framework, is representing an actively developing state, which can be so-called “an isle of relative peace, prosperity and stability”, this is both fair for the current moment as well as for the mid-term. Moreover, the country stands for an economic “miracle” — a result of an effective economic model. The architect and the leading political force behind that for the last 45 years

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¹ Times of Oman, April 24th, 2015, “Oman ranks second in happiness index in GCC”; <http://timesofoman.com/article/51121/Oman/Oman-ranks-second-in-happiness-index-in-GCC> Happiness Index рассчитывается в The World Happiness Report с 2012 года, <http://worldhappiness.report>, issued by the United Nations Sustainable Development Solutions Network (SDSN); on a scale running from 0 to 10, people in over 150 countries, six key variables explain three-quarters of the variation in annual national average scores over time and among countries. These six factors include: real GDP per capita, healthy life expectancy, having someone to count on, perceived freedom to make life choices, freedom from corruption, and generosity.

² Population here means local population of the Sultanate of Oman without migrant workers.

has been Sultan Qaboos bin Said Al Said. His return to Muscat on March 23, 2015, after his 9-month absence due to the medical treatment in Germany is associated with the continued modernization of economy and social dimensions of life with the Omanies' hope for the better. It is no surprise that the Omanies divide the history of their country into two periods: before and after Sultan Qaboos' takeover in 1970. In Vivian Nereim's article "The Only Sultan I've Ever Known" in the *Foreign Affairs Journal* it is mentioned: "In a much statistic, the entirety of Oman had two hospitals and six miles of paved roads. Since then, the country has transformed into a modern oil-exporting state with highways, universities, and a per capita GDP of \$ 22,181".³

On evaluating economic model of Oman, a clear policy targeting diversification, expansion of the share of the goods and services with high economic value added, development of infrastructure and social welfare is outlined. Among the essentials of development it is worth mentioning investment in human capital with focus on education, healthcare and housing. The Sultanate is creating all necessary provisions for encouraging comprehensive education for local population, especially for females.

The most important condition for effective economic model realization — (vertical) power structure, enabling effective and consistent decision making and implementation as well as efficient government and public institutions and structures. Anti-corruption dimension is also an integral part of political and economic landscape in Oman.

Inadvertently, a parallel can be drawn between Oman and other successful states, more specifically Singapore. Although these two countries differ significantly from each other in ethno-confessional structure, cultural and civilizational aspects, mineral resources, nevertheless, they have similar components of respective economic models, including high concentration of power in the hands of a single person over a considerably long period of time (in case of Oman — we mean Sultan Qaboos during the last 45 years; in the event of Singapore — Prime Minister Lee Kuan Yew during 31 years from 1959 till 1990), consistency of sound economic policy and reforms, and also development of an attractive investment climate with friendly tax system, adherence to the fight against corruption, investment in human capital.

During the Lee Kuan Yew government, Singapore, despite scarcity in natural resources, was able to solve numerous internal problems and was capable to leapfrogged in development from the third world country to the highly developed state with high standard of living with the GDP per capita of \$ 55,000 in current US dollar terms in 2014.⁴ Resulting from the economic strategy Lee Kuan Yew worked to establish Singapore as an international financial centre of the South-East Asia, and as one of the leading destinations for attracting foreign investment.

³ Nereim, Vivian, article "The Only Sultan I've Ever Known", *Foreign Affairs*, November 13, 2014.

⁴ According to the World Bank data, statistical section of the site <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

In Oman, similar to Singapore, a supremacy of law principle was strongly reinforced by “a firm hand”, primary attention was paid to the quality of human resources — comprehensive nature of education and accessibility of healthcare.

The issue of housing accommodation of the Omani citizens has been tackled at length, government at its expense constructed comfortable houses with corresponding infrastructure and utilities in the most remote and hard to access areas and regions of the Sultanate, in large cities — favourable conditions contributed for turning majority of the Omanis into the owners of the houses. Since 2011, government annually was allocating \$ 207.2 mn. for construction of the affordable social housing for the Omanis, also the State established a number of programs, contemplating mortgage loans with lower subsidized interest rates.⁵ More than four-fifths or 82% of Omani families own their houses, according to a study entitled “Families in the Sultanate of Oman — Their Social and Economic Characteristics” released recently by the National Centre for Statistics and Information (NCSI).⁶

45 years of Sultan Qaboos reforms: opportunities and challenges

Sultanate of Oman will most likely retain its position of “an isle” of political and economic stability in the mid-term, and it will be able to continue on the undertaken path of the reforms.

Long-established monarchy structures of political power in Oman are expected to remain in place in 2015–2019, alongside with gradual political reform. Though a significant challenge is posed by a succession procedure, never «tested» before and questioning the essence of continuity of political tradition and economic policy adherence.

