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**ECONOMIC DIVERSIFICATION OBSTACLES IN RESOURCE-DEPENDENT STATES
THROUGH THE LENS OF RESOURCE CURSE THEORY: OMAN AS A CASE STUDY**

A Thesis Submitted for the Degree of Doctor of Philosophy in political
economy by:

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ABSTRACT

Rationally, it would be expected that the discovery of substantial and lucrative natural resources would provide a pre-industrial state with the opportunity to achieve industrial take-off. However, resource curse theory has challenged this assumption. Instead, oil-dependent states are not able to diversify their economies away from their reliance on natural resource revenues. The Sultanate of Oman has proved to be no exception. The discovery of oil in Oman in 1962 provided its government with the means to establish a massive socio-economic development programme with the aim to eventually reduce the country's dependency on oil. Decades later, oil export revenues still represent more than 80% of government revenues. The main objective of this research is to try to understand the root cause of Oman's inability to create a diversified economy, despite the fact that it was among the first countries in the region to adopt an economic diversification strategy. To explore the main reasons behind the unsuccessful economic diversification attempts in Oman, this study analyses in-depth the four aspects of the 'resource curse' identified in the literature: economic factors; human resource development; institutional quality; and political/social factors. The thesis is based on a single case study, that of Oman, using two methods of data collection: semi-structured interviews and focus group discussions. The participants' insights are triangulated with official documents and reports from international organisations. The analysis demonstrates that studying each of the four aspects of the resource curse separately does not provide sufficient explanation for the failure of diversification. As a result, this thesis argues that the interaction of these four factors provides a more comprehensive understanding of the phenomenon. Furthermore, the analysis highlights that economic factors and human resource development are negatively affected by the institutional quality and the political/social factors.

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This manuscript is dedicated to:

My Mother the mentor and the friend,

Muna (words are not enough to express my gratitude for your
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And

Fatma, Atika, Omar, and Abdullah (I'm sorry this journey was at your
expense)

Without your understanding, support, and encouragement this work
could not have been completed. Thank you for walking this path with me.
I am greatly indebted, forever.

Statement of Authorship

I hereby declare that the current thesis, “Economic diversification obstacles in resource dependent states through the lens of resource curse theory: Oman as a case study”, is the result of the author’s original investigation, except for those quotations, citations and references that have been duly acknowledged. The research has been undertaken in the School of Government and International Affairs at Durham University. This material has not been previously submitted in application for another degree or qualification to any other institute or university.

Statement of Copyright

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Acronyms and Abbreviations

CEO: chief executive officer
EC: The Education Council
ESCWA: The Economic and Social Commission for Western Asia
FAERC: The Financial Affairs and Energy Resources Council
FDI: foreign direct investment
FYDP: Five-Year Development Plan
GCC: Gulf Cooperation Council
GOC: Government-owned companies
IMF: International Monetary Fund
MOCI: Ministry of Commerce and Industry
MOE: Ministry of Education
MOF: Ministry of Finance
MOF: Ministry of Finance
MONE: Ministry of National Economy
NCSI: National Centre for Statistical Information
NGO: Non-Governmental Organization
OECD: The Organisation for Economic Cooperation and Development
OMR: Omani Rial
ORPIC: Oman Oil Refineries and Petroleum Industries Company
PDO: Petroleum Development Oman
R&D: Research and Development
RCT: Resource curse theory
SAI: State Audit Institution
SEZAD: Special Economic Zone Authority Duqm
SGRF: State General Reserve Fund
TCO: The Council of Oman
TDC: The Development Council
TNA: The National Archive (of the United Kingdom)
TOG: The official Gazette (of the Sultanate of Oman)
TRC: The Research Council
TSC: The State Council
TWB: The World Bank
UNCTAD: United Nation Conference on Trade and Development
UNDP: The United Nations Development Programme
UNESCAP: The Economic and Social Commission for Asia and the Pacific (of the United Nations)
UNESCO: United Nations Educational, Scientific and Cultural Organization
USD: United States dollar

Note on Translations and Transliterations

Most of the Institute names in Oman are translated officially by the government. For example, مجلس الشورى (*Majlis Al Shura*) is Shura Council. Moreover, this research has adopted the applicable translation from Oxford Dictionary (English-English-Arabic) for concepts such as فساد (*Fasad*) which is translated as corruption. With regard to the transliteration of Arabic words such as (*al-majlis al-istishari li-dawla*) I used the Library of Congress Romanisation table for Arabic.

Chapter 1 Introduction

"The current situation is bad for us in Oman. This is a really difficult time. This is bad politics" Omani Oil and Gas Minister Mohammad bin Hamad Al-Rumhy criticizing OPEC policy which caused oil prices to fall in 2014 (cited in El-Gamal, 2015).

1.1 Introduction

1939, when the Kingdom of Saudi Arabia exported its first oil shipment, was a turning point in the history of the Arabian Peninsula. The new source of revenues encouraged other states and tribes in the region to sign exploration contracts with western oil companies. However, the unstable political situation and the absence of strong governments in the other parts of Arabia curtailed oil operations and limited the activities of the companies, which resulted in political interference and sometimes military interventions by the USA and the UK to protect the interests of their companies (Morton, 2007). By 1971, the region had been shaped and stabilized, and a number of new states were created. The new regimes gradually managed to use oil revenues to secure their authority through direct and indirect redistribution of the oil wealth.

Many researchers argue that the Gulf Cooperation Council (GCC) countries, namely Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE, suffer from limited economic diversification (e.g. Beblawi, 2010; Davidson, 2013; Krane, 2014). These distortions result in weak economic efficiency, which, in turn, undermines the outcomes of any efforts towards diversification or industrialization. Furthermore, El-Katiri (2013) warns that the increase in domestic energy demand in the Gulf States will see them lose their status as major energy suppliers to the world. The sharp increase in the domestic demand for energy is mainly driven by the cheap energy prices because of government subsidies. In addition, oil and gas reserves will deplete more rapidly because of governments' attempts to meet domestic demand while preserving the current export levels. These practices will eventually have negative impacts on their socio-economic development and political stability.

Moreover, Mitchell and Stevens (2008) posit that the state should not consider the revenues acquired from their natural resources as part of their gross domestic product (GDP), as that approach will lead eventually to the diminishing of its wealth rather than creating a sustainable economy. Thus, as the world squeezes more economic growth from each barrel of oil, the GCC countries are moving in the opposite direction. As Beblawi puts it:

The Gulf States' drama is that it [oil extraction] is not simply another economic activity added to the other existing productive sources within a viable and modern economy, as it is with the Netherlands or, for that matter, Canada, Australia, and the Scandinavian countries. In the Gulf, the oil sector dominates the economy; it is almost the unique source of wealth (Beblawi, 2010:188).

Thus, oil and gas revenues were an essential factor in the Gulf States' formation, development and modernization over the past few decades. However, the survival of the monarchies in the Gulf States will come under severe pressure due to current and future challenges, such as: the expected growth in population; the increase in energy demand; the lack of economic diversification; and the capacity to continue direct and indirect wealth distribution (Davidson, 2013; Krane, 2014).

Against this background, the main objective of this research is to try to understand the root cause of Oman's inability to create a diversified economy, despite the fact that it was among the first countries in the region to adopt an economic diversification strategy. In this context, the rest of the chapter presents the research questions, followed by a brief background that focuses on Oman's strategic plans towards economic diversification. The research theoretical foundation, methodology, contribution, and thesis outline are also discussed in the later sections of the chapter.

1.2 Research Questions

Resource curse theory highlights the distortions created by rentier economies, and appears to provide a comprehensive explanation for Oman's failure to diversify the economy. However, the theory cannot, in isolation, explain which of the factors—economic, lack of human development, institutional quality, and political and social factors—is the most important. Therefore, this thesis applies resource curse theory to a detailed case study of Oman's economy from 1970 to 2016 in order to investigate: *What factors impeded the economic diversification policies in Oman?* Accordingly, the research focuses on answering the following sub questions:

- How severe is the effect of the economic factors (Dutch disease,¹ oil price instability, private sector performance, and government intervention in business activities) on Oman's ability to achieve economic diversification?

¹ The term was first used by *The Economist* magazine published on 26 November 1977 in reference to the gas boom in The Netherlands and its effects on the economy (Kiev, 2014).

- To what extent has the Omani government succeeded in human development and achieving high levels of institutional quality?
- How has this affected Oman's ability to achieve economic diversification?
- What were the effects of the political and social factors on Oman's ability to achieve economic diversification?

1.3 Brief Background on Oman

The Sultanate of Oman² is a country of around 300,000 sq. km on the south-eastern coast of the Arabian Peninsula. It has a relatively small population of some 4 million inhabitants. Prior to the discovery of oil in Oman, and until 1954, the country was divided into two political systems that ruled different parts of the country. The interior side of the country was under the Imamate regime, while the south and the north coast, including the current capital, Muscat, was ruled by a monarchy, with the Sultan as its head. In 1955, the government signed the first oil exploration contract with the Iraq Petroleum Company and in 1967, Oman exported its first oil shipment (Morton, 2007). Many scholars argue that oil was the pivotal factor in the formation and modernization of Oman (Beblawi, 2010; Davidson, 2013; Levins, 2013; Oskarsson & Ottosen, 2010).

In July 1970, Sultan Qaboos Al-Said carried out a bloodless coup to depose his father. He seized power in a country that experienced civil wars and revolutions. Oil revenues helped the Sultan unify the country and gain the loyalty of the main tribes (Takriti, 2013). According to Elmallakh (1972:418):

The new Sultan, Qaboos, has signalled a striking commitment to the development process. The most crucial aspect of this approach is the underlying issue of unity. Domestically, economic reform is utilized to assist in this thrust as, for example, in the elimination of internal customs and duties. The institutionalization of specific government departments—economy, social affairs, labour, education, health, foreign affairs—should facilitate national implementation of essential infrastructure projects.

As a result, Oman, like its neighbours, witnessed rapid and prosperous economic, and social development. However, unlike some of its neighbours, such as Qatar, Saudi Arabia, and the UAE, Oman has more modest oil reserves (estimated at 5.5bn barrels) (NCSI, 2016d), which are expected to be sustainable for only another 15 to 20 years with the current

² The thesis also uses Oman and Sultanate to refer to the Sultanate of Oman.

oil extraction technology. Furthermore, oil production in Oman is costlier in comparison to the rest of the Gulf States (Lefebvre, 2010). For that reason, the priority of the government's plans has been to reduce Oman's dependency on oil by encouraging the development of the non-oil sector. The pressure to achieve this intensified after the oil crises in 1986 and 1990 (Rigsbee, 1999), and after the financial crisis in late 2007 and 2008 when oil revenues across the entire region were under pressure.

However, the first major challenge that faced the new regime in 1970 was the ongoing revolution in the south of Oman. The revolution had been fomented by the Popular Front for the Liberation of Oman (PFLO), which followed a hard-line understanding of Marxism and was supported by the Marxist-Leninist People's Democratic Republic of [southern] Yemen. In 1974, the PFLO changed its name to The Popular Front for the Liberation of Oman and the Arab Gulf (PFLOAG), implying that it intended to eventually push further into the Arabian Peninsula. With military support from the UK, Iran, and Jordan, the Sultan's armed forces managed to push the rebels back to the Yemeni borders. However, the Sultan's policy also contained a political element that granted the rebels a considerable degree of autonomy and offered them an amnesty. As a result, by the end of 1975, the Omani government was able to declare an end to the rebellion (Cordesman, 1997).

Having freed its territory from the PFLOAG's rebels, the government was able to start focusing on the state-building process (Cordesman, 1997). The political elite recognized the need to establish a development strategy that would ease the economy's dependency on oil revenue. In 1970, oil revenues contributed more than 95% of the country's GDP and most government expenditure was allocated to the defence budget (Halliday, 1978). As the main source of income, oil rents were used to fund development projects such as schools, hospitals and local governance across the state. In order to support this strategy, in 1976 the government announced the first in a continuing series of five-year development plans (FYDPs) that would form its mandate in each period. The first FYDP focused on economic and social reforms through three main objectives (Mohammed, 2012):

- Economic diversification;
- Human resource development; and
- Urban development.

Oman achieved strong growth rate in terms of its GDP, initially because of the rapid increase in income generated from oil and gas exports. Many researchers observe the

conundrum in the oil rich states of attaining high GDP growth rates but failing to create sustainable development. For example, Davis (2011) concludes that GDP growth is positively associated with minerals and oil exports, while Nunn (2007) argues that minerals, oil, and diamonds production in Africa has had a positive effect on the per capita growth rate. However, other researchers argue that a positive relationship between resource abundance and GDP growth rate usually results in the failure to reduce the finite resource dependency. Ding and Field (2005) find a negative relationship between resource abundance and the human capital development. Using a more nuanced analysis, Brunnschweiler and Bulte (2008) distinguish between resource dependence and resource abundance. The authors argue that a country with an abundance of resources does not necessarily equate with resource dependency. Norway and Canada are examples of states with resource abundance but have very diversified economies. However, Brunnschweiler and Bulte (2008) argue, if the country is resource dependent, then it can be difficult to develop a diversified economy because the situation is often associated with social and political complications such as poverty, inequality, and poor human development outcomes.

1.3.1 Economic Diversification Strategies

Prior to 1970, there were only three governmental institutions in Oman, The Ministry of Finance, The Ministry of Interior Affairs, and The Ministry of Foreign Affairs. However, after the regime changed in 1970, the government structure grew to include new institutions bringing the number to nine and by 1976 further government bodies were established to facilitate growth in every aspect of the country (MOSS, 2014:39). In 1976, the first economic strategy was announced in the form of the first FYDP. The main idea behind the FYDP strategy was to create periodic plans as frameworks for development in the country.

The first FYDP (1976-1981) and the second FYDP (1981-1986) did not achieve many of their main goals, as oil export revenues continued to dominate government revenues, there was rising unemployment and weak industrial growth. In 1986, the Omani government devalued its currency against the US dollar by 10% because of the negative impacts of the rapid decrease in oil prices from USD35/b in 1981 to under USD10/b by the end of 1986. The low oil prices also forced the government to adopt austerity measures such as reducing the capital expenditure, which negatively affected small businesses and industries (Johnson, 2014). According to Atkinson and Hamilton (2003), if the state cannot manage its natural resources in a rational manner, then it ends up using a high percentage of the natural resource

revenue to pursue its routine business. As a result, it is not able to invest its income in productive projects, which, in turn, may restrain the state from implementing a long-term domestic savings strategy. This results in low or even negative rates of genuine savings, which is eventually translated into slow economic growth. Dunning (2005:451) argues that the failure to use natural resource revenues is because the:

Political elites in oil-rich countries that are in control of many resource-dependent states face an important trade-off: while they might like to promote the diversification of the economy, thereby reducing fiscal volatility and potentially improving aggregate economic performance, diversification may create societal bases of power outside of the control of political elites. These independent bases of power may then facilitate future challenges to the political power of state incumbents, especially during the economic downturns and fiscal crises that typically characterise resource-reliant countries. Thus, while diversification may be economically rewarding, it can also be politically costly.

Nevertheless, the Omani government was aware of the challenges facing it. In 1990, the Sultan ordered the Council of Ministers to study what had been achieved to date regarding the economic and social reforms. The review indicated that oil was still the main source of income and that there had been very limited development in the economic and social structure. Then, in 1994, the government decided to seek an independent evaluation of the previous FYDPs. Accordingly, with the help of the World Bank, a comprehensive report was drafted, which highlighted the strength and weaknesses of the previous FYDPs. It also highlighted the risks associated with oil price fluctuations and the increased number of young Omanis joining the workforce (The WB, 1994). In terms of the oil price fluctuations, in 1986 oil prices collapsed from USD27/b to USD13/b. As a consequence, the economy contracted by 12.5%. Further oil price collapses were associated with contractions of the economy: in 1988 the economy contracted by 2.8%, in 1991 the contraction was 2.9%, and in 1998 the contraction was 11.1% (MONE, 2000).

The World Bank Report led, in 1995, to the government announcing a new long-term strategy called ‘Oman Vision 2020’ (hereafter Vision 2020), which aimed to prepare Oman for a post-oil era by creating the framework for sustainable development. The main features of that strategy were:

- Economic diversification;
- Increasing the private sector’s share in the economy;
- Globalisation of the Omani economy; and

- Human capital development to be able to compete in the national/international labour market (MONE, 1995).

Importantly, Vision 2020 was not only an economic development strategy but was also meant to work in conjunction with social and human development targets.

However, in 2010, the Omani government reviewed the outcomes of Vision 2020 to date and concluded that there had been very limited success in achieving the key goals of the strategy. The review concluded that economic activities were still heavily dependent on revenues from the oil sector. Furthermore, economic diversification was found not to be improving, as policy implementations and government efforts did not provide the necessary support to drive growth in all sectors (AlHarithy, 2013). In 2011, Oman seemed to be on the verge of what has been termed the ‘Arab Spring’, with high unemployment levels, social inequality, and limited public participation in the decision-making processes among the main factors. The degree of social dissatisfaction encouraged young Omanis to protest in the streets (Davidson, 2013). This is clear evidence that something was wrong either with the economic and social reform strategies or the implementation process.

1.4 Theoretical Perspective

In terms of the theoretical underpinnings of the study, it is apparent that several different theories have been developed. By focusing on the viability and sustainability of economic growth in oil-rich countries (Ahmadov, 2011; Boschini et al., 2007; Collier, 2008; Robinson et al., 2006; Rosser, 2006), theories, such as resource curse theory and rentier state theory, alongside other conceptual definitions for the phenomenon of weak economic performance in resource rich states, such as the paradox of plenty and point resource dependency, have been developed. In the context of the viability and sustainability of economic growth in oil-rich countries most studies attempt to ascertain whether the massive revenue flows from a one-point recourse is a curse or a blessing (Charyyev, 2015; Gelb, 1988; Gylfason, 2010; Stevens, 2003). This study uses resource curse theory as its theoretical underpinning.

Moreover, most studies (Basedau & Lay, 2009; Daniele, 2011; Larsen, 2006; Robinson et al., 2006) that discuss the resource curse theory are based on the use of quantitative methods in a cross-section analysis and concentrate on the effects of the resource abundance on the macroeconomic level. Additionally, most scholars use resource curse theory as a diagnostic tool by which to identify the consequences of the natural resource

dependency, rather than to recognise which of the symptoms obstruct the state's ability to implement the required reform to achieve economic diversification. In contrast, this thesis uses resource curse theory to analyse the impact of oil dependency on the Omani government's efforts to diversify the economy. The comprehensive examination expands the scope of the analysis to include human resource development, the political and social environment and institutional quality alongside the economic factors.

1.5 Methodology

Understanding the obstacles to economic diversification in Oman requires a comprehensive explanation and interpretation of the data which, in my view, is difficult to achieve using quantitative methodology alone because the nature of the interaction between the different elements is too difficult to quantify. For example, it is easy to calculate the GDP growth rate in a given period, and it is also easy to determine which sector contributed most to GDP growth. However, any deeper understanding of the social and political impacts associated with the resource curse in a country by using quantitative methodology is difficult as this endeavour requires an analysis of the social and political context. Therefore, in my view, the qualitative method is more suitable for this research.

According to Sandelowski and Barroso (2003), qualitative research is the umbrella that covers the best strategy to conduct any enquiry aiming to study how humans understand, experience, and reproduce the social world. Qualitative research contains a rich and detailed description of the phenomena, which allows the researcher to conduct an in-depth interpretation. In terms of this research, the qualitative method allows the researcher to understand the participants' views on which of the four factors—economic, human resource development, political and social, and institutional quality—has a bigger impact on the diversification efforts. The flexibility of a qualitative methodology allows the researcher to understand the participants' views based on their experience of Oman's economic structure.

The qualitative methodology adopted in the research uses two methods of data collection and triangulates the findings with relevant data from statistical reports, tables, demand forecasts and figures from diverse sources, including the National Centre for Statistical Information (NCSI), reports and online resources of UNCTAD, the International Monetary Fund (IMF), the Economic and Social Commission for Western Asia (ESCWA),

the Organisation for Economic Co-operation and Development (OECD), the World Bank (WB), and the National Archive-UK (TNA).

The first data collection method was a series of semi-structured interviews conducted with 41 members of the Omani political and business elite from the state council, government institutions, the business community, universities, NGOs, and the media. To increase the size and representativeness of the interview sample, the selection of interviewees was based on two parallel snowball networks in which one interviewee nominated another and so on. The participants were selected according to various criteria including their involvement in top-level decision-making process in Oman. The researcher sought to collect data related to the factors proposed by the resource curse theory. Accordingly, the semi-structured interview participants were asked set of questions classified into four main themes: economic factors, human resource development, institutional quality, and political and social factors. This was then linked to the impact of those factors on Oman's economy diversification efforts. In addition, a questionnaire containing 11 yes/no questions reflecting the main themes of the semi-structured interview questions was collected (see Appendix 2). The questionnaire provided the researcher with the means to quantify the agreement or disagreement of the participants on each theme.

The second method was to hold two focus group discussions, conducted separately with top level decision makers from the state council, government institutions, the business community, universities, and the media. The participants in each group were encouraged to discuss similar themes to the semi-structured interviews, but without detailed guiding questions (see Appendix 3). The focus group discussions were fruitful as they provided in-depth insights from the participants who engaged in a transparent discussion which provided the researcher a better understanding and different perspectives.

The fieldwork, which was conducted in 2016, received Durham University ethical approval. As expected, due to the sensitivity of the topic in Oman and the authoritarian political culture, the participants in the semi-structured interviews and focus group discussions all requested their identities be anonymized, which was granted.

1.6 Research Significance and Contributions

This thesis makes a number of contribution to knowledge. From a political and social view,

Oman has been studied by a very limited number of scholars including Al-Farsi (2010) and Rabi (2011) who analyse the political structure and democracy in Oman from the perspective of its religion. Limbert (2010) studies Omani society from an anthropological view. Allen and Rigsbee II (2014), Peterson (2004, 2009), Townsend (1977) and Valeri (2009) focus on the political economy of Oman and state building, while Takriti (2013) provides archival analyses on the revolution in the south of Oman. Indeed, according to Hunt (2014:6), “A ProQuest search, reveals 482 scholarly journals published with the word “Oman” in the title in the last decade, only twenty-two of which pertain to politics. The majority of articles drew from the geological, anthro-historic, and medical fields. Even global databases have statistical blind spots”. This statement helps understand the need for further research on the political economy of Oman in general and its post-oil economy in particular.

Furthermore, in relation to resource curse theory, most research targeting the oil-producing countries is based on cross-country quantitative GDP growth analysis in which Oman is included along with other states. The results of such studies have contradictory findings. For example, Karl (1997) concludes that Oman managed to avoid the resource curse, while Sach and Warner (1997) argue that Oman has been negatively affected by the resource curse.

Beyond Oman, however, the body of literature that studies the relationship between resource abundance and development is extensive, including: Bannon and Collier (2003); Gelb (1988); Gelb, Eifert, and Tallroth (2002); Isham, Woolcock, Pritchett, and Busby (2002); Leite and Weidmann (1999); Lotz (2008); Sala-i-Martin and Subramanian (2003); Sarraf and Jiwanji (2001); and Skancke (2003). Their consensus is that the existence and domination of a particular type of natural resource is linked to an increase in the negative factors within a country, such as civil war, slow growth rates in the non-resource economy and lower levels of democratisation. In contrast, scholars such as Rostow (1990) posit the idea that resource abundance can result in industrial take-off. This was the case in Australia, the UK and the US, where the natural resource income created a transition towards development. However, other researchers conclude the opposite. For example, Wheeler (1984) finds that in Sub-Saharan Africa, the growth rate of resource-rich countries was slower than in countries that were not rich in minerals in the 1970s. The contradictory findings regarding the limits of development under the umbrella of resource abundance

demonstrates the need for further study into the Omani case in order to determine the reasons behind the limited success in the efforts to diversify its economy.

Therefore, this thesis seeks to start filling a wide gap in the literature about the resource dependency in a single case (Oman). Accordingly, the thesis contributions are:

- The main contribution is providing a new analysis of the resource curse impact on a single case study.
- The thesis provides a new dimension to the theory as it argues that resource dependency must not be categorised as purely a curse or a blessing.
- Another contribution is its inclusion of different factors as most studies only test one factor for the reasons behind limited economic diversification.
- The methodology also contributes to the literature, as no study uses a qualitative methodology to test the resource curse impact in a single case study.
- Although this thesis analyses the resource curse impact in Oman, the similarities between the Sultanate and other GCC countries could inform the possible causes behind the limited successful economic diversification in those countries.
- The research examines, for the first time, the relationship between the different factors—economic, institutional quality, political and social factors, and human resource development.
- The thesis posits a new argument that foreign direct investment (FDI) decision-making is related more to political and social factors than to institutional or economic factors.
- The thesis proposes a new conception of the Dutch Disease, termed ‘the GCC disease’, which better fits the economic outcomes in the GCC states.
- This thesis overcomes the debate regarding the economic performance measures as it considers economic diversification as the equivalent of successful or positive economic performance measure.
- The thesis provides, for the first time, an analysis of the roots of crony capitalism in Oman and its impact on economic diversification.

1.7 Thesis Structure

In order to answer the research questions, the thesis is organised into nine chapters including this introductory chapter. Chapter 2 provides an overview of the Omani economy, politics,

and institutions. The first section presents a background to the Omani economy and highlights its structure, the government revenues, the private sector's involvement in the economy, the strategies implemented by the government to achieve sustainable economic development, the economic challenges, and the Dutch disease symptoms in the Omani economy. The second section highlights human resource development by providing an overview of the demographic structure and the issues related to the limited Omani participation in the private sector. The third section gives an overview of the institutions in Oman and provides the perspective of the international agencies on institutional quality.

Chapter 3 presents a critical review of the literature on resource curse theory. It is divided into three main sections. The first section provides an overview of the literature related to the resource curse. It starts by identifying resource curse characteristics, such as Dutch disease, with economic growth, institutional weakness, corruption, and regime type. It also provides an overview of the literature on how states can avoid the resource curse trap. The second section discusses the literature that analyses the resource curse impact on the GCC states, including Oman. The third section highlights the research gaps in the literature.

Chapter 4 discusses the theoretical and conceptual framework. The chapter is divided into two main sections. The first section identifies the main differences between resource dependency and resource abundance and identifies economic diversification measures. The second section addresses the resource curse channels—economic factors, institutional quality, human resource development, and political and social channels—in the Omani context.

Chapter 5 details the procedures and methods followed in the research including the rationale behind the case selection. Furthermore, it justifies the analysis techniques used, including the collection and sampling methods. The chapter also addresses the limitations and difficulties related to the fieldwork process.

Chapters 6, 7 and 8 present the findings. Chapter 6 analyses the semi-structured and focus group discussion data in relation to the economic factors. It starts with an analysis of the economic structure and includes a discussion of the issues related to the limited economic diversification. The chapter also analyses the Dutch disease symptoms and their applicability to the Omani economy. Furthermore, the chapter identifies oil price instability, government

involvement in economic activities, private sector performance, and the clandestine trade as elements of the economic factors that block diversification efforts.

Chapter 7 analyses the lack of human resource development as the second channel of the resource curse theory. The chapter covers issues related to human resource development in Oman, such as education quality, education policies and sustainability, the labour market structure, and the impact of the rentier mentality. Furthermore, the thesis identifies the importance of research and development (R&D) to achieve sustainable economic development. Therefore, the last section of the chapter highlights the R&D environment in Oman and its impact on the limited economic diversification.

Chapter 8 focuses on the institutional quality and the political and social factors that impact on the state's ability to achieve economic diversification. The chapter is divided into three main sections. The first section analyses institutional quality in Oman and includes economic diversification strategies' management, implementation, and consistency. The section also highlights the chronic problems which hinder institutional reform in Oman, such as the overlapping of responsibilities among different government institutions and the lack of accountability and governance. The second section discusses the social factors by looking at rentier mentality, nepotism,³ the bureaucracy, and individuals' performance. The third section assesses the political factors associated with crony capitalism, rent-seeking and corruption. It also traces the roots of crony capitalism in Oman and identifies its impact. The section also discusses FDI inflows being a matter of political decisions rather than business ones and therefore the issues related to limited FDI in Oman.

Finally, Chapter 9 provides the key findings of the research and connects the impact of each channel of the resource curse and economic diversification in Oman. It also highlights the interconnection between those factors and the impact of each factor on the others. The chapter also highlights the research significance and contributions. The last section elaborates on the thesis' research limitations and provides a roadmap for future studies.

³ The concept of 'nepotism' refers to 'who you know not what you know is what matters' is broadly equivalent to *wasta* which is defined by Barnett et al. as the "special influence by members of the same group or tribe" (2013:5). However, according to Barnett et al. (2013:5) the practice of *wasta* within most Middle Eastern societies is not seen as a nepotism or corruption. In contrast, this thesis using the term nepotism which is defined by Transparency International (2016) as a "form of favouritism based on acquaintances and familiar relationships whereby someone in an official position exploits his or her power and authority to provide a job or favour to a family member or friend, even though he or she may not be qualified or deserving", which according to Omani law is considered be to a form of corruption.

Chapter 2 Overview of the Omani Economy, Politics, and Institutions

2.1 Introduction

This thesis investigates the main obstacles towards achieving economic diversification in Oman by testing the factors highlighted by resource curse theory as blockages: economic factors, institutional quality, human resource development, and political and social factors. It does so because, as this chapter demonstrates, growth in the Omani GDP has been function of two interrelated factors: the growth in oil production in Oman and the upward trend in international oil prices. Furthermore, the Omani economy is still dependent on oil export revenues despite the efforts of the government to diversify the economy. Many scholars (e.g. Alhajri, 2010; Auty, 2001b; Larsen, 2006; Torvik, 2009) argue that limited diversification and weak economic performance can be attributed to the effects of the Dutch disease or to the absence of linkages between the hydrocarbon sector and other economic sectors. However, as is discussed in Chapter Three, resource curse theory suggests that diversification efforts are not only limited by economic factors, but also by social and political factors, institutional quality and human resource development. This chapter is structured around these four channels (factors) of the resource curse theory.

The first section provides an overview of the Omani economy. It highlights the historical development of the Omani economy, the role of oil and gas activities, the government's revenue structure, the private sector's role in the economy, the strategic development plans, the Dutch disease symptoms and the challenges facing diversification from an economic perspective. The second section covers human resource development, the relationship between the labour market and the education system, the government's strategies towards localising the labour market (Omanisation) and the human resource development challenges in Oman. The last section discusses Oman's governance, the development of legislation to counter-corruption, the market structure and the role of the crony capitalism in Oman.

However, it is first necessary to give a brief overview of the political, social and economic developments in Oman since 1970, which were enabled by the flow of oil revenues and the change in the political system implemented by Sultan Qaboos. Lagging its neighbours, it was only in 1964 that oil, in commercial quantities, was discovered in Oman. In 1967, Oman exported its first oil shipment, which was around 60,000 barrels at the prevailing low price of around USD1.8/b (MOCI, 1980:9-12). Until 1970, little was done to utilise the oil revenues to enhance living standards or to invest in infrastructure development.

In 1970, Sultan Qaboos took power from his father and started a very ambitious political, economic, and social reform programme. The development programme focused on infrastructure development alongside upgrading the provision of healthcare and education. For example, the number of the hospitals jumped from three in 1970 to 62 in 2010. In 1970, there were only three schools providing education for 900 students and by 2016 there were 993 schools with more than 500,000 students (NCSI, 2016b).

According to the Ministry of Commerce and Industry (1980:20-22), agriculture and fisheries were the main economic sectors in the pre-oil era. However, as the oil revenues started to flow, the economy underwent a structural change. The importance of agriculture and fisheries shrank from 35% of GDP in 1967, to 11.5% in 1970, 2% in 1980 and 1.5% in 2008 (NCSI, 2009). The non-tradable sector comprising services, such as banking, financial facilities, and real estate grew: the service sector grew from 7.7% of GDP in 1970 to 19.8% in 1975 (MOCI, 1980:156-157). This shift can be attributed to two main reasons: the expansion of the government administrative services, and structural change as the workforce moved from the traditional economic activities to the new service related economic activities (MOCI, 1980:157-159). In addition, as a result of the political situation in Oman pre-1970 and the attractiveness of wages received from being employed in the newly oil-exporting regional countries compared with the earnings in the domestic traditional sectors, many in the national workforce immigrated to the neighbouring countries. However, after 1970 the new regime encouraged the expatriate Omani workforce to return to their country. Consequently, new work opportunities were created in sectors other than the traditional sectors of agriculture and fisheries. Overall, the establishment of the modern style government provided better education opportunities alongside better job prospects. As a result living standards improved dramatically; for example, the average household income was OMR133 in 1972, OMR770 in 1975 (MOCI, 1980:156-159), and raised to OMR1,459 in 2014 (NCSI, 2014:27).

The first step towards the establishment of modern political system was taken in August 1970 with the appointment of a prime minister and the establishment of five ministries: the Ministry of Interior, the Ministry of Education, the Ministry of Trade and commerce, the Ministry of Justice, and the Ministry of Foreign Affairs. Then, in 1971 the Ministry of the Economy was created, which included responsibility for trade, manufacturing, agriculture and fisheries, seaport management and customs, along with the economic planning department. In 1976, the government announced its first five-year

development plan (FYDP) to support further economic reform. The period from 1970 until 1975 can be considered a transitional period toward a modern state. During that period, the government administrative and institutional bodies were established, while the political, legal, social and economic structure of the state also developed (AlHajri, 2010:35-37).

2.2 Overview of the Omani Economy

The Omani economy has been highly dependent on oil exports for the past five decades. For example, oil revenues share in the GDP in 1981 was 43.4%. Although this share fell to 24.7% in 2008 as result of the oil price fall but it increased again in 2010 to 46.1% and was 34.1% in 2015 (NCSI, 2016d). In addition, many other economic activities are related directly or indirectly to the oil sector. Furthermore, the expansion of the industrial sector was closely related to the oil sector, in the form of energy-intensive industries, the gas-related industries and refineries. As a result, in total the hydrocarbon sector contributed around 75% on average of government revenues between 1990-2015 (MONE, 2002; NCSI, 2016c; Treichel & Mansur, 1999). Moreover, government activities in the economy play a huge role through ownership of assets, use of subsidies, high welfare spending and employment opportunities.

Figure 2-1 compiled by the author sets oil prices alongside Omani GDP from 1969 till 2015. The figure demonstrates a strong correlation between the GDP growth rates and the oil prices as high oil prices result in high GDP growth rate, but when the oil price falls it results in a lower GDP growth rate, or indeed a contraction. In other words, the GDP growth rates are inextricably linked to the oil price. Furthermore, this indicates the still marginal contribution of the non-hydrocarbon sectors in the economy. Thus, if the government wants to target the hydrocarbon sector as the core of diversification, a critical question is raised regarding how effective the policy could be, as the related projects are also exposed to oil price fluctuations.

Since 1976, the government has developed a series of FYDPs in which, one of the most repeated pillars was enhancing private sector capabilities in order to change the economic structure so as to achieve self-sustaining development that was not dependent on oil revenues. However, the development strategies have not been successful in their overall goals as the government budget suffered from a semi-chronic deficit. The disappointing outcomes were partially the result of the oil price fluctuations and the excessive expenditure on infrastructure. Moreover, as a result of the absence of any reliable alternative source of

revenues when the oil price falls, the government starts to cut back on its capital and current spending. Although this measure helps the government reduce the deficit, the impact on the economy is massive because the private sector is highly dependent on the government expenditure. Thus, if there is a contraction in government expenditure, a contraction in private sector activities follows (Alhajri, 2010).

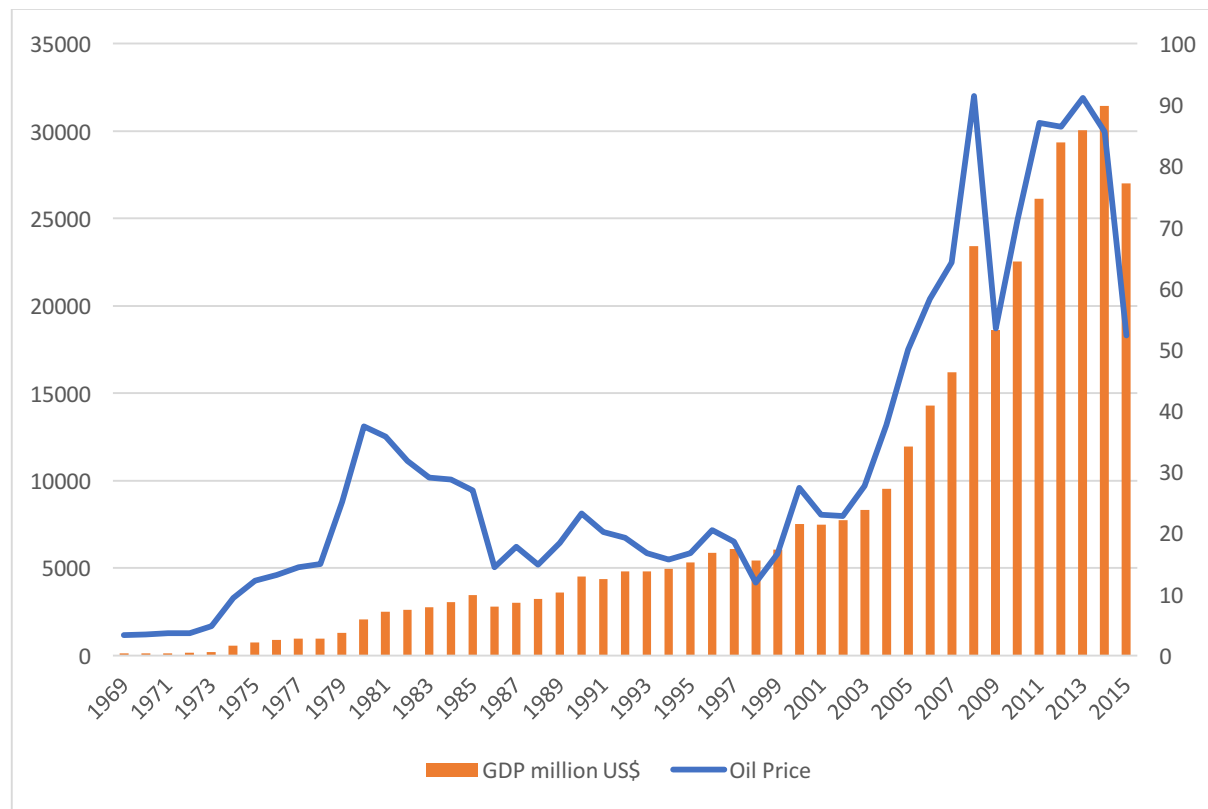


Figure 2-1: Omani GDP and Oil Prices (GDP left axis, oil price right axis)

Source: compiled by the author with data obtained from The World Bank (2016)

As a result of the absence of a normal developed economic structure, the government becomes the main driver of economic activity, which results in sharp growth in the economic sectors that benefit from government expenditure. For example, construction sector growth is driven by government spending. In addition, household expenditure is also directly reliant on government expenditure through employment and welfare spending and indirectly through government contracts with the private sector. Thus, oil revenues have enhanced standards of livings, which in turn have created a positive impact on the trade sector. However, a number of researchers argue that this situation indicate a structural problem in the economy as government spending directly impacts household spending (AlHajri, 2010:342). In other

words, austerity measures have a strong direct impact on standards of living and therefore the trade sector.

Thus, there is a strong rationale from undertaking economic diversification. However, when oil prices are strong, and from 1970 to 2015 oil prices when adjusted for inflation increased threefold (see Figure 2-2), this reduces the pressure to diversify as it makes sense to specialise in hydrocarbon industries. Vision 2020 accepted this logic, which impacted on the implementation of the plans associated with the strategy. The unpredicted massive income from oil exports encouraged the government to invest more in the expensive enhanced oil recovery techniques which resulted not only on maintaining the oil production levels but kept the output levels higher than the original plan. In turn, this resulted in the creation of a large revenue windfall for the government, which boosted its role as the main actor in the economy.

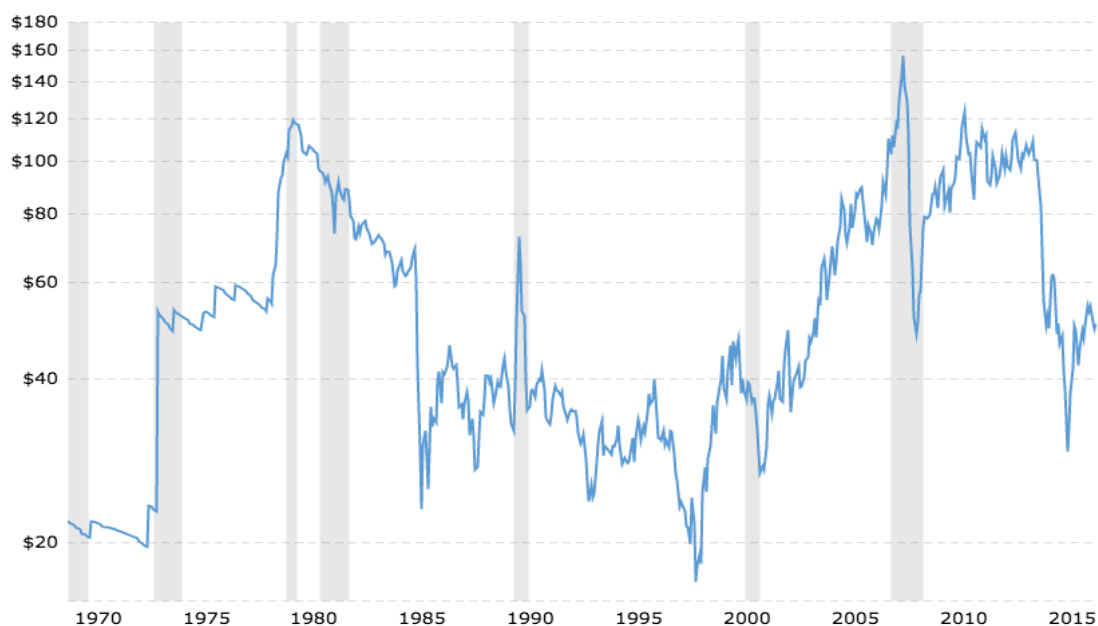


Figure 2-2: Inflation-adjusted Monthly Crude Oil Price (USD/barrel), 1970-2015.

Source: Macrotrends, (2017)

2.2.1 Government Revenues

Government revenues are highly dependent on oil and gas exports. For example, in 2007 the oil and gas contribution to total government revenues was 75.8%, but, despite the aims of Vision 2020, by 2012 the dependency had risen to 85.4% on the back of higher oil prices (see Figure 2-3). These levels highlight the necessity of economic diversification in Oman as the state is highly vulnerable to international oil price shocks. Furthermore, the diversification efforts, which have enhanced related industries that are also sensitive to the international oil

price, merely maintains the state's vulnerability to oil price shocks. In addition, sensitivity to the international oil price can affect the government's ability to implement its overall economic diversification and social development strategies. In order to diversify government revenues away from oil, a comprehensive taxation system could be implemented. As in other GCC countries,⁴ the non- hydrocarbon activities corporate income tax rate in Oman is very low at 12%; this is based on the belief that low taxes encourage the international companies to invest in the country (MOF, 2016a). Furthermore, because of inefficiencies in the tax collection system and tax evasion, only 4,000 out of 300,000 registered companies pay their taxes (Alawfi, 2016).

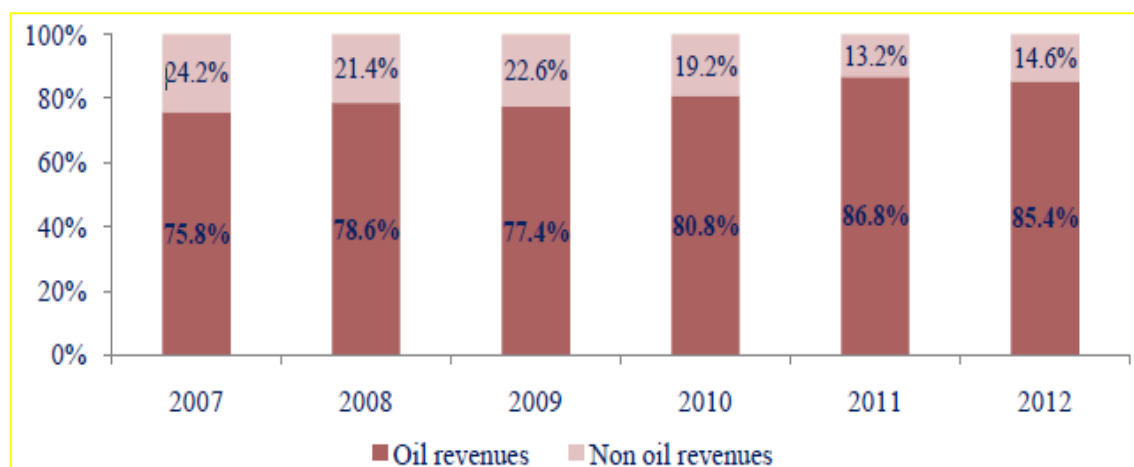


Figure 2-3: Breakdown of Government Revenues, 2007 to 2012

Source: AlMaha, (2013:3)

2.2.2 Oil Exports as a Share of Total Exports

Despite the government's efforts to diversify exports, oil and gas still represent a high, albeit declining, percentage of total exports (see Figure 2-4). In 1980 about 97% of the total exports were crude petroleum while in 2010 the percentage had fallen to 80%. It is important to highlight that between 2000 and 2010 the government had started to invest heavily in gas related industries which accounted for 19% of total exports in 2010. Figure 2-5 highlights that in 2015 the crude petroleum accounted for 73% of total exports, while hydrocarbon-related exports accounted for a further 13% of total exports, bringing the sectors' share to a very high 86%.

⁴ There is no corporate or personal income tax in Bahrain and the UAE at the federal level, the corporate tax rate in Kuwait is 15%, in Qatar is 10%, and in Saudi Arabia is 20% (KPMG, 2016).

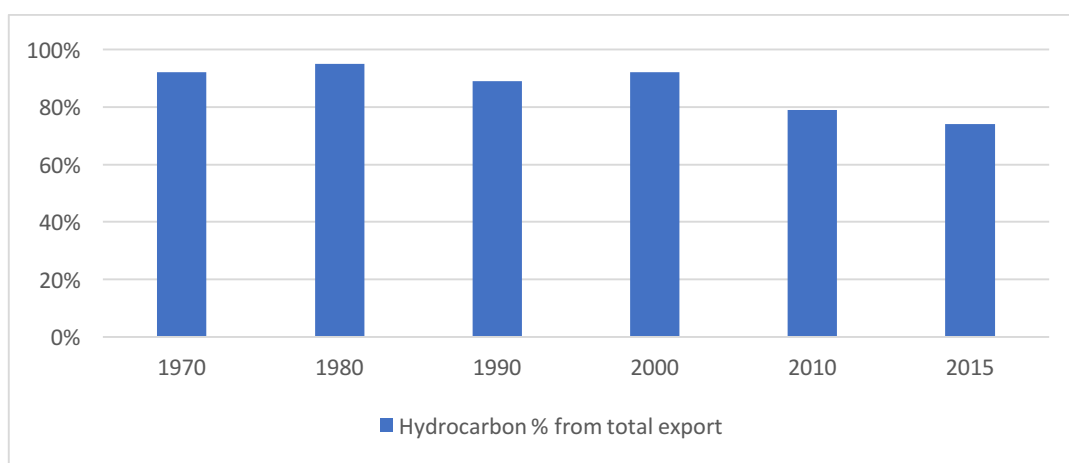


Figure 2-4: Hydrocarbon Exports as a % Total Exports, 1970-2015

Source: The Atlas of Economic Complexity, (2015)

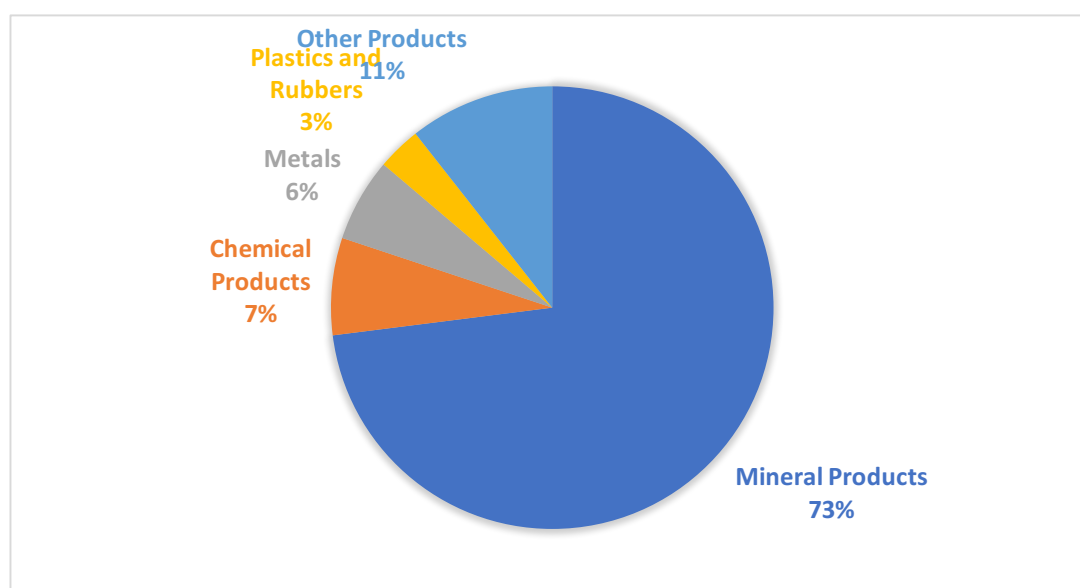


Figure 2-5: Exports Composition of Oman, 2015

Source: The Atlas of Economic Complexity, (2015)

2.2.3 The Oil Sector's Links with Other Sectors

The relationship between the hydrocarbon sector and the other economic activities should be one of the main pillars of the economic diversification strategy in oil dependant countries (Elbadawi & Gelb, 2010). The linkages between those sectors are very important. For example, the establishment of a fertiliser factory which uses gas as feed stock should have a spillover effect in the agriculture sector. However, by exporting the final product, the economy does not benefit from the linkage effect. Vision 2020 planned that the non-oil sector's share of GDP would increase to 91% by 2020 (MONE, 1995). This was to be achieved through different strategies such as increasing the local added value from natural

resources. The role of the private sector as the driver of the economy was seen a method by which to overcome the issues of the depletion of resources and the weak linkages between the economic sectors.

2.2.4 The Private Sector as an Active Player in the Economy

This section highlights the role of the private sector in Oman, and the issues associated with it. According to Halaoui et al. (2017), the state led economic model of the GCC states is not sustainable. Furthermore, the state-led model in the GCC states is not undermined by oil dependency. Therefore, the transformation of the economic model to one based on private sector participation is viewed as part of the solution to overcome the oil dependency. According to official data in 1995, when Vision 2020 was launched, excluding oil, the construction and real estate sectors were the most active sectors (see Table 2-1). By 2015, the construction sector, which is largely driven by government expenditure, was already larger than planned by the Vision 2020, highlighting how government expenditure can distort the plan. Moreover, although the manufacturing sector is experiencing growth rates which reflect progress towards the Vision 2020 targets, the key components of the sector petrochemicals and refining are part of the downstream hydrocarbon sector. In addition, the growth rate in sectors such as finance and insurance were above the projected growth rate in Vision 2020. However, other economic sectors such as mining, fishing and agriculture and trade and tourism experienced lower growth rates than planned, despite government incentives to encourage growth.

Table 2-1: Actual (a) and Vision 2020 (f) Sector Share Targets

Sectors and their Share of GDP (%)	Years										
	1970a	1975	1980a	1985a	1990a	1995a	2000a	2005a	2010a	2015a	2020f
Oil & gas	68.4	67.2	60.5	49.0	46.4	38.2	49.9	49.2	46.1	34.1	19.0
Mining & quarrying	0.0	0.0	0.0	0.3	0.3	0.3	0.3	0.2	0.4	0.5	2.0
Agriculture & fishing	15.8	2.8	2.1	2.3	2.6	2.9	2.2	1.6	1.4	1.6	5.1
Manufacturing	0.2	0.3	0.6	2.2	2.9	4.6	5.8	8.6	10.6	9.7	15.0
Electricity & water	0.1	0.2	0.5	0.8	0.9	0.9	1.0	1.7	1.2	1.9	2.0
Constructions	8.1	9.8	5.2	6.2	2.3	2.6	2.1	3.8	5.8	7.7	7.0
Services	7.5	19.7	31.1	39.3	44.6	50.5	38.7	34.9	34.5	44.5	49.9

Sources: Compiled by author with data obtained from NCSI, (various issues) and MONE, (1995)

In many cases, the limited development of the private sector could be attributed to the lack of availability of funds and the financial institutions unwillingness to provide the small and medium companies with the required loans. This is usually described as the ‘crowding out effect’ in which the government’s economic activities acquire the biggest chunk of the

available funds. However, this was not the case in Oman as the government created financial incentives for the private sector to encourage its development. These included (TDC, 1991:112):

- Custom tax exemption for up to 10 years on imported machinery and equipment and spare parts, as well as the raw material if it is not available locally.
- Corporate tax exemption for up to 10 years from the establishment of the company. This exemption would be applied to national companies or foreign investments equally.
- The foreign investment ownership ceiling was to be raised to 70%.
- Providing Omani companies with export credit guarantees.
- Providing the necessary land for the projects and the government would be responsible for providing the required infrastructure.
- Giving local companies priority in government contracts.
- The establishment of different financial agencies which were to be responsible for providing soft loans with a competitive interest rate.

Indeed, MONE (2006:78) posits that the limited growth in the private sector in Oman could be a result of the following challenges:

- The complexity of the administrative and required procedures to establish companies.
- The oligopolistic activities made it very difficult for the small and medium enterprises to enter the market.
- The lack of transparency and the limited availability of reliable information as a result of the dominant monopolies.
- The limited development of the required logistic infrastructure such as ports, airports and energy resources.
- The dominance of the rentier mentality which encouraged the investors to invest only in high and fast returns investments. As a result there were no risk-takers.
- The limited availability of highly skilled nationals.
- The limited activities related to the research and development.
- The narrow demand for goods and services in the market associated with the competition from the imported goods.

2.2.5 The Strategic Development Plans

The changing political and economic environments from 1970 resulted in the government initiating a massive infrastructure development programme that focused mainly on building the educational and health-care institutions and connecting the major cities with roads, albeit without a strategic plan. However, in 1975 strategic long-term development planning was initiated under the auspice of the Development Council. At this stage, the proven oil reserves were expected to be depleted in less than ten years which made it vital to establish an economic planning strategy. The long-term strategy, which was repeated in most of the later FYDPs, was based on the following long-term aims and goals (MONE, 1996:7-9):

- Developing new sources of national income to replace existing oil revenues.
- Enhancing the proportion of investment directed towards income generating projects, with particular emphasis on industry, mining, agriculture, and fisheries.
- Concentrating on the development and upgrading of local human resources.
- Geographically distributing investment for the benefit of all areas, with a particular focus on the less developed regions, to eliminate disparities in the standards of living.
- Supporting and developing the present population centres and safeguarding them from the dangers of mass migration to the more densely populated urban areas.
- Completing the basic infrastructure.
- Recognising the importance of water resources as a vital element in the growth of economic activities and environmental conservation.
- Supporting the development of local commercial activity and the growth of vibrant and competitive markets, through the necessary support structures, regarding transport and storage, and the removal of commercial obstacles.
- Completing the basis for establishing a national economy based on private sector activity in a competitive market with loan provisions for vital projects in accordance with resources available to the state.
- Increase the efficiency of the state's administrative capability.

In this context, the first FYPD had two main objectives. The first was to invest the oil revenues in projects that could generate income for the government to replace the depleting oil resource. The second was to balance the regional distribution of the projects to maintain the geographical distribution of the population. Furthermore, the government intended to enhance the private sector in order to make it the prime driver of the economy. This meant

that the private sector should be efficient and free from any monopolistic practices or any direct involvement from the government (MOCI, 1980).

However, there was a fundamental problem in the evaluation and the follow-up of each FYDP. According to the legal framework, the institutions that were responsible for the economic planning should establish an evaluation process in coordination with the other stakeholders. However, there was no critical evaluation of the challenges or any suggestions as how to overcome those challenges. Furthermore, there were no suggestions on how to achieve an optimal implementation of the plan or the timeframe for the implementation. For example, the third FYDP started in January 1986 with predicted oil prices of USD23.65/b; however, by July 1986 the oil prices had fallen to USD8.2/b (MONE, 1991), making the plan unfeasible. This forced the government to re-evaluate the plan and postpone many of the development projects. However, the subsequent evaluation of the third plan ignored the massive impact of the low oil prices on the plan's achievements, and only highlighted the positive policies and activities used to overcome the financial problem. Furthermore, no suggestions or policy changes were forthcoming to deal with similar situations in the future. In addition, the first and second FYDPs witnessed the evolution of three core problems that faced the planners when developing each subsequent plan. These were: the deficit in the state general budget; the slow growth of economic diversification; and the high growth in expatriate workers. The next section discusses these challenges.

2.2.6 Economic Challenges

The oil revenues had a positive impact on nominal GDP growth in Oman. The GDP per capita in 1970 was USD354, in 1995 it was USD6,297 and by 2012 USD21,533 (MOCI, 1980; NCSI, 2012), which reflected positively on the living standards of the citizens. However, according to UN's Economic and Social Commission for Western Asia (ESCWA) report (Hertog & Hodson, 2012:25-28) the major economic challenges facing the Omani economy were:

- The state's dependency on hydrocarbon exports.
- The relatively small private sector.
- The main economic activities are related directly or indirectly to the hydrocarbon sector.
- The relatively small added value in the industrial sector.
- The private sector was dependant on the cheap foreign workforce.

According to the AlHarithy (2013) the utilisation of the oil and gas revenues was very poor and did not result in the diversification of the economy and the development of other products and industries. This is mainly attributed to the absence of linkages between the hydrocarbon sector and the other economic sectors and the limited contribution of the hydrocarbon sector to the promotion of non-hydrocarbon sectors (Al-Saqri, 2010:190). Additionally, the high cost of the extraction of oil and gas in Oman due to the complex nature of the geographical reserves was partially responsible for the large volume of investment directed to this sector. As a result, the government started to use an expensive technology to maximise the extraction processes from the oilfields in order to increase the overall oil production. Nevertheless, there was no noticeable technology transfer or domestic added value from the technologies, unlike in other oil producing countries, such as Norway (Holden, 2013). Also, the high cost of oil production made the economy more vulnerable to the international oil prices falls, such as in 1986.

In relation to the challenge of providing employment opportunities for young Omani graduates, 50% of the population is under 20 and 82% are under 35 (De Bel-Air, 2015:6). In a demonstration of the pervasive rentier mentality, most Omani graduates prefer to be employed in the public sector to the extent that many are willing to wait up to four years to find such an opportunity (Owens, 2016). However, it is anticipated that in the near future the public sector would be unable to absorb the 30,000 graduates entering the labour market each year. Furthermore, the undeveloped nature of the private sector limited employment opportunities. In addition, the lack of qualifications and skills, because of the poor quality of education and vocational training, meant the Omani graduates do not meet the requirements of the private sector (Ennis & Al-Jamali, 2014).

2.2.7 Dutch Disease Symptoms in the Omani Economy

One structural economic issue is highlighted by the Dutch disease theory. According to Al-Saqri (2010:106), the limited growth rate in the non-oil economic sectors is attributed to the Dutch disease, despite attempts by the government to address this issue. Dutch disease symptoms include an increase in the prices of the locally-produced goods and services because of competition for resources with the oil sector. However, this may not be a direct impact of the Dutch disease as the availability of relatively lower-cost expatriate workforce could result in lowering the cost of production. In a rentier state the government needs to

provide work opportunities with relatively high wages for the nationals, which means most locals prefer to work in the government sector rather than in the private sector where pay is lower. Thus, the Omani employee can be considered to be overpriced in the private sector.

Throughout the FYDPs, the industrial and hydrocarbon sector had an average 66% of the total government investment in comparison with the social affairs sectors such as education and health which had only 5.3% of the total investment (MONE, 2002). This reflects the Dutch disease symptom of the concentration of investment in the hydrocarbon sector to the detriment of the other economic sectors which results in them decreasing in their share of GDP.

The agriculture and fisheries sector is an example of a sector that has been impacted by the Dutch disease. In 1970 the sector accounted for 15.8% of GDP, by 1995 it was only 2.9%, and by 2008 it was only 1.5% of GDP, despite the massive subsidies. Its share of GDP had increased to 1.6% in 2015, although according to Vision 2020 this should increase to 5.1% in 2020 (NCSI, 2016d). Its small size can be attributed to several reasons. Employment in the sector is considered to be part-time as most Omanis who work in it are also working in the public or private sector. A second reason is the lack of effectiveness of subsidies provided to the sector. Furthermore, there has been no real development or knowledge enhancement with traditional methods of fishing and agriculture accounting for the bulk of the output.

Another symptom of Dutch disease is the sharp escalation in the import bill as the appreciation of the real effective exchange rate made it difficult for domestic manufacturers to compete with cheaper imports from Asia. A further issue is the weakness of institutional quality which resulted in delays in investment projects in the non-oil economic sectors. Furthermore, the employment crowding out effect from the private sector to the public sector resulted in the replacement of Omanis with expatriates in the private sector. This made it very difficult to expand the citizens' participation in the private sector.

2.3 Human Resource Development

The relationship between human resource development and economic performance has been studied by many researchers (e.g. Al-Hamadi et al., 2007; Pineda & Rodríguez, 2010; Sajwani, 1997) who stress the importance of human resource development in achieving economic diversification. Human resource development is strongly related to other factors of

economic diversification, such as economic structure, the political structure and the social structure. Accordingly, this section provides an overview on the human resource development situation in Oman.

2.3.1 Demographic Overview

The 1993 census recorded that the population was around two million, 52% of which were below 14 years' old, and 45% were between 15 to 64 (De Bel-Air, 2015:6). Thus, around one million young Omanis needed an education that would prepare them to enter the labour market. In turn, this would trigger a massive demand for extra education institutions, as well as health-care institutions. The 2011 census showed similar results. The population in Oman was around 3.3 million, 39% of which were non-Omani (MONE, 2011:59). At the time, the average population growth rate was around 3.6% annually, with 57% of the Omani population below 20 years' old which meant around 1.1 million citizens would enter the workforce within the next two to 18 years (MONE, 2011:63). In 2011, one of the main calls from the protestors was to provide more employment opportunities. As a result, the government increased employment in the public sector by creating 50,000 new jobs. The policy would have a negative impact on the productivity of the public sector, as well as encouraging a crowding out effect from the private sector to the public sector.

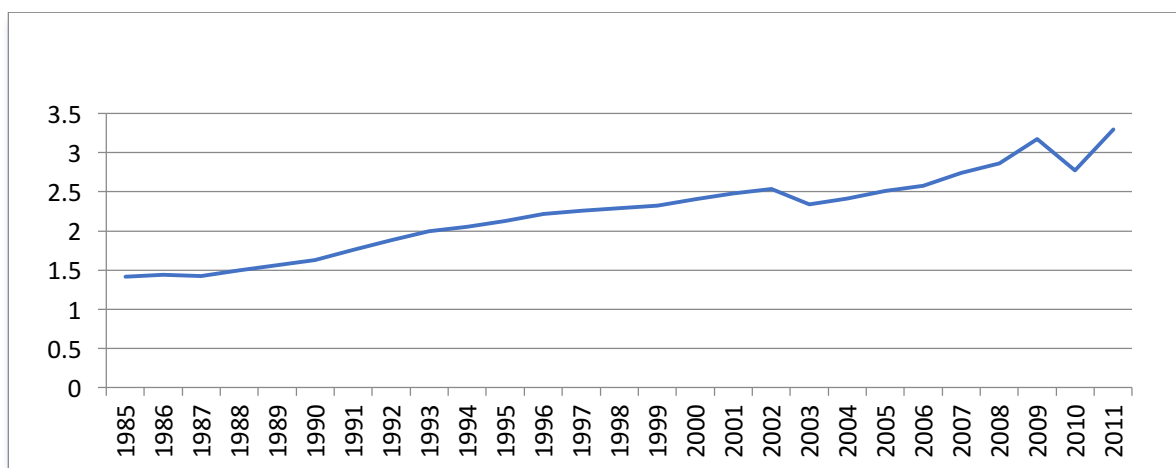


Figure 2-6: Population of Oman (million), 1985-2011

Source: National Centre for Statistics and Information, Statistical Yearbook, (2012)

In 1970, the education system was rudimentary with only a few people able to obtain modern education. However, over time the government provided mass general education for the population. Nonetheless, the government focused more on the horizontal element, in other

words, providing education without paying much attention to the vertical element, i.e. the quality of education. As a result, employers complained that graduates lacked the basic skills necessary for a modern private sector. In part, this could be attributed to the fact that the vocational training was managed across different government institutions, which made it difficult to monitor the quality of the output.