Health of the 74-year old Sultan, Qaboos bin Said al Said, who has ruled Oman since 1970 is in question. He received a lasting, since July 2014, medical treatment in Germany, and returned back home to Oman in March 2015. Whole country was celebrating the safe return of the sultan for over two weeks period.

Sultan Qaboos, who exercises authority within a highly personalized structure, has no children, no direct successors. The final decision on who will succeed Sultan Qaboos will not be made until after his death, when family members will have three days to choose a successor. Should they prove unable to agree, a letter left by the sultan naming his choice of successor will be opened, and that person will become leader.⁷ However, the system is untested and unusual.

The most prominent of the cousins is Assad bin Tariq al Said, who is currently the sultan’s special representative (his 34 year old son, Taimur, is also considered a contender), although there are other potential successors, including the heritage and culture minister, Haithem bin Tariq al Said.⁸

⁵ The Report Oman 2014, Oxford Business Group, www.oxfordbusinessgroup.com, p. 129.

⁶ Times of Oman newspaper, 7 July 2015, article “82% Omanis have own houses: Study”.

⁷ Economic Intelligence Unit, Country Report, OMAN, 7th of March, 2015, p. 3.

⁸ Ibid.

This risk is exacerbated by the high level of centralization of power in the hands of Sultan Qaboos (he, for instance, holds the post of the Prime Minister and the Chairman of the Central Bank of Oman, as well as the post of the Minister of Defence and Minister of Foreign Affairs). Sultan Qaboos still commands wide popular support, shored up by the loyalty of the security services and the strength of the sultanate's traditional social structures.

In response to protests in 2011–2012, the government will continue with the initiated political and economic reforms, the most important of which was granting legislative powers to the Majlis al Shura (Consultative Council), via an amendment of the Basic Law of State. The elected Majlis al Shura has been able to propose legislation since it was awarded limited legislative powers in October 2011, although any such proposals have to be approved by the Council of Ministers. It was elected for the 4-year time-period with next elections to take place in October 2015. Legislative powers of the Consultative Council are of a limited nature and by all means require an approval from the Cabinet of Ministers.

The risk of further demonstrations will persist, spurred by calls for greater job creation, faster political reform and more transparent governance. Aware of this, and of the potential for discontent, the authorities are stepping up attempts to root out corruption. A succession of trials has taken place over the past two years in which senior company executives and government officials have been sentenced to lengthy prison sentences and handed large fines.

Also in this regard a program of «omanization» is well under way, contemplating creation of jobs in the public sector primarily targeting young Omanis. The country has suffered a persistent 15–20 percent unemployment rate among nationals in the past five years, given Oman has a larger local population (60 percent) compared to other GCC states. The Sultanate retains a modest just above 2-% population growth per annum.⁹

Economic development outlook

Energy sector, serving as a basis for Oman's economy, will continue playing a key role in the economic development of the Sultanate and will retain a dominant position as a core «attraction» for international investors. At the same time plunging of the oil prices (overall energy resource prices as well) and anticipation of low oil price level in a foreseeable future poses a main economic threat here.

According to a statement by the Omani oil minister, Mohammed bin Hamad al Rumhi, in the end of January 2015, he criticized the current policy of OPEC (as opposed by his colleagues from the GCC states) of retaining the current oil production level despite a rapid decrease of oil price early this year.

⁹ Arabian Business. Article «A country on hold: Oman's next step?», By Sarah Townsend. Friday, 6 March 2015, <http://www.arabianbusiness.com/a-country-on-hold-oman-s-next-step--584681.html#.VR1GCEIdJFI>

Hydrocarbons accounted for 45 percent of Oman's gross domestic product (GDP) and 86 percent of government revenues in 2013, according to the country's National Centre for Statistics and Information.¹⁰

According to the data from the Ministry of Oil and Gas of Oman as of October 2013, the Sultanate was exporting 81% of overall crude oil produced in the country, the remaining 19% were used for refining inside the state. Asian countries accounted for 95% of overall Omani crude oil exports in 2012, most significantly China — for 50%. Revenues from the oil exports reached \$ 36.2 bn., i.e. 70% of overall country's exports in the amount of \$ 52 bn.¹¹

Government spending should fall in 2015 in line with tight revenue. Fiscal deficit forecast in 2015–2016 to an annual average of 6.7% of GDP, in line with respective Brent oil price forecasts of \$ 54.4 in 2015 и \$ 71.4 in 2016. According to the Ministry of Finance, spending for 2015 is budgeted at just over OR14bn (US \$ 36.3 bn), nearly 5% higher than in 2014 budget.¹²