2.3.2 Omanisation

One of the main pillars in each FYDP, as well as in Vision 2020, was human resource development. Although the goal has been partially achieved, there have been significant challenges. The number of universities has increased from one to four in order to expand higher education opportunities for the growing number of youth. In addition, the universities were supposed to fill the skills gap in the labour market, through a very generous subsidies scheme for those universities such as the full bid scholarships and an OMR17 million financial grant (Aladawi, 2009). However, the quality of the graduates varies and further on-site training is required in the private sector to enhance the skill levels of the new graduates, especially when faced with competition from the expatriate workforce.

To overcome the limited work opportunities for Omanis in the late 1980s the government started a programme that aimed to replace the expatriates who held top to middle level managerial positions in the public sector (AlHajri, 2010:286). The programme was known as Omanisation, which later widened its focus to the private sector. In 1991, at the start of the fourth FYDP, complying with Omanisation become a legal requirement for the private sector. Different strategies have been implemented to achieve the goals of this programme, such as prohibiting the employment of expatriates in certain sectors, blacklisting⁵ of companies who do not fulfil the Omanisation percentage and providing generous subsidies to encourage the companies to establish on-site training for Omani employees. However, according to Omandaily (2016) this programme has faced many challenges, some of which were related to the supply side, such as:

- The limited supply of well-qualified and skilled nationals and the lack of the harmonisation between the education and training systems and the demands of the labour market.
- The limited capacity of the higher education institutions.

⁵ The company will be prohibited from applying for expats working permits.

- The absence of professional and specialised training institutions.
- The absence of a proper career guidance and counselling institutions.

The other challenges were related to the demand side, such as (Omandaily, 2016):

- The unfair competition between the national employees and the foreign expatriates as many companies prefer to recruit foreign expatriates.
- Most private sector companies concentrate on profits to the detriment of the social and economic consequences of employing expatriates.
- Foreign expatriates fill most of the managerial and supervisory positions in the private sector, and they prefer to recruit employees from their countries.
- Young Omanis are not committed to the companies in which they work as they tend to search for better opportunities, preferably in the public sector.
- The lack of entrepreneurship among young Omanis.
- The lack of social tolerance poses an obstacle to accepting employment opportunities in certain economic activities.

As for Omani employment in the private sector (see Table 2-2) around 50% is at the lower end of the pay scale. The employees in this group are those with low skills and a minimum education. Furthermore, less than 15% of the supervisory and managerial positions in the private sector are held by Omanis. In general, the new university graduate would receive a salary between OMR700 to OMR1,000 per month in the public sector. Since 2011 the government has encouraged the private sector to match those wages in order to absorb more nationals. However, the efforts have not been successful as new graduates tend to receive between OMR500 and OMR700 per month in the private sector. Furthermore, most companies prefer to recruit expatriates for two main reasons. The first one is related to the financial cost as recruiting Omanis is more expensive as a result of the wages differential. The second reason is related to qualification and skills; expatriates tend to have these, whereas Omanis do not.

Table 2-2: National Employment in the Private Sector by Wages.

Monthly Wage (OMR)	Number of employees	Percentage
325-400	62,098	29.4
400-500	48,763	23.0
500-600	22,163	10.5
600-700	15,647	7.4

700-800	9,804	4.6
800-900	6,970	3.3
900-1000	5,488	2.7
1000-2000	19,910	9.4
Over 2000	7,871	3.7
Did not update their records	12,656	6
Total	211,370	100.0

Source: Compiled by author with data obtained from NCSI, (2016a)

Figure 2-7 demonstrates the growth of Omani employment from 2004 to 2012. It can be seen there was growth from 2004 to 2010 in both the private and public sectors, with the former outperforming the latter. However, in 2011 and 2012 there was a contraction in employment in the private sector, while government opportunities expanded significantly. This could be attributed to the social unrest in 2011 which saw the government creating thousands of jobs and encouraged the crowding-out effect of Omanis from the private sector to the public sector. However, the government could have solved the social unrest by providing wage subsidies to private companies to encourage them to recruit more Omanis. This strategy was followed in other GCC countries, such as Kuwait, where wages in the private sector are subsidised to bring them up to the same level if not more than the public sector (Hvidt, 2013).

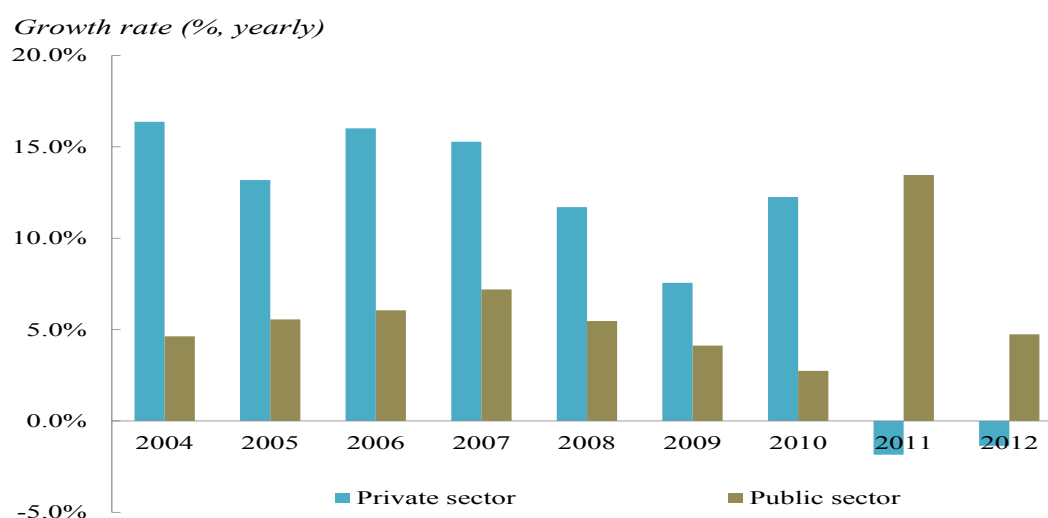


Figure 2-7: Growth of Omani Employment, 2004 to 2012

Source: NCSI, (2013)

Overall, the Omanisation efforts have been successful in the energy sector where around 85% of the employees are now Omani, in the banking and finance sector where

around 90% are Omani and in the tourism sector where around 45% are Omani⁶ (NCSI, 2009). However, for a number of reasons national employment is still considered to be one of the biggest challenges facing the implementation of Vision 2020. The first reason is because of the wages differential between the private and public sectors, which means that most Omanis prefer to wait for an opportunity in the public sector. Second, the job market has a structural distortion as more than 30% of the labour force work is employed in the public sector, which is more than 50% higher than the typical levels in the middle and upper-income countries. In addition, the massive government investment in the hydrocarbon sector is not reflected in the labour market as the sector is capital intensive, not labour intensive. The hydrocarbon sector absorbs less than 2.3% of the national workforce, which means other economic sectors need to meet the workforce supply. Another option is expanding the base of private sector companies, as 86% of Omanis in the private sector are employed, whereas only 12% have their own business.

2.3.3 Labour Market Challenges

One of the vehicles used by the government to enhance the private sector performance was to provide foreign direct investment (FDI) with attractive incentives, including ownership rules, tax exemptions and government partnership in certain projects. However, according to AlHajri (2010:442), many companies face a problem of finding suitably qualified Omanis to fulfil the company's Omanisation obligation. This is a serious concern as one of the most important issues that investors consider is if investment environment has a competitive advantage. Thus, the lack of nationally qualified employees creates a barrier to FDI inflows.

To overcome the high level of unemployment among the nationals the government adopted two main strategies. The first strategy was to encourage private sector companies to establish a training scheme for Omanis, which the government would fund. However, only a few companies are capable of providing such training. Furthermore, the employee can then find work in the public sector or with the oil and gas companies because they provide better financial incentives. The second strategy was the implementation of a legal framework that prohibited private sector companies from obtaining work permits or contracts with the government unless they meet their Omanisation obligations (Al-Lamki, 2000). Again, this

⁶ See Section 7.3 for more details.

strategy had negative implications because most companies would only hire Omanis to comply with the law but would also hire expatriates to execute the job.

2.3.4 Education and the Labour Market

Since 1970, the government has made it clear that education is a priority. However, the quality of the primary and early secondary education, as well as vocational and specialised training, remains weak. Furthermore, the output of the secondary education system is aimed at the selection method for tertiary education rather than preparing those who do not enter tertiary education for the job market. In addition, even the students who come through the tertiary education system are not equipped to enter the job market as they tend to prefer to study disciplines related to the humanities rather than engineering or applied science. Also, there is a lack of coordination between the labour market and the education system, which needs to enhance the curriculum to include labour market requirements. According to the World Bank (UNDP, 2003), this could be achieved by the:

- Establishment and development of the standards' measurements.
- Enhancement of the teachers' performance through training.
- Enhancement of the teachers' incentives and career development.
- The involvement of the private sector and other stakeholders in the curriculum set up.

2.4 Institutional Quality

One of the main observations regarding the institutional development in Oman is that this has not kept pace with the state development plans. In this context, Vision 2020 did not emphasise institutional reform, instead limiting itself to the creation of newly created agencies such as that for investment promotion. Furthermore, institutional development does not match the current development challenges, as there is still overlap among the duties of many institutions. For example, responsibility for education is divided amongst three ministries, the Ministry of Manpower, the Ministry of Education and the Ministry of Higher Education. In addition, other institutions, such as Sultan Qaboos University and the Education Council in the Royal Court also play a role. Similarly, with private sector development and the labour market this had led the segmented policy for nationals in the private sector and the public sector as the work force management is handled by different ministerial portfolios. The multiplicity of institutions involved has had a negative impact on the process and the implementation of the policies as it is not necessarily the institution with the clearest mandate that is responsible for policy implementation.

However, the problem is not limited to the overlap of responsibilities, but also affects coordination. For example, the development of the tourism sector was highlighted in each FYDP but the sector still faces structural problems, such as land allocation which is divided between three different ministries, the Ministry of Housing, the Ministry of Regional Municipalities and the Ministry of Agriculture and Fisheries. Thus, it can be concluded that the structure of ministries and agencies needs a better alignment to be able to overcome the challenges facing the country.

2.4.1 Governance

In 2011, a series of protests broke out in Oman as part of a wider regional instability. The main demands of the protestors were: increasing wages; lowering living costs; providing more employment opportunities; reducing corruption; and moving power to an elected cabinet. The main driver of the protests was the unemployment situation. The protests started with an organised march in the capital Muscat, which was called ‘The Green March’. Further protests occurred in four major cities Muscat, Sohar, Sur, and Salalah (Valeri, 2015). The Sultan responded to the protests by increasing the minimum wage in the private sector from USD364 per month to USD520, creating 50,000 new jobs in the public sector, reshuffled the entire cabinet, increased legislative powers to the elected cabinet, gave more power to the State Audit Institution (SAI), introduced a new higher education scholarship grant and implemented a corruption investigation. The cabinet reshuffle triggered more anger as some ministers were considered to be corrupt, which is why the protesters widened their demands to include political reform (Johnson, 2014; Valeri, 2015).

The first consolidated law on avoiding conflicts of interest and protecting public funds was issued in 1982 (Royal Decree, 82/39). In that piece of legislation, the law prohibited government officials from being involved in any commercial transactions that are related directly to their duties. However, the law was never effectively implemented as there was no questioning of suspicious financial behaviours of certain ministers. In this context, a major embezzlement scandal emerged in 1985. The high-level personnel involved were simply removed from office without any further punishment. In another case, a minister who violated stock market regulations was jailed for less than two of the six years of his original sentence. He was released by Royal Pardon. In 2011, a new anti-corruption law, ‘The Law for the Protection of Public Funds and Avoidance of Conflicts of Interest’, was promulgated

by Royal Decree No. 112 of 2011, in association with the reform of the SAI's duties that included administrative and financial auditing. As a result, a series of court cases started against individuals, including government officials, who had been involved in corruption. Table 2-3 summarises over 50 of the cases with offenders ranging from ministers through to general directors. The total cost of those corruption cases has never been calculated; however, a rough estimate indicates they cost the state around USD2bn. The cases included: bribery, abuse of position, money laundering, embezzlement, and leaking classified documents. The cases included some of the biggest companies operating in the country (Reuters, 2014).

Table 2-3: Corruption Cases Summary, 2011-2015

Government	Official Title of the Offender	No of cases against each employee
Ministry of Finance	General Director of Taxation (the government representative in the PDO tender committee)	11
Petroleum Development of Oman (PDO)	Six employees (District General Directorate, Contract Managers)	9
Oman Oil Company	CEO	4
Ministry of National Economy	The Ministerial Adviser The Secretary-General The Secretary-General Adviser	4 1 1
Dalil Oil Company	Contract Manager	4
Oman Liquefied Gas Company (OLNG)	Engineering Manager Financial Affairs Manager Contracts Supervisor	3 1 3
Oman Oil Refineries and Petroleum Industries Company (ORPIC)	CEO Diesel Shipment Manager	1 1
Royal Hospital	Public Relations Manager	1
Ministry of Transport and Communication	The Undersecretary for Aviation Affairs Ports General Director	1 1

Sources: Collected by the author from various media sources.

2.4.2 Consultative Council and State Council

In order to overcome the challenges associated with the public sector dominance of the economy, growing youth unemployment allied with the high population growth rate, and the increased demand for the public services, an effective state governance system is necessary or what is termed as 'good governance'. Good governance can include expanding public participation in the political process, the existence of active accountability, an enhanced rule

of law and high levels of transparency (UNESCAP, 2009). It is important to highlight the fact that pre-1970 there was no structure of modern government in Oman. The first action from the new regime in 1970 was to unite the country and to establish socio-economic transformation that was necessary to pave the way for the further stages of transformation. The gradual transformation process, included the creation of a ministerial cabinet which was expanded over the years. Furthermore, increased public participation and empowerment was also incremental and started with the creation of advisory bodies such as State Consultative Council (*al-majlis al-istishari li-dawla*) in 1981 to which all 45 members were appointed directly by the Sultan. In 1991, the State Consultative Council was replaced by the Consultative Council (*majlis ash-shura*) with an increase in members to 59, who were still appointed by the Sultan. Throughout the years their numbers increased in line with the population in each district; for example, in the second term, 1994 to 1997, 80 members were chosen. In the third term, a restricted electorate system was introduced to allow the election of half of the members by the public and the other half to be nominated by the Sultan (TCO, 2016).

Furthermore, since 1981, the role of the Consultative Council has been enhanced. For example, the role was initially restricted to the provision of advice and opinions to the Sultan on a range of social and economic issues. However, the Council gained further responsibilities, such as reviewing draft legislation related to the social or economic development before it became law. Additionally, the Council is now empowered to invite and question ministers about different issues in their ministries (TCO, 2016).

In 1997, a second consultative body was established, the State Council (*majlis ad-dawla*). Members were directly appointed by the Sultan based on certain criteria, such as retired officials, expertise in different fields, businesspeople and tribal leaders. The State Council represent the upper chamber in the bicameral representative body (TCO, 2016). As a result of the 2011 protests more powers were given to the Councils, including drafting and reviewing legislation. Furthermore, in the case of a dispute between the councils and the government then both sides have to prepare their arguments, and Sultan then decides (Romano, 2014).

2.4.3 State Audit Institution

One of the most important governance institutions is the SAI. The role of this institution has been gradually transformed. It was established in 1974 as an independent department of the Royal Court. In 1980, the State Audit Department was upgraded to a general directorate and that was associated with the first state audit law. In 2000, a newly reformed State Audit Law was promulgated with the establishment of the current independent SAI equivalent to a ministerial level and which reports directly to the Sultan. According to the State Audit Law, the Institution is responsible for conducting an audit on all the state public funds in order to ascertain if there are any irregularities and to highlight any deficiencies in the financial laws. In addition, the SAI is responsible and authorised to investigate most public institutions and agencies, including government ministries, government-owned companies, companies in which the government shareholding exceeds 51%, pension funds of government entities and other bodies that the government has shares in or provides grants to. Furthermore, the SAI is responsible for the monitoring of the implementation of the state projects (SAI, 2016).

2.4.4 Governance Quality

There is no national governance indicator in Oman to test the quality of governance. However, in order to gain a better understanding of the quality of governance in Oman internationally recognised indicators can be used. One of these has been developed by the World Bank (2017). According to Kaufmann, Kraay, and Mastruzzi these indicators:

reflect the statistical aggregation of responses on the quality of governance given by a large number of citizen and expert survey respondents in industrial and developing countries, as reported by some survey institutes, think tanks, non-government organizations and international organization (Kaufmann et al., 2011:16).

In this project, governance is defined as

The traditions and institutions by which authority is exercised. This includes (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann, Kraay & Zoido 1999:3).

Figure 2-8 compares the percentile rank for high-income non-OECD countries with Oman for each indicator. The higher values corresponding to better outcomes. The researcher chose to compare Oman with countries that have similar income levels, in order to reduce the impact of different income levels on the results.

The definition of each of the six indicators is from TWB (2017). 1) Voice and accountability: The extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and free media. 2) Political stability and absence of violence: Perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including political violence and terrorism. 3) Government effectiveness: The quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and credibility of the government's commitment to such policies. 4) Regulatory quality: The ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. 5) The rule of law: The extent to which agents have confidence in and abide by the rules of society, and, in particular, the quality of contract enforcement, the police, and the courts, as well as the likelihood of crime and violence. 6) Control of corruption: The extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

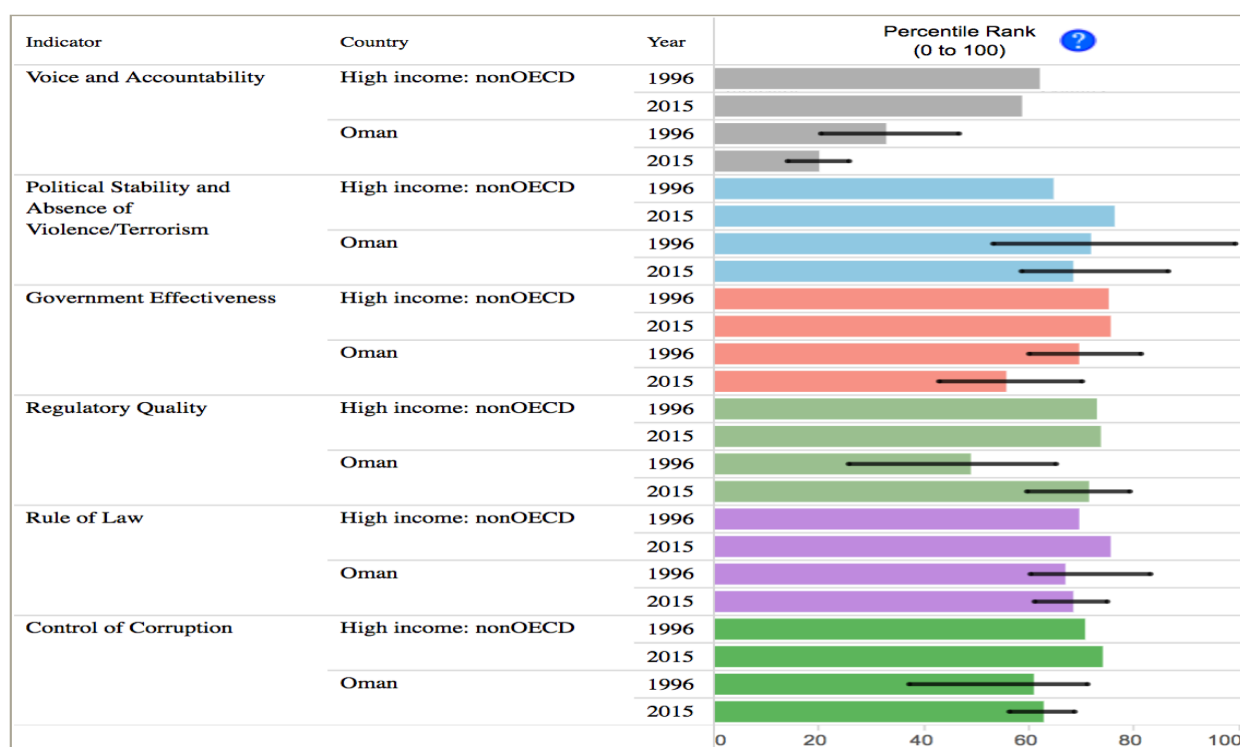


Figure 2-8: Governance Indicators: High Income Non-OCED versus Oman (1996/2015)

Source: TWB (2017).

In each of the governance indicators Oman was below the average of the high income non-OECD countries. Moreover, in the voice and accountability indicator it was significantly below the average. More positively, in the rule of law and the regulatory quality indicators Oman is improving. However, the control of corruption, government effectiveness and political stability indicators are all deteriorating. In relation to corruption, a further relevant score and ranking is provided by the *Corruption Perception Index* produced by Transparency International. The *Corruption Perceptions Index*, which started in 1995, is an annual ranking of countries “by their perceived levels of corruption, as determined by expert assessments and opinion surveys” (Transparency International, 2016). The *Corruption Perceptions Index* defines corruption as “the misuse of public power for private benefit” (Transparency International, 2016). Figure 2-9 shows the *Corruption Perceptions Index* for Oman in which the lower numbers reflect lower levels of corruption. It highlights a worsening trend over the years. However, that trend is not constantly negative as can be seen between 2007 and 2009 when there was an improvement in the Index.

Moreover, the Index might not be able to track the oligopolistic and crony capitalism practices. The political situation in 1970 forced the government to use oil export revenues to gain loyalty by providing direct or indirect financial support to tribal leaders and other political elites in the country. In addition, such policy created certain negative practices conducted by top government officials such as holding a monopoly on certain products and services or the abuse of the office to gain personal benefits. Furthermore, despite the continuous public calls for legislation that prohibited monopoly behaviours, it was only issued in December 2014 with the promulgation of the Competition Protection and Monopoly Prevention Law (Royal Decree 67/2014). This is a clear indicator of how powerful groups were able to delay such an important law until 2014.

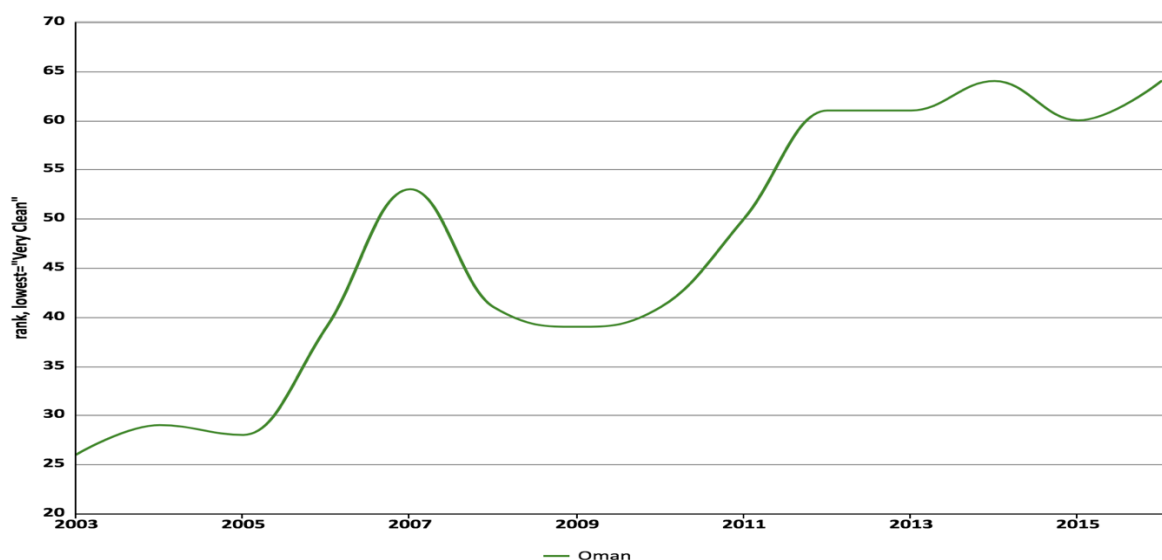


Figure 2-9: Corruption Participation Index, Oman, 2003-2016

Source: Transparency International, (2016)

2.5 Summary

The main aim of this chapter was to provide a descriptive overview of the Omani economy. The chapter highlighted the economic structure and its historical development. Furthermore, the chapter provides insight on the structure of government revenues and the role of the hydrocarbon sector and economic activities. In addition, an overview of the strategic development plans and the challenges facing diversification from economic perspective was provided. The human resource development and its relationship to the labour market and the government strategies to minimise the gap between the education system output and the world market demand was also demonstrated. The last section of the chapter demonstrated the development of the governance institutions in Oman and of the legislation to counter corruption. It also highlighted Oman's governance ranking according to the international institutes prospective. The next chapter analyses the literature regarding the resource curse impact on economic diversification.

Chapter 3 Literature Review

3.1 Introduction

This chapter provides a comprehensive literature review concerning the lack of economic diversification in the natural resource dependent states through the prospect of the ‘resource curse theory’, its channels, and natural resource dependency impact on economic performance. The main argument of resource curse theory is that dependency on natural resources, such as oil and gas, hinders the state’s ability to create a diversified economy. However, as demonstrated in Chapter Two the absence of a diversified economy does not necessarily limit overall development in a resource dependent state such as Oman.

The limitations of social, economic and political development in oil-dependent states has been the topic for much research. One explanation put forward for the limitations is resource curse theory. However, resource curse theory does not suggest a clear strategic or policy direction to resolve the problems that are associated with the oil wealth. It can be argued that those states need to consider oil dependency to be a long-term challenge for the regime’s stability as the accumulated problems can have a serious impact. The impacts can be exacerbated by demographic considerations; about 80% of the population are below 25 years old in the oil-dependent countries (Barany, 2013). To understand the causal relationships between wealth, regime type, and limited economic reforms, it is important to use a theoretical framework to suggest a roadmap for oil wealth countries.

The literature regarding the negative impact of resource abundance on economic performance primarily uses the concept of the Dutch disease, which highlights the crowding out effect and the effect of the international price volatility of the resource. The research provides new arguments not only concerning the impact but also on the causes. For example, certain scholars (Corden, 1984; Matsen & Torvik, 2005; Pegg, 2010; Smith, 2014; Usui, 1997) use the Dutch disease model to clarify the causes of the resource curse while others use the rentier state model (Hertog, 2010a; Moore, 2002; Springborg, 2013). Furthermore, other academics (Bravo-Ortega & Gregorio, 2007; Wantchekon, 2000) analyse the main channels of the resource curse. Some research (Dietz et al., 2007; Manning, 2004; Shao & Yang, 2014) suggests that states with low levels of human capital are more affected by the resource curse while others (Apergis & Payne, 2014; Bulte et al., 2005; Hamilton & Ruta, 2006) argue that the issue is more about the institutional quality, supporting their argument by the two positive examples of Norway and Botswana. Appendix 1 summarises examples of the research on resource curse and its causes and effects.

The main objective of this research is to try to understand the root cause of Oman's inability to create a diversified economy, despite the fact that it was among the first countries in the region to adopt an economic diversification strategy. This chapter is divided into four main sections: the first identifies the main research stream in regards to resource abundance/dependence, the resource curse theory, and its characteristics. The literature that focuses specifically on the Arab Gulf States oil wealth dilemma in general and on Oman in particular is highlighted in the second section of this chapter. The last two sections of the chapter will provide the research gaps and the chapter summery.

3.2 Resource Curse Characteristics

After the Second World War, an abundance in natural resources was seen as a blessing for any state's economy. However, researchers such as Prebisch (1950) and Singer (1950) who took a Marxist approach challenged this norm at that time. They argued that the global economy was set up in a way that was challenging for developing countries which were becoming increasingly dependent on the export of a particular resource as a basis of their trade with the industrialized states. In such cases, their economies faced a risk because of the reliance on the exports of natural resources. Most researchers opposed these views at that time because, in theory, the availability of large revenues from natural resources should allow the state to develop a stable economy and reduce poverty. However, this dominant view changed in the 1980s, as the negative impacts of resource abundance on a nation's economic and political situations became a widely studied topic, from different viewpoints. Among the scholars was Auty (1998) who argues that natural resource-rich countries would not be able to utilise such wealth to create sustainable economic growth. The concept of 'resource curse' started to be used by many researchers, to the extent that it became a field of study in its own right.

The link between resource curse, growth rates and the nature of the impact on the economy, such as 'Dutch Disease',⁷ was the focus of many researchers (Brock Smith, 2014; Mikesell, 1997; Sarraf & Jiwanji, 2001; Torvik, 2001; Usui, 1997) who establish that resource abundant countries faced the danger of the Dutch Disease. Similarly, Davis (2011) finds a negative relationship between resource abundance and the economic growth rate. Ross (2003) examines another aspect; he argues that levels of poverty and human

⁷ This is discussed in detail in the next section.

development are negatively related to the wealth derived from the oil and non-fuel minerals. He also finds that there is a negative relationship between resource abundance and democracy. In a similar way, Stevens (2003) argues that the fluctuation in resource revenues might explain the poor economic performance in these economies. The relationship between resource curse and institutional quality was the focus of Leite and Weidmann (1999) who find that if a nation depends on the rent acquired from oil, the quality of the institutions is poor and associated with high rates of corruption. Meanwhile, Ding and Field (2005) explore the idea that the curse occurs because of a negative association between human capital and export dependence.

Furthermore, Collier and Hoeffler (1998) and Reynal-Querol (2002) show that natural resource abundance increases the risk of civil war. However, the relationship between resource curse literature and the possibility of civil war is beyond the scope of this thesis, although it is useful to highlight the available literature on this topic. For example, the relationship between natural resource wealth and the increased possibility of civil war has been studied empirically. The findings demonstrate a non-constant relationship between the natural resource wealth and the start of a civil war. This occurs even if the rent-based measure of natural resource abundance is substituted for the original export-based measure (Ross, 2003a). In addition, Reynal-Querol (2002) shows that natural resource abundance is an important variable when focusing on the connection between natural resources and the start of civil wars (ethnic or non-ethnic). This is apparent in the research data, which sampled the situation in 138 countries between 1960 and 1995. The results indicate that natural resource abundance provides an explanation to help understand political violence and non-ethnic civil wars, although ethnic civil wars are not shown to be an important variable.

In this context, Doyle and Sambanis (2000) and Rosser (2004) conduct studies on the duration of civil war. Their findings show that the correlation between natural resource wealth and peace-building initiatives was found to be negative. Rather, the findings support the idea that natural resource wealth creates and is associated with longer wars. In addition, scholars, such as Jensen (2004), posit the idea that Africa's civil wars were worsened by the intensity of dependency on natural resources. However, Ross (2004) argues that natural resources have little-to-no effect on the intensity of civil wars. Ross's conclusion is based on studying 11 cases; only two are found to be affected by natural resources.

The following sections discuss in-depth the main aspects/factors that the literature looked at when studying resource curse theory. The research classifies these characteristics as: the Dutch disease; slow economic growth; institutional weakness, corruption and rent-seeking; and regime type. The importance of understanding the resource curse characteristics can lead to a better understanding of the complexity of this issue and the “paradox of plenty”, as described by Karl (1997).

3.2.1 Dutch Disease

The concept of ‘Dutch disease’ is linked to the discovery of The Netherlands’ gas reserves, in 1959 (Stevens, 2003). The Netherlands started to become dependent on the revenues from its gas exports. The direct impact was a weakening of the country’s other productive economic sectors. This was the consequence of the gradual appreciation in the currency’s exchange rate, that forced non-gas economic activities into recession (Lam & Wantchekon, 2003). This phenomenon is simply defined as a condition, which leads to a negative impact on the economy of countries that have access to a natural resource, such as oil or gas, as a result of the increase in the currency exchange rate, the interest rate, and real wages. This creates a domino effect, which will damage the country’s other economic sectors such as manufacturing, services, agriculture, and other tradable sectors, as they become less competitive in the international market (Larsen, 2006). Another definition for the Dutch disease was provided by Sarraf and Jiwanji (2001) who define the disease as the inability of the state to create a competitive industrial sector.

During the 1980s, researchers who studied resource abundant countries found that Dutch disease could hinder those countries from achieving sustainable economic growth (Bruno & Sachs, 1982; Corden & Neary, 1982). To overcome the problem, economists have explored the idea that such countries need to adopt specific macroeconomic policies in order to avoid the build-up of debt, uncompetitive exchange rates, accumulated budget surpluses and inflation (Mikesell, 1997; Sarraf & Jiwanji, 2001; Usui, 1997). Furthermore, researchers, such as Bravo-Ortega and Gregorio (2007), Gylfason (2001), Papyrakis and Gerlagh (2004) and Sachs and Warner (1995), argue that the symptoms and consequences of the Dutch disease include a decrease in savings and investment, partnered with lower investment in education and human capital. According to Usui (1997), if the country starts using preventative measures, they are less likely to succumb to the Dutch disease, as can be observed in the Norwegian case.

Furthermore, Gylfason (2001) finds that the impact of Dutch disease is not limited to economic issues. It can also lead to social and political problems because of higher levels of unemployment and corruption as a result of uncontrolled government spending.

However, other theorists such as Leite and Weidmann, (1999) and Sala-i-Martin and Subramanian (2003) argue that there is no empirical evidence supporting the idea of Dutch disease as this phenomenon itself does not provide a sufficient explanation for the resource curse. Moreover, the idea that the domination of natural resource exports as the main obstacle to development of the industrial sector is being challenged because it is not possible to separate the inputs or the contributions of each sector, especially in countries that have a strong base for the industry and the services sector (Neary & Wijnbergen, 1986). Furthermore, Auty (1994) argues that if the state provides protection to non-resource based tradable sectors through policies such as subsidies, it can have a negative effect and that sector might become unsustainable because of its dependency on the state protection.

3.2.2 Weak Economic Growth

The relationship between resource abundance and economic growth rate is a key concern of researchers who study the resource curse. In this context, Sachs and Warner (1995) find a negative correlation between economic growth and the resource dependency, through the analysis of 12 oil-intensive economies between 1970 and 1989. Leite and Weidmann (1999) and Gylfason et al. (1999) find similar results using larger datasets. Furthermore, Neumayer (2004) finds that the economic growth is negatively affected by natural resource abundance, when the former was measured through genuine income.⁸ However, other analysis finds that economic growth is not influenced by natural resource abundance when measuring growth in relation to the levels of production (Stijns, 2005). Additionally, Auty (2001b) finds that the per capita incomes of those who were in a resource-poor country grew at rates that were double, or in some cases three times higher, than those in resource abundant countries.

The impact of resource abundance on the economic situation is not only limited to economic growth rates; in the longer run it can also create recurring problems for the country. For example, some studies conclude that between 1971 and 1983 (the mineral price boom

⁸ This measures net investment in produced GDP (natural and human capital) by measuring the gap between the gross income natural capital depreciation (= GDP- natural capital depreciation) (Neumayer, 2004).

period), mineral economies experienced a deterioration in the efficiency of domestic capital, in comparison to non-mineral economies. The deterioration in the efficiency of domestic capital then led to the negative growth of the oil exporting economies (Auty, 1994; Gelb, 1988). Moreover, Ross (2003a) concludes that poverty and human development levels are negatively related to the export revenues of oil and the other non-fuel minerals, such as copper, diamond and gold.

In relation to the non-oil tradable sectors, Wood and Berge (1997) find that growth in the export of manufactured goods was greater in resource-poor countries than in resource-rich countries. This occurs because most mineral-based economies perform relatively poorly in terms of their agricultural growth, inflation rates, and export diversification in comparison to non-mineral economies, which may have a lower average of saving rates, superior technological innovation and more diversified exports (Atkinson & Hamilton, 2003; Nankani, 1979). Another significant finding is that oil and other depleted resources have a higher negative effect on economic growth than the agricultural or food production sector (Leite & Weidmann, 1999). The research also concludes that agricultural resources, unlike oil wealth and non-fuel mineral wealth, does not create a negative outcome for the poor.

Although a considerable amount of literature has been published in regards to the impact of natural abundance on economic growth, the robustness of the findings are inconclusive, as there is no agreed method of measuring the impact of natural abundance on economic growth. The next section discusses the literature regarding the third channel of the resource curse, institutional quality.

3.2.3 Institutional Weakness, Corruption, and Rent-seeking

This critical review of the resource curse literature finds that most scholars identify a negative relationship between the resource wealth and the quality of institutions. Furthermore, Leite and Weidmann (1999) and Atkinson and Hamilton (2003) find that resource abundance can increase the levels of corruption. However, resource-rich countries, which have efficient institutions, appear to have more diversified investment than resource-rich countries that have poor quality institutions. In this context, the quality of institutions is defined by focusing on the level of government corruption, the rule of law and the administrative quality. Leite and Weidmann (1999) also suggest that the resource curse can reflect the government's inability to manage the sustainability of large resource revenues.

Atkinson and Hamilton (2003) emphasise that resource abundance has led to a low rate of genuine saving in the cases where the combination of natural resources, macroeconomic policies and public expenditure policies were evident (Atkinson & Hamilton, 2003).

Rent-seeking behaviour in the resource-rich country can be defined as the situation in which corrupt officials or the political elite manipulate state expenditure in a wasteful manner that allows them to acquire access to resource rents (Lane & Tornell, 1996). Similarly, Baland and Francois (2000) argue that rent-seeking be the direct result of weak legal and institutional barriers and the misallocation of human resources, as this eventually leads to losing talented human capital. Furthermore, other findings show that rent-seeking activities associated with natural resource abundance have a negative effect on growth, and may result in lower welfare levels (Robinson et al., 2006). Furthermore, Boschini, Pettersson and Roine, (2007) conclude that the type of the resource affects the level of rent-seeking. They argue oil and diamonds have a higher probability of causing rent-seeking problems, than agricultural commodities such as wheat. Torvik (2009) tests the effect of rent-seeking activities on the quality of the entrepreneurs' activities. He concludes that rent-seeking is associated with natural resource abundance, which results in an increase in the number of entrepreneurs engaged in rent-seeking and reduces the number of entrepreneurs running productive firms. Another perspective on this topic are the findings of Butkiewicz and Yanikkaya (2010) which suggest that a mineral resource curse is found in developing countries because the natural resource is owned by the political elite.

In contrast, other researchers argue that resource abundance could have a positive effect on economic growth and improve the quality of institutions. They find a positive correlation between resource abundance and quality of institutions because of wealth distribution and the increase in exploration activities (Brunnschweiler & Bulte, 2008). According to Lane and Tornell (1996), resource abundance can be beneficial to a country, as success comes down to the existing institutional quality. Furthermore, Auty (2001b) uses Norway as an example of the good utilization of natural resources, as it used its oil abundance without falling into the weak institution trap, to become a wealthy country; thereby becoming an exception to the curse. A number of researchers (Auty, 2001a, 2001b; Davis, 2011) highlight that stabilisation funds are crucial when dealing with high commodity price volatility and the uncertainty of revenue streams. Norway has used this policy when dealing with natural resource revenues, in order to save proceeds and distribute them to future

generations through a public fund. These findings support the idea that, although there is a possibility that natural resources can affect institutional quality, a state with strong existing institutions is in a better position to overcome the negative impacts that can be associated with resource wealth (Mehlum, Moene, & Torvik, 2006).

Moreover, a number of researchers confirm that at a certain level of institutional quality, natural resource abundance has no direct impact on economic growth, instead, abundance penalises growth indirectly. Those impacts tend to be obvious only when resources (such as oil) are geographically concentrated (Isham et al., 2002; Sala-i-Martin & Subramanian, 2003). This argument is supported by Papyrakis and Gerlagh (2004). In their investigation to the situation within the USA, the resource curse is found to affect specific resource-rich regions, which are impacted negatively in terms of investment ratios, enrolment rates and quality of schooling and eventually corruption.

The relationship between the public and the political elite was the focus of Ghaffar (2014). His findings show that clientelism, which can be defined as the exchange of welfare and services for political support, was associated with resource wealth. The research concludes that there is a causal relationship between clientelism and development. Most oil-rich states have patron-client structures embedded in the political system, where a form of unwritten contract exists in the form of an interdependent relationship that means the political elites (patrons) provide economic incentives and security to the public (clients), in return for loyalty and personal assistance from their clients. The research lists four factors that influence clientelism “(1) low productivity and socioeconomic inequalities, (2) social and ethnic divisions, (3) large state economic policies and (4) political participation surpassing the development of political institutions” (Ghaffar, 2014:64). Such findings are similar to those of Beblawi (1987), Davidson (2013) and Herb (2005) in relation to rentier state theory, which is also based on the type of the social contract between the regime and the public in the oil-rich countries. In fact, Ghaffar’s (2014) argument is consistent with the rentier state model developed by Beblawi and Luciani (1987) who highlight the relationship between the political elite and the public in the oil-rich countries.

3.2.4 Regime Type

In recent years, there has been an increasing interest in the relationship between resource abundance and the kind of regime or the political system in that country. One of the most

significant analyses in this context uses rentier state theory which, in the context of the Middle East and North Africa, is attributed to Mahdavy (1970) and was later adopted by Skocpol (1982), Beblawi and Luciani (1987, 1990), Chaudhry (1994), Davidson (2013) and Vandewalle (1998). The premise of this theory is that it is the condition created when a state is dependent on the revenue acquired from selling a natural resource, such as oil, and the political elite uses part of that revenue to purchase political obedience from the citizens and to neutralize any political or social opposition.

According to Mitra (1994), the governments in resource-dependent countries do not pursue economic change to overcome the resource curse unless the political elites are forced to do so by a period of low prices for the resource. This is because economic diversification and promoting institutional reform is unlikely to benefit the political elite; indeed, it may reduce their economic and political power. Furthermore, Auty (2001a) and Karl (1999) argue that a successful economic policy requires institutional reinforcement, professionalising the civil service, reducing corruption, and democratization. However, such policies might still not be sufficient to overcome the resource curse if they are not combined with building up the social and political capacity of the populace, which means that the public should be involved in the economic and political behaviours of the state (Isham et al., 2002). This idea is supported by Gelb, Eifert, and Tallroth (2002) and Sala-i-Martin and Subramanian (2003), who go further to suggest that in resource-abundant countries direct redistribution of the wealth to the populace will lead to lower levels of corruption and misappropriation of wealth.

In addition, other researchers (Ascher, 1999; Pearce, 2005; Peterson, 2009) focus on the political and social reforms that could help the state to overcome the resource curse trap. They conclude that a total transformation of the political and social environment is the key element of any economic policy reform. Moreover, in a resource-abundant country, such as Norway or Canada, the political and social system is safeguarded by the regulations and the rule of law. This enables changing economic policy more easily when compared to countries with less developed legal and political systems.

Furthermore, Wantchekon's (2000) statistical analysis shows that a one percentage increase in natural resource dependence increases the probability of an authoritarian government by about eight percent. These statistics were derived from an examination of 141 countries between 1950 and 1990. This finding is supported by Jensen (2004) who focuses on

African nations. His research concludes that African countries with resource abundance are more likely to undergo breakdowns in democracy after a democratic transition. He argues this is because the democratisation process is negatively affected by natural resource wealth, which can hinder any transition towards democracy. Similarly, Davidson (2013) argues that an authoritarian resource-rich country is less likely than an authoritarian non-resource-rich to transform its political order to a democratic one. Other researchers (Beblawi, 1987; Jensen, 2004; Lam & Wantchekon, 2003) investigate the roots of this tendency. They find that the democracy is held at bay by natural resource wealth because the revenues earned from the export of the natural resources replace the necessity for taxation. In parallel, the economic growth benefits the local political elite, strengthening their power base and popularity. Consequently, the authoritarian power of the state negates the possibility of any democratic reform.

A number of theorists find that when looking at natural resource abundance in terms of rent as a percentage of government revenue there is a negative correlation between natural resource abundance and the occurrence of democracy. This view is supported by Ross (2001), who conducted an analysis on data from 113 states between 1971 and 1997. The findings show that if the state is dependent on oil or mineral exports, then this will make it less democratic. It can be argued that resource abundance allows the governments to build up a strong and well-equipped internal security force. Hence, democratic transition is hindered, as political opponents can be manoeuvred into obscurity and thus elitist rule is maintained (Jensen, 2004; Ross, 2001). However, Herb (2005) argues that when natural resource abundance is measured in terms of rent as a percentage of government revenues rather than levels of natural resource exports, there is little support for the idea that there is a negative relationship between natural resource abundance and the occurrence of democracy.

Meanwhile, De Soysa (2002) establishes that there is a strong negative relationship between political stability and the level of mineral wealth. The research findings also highlight that point-source resources rather than natural resources or general resources, such as agriculture, had the biggest impact on political stability. The conditions in oil exporting countries provide strong support for the argument since those countries tend to suffer from political instability or even civil wars. In contrast, other researchers such as Smith (2004) find that oil wealth does not have an adverse impact on regime stability. The study also shows a lower level of anti-state protests. Similarly, the findings of Humphreys (2005) and Sørli,

Gleditsch, and Strand (2005) show that oil dependency in the Middle East has resulted in a lower likelihood of civil wars, and if they did occur were very short. However, these findings can be questioned since the outbreak of the political and security problems in the region since late 2010.

Many researchers argue that poor economic management in oil-rich countries is the main cause of falling into the resource curse trap, with a mixture of ill-thought out policies such as maintaining an artificially high exchange rate, or the over-use of subsidies on fuel or other basic necessities (Ascher, 1999; Karl, 1997; Mitra, 1994). In fact, poor economic performance combined with the government's spending behaviour is just the tip of the iceberg. The problem in those states can be deeper, more structural in nature, because of the political regime's behaviour. The absence of public accountability allows the political elite to acquire much of the wealth for themselves, in what is described as rent-seeking behaviour (Levin, 1962; Nurkse, 1958). Research conducted by Mitra (1994) shows that the high price of oil encourages the oil-rich governments to increase their expenditure because of the 'tendency to optimism'; usually higher government spending is associated with unrealistic projects from which the political elite benefit. This gives them the advantage of having extra money which can be used to buy loyalty. Also, they are able to eliminate any prospective competition from the other traders in the market. Ross (2001) describes this situation as 'rent-seizing', which is the process by which rational political elites gain control over the windfalls of a resource boom instead of directly seizing the rents created by this resource boom. Furthermore, if there is a perception that the resource boom will be temporary, the rent-seeking behaviour is more likely to take place and ultimately leads to a negative economic outcome. However, if these resource booms are thought to be permanent, the political elites are less likely to look for short term rent-maximisation, as these booms increase the likelihood that they will stay in power (Acemoglu et al., 2002).

Similarly, Ascher (1999) finds that resource-abundant countries tend to waste their natural resources due to the political behaviour of the elite, as they are incapable of grasping the opportunity of natural resource abundance, instead creating rent-seeking acts. These elites use the wealth to pursue other objectives, which may provide economic benefits to particular groups, which gives them the option to create rent-seeking opportunities (Mehlum et al., 2006). Such findings confirm that the type of regime determines the economic problems in the state. This occurs as a result of the absence of public accountability and the domination of

the political elite over most of the trading activities. This is accompanied by the use of state capabilities to provide expansive services to the public or even by distributing wealth directly in a way that eliminates the state's ability to promote self-sustaining economic development or economic diversification (Chaudhry, 1994; Vandewalle, 1998). Correspondingly, Broad (1995) and Karl (1997) find that in some countries, oil wealth resulted in the creation of the 'petrostates', in which the political distribution of the oil revenues is the norm, along with a lack of control over expenditure policy. This leads to the state becoming 'locked in', due to weak institutions, which, in turn, increases reliance on external influences from their international allies, resulting in little accountability to their citizens, bad governance, the creation of conglomerate companies and a likelihood of increasing a class divide; all helping to reinforce the elite status.

Furthermore, Wantchekon (2000:10) argues that oil-rich countries are more likely to have authoritarian political systems, due to three factors: (1) the existent dominant or authoritarian party will be able to utilise the rents to extend the level of popular support; (2) it could generate political instability which could be used to adopt repressive policies towards the opposition; and (3) "it could generate an open and extraconstitutional conflict (civil war), which could result in a dictatorship by the opposition party or the incumbent party".

Relatedly, Isham et al. (2002) finds that the issue with natural resource abundance is that it encourages the development of a niche of capitalist gainers. Governments can fall in line with more powerful nations by selling their resources to the highest bidder, the foreign-based multinational organisations. Such companies deal with specific elite families or organisations that own the majority of point-source resources. With the vast majority of the natural resources being owned by ruling families, the government can find itself circumvented during the economic crisis but in a stronger political position in relation to more powerful countries when the economy flourishes. Good relations between the elitist families and the powerful companies can result in economic aid in times of need. In turn, the aid mitigates the chance to introduce radical social and economic reform, thereby blocking a rare and crucial opportunity for a better future for the citizens of the rich-resource country. Moreover, governments in resource-abundant developing countries are given a long leash to pursue questionable and economically inadvisable projects, so long as they toe the line of the dominant nations and allow the natural resource wealth within their borders to be acquired by

firms from wealthy countries (Perelman, 2003). Snyder (2006) suggests that resource-rich countries depend on the ruler's ability to construct a working infrastructure capable of exploiting and maintaining the natural resources. This reliance leads to an inflow of revenue to the architect of the infrastructure, the ruler. The rulers are then well-funded and less likely to find themselves in open conflict with opponents or with any public antipathy.

3.2.5 Summary

This section reviews the discussion of the literature on the resource curse theory. The main observation is that the concept of resource curse cannot be separated from resource abundance or resource dependence, as both underpin the foundations of the theory. The characteristics of the theory are summarised in six important aspects—Dutch disease, slow rates of economic growth, institutional deterioration, corruption, rent-seeking, and regime type. Furthermore, many researchers look at the impact of the resource curse in different regions or particular countries, in relation to different resources. However, there are exceptions to the theory. For example, Norway and Canada are examples of oil-rich countries that have successfully managed their wealth to boost their economy and avoid the resource curse. This stands in contrast to less successful countries such as Venezuela. With regard to the type of the resource, the literature suggests that Botswana was an exception amongst the diamond-rich countries as it had the highest average economic growth rate in the world, as opposed to Sierra Leone, for instance. Such findings might be evidence that the resource curse theory does not resolve the paradox of spot resource wealth. One can also argue that studying this phenomenon in many countries collectively might not be the best use of the theory as each country has its unique characteristics.

Furthermore, the section highlights the political and social environment associated with the natural resource dependency. The literature suggests that the country should aim for a total transformation of its political and social environment to be able to avoid the resource curse trap. However, this contradicts with resource curse theory and the rentier state theory, which argue that transformation will not occur as it is not in favour of the political elite in oil-rich countries, as the transformation would jeopardise their power.

In conclusion, the key problem with the suggestions proposed in the literature is that the differences among the resource-rich countries are not considered; most researchers use collective case studies either by looking at the countries by resource type or by looking into

the effects of resource wealth within a group of countries. This thesis overcomes this weakness by addressing the resource curse impact in a particular country through the analysis of different factors. The thesis argues that the literature overlooks the resource curse impact on the resource dependant states and the reasons behind the unsuccessful economic diversification in those states. Therefore, the next section discusses the literature regarding the resource curse and rentierism generally in the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, UAE) and, more in depth, in the case of Oman.

3.3 Natural Resource Impacts in the GCC States

The discovery of oil in the GCC countries transformed them in a way that no single commodity has previously transformed a nation. In the pre-oil era, the region can be described as a group of tribes in divided societies with a traditional political and economic structure. However, the discovery of oil changed the region significantly, with new states created. The huge oil exports revenues following the oil price hike in 1973 from USD2.5/b to USD11.6/b in 1974 allowed the GCC governments to establish massive infrastructure and industrialisation projects. The governments were also able to initiate huge educational, health care, and cultural programmes, effectively redistributing wealth directly or indirectly to the public (Peterson, 2009). As a result, the GCC governments managed economic development that resulted in a dramatic increase in per capita income; by 2015 the average per capita income in the GCC countries was USD41,486 (IMF, 2016). Furthermore, the improvement also saw human development indicators improve, including life expectancy (Saif, 2009). In addition, the quality of education and number of schools, universities and training colleges has increased, along with the introduction of a modern educational system (Saif, 2009).

However, the development is associated with problems highlighted by a number of researchers (Callen et al., 2014; Espinoza, 2012; Fasano, 2003; Peterson, 2009; Saif, 2009). For example, GDP growth in each of the GCC states is highly reliant on oil income and oil exports account for the vast majority of exports. For example, in 2015 oil exports were 84% of the total GCC exports. Furthermore, the oil and gas sector accounted for 41% of the GCC's GDP and 72% of the government's income (IMF, 2016). In addition, Saif (2009) argues the common problems of the GCC economies also include: the public sector as the main driver for the economy with a huge fiscal surplus; high growth rates in the national

labour force; and a reliance on an expatriate workforce. As a result, the GCC countries face common challenges, which include economic diversification, low productivity and high rates of unemployment among the nationals, a weak non-oil private sector, and inefficient public sector institutions.

Another issue is that certain GCC states (Oman and Bahrain) face is the oil depletion problem as the major oilfields have been mature for a number of years or decades, while, the recently discovered fields are smaller, with lower quality oil. In Oman, for instance, it is very expensive to extract oil from the new fields because of two issues: the first one is the presence of heavy oil which needs sophisticated technology for the extraction such as the steam injection techniques to liquefy the oil. The other problem is the quality of the oil itself as it contains high levels of sulphate (BMIResearch, 2013).

Furthermore, Peterson (2009:1) finds that the drop in the oil prices during the 1980s alerted the GCC countries to the problems associated with their dependency on a resource that was depleting and fluctuated in price. His main conclusion was that after 40 years of talking about diversification policies the GCC countries are still dependent on the oil and gas exports. Hence, hydrocarbons are still the dominant source of wealth in those countries. Similarly, Beblawi (2011:187) concludes that neither the oil-based nor the import substitution industries would survive the post-oil era. He argues that economic diversification efforts in the GCC countries have not yet achieved a sustainable development pattern. This is despite generous subsidies in certain industries such as petrochemicals, fertilizers, and other oil and gas related industries. Furthermore, it is difficult for those industries to survive without government subsidies, which are usually in the form of cheap gas, cheap electricity, and tax exemptions.

Another perspective is the issue of hydrocarbon dependency and its impact on the state's political stability. For example, Moore (2002) analyses the implications of a point resource dependency in the GCC from 1980 to 1990 in order to test whether or not oil dependency results in the decay of the political system. He highlights that the lack of data and the lack of transparency in the GCC states might affect the results. However, he summarises research, such as Chaudhry (1997), Clark (1997), Collier and Hoeffler (1998), Ross (2001) and Yates (1996), into the GCC countries. The main conclusion of the research is that even

though Gulf states are resource dependent, their capital surplus and the volume of the resource can mitigate the political instability effect.

3.3.1 Oil Dependency and Economic Growth

The inability of the GCC states to create a sustainable economy in the long run might be the most critical impact of their dependency on oil revenues. Thus, the GCC countries are cited in many studies as an example of countries that have been affected by the resource curse (Auty, 2007; Busse & Gröning, 2013; di John, 2011; Sachs & Warner, 2001). Although many researchers focus on resource abundance and its impact on the economy, only a few analyse the impact of the resource curse on the GCC countries. Examples of such research include Al-Yousif (1997), Canada (2008), Coury and Dave (2009) and Fasano (2003). Other researchers such as Sachs and Warner (1997) and Gylfason (2004), who also look at natural resource abundance effects on the economy, did not include the GCC states because of the limited availability of data. This is because these states considered data regarding national income as a national security issue (Gylfason, 2004). However, in this context, Auty (2001, 2004) predicts that oil dependent countries would not be able to create a sustainable economic growth and development. The main conclusions were that if the economy in a particular country starts to rely on a point-source resource, then this could lead to a reduction in economic growth. A number of researchers have gone further and argue that countries with oil dependency might end up poorer than before the oil discovery (Basedau & Lay, 2009; Ross, Kaiser, & Mazaheri, 2011).

Furthermore, most studies conclude that diversification of the economy is a crucial element in encouraging sustainable economic growth in the oil-abundant countries (Hvidt, 2011; Peterson, 2009). According to Coury and Dave (2009), high government expenditure has a negative impact on economic diversification. The results also suggest that GCC states had a substantial insufficient funding allocation in the period 1980 to 2005. Other researchers, who analyse the situation from a political science point of view, conclude that those countries' ruling systems will be challenged by the public in the future as a result of limited resources (Davidson, 2013).

Al-Yousif (1997) studies the long run relationship between the economic growth and the oil exports in the GCC countries by using available data from 1973 to 1993. The research shows that there is no relationship between oil exports and the GDP growth rate in the long

run. However, there are signs of a positive correlation in the short term. The main conclusion was that economic diversification in those countries is crucial for the growth of the economy in the long term.

In contrast, Herb (2009) separates non-oil GDP from the total GDP, and tests GCC countries from 1973 to 2005. His findings show that in the long run oil exports do not have a relationship with the overall economic performance. However, he finds that there is a correlation in the short term and argues that the reason for this could be attributed to the local economic policies. The results suggest that the oil wealth abundance might not be the cause behind the weak economic performance in those countries as this could be attributed to the economic structure, as well as political and employment policies.

Titulaer (2010) studies the phenomena of the negative impact of natural resource dependence on economic growth. The main finding highlights that the resource curse elements are the primary cause of such adverse effects. Those elements are Dutch disease, institutional quality and political freedom. His research shows that the Dutch disease can explain the lack of economic growth in the GCC countries as the manufacturing sector falls sharply behind the oil and services sectors. However, arguably the lack of a manufacturing sector in those countries prior to the oil era weakens this hypothesis. The other finding relates to the role of the services sector in the economy. The conclusion is that this sector has become necessary for all GCC countries, and has a bigger impact on the economy than the oil sector, despite the latter still being the main driver of the economy. Furthermore, other economic sectors, such as the transport and communication, experienced negative growth rates in the previous 10 years (Titulaer, 2010).

The poor economic performance and the negative non-oil GDP growth in oil-rich countries is also found by other academics. For example, Yousef (2004) analyses economic development in the Middle East and Africa from 1950 and concludes that oil price volatility had a negative impact on the GDP growth in the GCC countries. Similarly, Hakura (2004) assesses the weak economic performance in the Middle East and North Africa. The findings show that per capita growth in the GCC was negative between 1980 and 2000 even though there was positive growth in the overall GDP in those countries over the same period (Hakura, 2004).

The failure to achieve economic diversification is a major concern for the GCC states, despite positive, sustained economic growth over the past 45 years. However, the oil price fluctuations and the demographic boom have contributed towards a weaker than potential economic performance. Furthermore, the reliance on oil income means that it is difficult to boost the non-oil sector (Elhiraika & Hamed, 2001; Makdisi, 2000; Saif, 2009; Yousef, 2004).

According to Cherif and Hasanov (2014) reinforcing the growth model to create more diversified economies is a difficult task for the GCC countries. The diversified economy can be achieved by allowing the private sector to drive the economy; however, creating the conditions has proved difficult. The other challenge is that most capital expenditure is undertaken by the state, as a result the major driver of the economy is government spending. Thus, although the neo-liberal agenda of reforming the economy was in the various economic development plans in all the GCC states, in reality little has been achieved. For example, the governments create companies or privatised some assets; however, those companies are still subsidised by the government. In other words, there are still under the umbrella of government, albeit with different names (Cherif & Hasanov, 2014).

Looney (1994: 266) highlights a number of the problems that might be behind the weak diversification results in the GCC countries. He argues that it is mostly related to the industrialisation strategies adopted by the governments. He also highlights other problems such as a weak bureaucracy, the lack of the qualified work force and the levels of competition from abroad versus the weak incentives for domestic production and export.

Paradoxically, the GCC countries are attempting to use government spending to achieve several objectives, including targeting economic diversification through developing the private sector and job creation (Looney, 1994). In addition, Espinoza (2012) shows that the increase in per capita income is lower than would be expected given the massive wealth accumulation. His findings highlight that the high rate of government expenditure can lead to weaker-than-potential growth. Furthermore, the subsidies and the government expenditure model used in the GCC has created problems in the labour market. For example, government spending has boosted incomes directly through high salaries in the public sector and indirectly through investment in the infrastructure which benefits the construction sector. However, the high wages available in the public sector has resulted in lower employment of

Omanis in the private sector, which means that the government expenditure also works in favour of foreign labour.

This section demonstrates that most of the literature concludes that the oil dependency has had a negative impact on economic diversification in most GCC states, as the governments, could not implement economic diversification policies or did not provide sufficient support for other economic sectors. Also, the oil dependency hinders the development of the non-oil tradable sectors such as manufacturing sector. Hence, the oil sector is still the main economic driver. The next section highlights the literature regarding rentier theory applied to the GCC.

3.3.2 Rentier Theory Applied to the GCC

Most research focusing on the effect of the GCC's oil dependency on its economic structure had been done under the umbrella of resource curse theory, which includes theories such as rentier state theory.⁹ For example, Hertog (2010) develops a new perspective for the rentier state theory in his work on the Saudi Arabian political economy. His findings show that in Saudi Arabia the state institutions and rentierism work in combination and although the rentierism penetrates most of the state's institutions the state is still a separate entity.

Moreover, the relationship between oil revenues and the political structure in the GCC is the main topic of many researchers. For example, Schwarz (2008) attempts to understand the independent state formation by using the rentier state theoretical framework. Other researchers argue that because of the dependency on oil is not a sustainable source of wealth then the ruling families themselves are not sustainable. By analysing the level of direct and indirect subsidies, which account for more than 25% of Saudi Arabian GDP, it is argued that the fiscal policy might in the short term maintain social unity (Davidson, 2013; Levins, 2013). However, such policies cannot be sustained for many reasons, but one of the most important is the oil price fluctuations; in 2015 the oil prices almost fell to the fiscal breakeven point in many of the GCC countries¹⁰ (Carpenter, 2017).

⁹ See Section 4.3.3.1.

¹⁰ According to Fitch's break-even oil prices per barrel in 2017 are forecast to be: Bahrain at USD84/b, Oman at USD75/b, Saudi Arabia at USD75/d, UAE at USD60/b, Qatar at USD51/d, and Kuwait at UDD45/b (Carpenter, 2017).

Similarly, Herb (1999) states that rulers and the political elites control the wealth, providing the power to rule the nation. He argues that rents can be considered as an intervening variable in politics as such an impact requires further analysis of the political institutions and other elements to arrive at a valid theoretical framework. This point was analysed by Ehteshami and Wright (2007) who conclude that the GCC states ruling elites' manage to guard their position through three main elements: intensive public expenditure, expanding the public sector employment, and creating public policies, especially those relating to economic subsidies and land allocation, "The elites generally see themselves as the 'owners' rather than the 'rulers' of their countries" (Ehteshami and Wright, 2007:915). This has been achieved through particular practices in the region such as land ownership or land distribution and also by expanding the influence of the political elites in the trading sector. This approach has created a new layer of merchants who have become part of the political decision-makers. Furthermore, allowing those merchants to win government project contracts, as is the case in Saudi Arabia and Kuwait in particular, can be seen as a business owned indirectly by members of the Royal family. It is very clear that economic power gives the ruling families the ability to manipulate the political and economic position in their countries (Herb, 1999).

Other researchers considered rentierism as an element in state politics rather than a model for the political structure. This position can be found in Valeri (2011) on Oman, Herb (1999) on Kuwait and Davidson (2013) on the GCC. Such arguments highlight that rentierism as a political behaviour is accepted by the researchers as a common characteristic of the region. Furthermore, some of the early proponents of rentier state theory, such as Luciani (1990, 2012), argue that rentierism could be a model for a better economic and political performance.

Another view posited by Levins (2013) is that although the GCC economies can be considered as part of the capitalist system, the states produce little besides oil. Even then, oil is not really produced, it is simply extracted with assistance from foreign companies and, to a large extent, employing imported technologies and skilled expatriates. Beside the political determination and advocacy towards the economic reform, Levins (2013) argues that there are other reasons preventing the rentier states of the GCC from entering into new economic non-oil tradeable sectors. One reason is the shortage of skilled human capital. This fact reflects an inverse relationship with the external rent. As the state receives huge amounts of

wealth from the oil exports, this implies that the state will need to control its foreign exchange rate in order to minimise the exchange cost. This results in imported goods replacing the domestic goods as a result of the exchange rate impact on the prices. In turn, it will lead to a weak performance in the productive sectors such as agriculture and small industries.