On one hand, more than modest oil reserves (inability of steep ramp up of production, as well as relatively higher cost of crude production compared to Oman's neighbors in GCC except for Bahrain) and moderate size of sovereign funds, on the other hand — low level of sovereign debt — allows for financing the above mentioned deficit without any major complication. Also, there is a high probability that the government might borrow on the international financial markets, officials have indicated that Oman's first sovereign Islamic bonds (sukuk) could be issued along the 2015. Other sources of budget financing involving tax system, curtaling of subsidy spending might be also considered. For instance, the government doubled the price of gas supplied to industrial estates and cement manufacturers (highly energy-intensive industry) from January 2015.

High level of domestic consumption, economic growth based fiscal policy and growth in non-hydrocarbons sector of economy — all that is called up for furnishing economic growth of 2.5–3.0% p.a. in Oman in the forecasted period of 2015–2019.

Omani GDP in 2014 accounted for \$ 82 bn in 2014 according to CIA Worldfactbook. In 2014 GDP has increased by 5.2% in current prices. Real GDP growth in 2015–2016, as reported by the Economic Intelligence Unit, will reach moderate 2.2% p.a. Economy's non-hydrocarbons sectors should contribute more in the future, providing for a higher level of GDP growth — 3.5% p.a. in 2017–2019.

Inflation will be kept in check in 2015–16 by lower oil prices, but domestic demand growth and rising wages will sustain inflationary pressures in 2017–2019, with price growth picking up overall to an average of 3.2% in 2015–2019

It is interesting to note that due to government data revealed, the economy's non-hydrocarbons sectors grew by 8.2% year on year in January-September 2014. Overall GDP at current market prices grew by 5.2% over the same period.¹³

¹⁰ Ibid

¹¹ The Report Oman 2014, Oxford Business Group, www.oxfordbusinessgroup.com, p. 101.

¹² Economic Intelligence Unit, Country Report, OMAN, 7th of March, 2015.

¹³ Economic Intelligence Unit, Country Report, OMAN, 7th of March, 2015.

The current account will swing into a deficit in of 4.6% of GDP in 2015, in line with lower oil prices. The deficit should move back into surplus in as oil prices generally increase.¹⁴

The government will cut investment in oil and gas projects in 2015–16 as oil prices remain low, but investment related to economic diversification will continue, with a focus on infrastructure, tourism, agriculture and transportation.

More stringent fiscal discipline is indicated by the representatives of the largest Omani oil company PDO, Petroleum Development Oman, as well as by petroleum services companies such as Halliburton, Schlumberger and others. PDO anticipated a freeze on certain investment programs of longer payback horizons and less profitability starting from 2015. Oil servicing companies, in their turn, early 2015 received letters from PDO and other privately-held oil companies requesting a 10–20% cutdown for the future contracts because of expenditure optimization.¹⁵

As for tourism, Oman is one of the top destinations for short breaks among GCC tourists, having registered a 17 per cent growth in GCC visitor numbers at the end of the third quarter of 2014.¹⁶ Herewith, direct contribution of Travel & Tourism to GDP was 2.6% of total GDP in 2014, and is forecast to rise by 5.2% in 2015, and to rise by 6.1% pa, from 2015–2025, to 3.3% of total GDP in 2025.¹⁷

Government is also actively working to promote the growth of small and medium enterprises (SMEs). The sultanate has introduced several measures to support SMEs, including a OMR70m (\$181m)¹⁸ Raffad seed fund for start-ups, new rules to help SMEs win government contracts and to account for 5 percent of commercial banks' lending portfolios, while changes to the bankruptcy legislation also is intended to help them.¹⁹ All that shows a consistent, deliberate and systematic approach for the development of SME segment.

International relations and Oman's foreign policy

Oman's foreign policy is carefully balanced between its Western allies, its Gulf Co-operation Council (GCC) neighbors and Iran. Although ties with its key international allies — the US and the UK — will remain strong, Oman will also maintain good working relations with Iran. As an example of this, Oman played an important mediating role between the US and Iran in the months preceding the November 2013 interim nuclear agreement between Iran and the P5 + 1 (the five members of

¹⁴ Economic Intelligence Unit, Country Report, OMAN, August 2015.

¹⁵ From the interview of the author with the representatives of the above-mentioned companies.

¹⁶ Gulf News newspaper, January 8, 2015, "GCC visitors to Oman reach 701,311 in 2014".

¹⁷ World Travel & Tourism Council, Travel & Tourism Country Report, Economic Impact 2015, Oman. www.wttc.org

¹⁸ Arabian Business. Article "A country on hold: Oman's next step?", By Sarah Townsend, Friday, 6 March 2015.