In a rentier system, the state is responsible for the allocation of the rents that dominate the economy. As a result, the state becomes the engine for growth in the economy and the employer of last resort. In this context, Davidson (2013) argues that in the GCC, working in the public sector has the most prestigious status, in addition to the highest salaries and benefits. As a result, the public sector acts as a Hoover sucking up the skilled workforce from the private sector, which can be described as the rentier mentality (Levins, 2013).

The other observation regarding GCC countries is the absence of a direct taxation system which many researchers (Aydin, 2013; Dunning, 2006; Herb, 2005; Hvidt, 2011; Ross, 2001; Skancke, 2003) argue is behind the lack of any political demands from the public. Furthermore, the policy might explain why the state enjoys a high level of autonomy as there are accountable bodies to check the state's financial behaviour. This also allows the political elites to change and amend any public policies if there is a need. This high-level of flexibility in the fiscal policies are used by the political elites to overcome any public demands which are usually related to employment or education (Herb, 2005). Therefore, the rulers use their oil-derived wealth to gain political loyalty and as protection from social disturbances (Davidson, 2013).

Another reason for the lack of political demands is the generous welfare and service system. This arrangement impacts on the citizens' mentality and behaviour, driving them to form specific expectations about their roles in the domestic economy. Hence, the citizens become dependent on the state, curtailing efforts to engage in commercial activities or to set up their own business.

The classical concept of the rentierism in the GCC has been revisited recently, as a number of researchers argue that the GCC states have started to incur real economic and political development in what Gray (2011) describes as 'late rentierism'. This is defined as when the state is "more responsive, globalized, and strategic in its thinking" (Gray, 2011:24).

However, after the outbreak of the Arab Spring the states have tended to return to the old style rentierism. All the GCC states have initiated a lavish public expenditure programme that includes employment in the public sector, unemployment benefits, and state subsidised housing, as well as many other benefits. Such excessive expenditure has created massive pressure on the state fiscal position, to the extent that some states have issued bonds to finance their budgetary shortfalls (Aydin, 2013).

According to Rumaihi (1996), Gulf governments will face more social and political challenges. He argues that existing policies for distributing wealth directly or indirectly will not be sufficient to defend the governments from the public requests for more political participation, administrative reform, less corruption and greater accountability. Furthermore, the current weak oil price can pose an immediate threat to those governments, as they are forced to withdraw subsidies and impose tariffs and taxes alongside extra expenditure on military and security budgets. Thus, it is clear that the GCC states need to implement economic diversification policies to overcome the oil price fluctuations.

Economic diversification is not a new strategy among the GCC states. It has been on the political agenda since oil and gas became the main and almost sole source of income in these countries over half a century ago (Al-Iriani, 2006; Callen et al., 2014; Espinoza, 2012; Fasano, 2003; Hvidt, 2011, 2013; Peters, 2008; Peterson, 2009; Reiche, 2010; Titulaer, 2010). The specific aim of the policy is to diversify the economies by investing the oil revenues in productive assets (Hvidt, 2013). However, the majority of the diversification initiatives that have been taken are still indirectly associated with oil and gas. For example, many industrial projects in the region are energy-intensive, such as the aluminium smelters in Bahrain and Oman and the industrial cities of Yanbu and Jubail in Saudi Arabia.

In this context, Peterson (2009) argues that the GCC states have been through three stages of economic transformation. The first one was immediately after the discovery of oil in 1930, as those countries were transformed from being among the world's poorest to being able to start to build the core elements of infrastructure. The second phase between 1973 and 1980 when the jump in the oil price allowed the regimes to enjoy a huge income that was spent mainly on economic development and infrastructure projects, which resulted in raising living standards for the citizens. In the third phase, between 1980 and 2008, oil price volatility forced governments to consider the question of what to do when oil reserves

become depleted. As a result, all the GCC states began to implement economic diversification strategies. However, apart from UAE and Qatar, oil export revenues are still the dominant contributors to the government's revenues in the GCC states.

Peterson (2009) argues that the GCC countries have adopted several diversification strategies. One is to create a knowledge-based economy, while the second is to create sovereign wealth funds (SWFs), which use budget surpluses, and can work as a backup during low oil price cycles. The third strategy is to focus on downstream added value industries such as petrochemicals, thereby integrating other industries with the oil sector. The fourth strategy is to enhance the oil recovery process by investing more in oil extraction technology that allows the capture of the associated gas from the oilfield which can be used for electricity production or in cement factories. Another strategy is to create feedstock bases such as Jubail and Yanbu industrial cities in Saudi Arabia where petrochemical, fertiliser, plastic and steel plants utilise cheap feedstock.

Relatedly, the importance of economic diversification on the state's stability is the focus of Davidson (2013), Peterson (2009) and Rumaihi (1996), who conclude that, in contrast to Iraq and Iran, the GCC countries have enjoyed political stability. However, those countries face challenges in several areas such as demography, politics, and leadership. To overcome these challenges these states need to implement serious reform, otherwise it will be difficult to maintain the stable relationship between the ruling families and the citizens. In this context, the Gulf states face a number of severe failures that were inherited from the oil price boom eras. These include:

1. The governments are the biggest employer and tend to use this policy to mitigate unemployment.
2. The governments use employment as another method of wealth distribution rather than creating an active, productive private sector.
3. The governments might face the need to use external financing through loans in order to provide the citizens with the same living standards regardless of the cost of financing.

Thus, Davidson (2013) predicts that even in the short term the GCC countries will not be able to provide their citizens with the same levels of subsidies and social welfare, and they will be forced to raise tariffs and taxes. The situation will result in tensions between the government

and the populace. Therefore, GCC leaders would be forced to give the public more political power.

According to Hvidt (2013), the ultimate goal of most development plans in the GCC is to achieve economic diversification. In other words, the governments are aware that this is the only way to achieve a secure sustainable economic development and to safeguard the levels of the current living standards for their citizens. Nevertheless, the state dominance over the economies and the weak private sector makes it difficult to achieve these reforms. Other barriers to diversification are home-made obstacles such as the absence of consistency in economic development plans and policies. Furthermore, military expenditure as a percentage of the GDP is among the highest in the world, even though there are no direct military threats against most GCC states (Hvidt, 2013).

A number of researchers test the economic diversification efforts in GCC countries. For example, Coury and Dave (2009) analyse data from 1980 to 2005 to test for the progress towards diversification in the GCC countries as an economic bloc, as well as for each individual country. The main findings are consistent with the resource curse theory, highlighting that oil export revenues were behind the positive GDP growth, thereby confirming that the GCC countries are still dependent on the oil and gas revenues. However, the research also finds that government spending has no influence on the GDP growth. Specifically, the results of the research conclude that the growth in the finance and transport and communications sectors has a positive relationship with GDP per capita in Kuwait as this sector shows a positive growth itself. In Oman and Qatar, there is also a positive correlation between the GDP per capita and the growth of the services sector. In the UAE, the test results include the tourism sector which shows a positive relationship with economic growth.

Additionally, researchers argue that the private sector could be the crucial driver in achieving economic diversification even though the GCC countries adopted different policies. However, only a small number of the local population are involved in the private sector. Therefore, adopting policies that develop the private sector could assist with job creation for locals, bringing a greater number of the domestic population into economically-productive activities (Coury & Dave, 2009). Furthermore, Hertog (2010) argues that a well-functioning private sector will not only affect the unemployment level but also will encourage FDI inflows into the economy. FDI not only brings capital into the country but

also introduces new technology, advanced management methods and, above all, create jobs. Although, the GCC countries are trying to attract FDI, there has been limited success. With the exception of Dubai, which has little oil, the other GCC states have only been successful in terms of the hydrocarbon sector, which belongs to the state. Titulaer (2010) also focuses on attracting FDI as an economic diversification strategy. He argues, this strategy was very effective in the UAE and Bahrain in particular. However, increasing FDI requires policies that include market liberalisation, which can be difficult because of the economic structure in those countries.

Hertog (2010) also analyses the state-owned enterprises (SOEs) and shows that there are examples of efficient and successful SOEs in the GCC in both the manufacturing and services sectors. He argues that, although SOEs in countries such as Iran and Russia are less efficient than their market counterparts, in the GCC those companies managed to escape the inefficient institutional environment and are successful examples. However, this creates a problem in itself as the goal for the diversification efforts is to create a strong private sector that works without any direct intervention from the state.

The next section reviews the literature that focuses on Oman.

3.4 Oman: Resource Curse or Resource Blessing

Like the other GCC countries, Oman has adopted different diversification strategies to reduce its reliance on oil. Since 1976 the Omani government has launched a series of medium-term FYDPs, during which the government has achieved a stable economic environment with low levels of inflation. Furthermore, the development process has focused on expanding education and strengthening the business climate, such as legal reform to liberalise the market to encourage FDI and to enhance and to create a stable stock market. In each FYDP, the main themes are replicated including human capital development, encouraging new industries and services and working with the private sector to expand its role in the economy. In this context, official data shows that the non-hydrocarbons and the non-hydrocarbons exports share in GDP have increased since 1980, yet remain below the target levels (Callen, et al., 2014).

According to the UN in its publication, *'The Growth Report: Strategies for Sustained Growth and Inclusive Development'*, Oman is among the nations that has achieved an

economic miracle (Spence, 2008). However, the fact that oil export revenues are still the main source of government revenues, the weak industrial, agricultural and fisheries sectors and the high rate of unemployment amongst Omani is evidence that there are structural problems in the economy. These problems also include low labour productivity and a negative total factor productivity growth for the overall economy in general and for the non-oil economy in particular over the last 40 years (Al-Saqri, 2010).

Furthermore, the situation in Oman is different from the other GCC countries regarding the seriousness of the challenges. Oman produces less oil than its neighbouring countries, and also has the second highest population and territory in the GCC. Furthermore, the cost of producing oil is much greater than in the other GCC states. According to the IMF, Oman and Bahrain are the most vulnerable states in the GCC from the perspective of oil reserves' expectations (Treichel & Mansur, 1999). As a result, the Omani government has focused on infrastructure building, which has resulted in a heavy reliance of the private sector on government expenditure. This was highlighted by the IMF publication titled '*Oman Beyond the Oil Horizon*' in 1999: "The need to diversify the economy and build up the State General Reserve Fund (SGRF) reserves for future use is much more pressing in the case of Oman than in other member countries of the Gulf Cooperation Council (GCC)" (cited in Treichel & Mansur, 1999:4).

Atkinson and Hamilton (2003) research results can explain what has happened in Oman. Their findings show that resource abundant economies which consume rather than invest their revenues are more likely to experience a significant resource curse. This conclusion was achieved when testing the relationship between point source exports and government expenditure and consumption. In a consuming economy, most of the resources are divided between public wages, infrastructure development, and subsidies. In contrast, governments which manage to invest the wealth acquired from the resource exports managed to avoid the resource curse.

ElMallakh (1972) was amongst the first scholars to analyse the Omani economy in an article titled '*Economic Requirements for Development, Oman*'. He highlights that in the pre-oil era agriculture and fisheries were the leading economic sectors in Oman and that these sectors still had the potential for expansion. ElMallakh suggests that Oman had greater potential for economic diversification than its neighbours. He insists that Oman should not

rely on the oil revenues but should diversify its economy by expanding the current non-oil economic sectors, attracting foreign investment and building a technical and knowledge base. Another important paper was published by the IMF (Treichel & Mansur 1999). This studied the economic performance in the period 1980-1997. The authors find that Oman recorded the highest GDP growth rate in the world but this achievement has its downside, which is mainly attributed to large fiscal deficit that forced the government to use funds from “the foreign and domestic investments of the State General Reserve Fund (SGRF) and a loss of foreign exchange reserves of the monetary authority, as well as the accumulation of a sizable domestic and foreign debt” (Treichel & Mansur, 1999:13). The research points out that structural reforms are needed in the Omani economy, such as “the saving-investment imbalance, slow growth in factor productivity, and the need to diversify the production base.” Furthermore, it concluded, “the Omani economy recorded little diversification in real terms from the oil toward the non-oil sector; the saving-investment gap widened, and economic growth was primarily linked to increased use of capital and labour” (Treichel & Mansur, 1999:15). However, the research analyses overall economic growth measured by real GDP growth, which is fundamentally dependent on the oil prices and output. If the research studies non-oil GDP growth in Oman, they would see the growth rate was lower.

Furthermore, a number of researchers attempt to analyse particular elements of the resource curse impact on the oil producing countries. For instance, Robinson, Torvik and Verdier (2006) analyse the resource curse impact from the perspective of institutional quality. The main conclusion is that countries with low institutional quality do not escape the resource curse. The authors argue that efficient institutions allow the state to maximise the benefits of oil price booms and enables the government to avoid negative impacts from oil price fluctuations. They conclude that good institutions reflect a positive resource management and, hence, will lower the levels of corruption. The study finds that Oman has been affected negatively by the resource curse because of its inefficient institutions. Similar results are found by Nunnenkamp (2004) and Beblawi (1987) when they identify the obstacles that block the Arab oil producing countries from achieving sustainable economic growth. Their research highlights two main reasons for the negative impact of the oil wealth in those countries including Oman. The first reason is the institutional weakness and the second is the inadequate economic and political policy reforms.

Out of the limited research that studies Oman in-depth, Al-Saqri (2010) tests whether or not Oman suffers from the Dutch disease by examining the relationship between the oil income and the economic transformation in Oman. He considers several economic factors such as the relationship between oil extraction operations and economic development in Oman, and the relationship between government expenditure and non-oil GDP growth. He concludes that the Omani economy can be characterised as follows: a heavy reliance on the hydrocarbon sector activities; the services sector is becoming the second most important sector; a very pre-mature industrial sector; hydrocarbon exports account for 85% of Oman's sources of foreign currency; the government depends heavily on oil revenues to finance its expenditure; and, finally, because of the economic structure the state is reliant on foreign expatriates to fill the gap in labour market demand and to enhance the productivity. The situation can be described as a dilemma whereas there is a sharp growth in the expatriate's number is associated with a sharp growth in Omani job seekers.

In addition, Al Abduwani (2013) examines the resource curse symptoms in Oman by analysing economic data for the period 1980 to 2011. The research concludes that the oil wealth had a positive impact on Oman's economy from the perspective of GDP growth and the GDP per capita growth. However, elements of the resource curse exist in Oman such as the Dutch disease. Furthermore, the lack of economic diversification is a critical challenge given Oman's limited oil reserves.

Meanwhile, Titulaer (2010) investigates the economic growth in the GCC countries each country individually. The findings in relation to Oman show that that oil sector is the main driver of economic growth, followed by the services sector. Furthermore, the manufacturing sector does not contribute significantly to economic growth. Another finding was that transport and communication sector share in the GDP has increased over time, but this sector has no significant effect on economic growth overall. These findings do not disclose the impact of each sector on the economic diversification process as the research focuses on the impact of each sector's share of the GDP.

Furthermore, Flamos, Roupas and Psarras (2013) analyse the economic diversification efforts in the GCC by testing six different indicators: GDP per capita at market exchange rate; hydrocarbon intensity at market exchange rate; value of hydrocarbon exports in relation to GDP; value of hydrocarbon imports in relation to GDP; energy intensity; and hydrocarbon

share in the primary energy mix. The conclusion is that all GCC economies demonstrated very limited diversification, as they are significantly dependent on the hydrocarbon sector and the industries associated with it. Furthermore, Figure 3-1 highlights the economic concentration index (ECI)¹¹ for a number of countries. Oman scores 0.89 which means that Oman has the lowest economic diversification outcome among GCC states. Such findings reflect the importance of adopting a structural change that diversifies the economy away from the hydrocarbon-related industries.

In addition, Sturm, Strasky, Adolf and Peschel (2008) conclude that Oman is the most vulnerable state in the GCC because of the very limited diversification effort. In addition, Bahrain and Oman face other critical challenges, such as the depletion of their oil reserves and the demographic boom. Furthermore, the authors argue that the GCC countries' traditional employment policies which absorb nationals by employing them in the public sector has proven not to be sustainable. The solution might be the development of the non-oil private sector, not only to absorb entrants into the labour market but also to protect the economy from oil price volatility.

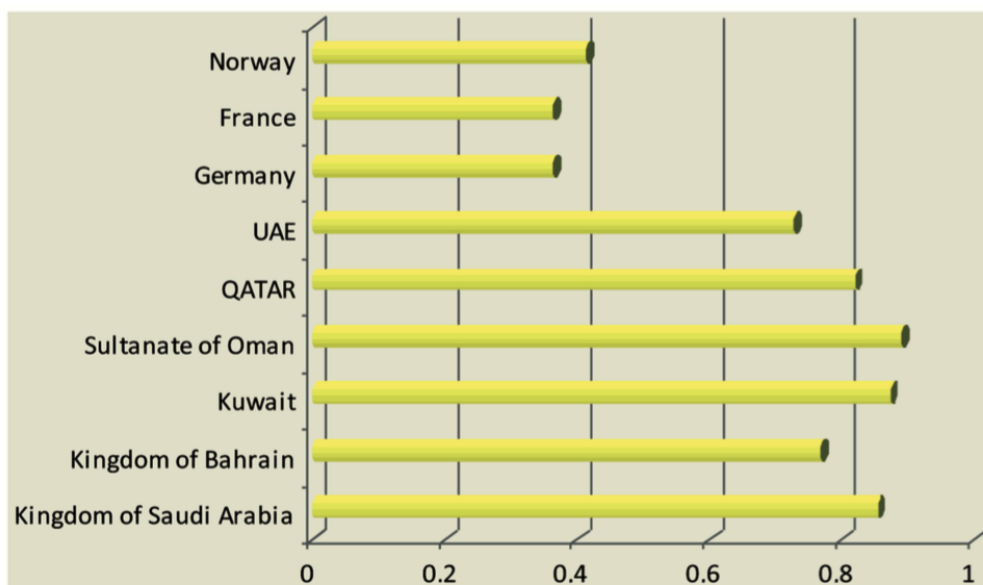


Figure 3-1: Economic Concentration Index comparison of GCC states vs Norway, France, and Germany

Source: Flamos et al., (2013).

¹¹ The ECI was developed by Flamos et al. (2013:363). The index is calculated as a weighted sum of: energy intensity, hydrocarbon share in the primary energy mix, hydrocarbon intensity at market exchange rate, value of hydrocarbon imports per GDP, value of hydrocarbon exports per GDP, and GDP per capita at market exchange.

3.5 Research Gaps

The literature review identified several shortcomings with respect to the impact of the natural resources in relation to economic diversification policies and which factors influence the impacts. The main gaps that require further research are discussed below.

First, the resource curse theory posits only positive or negative impacts on the economy. Studies on resource curse theory use cross-sectional analysis to test whether the availability of natural resources can be classified as blessing or as a curse. However, this study highlights that this dichotomy does not necessarily hold with the impact of resource dependency/abundance on economic performance.

Second, the resource curse channels have been studied in isolation from each other (see Appendix 1). For example, some researchers concentrate on the resource curse impact in terms of human resource development (Gylfason, 2001), while other researchers analyse oil dependency impact on the investment structure and capital accumulation (Atkinson & Hamilton, 2003; Gylfason & Zoege, 2006). Therefore, this research's contribution is by providing an analysis of the relationship amongst all four channels.

Third, identifying the impact of the resource curse by testing the natural resource export revenues share of the GDP or the percentage of total exports is one of the main analytical tools used. For example, Boschini et al. (2013) and Sachs and Warner (1995) use primary exports as a percentage of GDP, Auty (2007), Collier and Hoeffler (2009) and Ross (2006) use the percentage of natural resource export revenues as a percentage of GDP, Gylfason (2001) and Gylfason and Zoege (2006) measure the share of natural capital in national wealth and Daniele (2011) and Dietz et al. (2007) use the share of mineral exports in total exports. However, using macroeconomic data indicators neglects the impact of the other channels of the resource curse which are human resource development, the institutional quality, and the political and social factors. Furthermore, using these indicators is not suitable for Oman, because GDP growth is a function of two conditions. The first is related to the increase in the international oil prices over the last 45 years, while the second is related to the increase of oil production in Oman. Only a few researchers, such as Coury and Dave (2009); Edwik (2007); and Herb (2009), analyse the non-oil GDP growth rate which can highlight the real development of the economy by removing the effect of the oil exports. This thesis

overcomes this gap by using economic diversification as a proxy for economic performance measure.

Fourth, most scholars test the resource curse economic channel using the Dutch disease hypothesis. As demonstrated in Section 3.2.1, there are structural differences between the Dutch disease characteristics and the situation in Oman. The Dutch disease model presumes the existence of an active non-hydrocarbon tradable sector pre-oil which is not the case in Oman. Therefore, this thesis not only uses the Dutch disease hypotheses to test the economic factors effects on economic diversification but also examines other elements under the umbrella of the economic factors such as the private sector's role in the economy, oil price instability, and the government as the main actor in the economy. Furthermore, in relation to the Dutch disease hypothesis most studies do not take account of the fact that beside the Kuwaiti dinar, which is pegged against a basket of currencies in which the USD dollar predominates, the exchange rate in the rest of the GCC countries is fixed against the US dollar. This could affect the results of any correlation between the export growth rate and the exchange rate, and this might be the reason behind the conclusion of certain research that GCC countries do not suffer from the Dutch disease.

Fifth, an important gap identified in the literature review is that despite the growing number of studies on the resource curse theory, limited research analyses the resource abundance/dependence impact in a single case study. Furthermore, most research on the resource curse in the GCC is based on the data that is provided by the governments, which might result in a biased result. Moreover, most researchers use oil price fluctuations correlated with the nominal exchange rate, which might affect the results, as it should be correlated with the real exchange rate. Another issue is that the correlation of the analysis includes exports from industries that depend on oil or gas subsidies or using hydrocarbons as a raw material for the final product. In other words, such industries cannot be considered as independent, and should be considered as part of the hydrocarbon sector. According to Hvidt (2013), measuring the progress of the economic diversification in the GCC is difficult. However, a number of measures can be applied, including: the ratio of oil export revenue to GDP versus non-oil export revenues to GDP; the ratio of oil revenues as a share of the total government revenue; the percentage of non-oil exports to total exports; the proportion of public sector contribution to GDP versus the contribution of private sector to GDP; and the relationship between GDP and oil prices volatility. However, this again focuses on

macroeconomic reasons for the failure. This research looks beyond the narrow economic focus.

Furthermore, only a limited number of studies analyse Oman's political economy, including Allen and Rigsbee II (2014), Rabi (2011), Reilly (2014), Skeet (1992), Takriti (2013), and Valeri (2009). This research fills this gap with its focus on Oman.

3.6 Summary

This chapter presented the literature review which provided the theoretical foundation for the thesis. The chapter started by reviewing the literature regarding the resource curse characteristics. The initial resource curse theory framework hypothesises the negative impact of the Dutch disease, weak economic growth, institutional performance, and corruption as channels of the resource curse which can hinder the economic diversification process. The review of the resource curse channels identified the main gaps which have not been addressed adequately by previous studies. One of the main observations in this regard is that most of the literature focuses on the symptoms, the consequences and how to avoid the resource curse. The main conclusion of the latest research is that economic diversification is the answer to overcoming the resource curse.

The chapter also critically reviewed the literature on economic diversification obstacles in the GCC in general and Oman in particular. The review highlighted the main gaps which require further investigation. For example, the resource curse impact in an oil dependent state such Oman is not addressed by looking at the different channels of the resource curse, rather it is achieved by testing the failure of economic diversification policies through macroeconomic analysis.

The next chapter highlights how this thesis addresses and utilises the resource curse theory framework to examine the reasons behind the unsuccessful economic diversification in Oman.

Chapter 4 Theoretical and Conceptual Framework

4.1 Introduction

This chapter provides the theoretical framework of the thesis by providing the main arguments in relation to the resource curse effects on economic diversification efforts in Oman. It posits that the availability of large-scale resource revenues can have both positive and negative effects. The positive impact is through the availability of the required wealth to establish development in a particular state. The negative consequences, which outweigh the superficial positive impacts, are felt through the resource curse channels such as weak economic performance, institutional inefficiency, inadequate human resource development and negative social and political outcomes, which consequently impede the economic diversification process. It is this later aspect upon which the thesis focuses.

The discovery of oil in a country provides the means to establish massive socio-economic transformation. There are two main streams of thought about the impact of a single commodity dependency. One believes that the availability of such wealth allows nations to introduce a radical transformation in their economic structure that leads to enhancing the living standards of its citizens; examples include Norway, Canada, Australia and Botswana. In contrast, the second argument posits that the wealth is associated with adverse effects such as civil wars, corruption, a lack of democracy and weak economic growth; examples include Venezuela, and the oil exporting countries in the Middle East and North Africa.

In the case of the Arabian Peninsula oil wealth has had a massive positive impact in certain measures. The massive investment in infrastructure resulted in better standards of living (Stevens, Lahn, & Kooroshy, 2015:14). Thus, on this basis oil wealth in the low economic development states can be seen as a blessing.¹² However, on other measures, the picture is less clear cut. The high dependency on a single commodity is associated with factors such as the weak performance of the private sector, a lack of human resource development and inefficient institutions.

While natural resources provide low-income countries with a significant development opportunity, serious risks are attached to a policy of growth based on their extraction, monetization, and domestic consumption. The extractives-led growth consensus appears largely blind to those risks (Stevens, Lahn, & Kooroshy,

¹² According to the World Bank, low-income economies are defined as those with a GNI per capita of USD1,025 or less; lower middle-income economies are those with a GNI per capita between USD1,026 and USD4,035; upper middle-income economies are those with a GNI per capita between USD4,036 and USD12,475 and high-income economies are those with a GNI per capita of USD12,476 or more (World Bank, 2017).

2015:2).

Thus, this thesis argues that the effects of such wealth cannot be considered to be only a blessing or only a curse. Furthermore, the thesis argues the negative impacts on economic performance and sustainable development in the oil -dependent countries is not just limited to the effects of the Dutch disease but is a combination of different factors such as institutional quality, human resource development and the political system which includes lack of good governance. Figure 4-1 summarises the main resource curse channels highlighted by the literature survey. This thesis tests the resource curse impact through the four factors of economic, human resource development, institutional quality and political and social factors. It does so by using Oman as a case study. To my knowledge, no previous studies examine the distribution channels of the resource curse. Thus, the contribution of this thesis is achieved through expanding the analysis of the resource curse impact by using different models to assess the impact on the four channels. The four channels are strongly interconnected, as a result it is difficult to analyse how one channel affects the other channels. Overall, I argue that the four channels are moving in the same direction simultaneously, although the effects are liable to vary across countries.

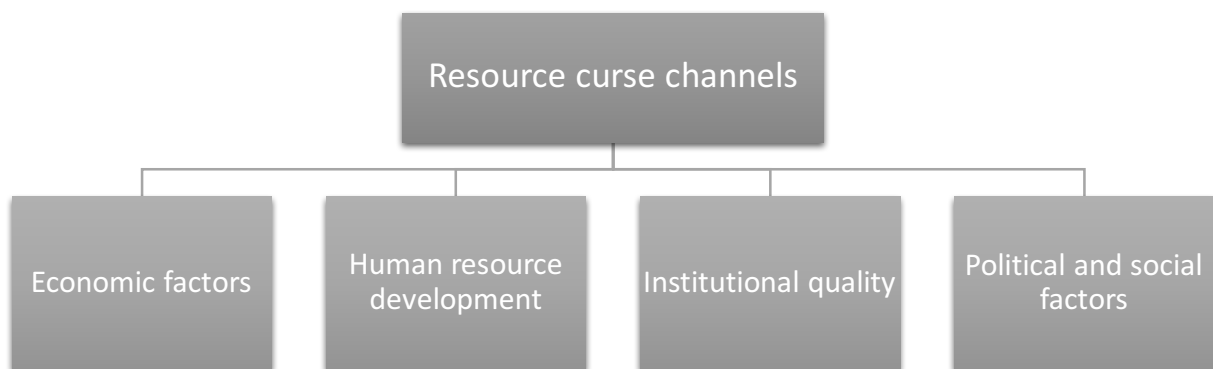


Figure 4-1: Resource Curse Channels

Source: Compiled by the author

This chapter is divided into two main sections; the first section provides insights on how this thesis implement the resource curse theory framework and its channels. It also addresses how the thesis mitigates the critiques raised against the resource curse theory. In addition, it highlights the main differences between the concepts of resource dependence and resource abundance. Furthermore, it discusses the various measurements of economic performance and economic diversification. Finally, the section sheds light on the

macroeconomic tools used by different states to avoid the resource curse and to achieve economic diversification. The second section narrows the focus to the four resource curse channels. The first sub-section discusses the economic channels mainly through the concept of Dutch disease and the private sector involvement in economic activities. The following section assesses the argument that institutional quality argument hinders the state's ability to achieve economic diversification. The political and social channels section analyses the argument reliance on resource revenues results in issues such as political elite corruption and crony capitalism. Finally, the last section focuses on human resource development as an element undermining the ability to achieve economic diversification.

4.2 Resource Curse Theory

Gelb (1988) was the first scholar to use the concept of the resource curse in his book '*Oil Windfalls: Blessing or Curse?*'. His main argument is that there is a negative correlation between oil revenues and economic performance. However, it was in 1994 that Auty (1994) used the term 'resource curse' for the first time in relation to this issue (Ross, 2015:240). Auty's main argument is that resource abundant countries are not able to use the wealth efficiently, so that economic performance in these countries is worse than countries without natural resources.

In this context, Sachs and Warner (1995, 1997, 2001) test the impact of resource abundance on economic performance. They use a cross-sectional analysis to test the relationship between oil abundance and economic performance. Sachs and Warner empirically confirm the negative relationship between oil abundance and economic performance. The results are confirmed by other scholars using different quantitative analysis techniques and different country cases (Bulte, Damania, & Deacon, 2005; Gylfason & Zoega, 2006; Stijns, 2005; Titulaer, 2010).

According to Auty (2002), the discovery of natural resources could assist economic development in the early low-income stages. However, in the long-term resource-dependent economies experience lower growth rates than those achieved in the non-oil dependent countries. In the case of Norway, oil was discovered when the country already had a developed economic structure that was not reliant on oil exports, along with a modern political system. Thus, the early low-income stage did not apply to Norway. By contrast, the Arabian Gulf states demonstrate the best example of the low-income stage in Auty's

argument, which states: “The new evidence suggests that not only may resource-rich countries fail to benefit from a favourable endowment, they may actually perform worse than less well-endowed countries. This counter-intuitive outcome is the basis of the resource curse thesis” (Auty, 2002:1).

Furthermore, Gelb (1988) argues that oil price fluctuations have a harmful effect on the oil-dependent states’ economies. For instance, the oil price booms and the subsequent massive inflows of revenues encourage states to expand their expenditure to the extent that they are not be able to sustain this during low oil price cycles. Thus, the oil price volatility weakened the performance of oil-dependent economy compared with their counterparts in non-oil states.

Auty and Warhurst (1991) focus on the economic sustainability of the oil-dependent countries. They argue that oil dependent countries require more than the conventional requirement to achieve sustainable development as “this requires a pragmatic orthodox macroeconomic policy”. This is mainly attributed to the lack of proper planning in relation to oil depletion. In addition, sustaining development is difficult because of the accumulated problems arising from the effects of the Dutch disease, such as exchange rate appreciation because of favourable terms of trade and the absence of a proper taxation system. Thus:

For most mineral economies, sustainable development means first muting the potentially corrosive impact of the mining sector in agriculture and manufacturing. Attention can then be directed at replacing the depleting asset and reducing environmental degradation (Auty & Warhurst, 1991:16).

To understand why the resource curse is more associated with finite resources, it is important to identify the main difference between renewable and finite resources. The first difference is that finite resources do not require to be produced as they are extracted. The nature of the extraction process means that the sector develops independently, virtually unrelated to the other economic sectors. Furthermore, oil and gas operations are usually capital-intensive industries which means that they do not create a significant number of new jobs, relying on a small number of high skill jobs, which have historically gone to expatriates. The second difference is because the resources deplete, their impact on the economy is not sustainable. Thus, the combination of the two factors should rationally be a driver for economic diversification in the oil-dependent states (Humphreys, Sachs, & Stiglitz, 2007). However, the resource curse theory does not provide a clear answer to the paradox as it

concentrates on the consequences of the resource abundance/dependency. This could be partially attributed to the misleading use of concepts of ‘resource abundant’ and ‘resource dependent’. Accordingly, the next section highlights the distinctions between the two concepts.

4.2.1 Resource Dependency Versus Resource Abundance

According to Brunnschweiler and Bulte (2008), one of the critiques of the resource curse thesis is that it does not distinguish between natural resource dependence and natural resource abundance. In this context, resource dependence refers to the state’s economic reliance on the resource export revenues. It can be measured by the percentage of the resource export revenues in relation to GDP, the ratio of resource exports to total exports or the ratio of oil revenues to total government revenues. However, resource abundance refers to the endowment of natural resources and is measured by estimating the natural resource capital per capita. Thus, resource abundance by definition might not pose a similar adverse effect on economic performance. For example, Australia, Canada, Norway, Botswana and the USA can be classified as resource-abundant economies. In these cases, the availability of the resources did not undermine the economic structure as the states were already in the middle to high income economic development stage (Torvik, 2009).

In contrast, resource-dependent states are affected by the resource curse symptoms as the discovery of the new resources in most of those states occurred when they were in the early stage of economic development. Furthermore, natural resource extraction and export should not be considered as an economic activity. In reality, it is a change in the assets’ portfolio through exchanging the resource for the import of foreign currency. Although, the exchange requires labour, capital and technology, hence it is similar to other economic activity, finite resources such as oil are eventually depleted. Moreover, the GDP growth rate, which might be driven by an increase in the level of oil exports or the price of oil, cannot be taken as an indicator of a positive economic growth. Consequently, if the state is dependent on the natural resource export revenues, then it is resource dependent.

According to Auty (2002:2): “The mineral economies are defined as those developing countries which generate at least 8 percent of their GDP and 40 percent of their export earnings from the mineral sector”. However, the IMF sets the barrier higher arguing that a state is considered as resource-dependent if the resource exports account for 60% to 95% of its total exports. Karl introduces another measure, arguing that a state is resource-dependent

if the export revenues account for more than 25% of government revenues (Karl, 2007). On such measures over the last half century Oman has been resource-dependent: oil exports account for around 62% of the total exports and for between 48% to 85% of the government revenues (NCSI, 2013). This clearly indicates Oman is an oil-dependent state, and thus susceptible to the resource curse. Figure 4-2 highlights the Omani governments' dependence on oil revenues.

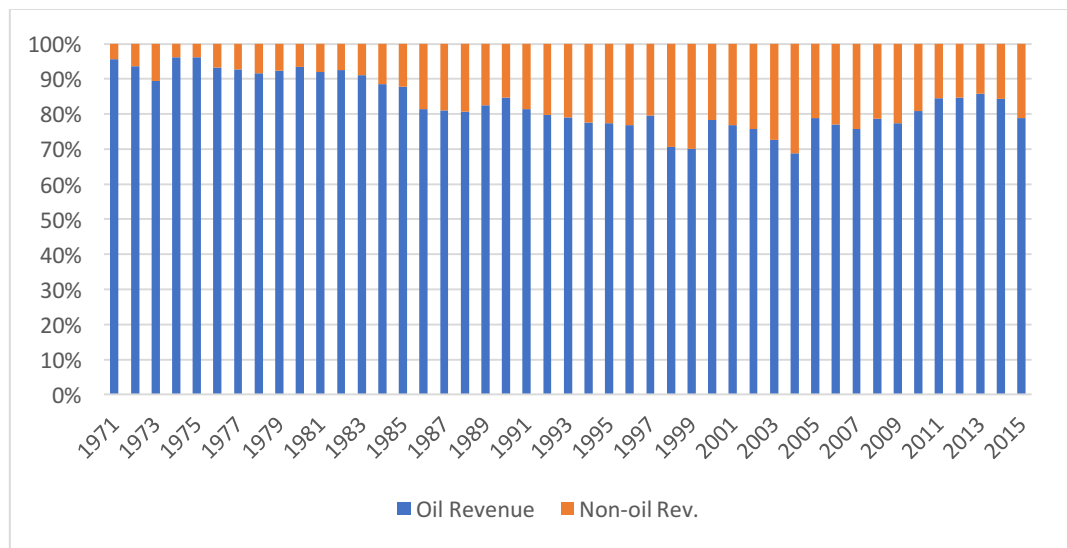


Figure 4-2: Share of Oil and Non-oil Government Revenues

Source: Compiled by the author using data obtained from (The WB, 2016).

Furthermore, it is important to differentiate between the GDP growth rate and economic performance. Since the export of oil started, Oman's GDP has recorded positive growth but this does not necessarily imply that Oman has achieved a good economic performance. In reality, the positive growth rate is the result of two main factors: the increase in oil production from 121m b/y in 1970 (Alhajri, 2010:46) to 358.1m b/y in 2015 (NCSI, 2016b:191) and the increase in the oil prices from USD1.4-USD11.5/b in 1970 to USD45-USD100/b in the last 10 years (Statista, 2017). However, the literature suggests other measures, such as the limited growth in the non-oil tradable sectors and high levels of the state intervention in the economy, which can lead to the classification of a state to be considered as affected by the resource curse. Table 4-1 matches the symptom to the Omani case.

Table 4-1: Resource Curse Symptoms in Relation to Oman

Resource Curse Symptom	Confirmation re Oman
The government is the only recipient for the external rents.	Article 11 in the state basic law (TOG, 1996).

The concentration of the investment in the development of the resource sector.	In 2015 the Gross Fixed Capital Formation for the hydrocarbon sector represents 42% of the total Gross Fixed Capital Formation (NCSI, 2016b:327)
Imported goods as there is no local manufacture.	The current account of the Sultanate recorded a deficit of OMR4.2bn in 2015 (NCSI, 2016b:236)
High growth in the non-oil non-tradable sectors	The share of services of GDP was 48.9 % in 2015 (NCSI, 2016b:325).
The state is the primary employer	48% of the national work force are in the civil service (no numbers given for the defence employees) (NCSI, 2016b:94)
High levels of state intervention in the economy	The average government share of the Gross Fixed Capital Formation was 69% for the last 5 FYDPs(Alhajri, 2010:175)
High levels of military expenditure	The average military expenditure from 2000-2015 was 30% of the total government expenditure which represents an average of 12% of the GDP (SIPRI, 2015).
Limited growth in the non-oil tradable sectors. Low growth rate of the non-oil exports	In 2015 the non-oil exports were only 23% of the total exports (NCSI, 2016b:236)
The oil export revenues represent the biggest share of the government revenues	The average value for revenue minus production cost of oil, from 1970 to 2014 was 40.53% of GDP (WB, 2014).
Crony capitalism, corruption, oligopoly and rent seeking behaviour which reflects weak institutional performance	In 2016 Oman scored 45/100 in the corruption perception index where 0 is highly corrupted (Transparency International, 2016).
High levels of subsidies	In 2015 subsidies on utility bills, housing loans, fuel and other goods are representing 7.8% of the state budget (AlArimi, 2015).

Source: Compiled by the author

4.2.2 Economic Performance Measures

The literature regarding the impact of resource dependency on the economy highlights that most studies use two concepts, economic performance and economic diversification, to measure the resource curse impact on the economy. This thesis argues that the difference between positive economic performance and economic diversification is only in the terminology itself. As a result, the thesis does not focus on measuring economic diversification efforts in Oman. Furthermore, the core argument of resource curse theory refers only to a negative impact on the economy and does not discuss economic performance or diversification. Additionally, resource curse theory does not propose a measure in terms of economic performance or diversification by which to test for resource dependency. For example, Hausmann and Rodríguez (2011:12) examine economic performance by tracing non-oil export growth in 10 countries (Mexico, Oman, Bahrain, Indonesia, Saudi Arabia, Trinidad and Tobago, Venezuela, Ecuador, Algeria, and Nigeria) in the period 1981 to 2002.

Out of the ten countries, only two (Mexico and Indonesia) experienced strong growth in non-oil exports. The positive growth rates in those sectors compensated the decline in the oil exports and generated positive economic growth. Hausmann and Rodríguez's (2011) findings support the argument regarding the importance of non-oil export growth to boost the economic growth in oil-dependent states. However, it can be argued that to achieve economic diversification the state must develop the non-oil tradable sectors which includes manufacturing and exports. Moreover, it includes the spillover effect from the oil sector to the other economic sectors.

Many scholars (Busse & Gröning, 2012; Edwik, 2007; Pendergast, Clarke, & Van Kooten, 2011) use GDP growth to measure the impact of the natural resource dependency, as well as to measure the economic performance. However, this thesis argues that GDP growth is not the best measure by which to test the impact of resource dependency for two reasons. First, over the past 45 years, oil prices have tended to grow in real terms for example "oil in 2014 seems to be 50 times more expensive than in 1970" (Smil, 2015), while improvements in oil extraction technology has cut the cost of production. This means that the share of oil export revenues in the GDP grows. Second, the growth rate of the GDP in the oil-dependent states does not reflect a strengthening in the economic performance rather it reflects the erosion of the state's assets (oil reserves) through the increase in its oil production. Other measures such as genuine savings are more relevant as this takes into consideration growth in all economic activities. However, even such measures are not accurate as there are elements that cannot be measured effectively such as human resource development. This only leaves a measure that tests the development of the non-oil tradable sector alongside non-oil export growth.

The importance of the development of the non-oil tradable sectors as a reflection of the real economic development can be seen in countries such as Malaysia, Indonesia, Botswana, Canada and Chile (Rosser, 2006). Using this measure is more appropriate than measuring human resource development indicators, such as infant mortality for example, as measuring the growth of the non-oil tradable sectors will reflect the economic performance and development more precisely. Thus, the different measures of the Omani economy are still highly dependent on oil revenues. For example, the growth rate on the non-oil exports in Oman between 1980 and 2014 was very low whereas the improvement in human resource development health indicators was high over the same period.

This section highlighted the different methods of measuring economic performance. However, in order to arrive at a better understanding of the importance of the existence of an overall measure for testing the resource curse impact on a particular economy it is important to highlight the consequences of implementing economic policies to avoid the resource curse.

4.2.3 Is it all about the Microeconomic Policies?

Microeconomic policies are important in helping a country reduce its finite natural resource dependency. For example, in 1990 the copper reserves in Zambia were expected to be exhausted in 20 years. The Zambian government was aware of the future challenge and the importance of enhancing the non-mining tradable sectors by implementing microeconomic policies. However, it was unable to achieve this task (Auty, 2002). The Zambian example clearly demonstrates the chronic problems of natural resource dependency on the economy especially if the country has started to enjoy the fruits of large resource export revenues while in the early stage of development. Similarly, Peru attempted to use conventional economic tools to overcome copper price fluctuation but this resulted in a poor economic performance.

In contrast, Chile is considered to be a successful example, despite the fact that the economy was highly dependent on copper export revenues. The Chilean government implemented a consistent policy to overcome the copper price fluctuation and thus mitigate price uncertainty and the duration of each price cycle. In addition, as a result of the increased investment in the non-mineral tradable sectors, the economy became more diversified and less affected by the copper price fluctuations (Auty, 2002). However, Auty (2002) does not reveal the process and the tools used by the Chilean government to achieve its success. One of the contributions of this study is the analysis of all elements that might affect the state's efforts to achieve economic diversification beyond the implementation of microeconomic policies.

4.3 Resource Curse Channels

4.3.1 Economic Factors

According to Gelb (1988), the oil-rich countries face critical management problems which affect their economic performance at the microeconomic level. Those problems are inefficient expenditure policies during booms, the increase in unsustainable patterns of expenditure in non-tradable projects, the lack of investment in the non-oil tradable sectors

during the booms and the absence of a proper strategy to counter the future oil price downswings. In fact, by analysing the oil price booms, it can be observed that since the early 1970s, the only positive effect of the oil exports on the Omani economy is the increase in GDP. However, the increase in the GDP was not associated with comparable increase in the non-oil GDP; this observation is not limited to Oman but applies across the entire GCC region. In addition, most GCC states tended to increase their subsidy spending during the oil price booms but when the oil price fell, there was a lack of countermeasures. However, in 1986 as a result of the low oil price, the Omani government devalued the exchange rate against the US dollar by 10%, and started an austerity programme by cutting public service benefits to address the critical financial situation (MONE, 1997). Nevertheless, most of the austerity measures were eased immediately after the oil prices started to recover.

The required real depreciation of the exchange rate, cuts in public expenditure and increases in non-oil taxes were difficult to implement. Perhaps governments expected to be rescued from such unexpected and difficult decisions by a renewed oil boom. Overall, the resulting high costs of downswing adjustment in most oil-exporting countries swamped any gains made during the booms (Auty, 2002:21).

It is clear that without sustainable policies to deal with the oil price fluctuations the oil-dependent states could lose the gains made during the boom periods. Economic policy reform is believed by many scholars (Hvidt, 2011; Schwarz, 2008; Yousef, 2004;) to be a condition by which to achieve sustainable economic development. However, other researchers (Arezki & Ploeg, 2007; Roy et al., 2013) attribute the weak economic performance to other non-economic reasons. However, it is difficult to isolate the economic channels of the resource curse such as the Dutch disease and the role of the private sector on economic activities. The following section highlights these two elements.

4.3.1.1 The Dutch Disease

The Dutch disease can be described as follows: as a result of the oil export revenue inflows, a direct positive impact is seen first in the expansion of non-oil non-traded goods such as services and construction. The second negative impact is in the non-oil traded sectors such as manufacturing, agriculture, and fisheries as employment moves out of these sectors to the oil sector and the non-oil non-traded goods sectors (Corden & Neary, 1982). Moreover, structuralists, such as Bature (2013), Corden (1984) and Brock Smith (2014) point out that there is an appreciation of the exchange rate which results in the decline of the competitiveness of the domestically-produced products (and therefore reduces exports) and which has an adverse impact on the sustainability of non-oil tradable sectors. Furthermore,

the appreciation in the exchange rate cuts the cost of imports, and further reduces the ability of the domestic industries to compete.

In the case of Oman at the time of the first oil exports in 1967, there was no manufacturing sector. After the regime change in 1970, the priority of the government was to enhance the living standards of its citizens and provide an improved level of infrastructure in a short period. However, from 1975 the call for economic diversification entered the government's agenda, and it was repeated in each subsequent FYDP. Nevertheless, non-oil export growth rate was low: in 1980 it accounted for around 6% of total exports, and in 2014 it was around 13%. This can be attributed, in part, to the weak industrial sector growth in the country. This supports the resource curse argument concerning the non-oil tradable sectors development.

4.3.1.1.1 Measuring the Dutch Disease

Corden and Neary (1982) suggest the use of a "Dutch disease index"¹³ to calculate and measure the economic performance and the non-natural resource tradable economic activities development in a particular country. Accordingly, a negative score reflects the existence of the Dutch disease effects. However, using such an index in oil-dependent countries might not reflect the reality of economic activities because many oil-rich countries established manufacturing sectors, such as petrochemicals, which use cheap oil and gas as an input. It is difficult to justify considering those industries as a new non-oil input in the economy. The Dutch disease index would be more accurate if it included more factors which enable it to measure the effectiveness of the production process in each sub-sector in the economy. By doing so, the analysis could distinguish between natural resource-related industries and other manufacturing exports.

In addition, the Dutch disease argument does not provide sufficient justification for the question: why it is difficult for the oil-dependent states to achieve economic diversification? By taking Mexico, Malaysia, Indonesia and Norway as examples, one can argue that successful economic reform was the result of many factors including: the availability of a human critical mass; human resource development; the institutional quality;

¹³ Calculated by measuring the country's non-mining tradable sectors development. The negative index indicates weak development of the non-mining tradable sectors, which reflects the Dutch disease effects (Auty, 2002:32).

low levels of rent-seeking and corruption; and a democratic political system. By taking these factors into consideration the researcher can achieve a better analysis and overcome one of the main critiques of resource curse theory which highlights the existence of outliers such as Botswana and Norway.

4.3.1.1.2 GCC Disease

In fact, the Dutch disease symptoms tend to be seen in the middle- to high-development economies. In contrast, the GCC countries' economies in the pre-oil era were at a low development stage as they contained no significant manufacturing and other non-oil tradable sectors. Thus, the employment crowding out effect is not relevant for the GCC countries. In addition, it is similar with the non-oil non-tradable sectors as the majority of the development in those sectors is associated with oil export operations. Nevertheless, this thesis tests if the Dutch disease could be a channel for the resource curse in Oman. However, it is important to highlight the main structural differences between The Netherlands' Dutch disease and the Omani case. The reality is that the low impact of the crowding out effect from the non-oil tradable sector to the oil sector and the pre-mature non-oil tradable sector in Oman makes it very difficult to test for the Dutch disease impact on the economic diversification process. Additionally, as a result of the low non-oil exports it is rational behaviour for the state to peg the exchange rate to the currency in which the revenue from oil exports is gained, the US dollar.

Table 4-2 summarises the main differences between the Dutch disease symptoms and the economic problems in the GCC countries. It can be seen from the Table that there are important structural differences such as the absence of the employment crowding out effect. Therefore, this thesis suggests a new concept, termed the GCC disease, to replace the Dutch disease for use as a description of the economic structural problems in the GCC countries.

Table 4-2: Comparison of the Dutch Disease and GCC Disease Symptoms

Dutch disease symptoms	GCC disease symptoms
The increase in the resource exports leads to an increase in investment in the non-tradable sectors.	The increase in investment in the non-tradable sectors, such as construction and financial services, is attributed to the availability of resources to invest in infrastructure projects rather than in projects related directly to oil operations.
Employment suffers from the crowding out effect from the non-oil tradable sectors to the oil sector.	Oil operations tend to be capital intensive which means limited demand for employees (in the case of Oman only 2.4% of the total national workforce work in the oil sector). Also, the economic structure was pre-mature in the pre-oil era, so there was no

	employment crowding out effect from the other economic sectors to the oil sector. Additionally, the availability of expatriates who accept a lower wage than nationals means there is no crowding out effect. Furthermore, the situation does reflect in an increase in the salaries in the private sector.
Exchange-rate appreciation.	The fact that the GCC countries were in the early development economic stage pre-oil means the national currency was set to reflect their main export which is, in this case, the oil.
Negative growth in the manufacturing sector.	There are two sides to the argument: 1) there was no manufacturing sector in the GCC states in the pre-oil era. 2) as a result of their dependency on foreign expats in the workforce and the high exchange rate there is no viability in establishing a manufacturing sector unless it is highly subsidized.

Source: Created by the author

4.3.1.2 Private Sector Involvement in the Economy

One of the resource curse channels in the economy is the limited private sector participation in economic activities. Many scholars (e.g. Cocks & Francken, 2016; Dunning, 2005; Ross et al., 2011; Titulaer, 2010) argue that in the GCC countries the involvement of the private sector is limited mainly to the non-tradable sectors, which is partially attributed to the public sector being the principal actor in the economy. In a well-developed economy, the private sector is the leading actor which has a positive impact on the overall economic performance as well as on job creation. Thus, Hertog (2013) argues that Norway, Chile, and Indonesia managed to escape the resource curse by ensuring a major role for the private sector with the government working as a regulator rather than as an investor. However, the situation in the GCC countries might not be the result of state intervention in the economy but could be related to the political system, rentier mentality or because of the rent-seeking, oligopolistic and crony capitalist behaviours from the political elite. In fact, even with the start of neo-liberalist policies, such as privatisation in the telecommunication and electricity sectors, in Oman there are very few successful private sector companies; most of the privatised companies are still managed by government officials but within the private sector. According to Hertog (2013:1):

While the Gulf private sector has made huge strides since the first oil boom, most of its activities still amount to more sophisticated rent recycling rather than autonomous diversification. Its interests are in stark opposition to those of the citizenry at large, as it provides no taxes, little employment and few investment opportunities for GCC nationals.

4.3.2 Institutional Quality

The second channel is that of institutional quality. According to Stevens and Mitchell (2008), standard economic theory suggests that the availability of new resources should enhance the

economic performance of the state in two ways: the massive revenues would help the state to invest in productive and efficient programmes to improve the sustainability of the development. The second benefit from the large foreign currency inflow is that it allows the state to acquire advanced technology and imported capital goods. However, the effective utilisation of such wealth requires knowledge and rational decision-making which in turn depends on strong institutions and human capabilities. In effect, Stevens and Mitchell's (2008) argument leads to the conclusion that the negative impact of the resource curse is related to institutional quality rather than economic practice.

The standard policy advice for extractives-led growth focuses on governance imperatives such as transparency and sovereign wealth funds. But this ignores the fact that such growth frequently encourages poor governance. Without strong institutions, it leads to the enrichment of minority elite groups; and as the sector develops, the interest of those groups in capturing rents and maintaining their hold on power acts as a barrier to improving governance (Stevens et al., 2015:3).

Other scholars (Arezki & Ploeg, 2007; Mehlum et al., 2006; Sarmidi et al., 2014) argue that strong institutions are the cornerstone of good natural resources management and positive economic performance. The logic behind the conclusion is that inefficient institutions increase the possibility of rent-seeking and corrupt behaviours. In addition, the institutions shape relations between the political elites, society, and the economy. For example, Botswana managed to escape the resource curse because of having effective institutions that allowed the government to use multi-year economic development plans based on a very clear legal framework to protect the implementation of its plans. In contrast, as a result of the weak institutions in Venezuela, the country could not achieve sustainable economic development and remains vulnerable to oil price fluctuations. However, a number of academics (Dunning, 2006b; Oskarsson & Ottosen, 2010; Tsui, 2011) argue that the construction of effective institutions requires a high-level of democracy as without an embedded electoral system there is lack of checks and balances and accountability. Scholars, such as Gylfason (2010), Holden (2013) and Limi (2007) use the example of Norway and Botswana as evidence. However, the counter argument is that states, such as Indonesia where democracy is weak, have achieved high levels of economic performance (Alonso & Garcimartín, 2013; Mijiyawa & Ganiou, 2008). In addition, oil-dependent states, such as Qatar, are ranked 31 which make it among the most transparent economies in the world which reflects low levels of corruption (Transparency International, 2016). Furthermore, accountability and checks and balances are not conditionally related to a democratic political system. For example, Singapore, which is not very democratic, has achieved high levels of

economic performance by implementing strong accountability measures. According to Bulte et al. (2005:16)

Our results confirm a general conclusion emerging from other policy research: that the “black box” of good institutions in some way improves economic outcomes. However, this generic finding does not by itself provide any firm policy prescriptions, nor does it provide any evidence of causal mechanisms.

In this context, the regime type and the relationship between the political elite and the public can affect the institutional quality. For example, in the GCC countries, there is a vertical relationship between the leaders and the populace, which could block positive reforms of the institutions. This is because the political elites benefit from the existing arrangement. According to Stevens and Dietsche (2008:7):

Chances for positive institutional change are lower in countries where society features vertical relationships and resource rents are captured by narrow elites. These are likely to lobby for the maintenance of existing institutions in order to protect narrow sector interests.

This thesis argues that the resource curse’s negative impact cannot be analysed through the lens of institutional quality in isolation from the other resource curse channels. It is important to reiterate that the channels are interrelated. Thus, regime type has an impact on the institutional quality, which in turn is a reflection of the human resource development. The next section analyses the third of the four interrelated channels, the political and social.

4.3.3 The Political and Social Channels

The political and social channel of the resource curse tends to be analysed using the rentier state model. This model has moved the argument concerning the developmental path of the oil-dependent states beyond the economic or institutional channels. The main argument of the rentier state model is similar to the staples thesis.¹⁴ Thus, di John (2011:5) states: “rentier state models are part of a growing trend of reviving the staples thesis, the notion that natural factor endowments or technology shape the relations of production or institutional evolution of a society”. Furthermore, from a political regime stability point of view, the rentier state model argues that in most oil -dependent states the leaders use oil export revenues as a bargaining power to gain the social acceptance.

¹⁴ The staples thesis was developed by Howlett, Ramesh and Netherton (1999). The main argument of the thesis is that the Canadian economy would benefit from exporting natural resources products and the impact would not be limited to the economy but would also have a spillover effect on the social and political environment. Additionally, Canada would benefit from exporting the natural products allowing it to import more advanced technology.

The basic idea behind these models is that there is a substantial cost to the working of an economy when the allocation of resources is channelled primarily through state leaders, who have discretionary authority, rather than through bargains between private economic agents (di John, 2011:6).

Furthermore, the rentier state model posits that in the oil-dependent countries there is a high level of government intervention in the economy, high levels of rent-seeking and corruption, low levels of governance and a weak taxation system. It argues that the state controls the hydrocarbon sector through its ownership of the oil and gas fields and export operations, which is the basis for the state becoming the major actor in the economy through intervention in most of the economic activities. Additionally, the state assumes responsibility for redistributing wealth to its populace in two ways: directly, to the political elites as they secure private gains or indirectly to the populace by increasing recruitment in the public sector without a real need for such employment. Furthermore, the influence of the political elite leads to an increase in rent-seeking activities and corruption as they can manipulate the legal system and expand their oligopolistic practices through lowering governance measures. The increased levels of corruption, oligopoly, rent-seeking, and crony capitalism have a direct negative impact on institutional quality and block reforms that are against the interests of the political elite (Ades & Di Tella, 1999; Kutan et al., 2009; Leite & Weidmann, 1999; Pendergast et al., 2011; Wei, 1999).

4.3.3.1 The Rentier State Model

Mahdavy (1970) was the first to ask the question: despite all the wealth windfalls why are rentier states not among the fastest growing economies? Mahdavy (1970) attributes the answer to the social and political structure in those countries as the pre-mature administration was an obstacle to those states utilising the wealth efficiently and productively. The other reason posited is related to consumption behaviour, which hinders the growth of domestic manufacturing. Government spending becomes the driver of the economy which increases demand for certain goods and services, in the non-oil non-tradable sector. This is positive from the microeconomic view but if the development is not associated with a similar level of growth in the non-oil tradable sector then the overall macroeconomic growth is imbalanced. To overcome this economic development paradox, Mahdavy (1970) suggests that oil-dependent states use the external rents to enhance the manufacturing sector by providing subsidies. He argues that the improvement in the manufacturing sector leads not only to an

improved economic performance but also enhances knowledge transfer and provides more work opportunities.

In the context of the Middle East oil-dependent countries, rentier state theory was further developed by Beblawi (1987) and Luciani (1990). They categorised political economic systems into 'allocation states' and 'production states'. According to Luciani (1990), allocation states are those states which depend mainly on external revenues such as oil export revenues or foreign aid. In contrast, he defines the production states as the states which are mainly dependent on the domestic economy to generate state income, usually through taxation.

The rentier state model developed by Beblawi and Luciani (1987) argues that political behaviour can affect the way in which oil export revenues are handled in a particular state. According to Beblawi and Luciani (1987), the combination of a lack of a democratic political system and the existence of massive oil export revenues underpins the continued existence of authoritarian regimes. However, the authors distinguish between two kinds of authoritarian regimes. The first is the developmental state, in which the political elite encourages the development of the country, while accumulating the wealth. The other model is the predatory state, in which the political elite use the oil export revenues for their benefit without focusing on state development. Thus, Beblawi and Luciani (1987) overcome one of the main critiques of resource curse theory: why are some oil-rich countries, such as Norway, not affected by the resource curse? When oil was discovered Norway was already developed economically and politically with a high level of transparency and legal framework. This enabled Norway to channel oil export revenues through the well-structured economy. In contrast, the GCC countries were underdeveloped, authoritarian states and the oil wealth allowed the political elite to implement large-scale development plans, while controlling the wealth, i.e. the GCC countries could be considered as developmental states.

Additionally, Beblawi and Luciani (1987) provide an analysis of the political issues that can appear in the rentier state. One of the major features of the economic structure is that the state is the most important actor in the economy and is therefore the major employer, especially for nationals. The use of a policy that guarantees government jobs regardless of any need weakens the institutional performance of the state. Moreover, the legal framework is designed to protect local companies from foreign competition, including requiring foreign

companies to establish a partnership with local companies. Eventually, this leads to weak competitiveness in the global market and creates a situation in which citizenship becomes a financial asset.

In summary, rentier mentality becomes one of the main adverse effects of oil revenue dependency. Furthermore, in all GCC countries, the redistribution of wealth is achieved through two main channels: the first sees the political elites gain oligopoly status, enabling them to control many of the economic activities for their own benefit. The other channel is through expanding public sector employment and high levels of social spending which mitigate the chances of social unrest and calls for political reform or to counter corruption. This creates a sort of unwritten social contract between the elite and populace. However, Okruhlik (1999) argues that the regime's control over the oil export revenues might not be the only reason behind the high level of political stability in the GCC countries. Furthermore, the stability of the political system could change if the state does not manage to sustain such wealth distribution; a similar argument is also proposed by Davidson (2013). In addition, the employment boom in the public sector can undermine public sector performance for a number of reasons. The most important are: the lack of incentive to increase productivity as employment is not subject to performance targets but is the result of rights granted by the regime. In turn, this affects recruitment for the private sector as government employment is financially more rewarding while the workload is lower than in the private sector.

4.3.3.1.1 Rentier State Critiques

According to di John (2011), there are a number of loopholes in the rentier state arguments. For example, rentier state theory does not explain why certain resource-abundant countries, such as Botswana, Malaysia, Venezuela and Nigeria, have achieved positive average growth rates. Second, there is no clear evidence that resource-abundant countries experience higher levels of corruption and rent seeking activities than non-resource abundant economies. Furthermore, the theory cannot explain why resource-abundant countries such as Norway and Australia are not considered as rentier economies.

In answer to the critiques, it is important to take into account the distinction discussed in Section 4.2.1 between resource-abundant and resource-dependent states. This thesis argues that the rentier state model is relevant when discussing resource-dependent but not necessarily resource-abundant states. Thus, Botswana and Malaysia as resource-abundant

states have a diversified economy; thus, the important variable is economic diversification rather than the GDP growth rate. Furthermore, high levels of rent-seeking and corruption cannot be isolated from other resource curse channels such as institutional quality. Relatedly, the governance system in resource-abundant countries such as Norway and Australia has a high level of the institutional efficiency which protects the economy from rent-seeking and corruption practices. In terms of levels of corruption, there is a clear difference between resource-dependent and resource-abundant countries.

This thesis uses the rentier state model as one of the resource curse channels that impedes economic diversification in Oman. The thesis focuses on the political elements of the rentier state and therefore analyses the use of oil revenues as a tool by which the regime is able to gain legitimacy and to achieve social support and political stability. However, taking the rentier state model in isolation from the other channels is not sufficient to explain the issues. For example, the rentier state model is not able to explain the weak private sector performance in the oil-dependent countries in isolation from institutional quality. Logically, the private sector in any country should work with the government to maintain the exchange rate that helps the competitiveness of their exports in international markets. However, in the oil-dependent states the impact of the crony capitalism, the lack of proper governance and the fact that most private sector activities are in the non-oil non-tradable sectors means that real exchange rate appreciation continues despite the downside effects on the non-oil tradable sectors. This argument can only be analysed through the institutional quality channel in relation with the rentier state model.

Furthermore, this thesis argues that a generalisation derived from the rentier state model can be challenged as there are a number of oil-dependent states, such as Qatar (ranked 31) and UAE (ranked 24), amongst the most transparent countries internationally (Transparency International, 2016). Thus, the resource curse argument that oil-dependent countries were not able to achieve economic diversification because of high levels of corruption is not valid. The examples of Norway, Botswana, Canada and Australia also contradict the argument. Those countries could diversify their economy, despite being resource-abundant states.

4.3.4 Human Resource Development

The final channel of the resource curse is lack of human resource development, which has only recently received attention from scholars. This can be attributed to the fact that human resource development could be influenced by other resource curse channels such as economic factors which can limit investment in education or the institutional quality. Furthermore, the political and social factors highlighted by the rentier state model could indirectly contribute to a negative relationship between the rentier state and the level human capital investment. As can be seen from the Table in Appendix 1 only a few scholars (Blanco & Grier, 2012; Elissaïos, Papyrakis & Gerlagh, 2007; Daniele, 2011; Gylfason, 2010) link human resource development with the resource curse. Their main conclusion is that there is a negative relationship between resource dependency and human resource development. Furthermore, most of the literature treats human resource development as a by-product of the overall economic performance. In contrast, Gylfason (2010) argues that wealth abundance can lead to education being deprioritised. In addition, he finds that the poor quality of education is the primary channel of the resource curse concerning sustainable development (Gylfason, 2010). Logically, the availability of a proper education system should minimise the adverse effects of resource dependency, such as corruption and institution performance.