¹⁹ Ibid.

the UN Security Council plus Germany). More recently, in November 2014, Oman hosted two days of high-level talks between Iran, the EU and the US ahead of a November 24th deadline for a comprehensive deal on Iran's nuclear programme.

The deepening of economic ties with Iran²⁰ (a gas pipeline between the two countries is planned) is likely to strain relations with Saudi Arabia, which has called for aggressive containment of Iran. However, Oman will be careful not to alienate its larger neighbor in light of the US \$ 10 bn in aid pledged to the sultanate by the GCC in 2011, to be delivered over the course of ten years. It is unclear how much has so far been disbursed.²¹

Adopting a policy towards terrorist groups that is similar to that of its Gulf neighbors, Oman has pledged support for the US administration's campaign against Islamic State in Iraq and Syria. Oman is likely to maintain tight border controls with Yemen in a bid to prevent the inflow of arms and foreign fighters.

It is crucially important to point out that the situation on the Arabian Peninsula has radically deteriorated and currently poses a threat to the security of the Gulf region in general. The core reason behind this is the transformation of the internal political confrontation and fight among various political forces in Yemen into serious military conflict. This Arabian Peninsula country calls for an urge to be saved from permanent division.

The Saudi-led military coalition operation "Decisive Storm" started on March 26, 2015 against Houthis in Yemen has caused multiple casualties and brought the country to the full-scale humanitarian disaster. As a result the military conflict in Yemen over two months of conflict that almost 2,600 people were killed according to the aid agency Unicef.²² Over two months of conflict — over 6,200 injured, as well as the military conflict led to over 450 thousand of displaced persons.²³ According to the UNICEF (UN) as of mid-June 2015 80% of the Yemen's population, or more than 20 million people, need some form of humanitarian aid.²⁴

Comprehension of inability to find a force and military solution to the Yemeni conflict as well as rapid deterioration of the humanitarian situation inside the country call for taking more active steps on the part of the international community in order to involve the conflicting parties into the negotiating process.

Oman has taken a stance of "active neutrality". From one point the Sultanate formally has supported the decision on the Saudi-led military coalition operation "Decisive Storm", from the other point, it obtained from military participation in it.

Given tensivity of the neighboring Yemeni conflict, Oman is closely following the Omani-Yemeni border in order to prevent undesirable infiltration of terrorist and

²⁰ Economic Intelligence Unit, Country Report, OMAN, 7th of March, 2015.

²¹ Ibid.

²² Газета Oman Daily Observer, June 13, 2015, p. 14, "Prospects look dim for Yemeni peace talks".

²³ «Газета.Ру», 15.05.2015, статья: «В ООН озвучили число жертв конфликта в Йемене», http://www.gazeta.ru/social/news/2015/05/15/n_7197601.shtml

²⁴ Газета Oman Daily Observer, June 13, 2015, p. 14, "Prospects look dim for Yemeni peace talks".

extremist forces, the Islamic State and AQAP, Al Qaeda in the Arabian Peninsula, members in particular. Also there is a possibility that certain assistance might be required on the Omani side for tackling the refugee problem at the border, implying provision of temporary camp facilities.

In conclusion, it is worth noting that the case of economic and social development of Oman is of apparent interest, indicating successful evaluation in the areas of state administration and governance, modern infrastructure, sustainability of tolerance specific for the Omani society. Although, on the way to long-term sustainable economic growth and prosperity of the Sultanate, a number of key risks should be always kept in the loop.

Summary — key risks:

Domestic politics — Sultan Qaboos' state of health and succession issue; interim risk related to the capacity and efficiency of the monarch's governance.

International relations — (i) civil war and humanitarian disaster in the neighbouring Yemen, situation on the Omani-Yemeni border; (ii) balancing between its Western allies and Iran, as well as (iii) between Iran and Saudi Arabia.

Economy — (i) low oil prices, as consequence — budget deficit and cut in government investment programmes; (ii) high level of unemployment — 15–20% among Omanis²⁵, as consequence — increase of social unrest.

Finally, I would like to express moderate optimism regarding Oman's future development and point out to favorable opportunities existing for further strengthening ties between Russia and the Sultanate of Oman in political, economic, social, cultural and humanitarian areas. Good examples of such interaction are Mikhail Piotrovsky's, Director of the Hermitage Museum in St. Petersburg, affiliation with the Board of Trustees of the National Museum of Oman to open its doors later in 2015, active work and expansion of the Russian pipe producing factory, Pipe Metallurgical Company (TMK), with annual capacity of 200 000 tons, as well as resumed activity of Russian-Omani Business Council.

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