Accordingly, this thesis follows Gylfason's (2010) argument about the importance of the weakness of human capital development as a resource curse channel. In the case of Oman, government expenditure on education represented 12.8% of total government spending similar to Estonia (13.9%) and Singapore (11.6%) (MOE & WB, 2013:183). However, the labour market in Oman faces a paradox. Despite an increase in youth unemployment levels, there has also been a sharp growth in expatriate employment. Other challenges facing human resource development in Oman include the government being the main employer and financial incentives in the public sector being much higher than those in the private sector. Therefore, most Omani graduates prefer to work in the public sector. Moreover, according to the Omani Minister of Education, even though the levels of education in Oman have improved impressively since 1970, in recent years the education quality has started to deteriorate "there are still persistent issues concerning the quality of student achievement that need to be addressed" (MOE & WB, 2013:6).

4.4 Summary

In summary, this thesis provides a deeper analysis of the issue of economic diversification in Oman through the four channels of resource curse identified: 1) the economic channel, primarily through Dutch disease theory; 2) the political and social factors, through the rentier state approach; 3) human resource development; and 4) institutional quality. This thesis argues that the four channels are interconnected and move simultaneously in the same direction. This thesis also analyses if one any channel has a larger impact than the other factors.

One of the main contributions of this thesis is through the analysis of the interaction between the resource curse channels. For example, how the political and social factors affect the institutional quality and the human resource development. The analysis is based on the fact that the decision-making process in Oman is vertical. Therefore, even if the Sultan were willing to reform the economic structure, the political elite can hinder reforms that they perceive to be against their interests. Furthermore, no previous study that assesses the economic channel of the resource curse highlights the linkages between the economic elements and the political and social environment.

Chapter 5 Methodology

5.1 Introduction

The aim of this chapter is to describe the processes and procedures used in the thesis in order to collect the data to help identify what factors hindered Oman's ability to achieve economic diversification from its dependency on oil revenues. The chapter also highlights the rationale behind the case study selection as well as the methods used throughout the research. This thesis fills a gap in the literature through the analysis of the data related to Oman over the previous 45 years regarding the impact of oil dependency on the economic performance in a single state. Although the thesis focuses on Oman there are similarities with the other GCC states. As a result the research can help identify the factors that also hinder those states' ability to attempt a similar diversification process. Furthermore, the research questions which this thesis raises have not been addressed in the context of oil-dependent states or Oman. Because of the limited data available to answer the research question it was necessary to use three different techniques for data collection; semi structured interviews, focus groups and primary and secondary data from official state publications, IMF and World Bank publications, and the British archives.

Furthermore, the single case study contributes to the literature as it explains the resource curse impact on the economy from different angles. According to Van Evera (1997:22), "we select cases where the phenomenon we seek to explain is abundant but its known causes are scarce or absent". The primary objective of this research is to explain the obstacles preventing economic diversification in Oman from the perspective of resource curse theory. To arrive at a better understanding of that phenomena, the researcher conducted a comprehensive review of the literature in order to extract the main elements that might prevent an oil-dependent country from achieving economic diversification. The literature review allowed the researcher to draft a set of questions in order to guide the research. The research question is: even though Oman was the first country in the region to implement an economic diversification strategy, why has little been achieved in this regard? The research explores four major elements, which have previously been studied separately by other researchers but have never been investigated collectively in a single case study.

This chapter elaborates the methodology as well as data collection used in the research. The first section covers the selection of the case study as the main methodology in this research. The second section reviews the first data collection method, which includes the use official documents such as annual reports, the annual budget, the Central Bank of Oman

reports, and the FYDPs. The second method of data collection is semi-structured interviews, and the third is focus groups. The semi-structured interviews and the focus groups were conducted in Oman and the UK between January and August 2016. The third section elaborates on the data analysis. The limitations and difficulties related to the methodology are discussed in the final section.

5.1 The Methodology

The research is based on qualitative methodology in order to explore if economic factors, the lack of human development, inefficient institutions, or social and political elements hinder the state's ability to achieve economic diversification. In contrast, most studies that study the resource abundant effects in a particular state adopt a quantitative methodology (Cherif & Hasanov, 2014; Fasano, 2003; Karl, 2007; Ross, 2001). Therefore, the qualitative methodology of testing the Omani case is one of the contributions of this thesis to the literature. Furthermore, by adopting such a research method the researcher can achieve a better understanding of the effects of each element on economic diversification.

According to Creswell (2003), one of the main reasons for conducting a qualitative study is the exploratory nature of the research, especially if such a phenomena has not been analysed previously. Furthermore, as in the case of this research when there is a lack of theory or if the extant theories do not provide an adequate explanation of the phenomena, then qualitative research is a strong approach. From a comprehensive exploration of the literature, no studies focus mainly on the obstacles to economic diversification in Oman from the perspective of resource curse theory. Finally, according to Denzin and Lincoln (1994:3-4) by using the qualitative research methods the research can utilise a broad range of interlinked methods and research strategies to achieve an extensive and in-depth understanding of the phenomena.

5.2 The Case Study

According to Yin (2013), the term case study refers to the unit of research whether it is an event organization or an individual. Yin (2013:23) defines the case study research method as an “empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between the phenomenon and its context are not clearly evident; and in which multiple sources of evidence are used”. It is a scientific research method that is used to study contemporary phenomena through real-life contexts. Tellis

(1997) defines the case study as a research tool that is concerned with how and why things happen. This method allows the researcher to arrive at an understanding of the actors' perspectives and behaviours, in contrast with quantitative statistical results. The case study approach is a robust research method that has been tested across different disciplines, such as government affairs, education, and management. For example, case study method might be the best application to test the efficiency of a particular government programme and whether it achieved its goals or not (Zainal, 2007).

The case study method provides the researcher with the ability to examine the case within a particular context. A case study can be the best method to research a phenomenon in a small geographical area or to test the interaction among a limited number of cases. It provides the ideal tools to explore and investigate the phenomena through wider contextual analysis. It can also help the researcher to identify the cause and effect interaction and the relationship between different variables. Furthermore, it provides a systematic way of identifying and observing events throughout the research process starting from collecting the data to a detailed examination of the results through to the analysis. Furthermore, the researcher can analyse in detail the operation of the causal mechanism.

In addition, the case study can provide the researcher with the ability to explore the causal mechanism. According to George and Bennett (2005:59),

Case studies examine the operation of causal mechanisms in individual cases in detail. Within a single case, we can look at a large number of intervening variables and inductively observe any unexpected aspects of the operation of a particular causal mechanism or help identify what conditions present in a case activate the causal mechanism.

Furthermore, there are two other key benefits associated with this method. First, it provides the researcher with a high level of conceptual validity, which is why the case study approach is used in political economy research as it provides the possibility of analysing unmeasurable variables. The other advantage of the case study is its inquisitive nature allows the identification of new variables throughout the study (George & Bennett, 2005; Zainal, 2007).

All the advantages of the case study approach are well-suited for this research. The ability to explore the causal mechanism allows the researcher to establish which element might have a greater impact on the government's ability to achieve economic diversification. Furthermore, the case study methodology helps the researcher examine the concepts

thoroughly. For example, do the characteristics of Dutch disease correspond with Oman's economic structure or they might there be other explanations? In addition, even though a thoroughly established theoretical framework helps the researcher conduct the analysis, there is a possibility that during the research process the researcher might identify new variables that also impact the Omani economic diversification process.

One of the frequent criticisms of the case study is its dependency on a single case, which might lead to a difficulty in generalising the results. However, arguably the restricted nature of the case study as a research method is not a disadvantage. On the contrary, the fundamental purpose of case study research is to identify the causal interaction between different variables in order to arrive at a better understanding of the phenomenon being studied. The researcher is using the case study precisely to have an in-depth understanding of the particular case, which means it is not necessary to achieve results that can be generalised to other cases (Bryman, 2006). Moreover, according to George and Bennett (2005:233), "a researcher may study a few cases or even one case and uncover a new causal mechanism that proves applicable to a wide range of cases". In this context, Oman has many similarities with the other GCC countries in terms of their dependency on a single resource revenue, the regime type, the economic structure and the social fabric. Thus, although, the aim is not to produce findings that can be generalised, the causal mechanism between oil dependency and economic reform could be similar in the other GCC countries.

This research explores the causal mechanisms in order to identify which element has the greatest influence on the Omani government's efforts implement a policy of economic diversification. In this context, the case study approach is deemed the most appropriate. There are many advantages of using a case study in political economy research. The case study can provide a high level of theoretical validity because the variables cannot be quantified. In addition, the case study allows the researcher to discover new variables. According to George and Bennett (2005:31), "case study researchers are more interested in finding the conditions under which specified outcomes occur and the mechanisms through which they occur, rather than uncovering the frequency with which those conditions and their consequences arise".

5.3 Case Selection

According to George and Bennett (2005:83), the case study should be selected on the basis of the research objective. Those objectives are highlighted by Van Evera (1997:55) as testing theory, creating theory, identifying antecedent, testing the importance of these antecedent conditions and explaining cases of intrinsic importance. By choosing Oman as a case study this research focuses on explaining areas of fundamental importance such as: oil dependency; very limited oil reserves; the first country in the region to announce strategic development plan that economic diversification was one of its main pillars; and 80% of the population are under 35 years old—all of which make Oman an interesting case study. Using the process-tracing¹⁵ approach gives the research an advantage, because it is investigating the existing theories related to the resource curse. Furthermore, George and Barnett (2005:215) argue that by using this approach the research can explain any deviant aspects not predicted or explained thoroughly by the existing theories. Furthermore, according to Van Evera (1997:55), the case study approach can be the most appropriate way to test an explanatory hypotheses or if the case is overlooked and was never studied in-depth. In this context, Chapter 3 demonstrates that several existing theories have attempted to diagnose if a set of countries or a single country is infected by the resource curse or whether the oil export revenues are a curse or a blessing. Scholars define the primary outcomes of a country's dependency on point source resource revenues. However, there is a gap in the literature regarding the fundamentals of the resource curse effects in a single country.

Furthermore, the studies on the resource curse theory overlook Oman. Thus, Oman is an ideal case study to build an understanding of the implications of the resource curse in the economy for several reasons. In 1976, Oman was the first of the oil-producing countries in the region to implement an economic diversification strategy. Furthermore, in 1996, Oman was the first country in the region to draft a long-term strategy which included economic diversification as one of its main pillars. In addition, the Omani government was aware of the limited oil reserves and the complexity of the oil fields in Oman, which was the primary driver behind implementing the FYDPs that include economic diversification as one of their main pillars. However, little has been achieved in this regard and the oil revenues still account for more than 85% of government revenues.

¹⁵ See Section 5.6.

5.4 Data Collection

Resource curse theory diagnoses the oil dependency impact on a country's economy. Furthermore, the theory suggests that oil-rich countries are unlikely to be able to achieve economic diversification (Auty, 2002a). In addition, other scholars who focus on point resource dependency conclude that countries who depend on single commodity export revenues are more likely to have poor human resource development, inefficient institutions, crony capitalism and suffer from Dutch disease (Beblawi, 1987; Hertog, 2010a; Humphreys et al., 2007; Manning, 2004; Stevens et al., 2015). Because of the complexity of the research topic, this thesis combines each element in a single case study of Oman. To do so, the researcher considers it important to use three different qualitative methods to create a comprehensive picture of the economic, social, and political environment in Oman. The first method is the use official documents, the second method is semi-structured interviews, and the third is focus groups. According to Olsen (2004:3), the researcher can achieve a high level of validity by incorporating different research methods for data collection, a process termed 'triangulation'. By implementing this technique, the researcher is able to compensate for any weaknesses in one method by the strengths in the other methods. In addition, triangulation helps the researcher overcome any risks of selection bias that could be associated with the sample selection technique. According to Mays and Pope (2000:51), "Triangulation may, therefore, be better seen as a way of ensuring comprehensiveness and encouraging a more reflexive analysis of the data".

5.4.1 Official Documents

According to Brayma (2004:386), the researcher can use official documents as a direct source of data. In relation to the thesis the official government documents of importance are mainly related to economic planning such as: the annual budget plans; the FYDPs; the sectoral budget allocation; the annual Statistical Year Book; the Quarterly Statistical Bulletin from the first FYDP issued in 1976 to the current ninth FYDP; and the results of the General Census of Population, Housing and Establishments. In addition, data is sourced from the World Development Indicators published by the World Bank (World Bank, 2015), the Human Development Reports published by the UN and the Handbook of International Trade and Development Statistics issued by the UN Conference on Trade and Development (UNCTAD, 2014). Another source is the National Archive of the UK government. In addition, the thesis used the Special Collection of Donald Hawley Papers at Durham University Library.

5.4.2 Semi-Structured Interviews

The second method of data collection is semi-structured interviews. The researcher prepared questions for the semi-structured interviews following a comprehensive review of the previous research on resource curse, rentier state and the paradox of plenty theories (See Appendix 2). The semi-structured interviews were conducted between January and August 2016. The interview questions were divided into four core elements:

- The economic effects: including the Dutch disease impact on the economy, the crowding out effect and oil price volatility.
- The lack of human resource development: including the gap between general education outcomes and labour market demand, the lack of vocational training and the outcomes of the Omanisation process, in particular the sectors in which a high level of Omani employment is present.
- Institutional performance and the weakness in government productivity.
- Social and political elements: the social environment is related to rentier mentality, and the political environment including crony capitalism.

Furthermore, each set of interview questions was associated with a questionnaire containing 11 ‘yes/no’ questions to allow the researcher to quantify the answers. The questionnaire was drafted to cover the relevant points in relation to the research.

5.4.2.1 Pilot Study

According to Burnham, Lutz, Grant, et al. (2008:39), a pilot study is an important step in any research as it helps the researcher test the interview questions. This process reveals if any are ambiguous, meaningless or embarrassing questions. It also helps the researcher to discover if there are new issues that could be included, as well as if there are questions that are unsuitable. The other advantage of the pilot interviews is that it provides training for the researcher and prepares them for interviewees’ reaction to certain questions (Burnham et al., 2008).

Due to the sensitivity of the research, the researcher conducted four pilot interviews to overcome any conceptual and definitions of problems in the wording of the questions. It also helped the researcher to obtain feedback regarding the research questions and the interview questions. For example, in the pilot phase the researcher used the terms ‘crony capitalism’ and ‘political elite corruption’. However, the feedback helped the researcher to rephrase the

questions to ensure they would not trigger any discomfort for the interviewee; for example, questions regarding the quality of the government performance and political elite corruption.

5.4.3 Focus Group

The third method of data collection was through focus groups. Morgan (1996) defines focus groups as a research technique that collects data through the discussion of a particular topic determined by the researcher (See Appendix 3). The interaction between different specialised individuals helps the researcher gain a better understanding of the phenomena under study. A focus group usually consists of six to ten individuals, who probably did not know each other previously, in a formal setting. One of the main advantages of a focus group is that helps the researcher triangulate the data. In addition, it provides the researcher with a better understanding of the phenomena by being involved in a direct discussion with experts who provide their own opinions. According to Morgan and Krueger (1993), the group effect can lead to a better discussion among the participants as they tend to explain themselves to each other which can provide valuable data. Furthermore, the researcher can ask the participants for clarification of their experience.

The researcher organised a focus group discussion in two of the capital city's cultural venues. The attendees were Omanis and non-Omanis from the private sector, journalists, NGOs and top-level government officials. In preparation for the discussion, the researcher provided the group with a short description of the research objectives and definitions of some of the concepts used in the research, such as crony capitalism, Dutch disease, crowding out effect and rentier mentality. The researcher translated the concepts into Arabic as that language was used in the discussion. The researcher performed the role of moderator. The group discussed four main topics: the impact of the economic factors in the economic diversification process; the impact of the human resource development in the economic diversification process; the impact of government performance in the economic diversification process; and the effects of the rentier mentality and the crony capitalism in the economic diversification process.

5.5 Sampling

5.5.1 Semi-Structure Interviews

According to Marshall (1996), the 'judgement sample' (also known as the purposeful sample) is one of the most common sampling techniques as it allows the researcher to select

individuals who could provide knowledge to help provide a comprehensive answer to the research question. This selection strategy is suitable for political economy research as the sample is not based on demography, age, gender or social class. The technique is based on selecting individuals who have the necessary experience and expertise.

In the first stage of the semi-structured interviews, the researcher selected four interviewees to conduct the pilot study interviews to help create the selection criteria for the participants. This approach helped the researcher to overcome any bias such as response or recruitment and ensured that each participant could provide the relevant data. The selection criteria for the participants were:

- Been working in the government or the private sector for more than 15 years.
- Been actively involved in national level committees.
- Been specialised in one of the fields under study such as the economy, education and government policies.
- Have experience or knowledge of the issue/s being addressed in the research (Oppong, 2013).

Following the pilot interviews, the researcher started to implement a snowball sampling procedure. Noy (2008:330) defines snowball sampling as:

when the researcher accesses informants through contact information that is provided by other informants. This process is, by necessity, repetitive: informants refer the researcher to other informants, who are contacted by the researcher and then refer her or him to yet other informants, and so on.

Furthermore, snowball sampling is an appropriate procedure that allows the researcher to access groups which enjoy the status of social/political elites (Noy, 2008:330).

To overcome any potential bias in the sample, the researcher did not only rely on interviewees suggested by the informants. The researcher used a parallel snowball sampling procedure through his network of friends and relatives to contact other interviewees. This approach served to minimise sample frame bias and allow relevant stakeholders to be involved. The importance of including stakeholders from each of the important sectors in Oman not only helps capture the relevant insights but also increases the reliability and the validity of the data, which in turn is reflected in better research quality (Mays & Pope, 2000). In addition, having more than one sampling procedure provides the opportunity to overcome any withdrawals of participants as it is easier to find a replacement.

According to Mason (2010:1): “Qualitative samples must be large enough to assure that most or all of the perceptions that might be substantial are uncovered, but at the same time if the sample is too large data becomes repetitive and, eventually, superfluous”. In this context, the researcher did not determine the number of interviews at the outset but used the ‘saturation principle’. According to Mason (2010:8), the saturation principle is where the researcher continues with data collection until there is no new information being produced from the interviews. There are two measures to ensure saturation. The first is defined by Mason as the diminishing return of information where no new inputs or different perspectives are being produced by the interviews. The researcher realised that he reached this point after the 36th interview. However, five more interviews were conducted to confirm that the interviews had reached the saturation level. The second measure is to check if the researcher can achieve the objectives of the study, which was the case for this research. However, the researcher kept an open window with each of the participants in case of future communication concerning his research.

Table 5-1 and Figure 5-1 demonstrate the distribution of participants by sector. Thirty nine percent are from the public sector, 22% from the *Majlis Oman* including interviewees from the State Council. The selection criteria for State Council members is based on (TOG, 1996):

- Former ministers, undersecretaries and their equivalents.
- Former ambassadors.
- Former senior judges.
- Retired senior officers.
- Those who are known for their competence and experience in the fields of science, arts and culture, and professors of universities, colleges, and higher institutes.
- Dignitaries and businesspeople.
- Persons who have performed distinguished services for the nation.
- Whomsoever His Majesty the Sultan chooses and who does not fall under the preceding categories.

Yin (2013:90) highlights the importance of interviewing the key policy makers as “such persons not only provide with insights into a matter but also can suggest sources of corroboratory or contrary evidence”. Consequently, the participants represent the main stakeholders in the economic, political and social decision-making processes in Oman. For

example, some interviewees from the private sector are also board members on government owned companies (GOCs) or retired top-level government officials. Additionally, two of the academics are members of different government committees.

Table 5-1: Interviewee Distribution by Sector

Sector	Number of interviewees	Reference code	Total
Majlis Oman ¹⁶	Three: members of the <i>Majlis Al Shura</i> Council	MO	3
	State Council (<i>Majlis Al Dawla</i>)		6
	One: The Speaker		
	Four: members One: Special advisor in education affairs		
Public sector	Five: Ministerial level Two: undersecretaries Three: senior advisors Six: director generals	GOI	16
Private sector	One: Ex Head of the Chamber of Commerce and Industry. Two: Board member of the Chamber of Commerce and Industry.	BI	3
	Four: CEOs		6
	Two: Businesspeople		
Academics	Three: assistant professor	AI	3
Journalists	One: online newspaper	JI	4
	Two: conventional media		
	One: blogger		
Total			41

Source: Compiled by the author.

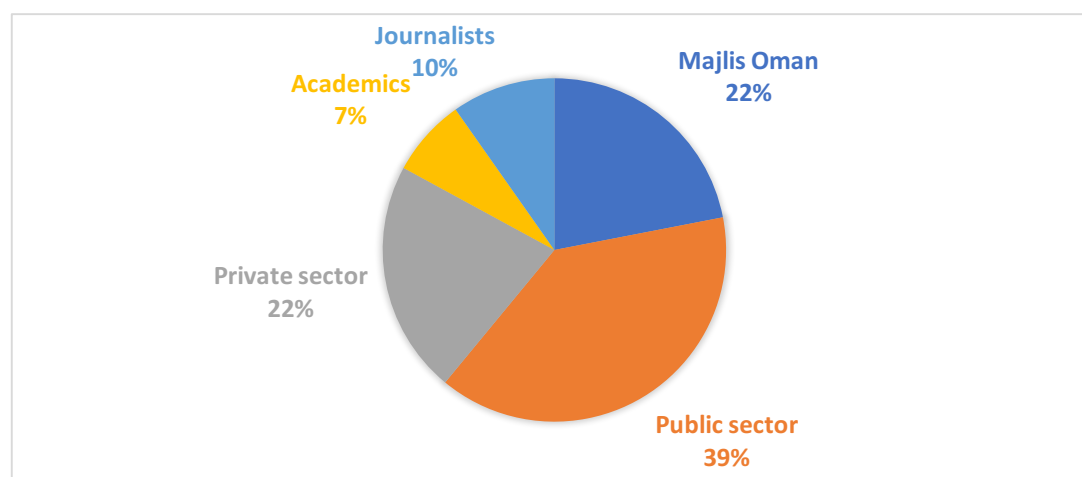


Figure 5-1: Interviewee Distribution by Sector

Source: Compiled by the author.

¹⁶ Oman has a bicameral legislature system: *Majlis Al Dawla* (State Council) in which members are nominated by the Sultan and *Majlis Al Shura* (Consultative Council) in which members are elected by the public (TOG, 1996).

5.5.2 Focus Groups

After conducting several semi-structured interviews, the researcher asked the participants if they could help to organise focus groups. The selection for the participants in each focus group was similar to the selection criteria for the semi-structured interviews. All the participants in the focus groups have worked in either the public or private sector for more than 15 years and have experience and knowledge about the Omani economy, as well as the research topics. Unfortunately, the researcher was only able to conduct two focus groups for reasons which are highlighted in the limitations section in this chapter.

Table 5-2 and Table 5-3 summarise the participants in the focus groups, which were conducted in two different cultural venues in the capital city Muscat. The discussions in both focus groups lasted for two hours and were recorded, at the same time notes were taken. A copy of the questionnaire was handed to the participants allowing the researcher to quantify their views regarding the research elements.

Table 5-2: First Focus Group Participants by Sector

Sector	Number of participants	Reference code	Total
Government	Two undersecretaries	FGO	2
Oman Chamber of Commerce and Industry	Two board members	FPS	2
Private sector	Two chairman of the board of directors Two CEOs	FPS	4
Journalist	Two	FJ	2
Total			10

Source: Compiled by the author.

Table 5-3: Second Focus Group Participants by Sector

Sector	Number of participants	Reference code	Total
Government	One senior advisor	FGO	1
The Omani Economic Association	Two board members	FNGO	2
Government owned company (GOC)	One CEO	FGOC	1
Majlis Al-Shura	One member	FMO	1
Journalist	Two	FJ	2
Total			7

Source: Compiled by the author.

5.6 Method

This research aims to undertake an in-depth analysis of the obstacles to achieving economic diversification in Oman. To do so, it is essential to use an analysis technique that can explain the relationships between the outcome (the unsuccessful efforts to achieve economic

diversification) and the potential causal variables: the human resource development; the economic factors; the quality of the government institutions; and the social and political factors. The researcher employs the process-tracing method, which is defined by Collier (2011:1) as “the systematic examination of diagnostic evidence selected and analysed in light of research questions and hypotheses posed by the investigator”. The process-tracing technique is one of the best methods by which to test the causal interaction between different variables. According to Beach and Pedersen (2013:2), the process-tracing method allows the researcher to identify, validate and test the causal mechanism in a theoretically informed way. Additionally, the implementation of the process-tracing method allows the researcher to investigate if the outcome of a particular case is the result of the intervening variables in that case (George & Bennett, 2005:21).

Furthermore, the process-tracing method can be used for theory testing, theory building, and explaining outcomes (see Figure 5-2). The theory testing and theory building process-tracing aim to develop a framework that could be generalizable. However, this research is based on a case study as it focuses on a particular case and it is not seeking to infer results that can be generalised (Beach & Pedersen, 2013:169). In this context, the ‘explaining outcome process tracing method’ is deemed to be more suitable as it allows an in-depth investigation of a case under study (see Figure 5-2). According to George and Bennett (2005:12, 20)

Process tracing can help to assess whether each of the potential causal variables in the imperfectly matched cases can, or cannot, be ruled out as having causal significance. Process-tracing is particularly useful for obtaining an explanation for deviant cases, those that have outcomes not predicted or explained adequately by existing theories.

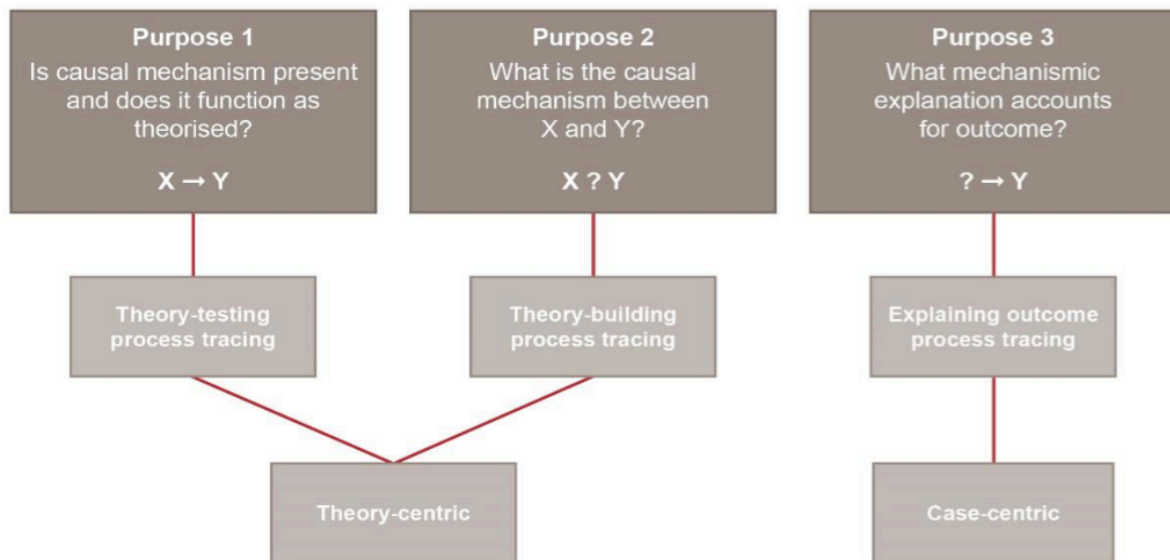


Figure 5-2: The Different Variants of Process-Tracing

Source: Beach and Pedersen (2013:13)

As can be seen from Figure 5-3 the four elements could have a causal effect on the government efforts to achieve economic diversification. However, those variables are not isolated from each other as they are interlinked. Thus, it is important to test whether if one of the variables has an intervention or part intervention as that will also help to identify the cause and the effect.

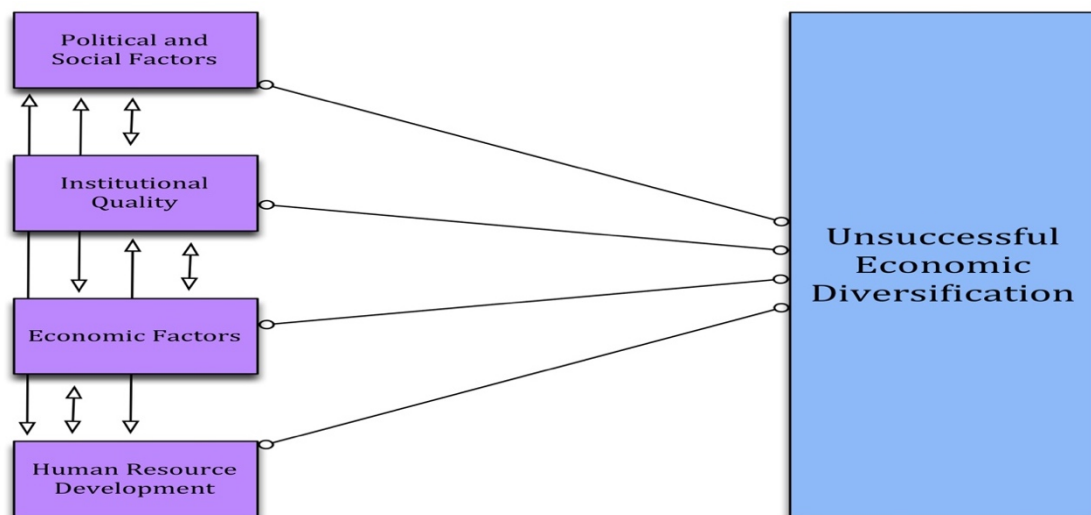


Figure 5-3: The Interlinking/Casual Relationship between the Different Factors

Source: Compiled by the author.

Thematic analysis is used to assess the output of all 41 semi-structured interviews, as well as the two focus groups. The thematic analysis technique helped the researcher identify

the patterns within the transcripts, based on the four main themes, which become the main groups for the analysis. The grouping provided the researcher with a clear description on how to carry out the analysis and also helped to determine what is important to answer the research question (Boyatzis, 1998) without being trapped in the “epistemological vacuum” (Braun & Clarke, 2006:12). Thus, the interview transcripts were coded into four main themes: political and social factors; institutional quality; economic factors; and human resource development. This helped the researcher to organise and describes the data; it also helped to identify any emerging themes that might be embedded in the transcripts. Furthermore, coding the data allowed the researcher to find and isolate the interlinking relationship/causal relationship between the different themes (see Figure 5-3).

According to Boyatzis (1998), the development of the themes and codes must be in a particular order. The first step is the familiarisation with the transcripts and the data as that help to reduce the volume of raw information. The second step is the identification of the main themes and the sub-themes. However, this thesis is based on analysing four different factors and the semi-structured interviews questions been drafted accordingly. Thus, the set of four main themes were allocated during the process. Boyatzis (1998) recommends asking someone else to do a coding sample to ensure the reliability of the coding. The researcher followed that recommendation by asking another researcher to code a sample of the transcript to test the extent of agreement on the themes coding. Furthermore, for more confidence on the reliability the researcher constructed a codebook that included all the main and sub-themes and which highlighted what content would be included in each theme.

The researcher uploaded all the semi-structured interviews and the focus group discussions transcripts into the qualitative data analysis software NVIVO. According to Welsh (2002), “using qualitative data analysis software serves to facilitate an accurate and transparent data analysis process whilst also providing a quick and simple way of counting who said what and when, which in turn, provides a reliable, general picture of the data and its add rigour to qualitative research”. By rereading the transcripts multiple times and coding the text according to the main themes, sub-themes emerged (see Figure 5-4). The main themes and sub-themes were then used to choose extracts that could represent the participants’ views regarding a particular issue or to demonstrate the explanation provided by the participants. Furthermore, the extracts explained how the project/issue was dealt with by the government, or the participants’ opinions regarding individuals/institutions performance. As suggested by

Corden and Sainsbury (2006), the researcher used the text on the empirical chapters to enable the reader to understand what the participants' insights into a matter. However, the quotes used did not include irrelevant material as the objective was to enrich the meaning and, in some cases, provide evidence for the researchers' analysis.

Furthermore, secondary data was used to investigate the participants' views which triangulated the analysis and increased the validity and precision of the research. The official documents collected by the researcher, such as the general budget documents and the FYDPs, were analysed through a textual analysis technique. The concept of textual analysis is related to the content analysis approach, which Stemler (2001:1) defines as "a systematic, replicable technique for compressing many words of text into fewer content categories based on explicit rules of coding". It is an important research tool that allows the researcher to examine the documents that are relevant to the case study. The objective of the technique in this research was to examine those documents comprehensively in order to understand the root causes for the current situation in the Omani economy.



Figure 5-4: The Main Themes and the Sub-themes

5.7 Ethical Considerations

The researcher fulfilled Durham University ethical committee requirements and was granted approval to start the fieldwork. The committee was provided with a copy of the semi-structured interviews questions and a list of the prospective interviewees. In addition, the researcher implemented Rowley's (2012:266) suggestions regarding the semi-structure interviews ethical considerations as following:

- Introducing the identity of the researcher, and the research objectives.
- Explaining the research concepts and theories.
- Indicating the amount of their time that the interview will take.
- Requesting their permission to record the interview.
- Assuring the confidentiality and the anonymity of their identity.

- Assuring them that they will have a summary of the research if they request.
- Exchanging contact details with them, for any future queries.

A similar ethical consideration used in the focus group discussion to the semi-structured interviews.

5.8 Limitations and Difficulties

It is not easy to conduct semi-interviews and focus groups in the context of an authoritarian state, especially if the research focuses on issues that are considered to be sensitive. When the researcher started the fieldwork, the oil producing countries were panicking because of the sharp fall in oil prices from USD110/b in 2014 to USD30/b at the beginning of 2016. As a result, the GCC governments begin to adopt austerity measures, which had an adverse impact on government employment as well as public expenditure. For that reason, even though Oman has a relatively small population and access to interview people is relatively easy, the problem is to convince interviewees to talk freely. Most interviews lasted between one to two hours; however, some interviewees were very helpful, in which case the interviews could last up to four hours. Many scholars (e.g. Aberbach & Rockman, 2002; Creswell, 2003; Kvale, 2006; Rowley, 2012) believe that maintaining the anonymity of the participants can help the researcher conduct more effective interviews. The researcher followed the suggestion and thus codes are used to hide the participants' identity.

Some proposed participants apologised for not attending the interview under the justification they were very busy. Others were transparent, and stated that they did not want to discuss the research because of its very sensitive nature. Some top-level government officials did not attend the interview because they were not "authorised to talk". Five candidates recommended that the researcher should choose a less politically sensitive topic as conducting the research might affect their future career in Oman.

Nevertheless, the researcher used the snowballing method to choose the interviewees. The Omani social context of approaching the respondent through informal networks, such as relatives or friends, turned out to be a more efficient way not only to convince them to attend the interview but also to reveal important information. Thus, it was possible to gain access to top-level government officials despite their busy schedules. In addition, some interviewees did not object to the interview being recorded although three did refuse. However, in all the interviews the researcher could take notes.

Four interviewees stated that they only had a very short time for the interview. They asked to take the interview questions away and send the answers shortly. Although they returned the answers in detail, the researcher was unable to ask any follow-up questions. Moreover, the level of understanding of the interview themes varied across interviewees. For example, the interviewees from an academic background were very well informed about the economic and education factors, but they were not well informed regarding crony capitalism or institutional efficiency. In contrast, interviewees from the business sector and those who have previous experience in the government were more informed about the economy, government performance and crony capitalism.

Furthermore, most interviewees were very transparent in expressing their opinions concerning human resource development, market structure, government performance and rentier mentality. However, there were very careful when discussing crony capitalism in Oman; for example, three interviewees asked for the recorder to be turned off and notes not to be taken when they talked about corruption being practiced by top government officials who are very close friends of the Sultan. Others talked more transparently after the interview was finished. Nevertheless, the researcher assured all interviewees that the main objective of the research is purely academic, and their identity will not be revealed.

The focus groups also involved several challenges. For example, the researcher planned to conduct three focus groups. The first and the second one was planned around a focal point (i.e. an individual) who was interviewed by the researcher previously. The third one was to be created by submitting an official request to conduct a focus group with medium top-level employees in one of the government institutions. The first and second focus groups were conducted according to plan. However, even though the researcher stated at the beginning of the discussion about the importance of the confidentiality, unfortunately, one of the journalists involved Tweeted about the focus group. As a result, and because of the sensitive nature of the topic, authority for the third focus group was declined. In the first focus group, the researcher prepared a translated Arabic summary of the research topic and the discussion points, as well as definitions of the concepts that were to be discussed. Moreover, at the beginning of the discussion the researcher clarified that the research was approved by the research ethics committee at the University of Durham and that the data would only be used for academic research. Nevertheless, several of the participants withdrew at the last minute. Fortunately, the focal point managed to contact replacements. In addition,

at the outset the researcher noticed that some participants were not involved in the discussion until they received confirmation that their names would not be revealed. This approach helped to relax the atmosphere throughout the discussion.

The other limitation was related to the language and transcription, as the interviews and focus group was conducted in Arabic. To mitigate this issue, the researcher coordinated with expert translators to help in the translation process of the comments and the specific meaning of some of the concepts. The transcription was conducted in three steps: first, after each interview the researcher revised the recordings and match them to the notes taken during the interview. Then with the use of notes, the researcher started the transcription process in Arabic. Finally, a translation of the transcripts was rendered into English. The problem with the translation was that some of the concepts have a very sensitive meaning when they are translated from English to Arabic, especially crony capitalism, Dutch disease and political elite corruption. This was why it was very important to implement the pilot interviews to ensure the interview questions would not trigger any negative reaction from the interviewees.

Chapter 6 Economic Factors

6.1 Introduction

This thesis analyses the factors behind the unsuccessful economic diversification efforts in Oman by using the resource curse hypotheses as a framework while focusing on four specific set of barriers: economic factors; institutional factors; human resource development factors; and political and social factors. This chapter and the following two chapters provide the empirical findings of this research. This chapter focuses on the economic elements that hinder Oman's ability to achieve economic diversification.

The analysis is based on the process tracing method by using thematic analysis of the semi-structured interviews and focus groups conducted in Oman and the UK which included top level decision-makers from the government, members of the legislative chambers (*Majlis* Oman), private sector businesspeople, journalists, officials from NGOs, and academics. The chapter explores the interviewee's insights about the questions related to the economic factors. The questions focus on the Omani economy structure in general, the symptoms of Dutch disease in the Omani economy, and the performance of the private sector and government. The analysis tests to what extent the Omani economy was affected by the Dutch disease. It also investigates if oil price volatility poses an obstacle towards achieving economic diversification or policy implementation. Furthermore, the chapter analyses the limited participation of the private sector in the economy, and the impact of monetary policy and the fixed exchange rate on the ability of the manufacturing sector to grow.

The literature review suggests four main elements under the umbrella of the economic factors, namely Dutch disease, oil price volatility, exchange rate impact and private sector performance. Accordingly, this chapter is divided into seven sections. The first section provides an overview of Oman's economic structure. The following section evaluates the existence of the Dutch disease. The third section analyses the impact of oil prices instability. The following section analyses the impact of government intervention, while the last two sections evaluate the impact of clandestine trade and private sector performance.

6.2 Omani Economic Structure

This section offers an overview of the economic structure after the discovery of oil, which provided the government with the means to develop a modern economy (Al-Fazari, 2006). The transformation that took place clearly highlights that dichotomy provided in the literature

of oil dependency being either a blessing or curse is not the case in Oman. This is highlighted by one government official:

The oil revenues for Oman could be seen as a blessing and as a curse. As a blessing because without such revenues the government would not be able to create such development all over the country. As a curse, because the government is continuously dependent on oil revenues and could not achieve a real economic diversification. Right now the Omani economy is still a point resource economy which is a huge problem (GOI14, 2016).

Moreover, as predicted by resource curse theory, the oil revenues had an adverse impact on other economic sectors, despite the creation of sectors such as gas-related industries which presently account for around 15% of GDP. However, most industries are directly or indirectly related to the hydrocarbon sector because they rely on subsidized energy. These include energy-intensive ones such as iron and aluminium smelters, and petrochemicals, which use oil and gas as a feedstock. As indicated by a government official:

We do not have independent industries ... the government investment in the traditional economic sectors such as agriculture and fisheries was not productive (GOI13, 2016).

The resource curse theory's main argument is that the oil-dependent state finds it difficult to mitigate its dependency on oil revenues. The theory predicts that oil dependency can only be prevented through the implementation of microeconomic policies which totally reform the economy (Karl, 1997). An *Majlis* Oman member indicated the depth of the oil dependency's impact as:

No matter how many plans we put in place to overcome the dependency on oil not much has been achieved (MO1, 2016).

6.2.1 Diversifying Government Revenues

According to the literature, one of the main tools to reduce the dependency on a particular commodity is through the creation of an accommodative taxation system. A comprehensive and flexible taxation system would allow the state to move gradually from being the major actor in the economy to focus solely on the regulating and monitoring responsibilities (Okruhlik, 1999). However, the Omani government used tax exemptions to encourage stronger participation of the private sector in the economy. Nonetheless, many interviewees indicated that the approach was not effective. Instead of providing the government with different sources of revenues, it resulted in the loss of successful companies through the privatisation process. Furthermore, the government did not manage to maximise its tax returns from the government-owned companies (GOC). Thus, one government official stated:

The government decided to lower the tax rate before the privatisation process of the telecommunication company from 15% to 7%, and they justified it as encouraging investors to buy the stocks. However, it was short sighted in my opinion as the company is doing well and even with the 15% tax that investors will still enjoy a high return. This is one face of the resource curse as the government was not actively looking for another income resources away from oil. Moreover, all the efforts are not optimised properly (GOI4, 2016).

Furthermore, there was limited progress in expanding the contribution of agriculture and fisheries sectors. In addition, other economic sectors, such as mining and quarrying, which is usually considered as equivalent to the hydrocarbon sector, were not established so that their capacity could be enhanced. In Oman, the mining sector has not been regulated similarly to the hydrocarbon sector as described by a government official:

The mining sector in Oman as with other non-oil tradable sectors suffers from major problems such as the lack of planning and the lack of adequate management. There is no accountability or audit to check the real quantities being produced by that company which has resulted in a massive abuse of the natural resources. The natural resources should be re-evaluated, and that is not only limited to the natural resources (GOI3, 2016).

In contrast, oil export revenues can have a positive impact on the non-oil tradable sectors in the short run. However, in the long term, oil dependency has negative consequences on those sectors. A participant from the private sector indicated the different implications of the oil dependency as following:

If we are talking about long-term impact, yes it has negative consequences. However, in the short term, the existence of the oil revenues had allowed the agriculture and fisheries sector to develop for a brief period from 1970 till 1980. As the availability of the funds enabled the government to enhance the productivity in those sectors by providing machineries and modern boats equipped with engines to replace their traditional wooden boats (BI5, 2016).

Most interviewees indicated that the oil revenues provided the government with massive funds that enabled the state to develop the economy. This included new job opportunities with better financial rewards than were available in the traditional sectors of agriculture and fisheries.

Figure 6-1 highlights that 80% of the respondents believe that oil revenues had an adverse impact on these sectors. Similarly, 57% of the respondents believe that the oil revenues had a negative impact on the small and medium industries (see Figure 6-2). Such findings are not a surprise as the weak development of the non-oil sectors were highlighted

by government officials and Vision 2020 (MONE, 1995). One could argue that the FYDPs should have provided the opportunity to expand other sectors. That goal could be achieved through enhancing the productivity of the traditional sectors by providing modern training for the workers, equipping them with modern technology and implementing more scientific methods in the production processes.

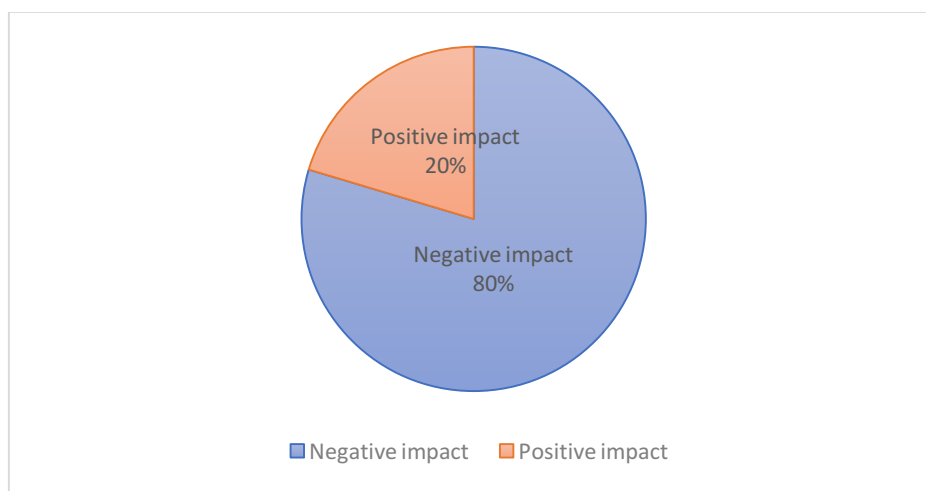


Figure 6-1: Respondent's Opinions on Oil Revenue's Impact on Agriculture and Fisheries

Source: Compiled by the author.

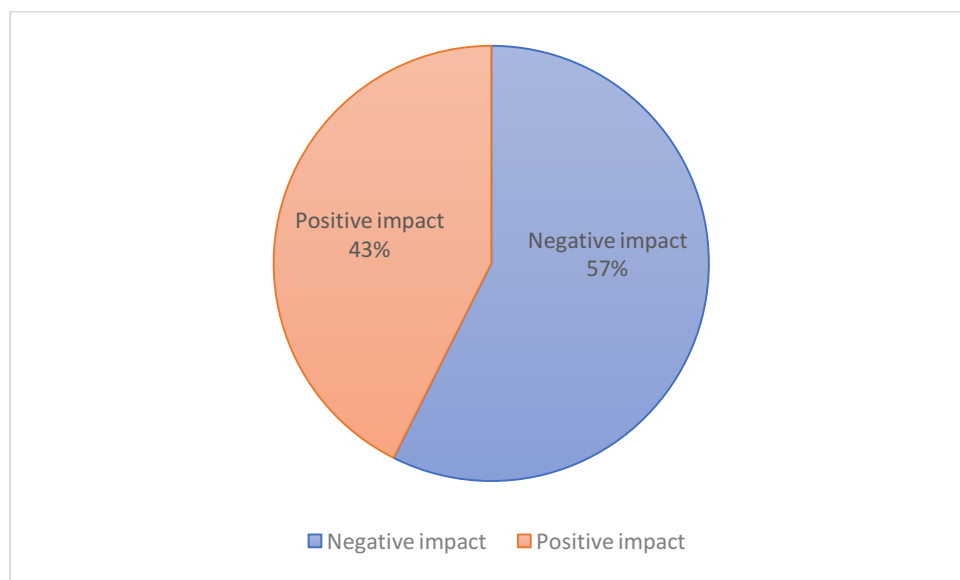


Figure 6-2: Respondent's Opinion on Oil Revenue's Impact on the Non-oil SMEs

Source: Compiled by the author.

6.2.1.1 Issues Related to Diversifying Government Revenues

One of the main arguments regarding diversifying government revenues is through transferring some of the oil revenues into a sovereign wealth fund. Such a tool is working perfectly in Norway, for example (Holden, 2013). The sovereign wealth funds' main role is to accumulate and manage wisely the state's wealth generated from oil exports. In fact, the Omani government was among the first countries in the region to establish the State General Reserve Fund (SGRF) in 1980 (SGRF, 2017). Accordingly, the SGRF has two main duties; the first is to invest the budget surplus for the future generations. The second duty is to finance the critical needs of the government during low oil price cycles (SGRF, 2017). However, most participants pointed out to that the government budget deficit in Oman is an indicator of the inefficient government performance as the government regularly increases actual expenditure above the planned level. Such behaviour is a reflection of the weak fiscal role in the governance system. Figure 6-3 demonstrates the difference between planned and actual expenditure in each of the FYDPs, with the biggest difference in the 7th FYDP as the government raised spending to counteract the social unrest. According to interviewed *Majlis* Oman member:

There was a big difference between the planned spending and the actual spending as the latter was much higher than the former. That reflected there were no guidelines for government expenditure; it is just that if you have massive funds then you must use them all. That reflects the absence of monetary and fiscal policy. The existence of a proper fiscal rule would help the government to create the regulatory base for the expenditure (MO2, 2016).

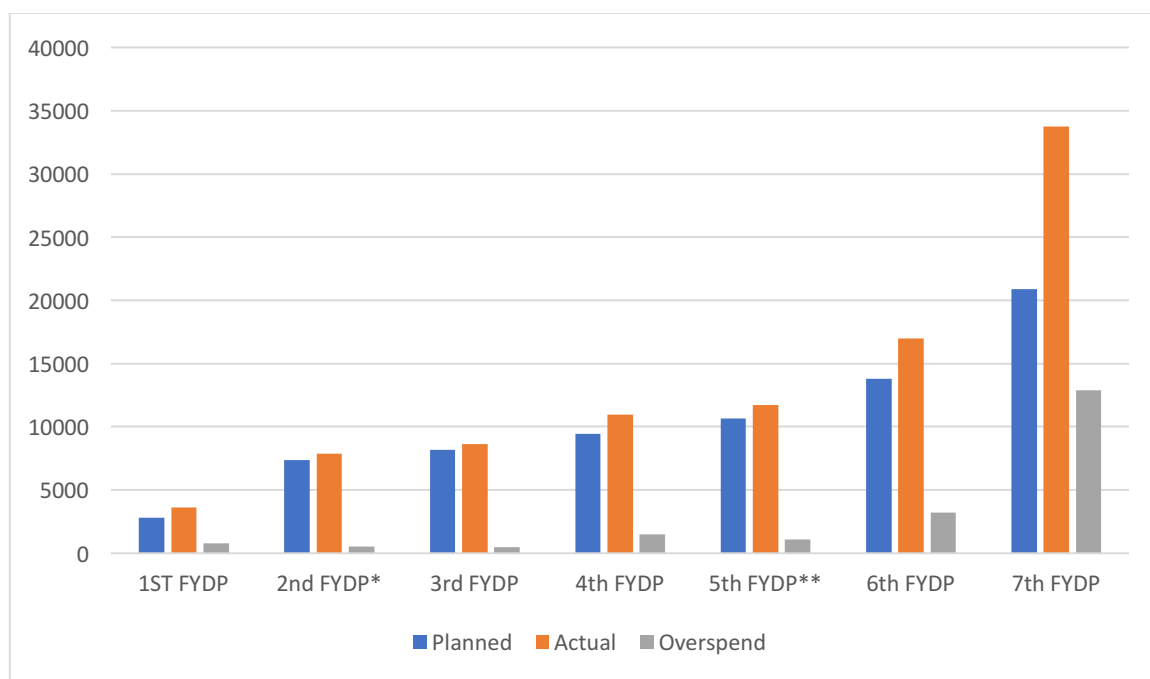


Figure 6-3: Expenditure Behaviour in the FYDPs.

Source: Compiled by the author the data obtained from TDC (1976, 1981, 1986, 1991), MONE (1997, 2006) and FAERC (2011)

*: Oil prices fell from USD28/b to USD8/b, before recovering to USD30/b by the end of the plan.

** : Oil prices fell from USD39/b to USD16/b, before recovering to USD40/b by the end of the plan.

The other tool that has been used in Oman to expand the government revenues scope, was through creating a strategic location by building a new multi-purpose city. Duqm was a small fishing village with a population of less than 500 inhabitants. In 2005, the government decided to transform it into a strategic port, including a free zone, an industrial estate, oil refinery, dry dock, logistic facilities, fisheries industries, a massive oil storage facility and tourism hub. The first project was the port and the dry dock, associated with the building of the airport. The total land space allocated for the Duqm Special Economic Zone is 2000 km² (SEZAD, 2017). In 2011, the government created a new government body that would be responsible for the newly created economic zone. Royal Decree 119/2011 announced the creation of Duqm Special Economic Zone Authority (SEZAD), which was to be one of the main economic diversification tools in the country. SEZAD was to be the hub for different economic activities to enhance employment opportunities for Omanis. To overcome any bureaucratic and administrative challenges SEZAD was granted a direct affiliation to the Council of Ministers in order to make it easy to collaborate with other government bodies.

The government was aware of some of the economic diversification obstacles. To minimise any institutional or administrative issues the Royal Decree expanded SEZAD's responsibilities so that it would not be limited to act as a regulator but it would also work as a business promoter, enabler and facilitator. The Decree allowed the SEZAD to provide very generous incentives to the investors such as:

- tax exemptions;
- long term lease with reduced rates;
- no restrictions on the foreign ownership and no minimum capital requirements;
- no employment restrictions;
- duty-free statues and no custom duties;
- very easy access to the exemptions and residence permits;
- one stop shop for registration, licensing and business approvals; and
- all government-owned companies would be allowed to work in the economic zone with exemptions from the tender law (SEZAD, 2017).

In addition, Royal Decree 79/2013 granted SEZAD the power to issue any necessary licenses and permits, such as tourist projects, environmental permits, customs and duties and the manpower. With such legal power SEZAD should be able to attract foreign investment much easier than any other areas in Oman. However, the FDI inflow to the zone has not been as high as expected, with the low oil price from 2015 curtailing the government's ability to finance some of the projects in the pipeline.

According to interviewed government official (GOI12, 2016) SEZAD is an exception as the government granted Duqm the necessary authority to enable them not to be restrained by government bureaucracy. Without such clear-cut authority, Duqm project might not be able to achieve its goals, particularly the ability to attract the required local and international investment. However, the policy has not overcome the overlap in duties and responsibilities.

Even though Duqm being given such authority, they are still facing problems with some ministers as they try to force their intervention by using the law. And to get rid of that we managed to ask the Sultan to issue a new law that give Duqm authority over the other regional laws. We faced big problems to regulate lands issues in Duqm. Can you imagine one person given 90,000 m² land in a prime location and claiming that the land was inherited from his grandfather as it was camel pasture (GOI12, 2016).

However, it seems that the obstacles are not limited to the regulations but are also related to the private sector. According to interviewed government official (GOI13, 2016) the private sector participation in Duqm projects is limited which could be attributed to the perceived belief that such projects require long periods before they are profitable. However, Duqm has started to attract investment from around the globe, despite limited participation from the big eight families' business groups.

6.2.2 Indicators of Inappropriate Economic Performance

All respondents acknowledged that oil revenues were a blessing as they provided the government with the means to enhance living standards. However, they recognised that the wealth had an adverse impact on the economic structure by weakening productivity levels in other sectors. Moreover, some respondents highlighted the use of inappropriate economic performance indicators. For example, in 2008 the World Bank Development Forum considered Oman as one of 30 countries that achieved constant economic growth in the post-war era based on the measure of GDP growth. Oman was the only Arab country included (Spence, 2008). However, performance indicators such as total productivity factor, which measures economic efficiency, paint a less positive picture. According to Al-Saqri (2010),

total productivity factor for Oman (1971-2007) was minus 60%, which reflects a persistent dependence on oil income, and a weak economic performance. However, most respondents highlight that decision-makers in Oman might not understand the core problem. The positive GDP growth rate is due to the increased oil output, as well as the increase in the global oil price. The use of inappropriate economic performance indicators could be a factor that affects the government policies towards economic diversification, as described by a government official.

We are being deceived by our data. It is a worrying truth (GOI16, 2016).

Furthermore, another interviewee highlighted that the economic performance measurement dilemma is misleading. For example, low oil prices in a particular period means that the non-oil sector's share in the GDP increases. However, the output may not have increased, merely that the value of the oil sector's contribution has fallen. Furthermore, one government official emphasised that the hydrocarbon-related industries classification in the balance sheet could be a further problem:

In the national balance sheet, the government have two sets of sectors the oil sector and the non-oil sector. However, under the non-oil sector, we have the industries which most of them are using gas, or they are using electricity, and both of which are subsidised so it should be under the oil sector. In reality, everything is related to the oil directly or indirectly (GOI15, 2016).

The use of clear and transparent performance indicators should be the cornerstone for the implementation of any strategy. As is demonstrated in this section, the decision makers in Oman appear to be misled by the data. The use of inappropriate positive economic indicators could be attributed to the fact that the decision-making process in Oman is vertical, which means that the belief in positive economic indicators reduces the drive towards economic diversification. In this context, the next part discusses government behaviours towards economic diversification.

Most interviewees acknowledged the importance of the economic diversification for three reasons. The first reason is that without economic diversification the state is not be able to sustain positive GDP growth beyond the short term. The second is that given oil price fluctuations and long periods of low oil prices the state may not be able to sustain its current expenditure or to maintain standards of living. Finally, the dependency on a depleting resource can pose a critical threat to future growth rates and hence the stability of the state. Furthermore, several interviewees believe that it is the state's responsibility to create a diversified economy. However, one government official stated:

Unfortunately, there is no consistency in the government planning. We have no economic identity for the country. They could do it if they followed Vision 2020 but they did not do it (GOI7, 2016).

In general, all the interviewees agreed that the Omani economy suffers from structural problems. Those problems are related to the accountability measures and the overall economic management style. A participant from the private sector summarises the main issues regarding economic management as:

The current economic governance in Oman is not based on a deep understanding of the economy as it is more a kind of financial management. To be able to run the economy in the right way you must have clear KPIs, clear plans and strategy, and you must be able to check and evaluate periodically how much will you achieve, what were your achievements and what sort of challenges you face. This is unfortunately not the case in Oman (BI8, 2016).

An academic adds:

The agricultural and fisheries sectors suffered throughout the last 40 years as it has not had adequate support from the government; also, it did not get sufficient investment to sustain its growth. The government concentrated on the development of other sectors such as the oil and small industries. The government attempted to create a strong private sector; however, we have the opposite results, and created a sector that is highly dependent on government expenditure (AI3, 2016).

This section provides an overview of the Omani economy. The oil discovery in Oman had an adverse impact on the non-oil tradable sectors, such as agriculture and manufacturing (see Figure 6-4). The manufacturing sector recorded growth from 2000. However, this was because of the gas-related industries such as the natural gas liquefaction plant that started operations in 2000 (Alhajri, 2010), rather than non-hydrocarbon industries. Furthermore, as predicted by resource curse theory, the oil revenues had a positive influence on the development of the non-tradable sector, such as services (see Figure 6-4).

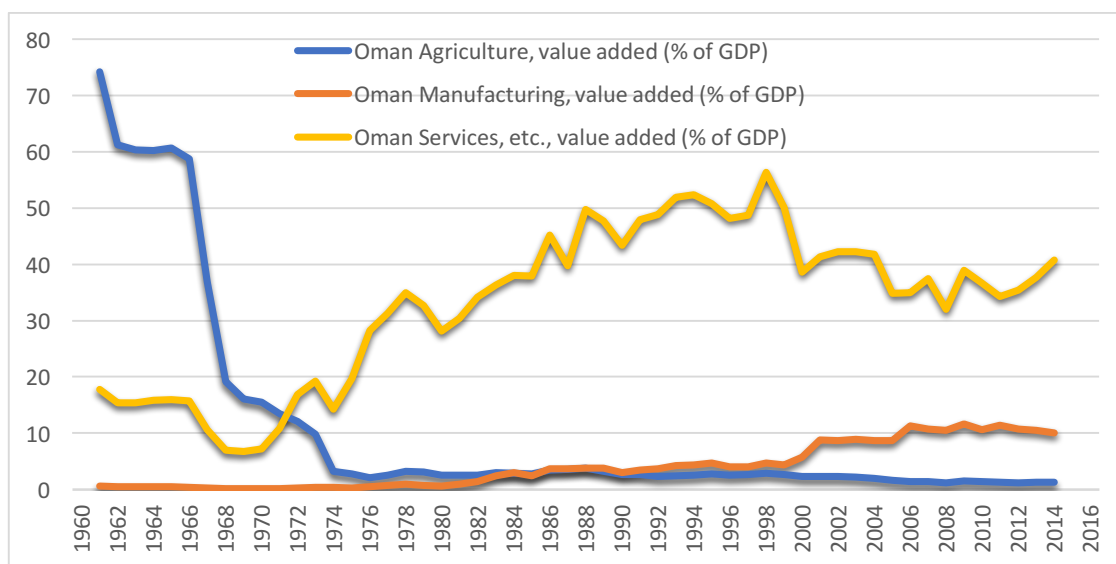


Figure 6-4: Economic Sectors Value-added as a Percentage of GDP

Source: Compiled by the author from data obtained from The World Bank (2016)

The following section analyses the Dutch disease symptoms in the Omani economy in order to understand the weak development of the non-oil tradable sectors.

6.3 Dutch Disease

This section addresses the impact of the Dutch disease on the ability of the state to achieve economic diversification. However, this thesis argues that the traditional Dutch disease symptoms are not fully reflected in the GCC economies. As demonstrated in Chapter 4, there are fundamental differences between the impact of the discovery of gas in The Netherlands and the impact of oil revenues in the GCC countries, because of the different political, social and economic structures before the discoveries. Dutch disease theory is based on three assumptions. The first is the existence of a non-oil tradable sector that exports prior to the discovery of oil. The second is that because of the massive development of the new oil sector, the exchange rate of the currency appreciates which curtails non-oil exports. The third is related to the workforce crowding out effect from the other economic sectors to the oil sector.

6.3.1 Dutch Disease Symptoms in the Omani Economy

As predicted by this thesis, most of the interviewees acknowledged the differences between the impact of the oil discovery on a developed economy such as The Netherlands and underdeveloped economy such as Oman. However, some of the Dutch disease symptoms could match those experienced in Oman between 1970 and 1980 (MO2, 2016). Additionally, a government official confirmed:

Dutch disease symptoms and causes does not totally match the situation in our countries. We do have some symptoms such as the foreign labour inflow to the country and the weakening of the other economic sectors (GOI6, 2016).

6.3.2 Workforce Crowding Out

One symptom of the Dutch disease is the workforce crowding out effect from the tradable sectors to the newly developed oil sector. However, this thesis argues that this symptom is not reflected in Oman. In fact, the employment opportunities in the oil sector are low as it is capital intensive, which reduces the crowding effect of the Dutch disease. Furthermore, in relation to the traditional economic sectors, most interviewees indicate that the workforce crowding out from those sectors to the other sectors might not be directly to the impact of the discovery of oil. The workforce crowding out was a secondary outcome as state building provided employment opportunities with better financial incentives. The GCC crowding effect is the transfer of jobs into the public sector rather than the oil sector, which is a vital difference between this thesis's argument and the traditional Dutch disease theory. The better incentives in the public sector encouraged workers in agriculture and fisheries to move to the newly formed government entities. This was highlighted by a government official who stated:

Agriculture in Oman used to be a dominant pillar in the pre-oil economy, and it was the main recruitment sector. However, in 1970 the establishment of the modern state resulted in labour absorption, so most farmers left their farms to work in the newly developed public sector as clerical workers, teachers or in the army (GOI8, 2016).

This statement confirms the roots of the rentier mentality in Oman. However, the rational choice for any individual is to work in an environment that provides better financial incentives with less physical demands. Although the government invested in the development of agriculture and fisheries, the strategy did not halt the workforce crowding out effect. A government official described this situation:

The new generations are not interested in the agriculture as it is not as rewarding as working for the government (GOI4, 2016).

Accordingly, the national workforce in the agriculture and fisheries sector was, to a large extent, replaced by expats. Furthermore, this resulted in a deterioration in the efficiency in those sectors, as highlighted by a private sector interviewee:

The agricultural sector starts to be less productive through time, which was associated with less attention from the government to keep this sector as productive as it used to be in the past (BI5, 2016).

Furthermore, all the GCC countries face a similar workforce dilemma of growing expat workers, while there is growing national unemployment (Coury & Dave, 2009). This is a clear indication that Dutch disease symptoms of workforce crowding out are not present in the GCC countries, especially when it related to employment in the new sector (the oil industry) (Hertog, 2010b). Accordingly, this thesis argues that the GCC states suffer from a different form of disease. This argument is supported by a focus group participant from the private sector:

We are not suffering from the traditional symptoms of Dutch disease. Because of the availability of cheap foreign labour in those countries. The oil income did not increase the salaries in the private sector. The Dutch disease might not be the factor that hinders the economic diversification in all the GCC countries. In my opinion, it is the labour regulation; more precisely the nationalisation of employment, alongside, the lack of a skilled workforce and the inefficient public sector and bureaucracy (FPS2, 2016).

This section demonstrates that the workforce crowding out effect from the traditionally economic sectors was not to the newly developed oil sector. In fact, the workforce crowding out to the public sector was the indirect impact of the oil revenues being received by the government. Furthermore, only 11% of the workforce in the private sector are nationals (see Figure 6-5). Thus, two key conclusions can be drawn. First, the government is the main employer of Omanis, which is typically the case in other rentier states (Levins, 2013). The second is that the private sector suffers from a structural distortion that makes it less attractive for the national workforce (Benchiba, Savenius, Mogielnicki, Owens, et al., 2016). The distortion in the private sector can also be attributed to the clandestine trade (see Section 6.7 of this chapter). The next section illustrates on the second symptom of the Dutch disease which is related to the weak development of the non-oil tradable sector, or more precisely the manufacturing sector.

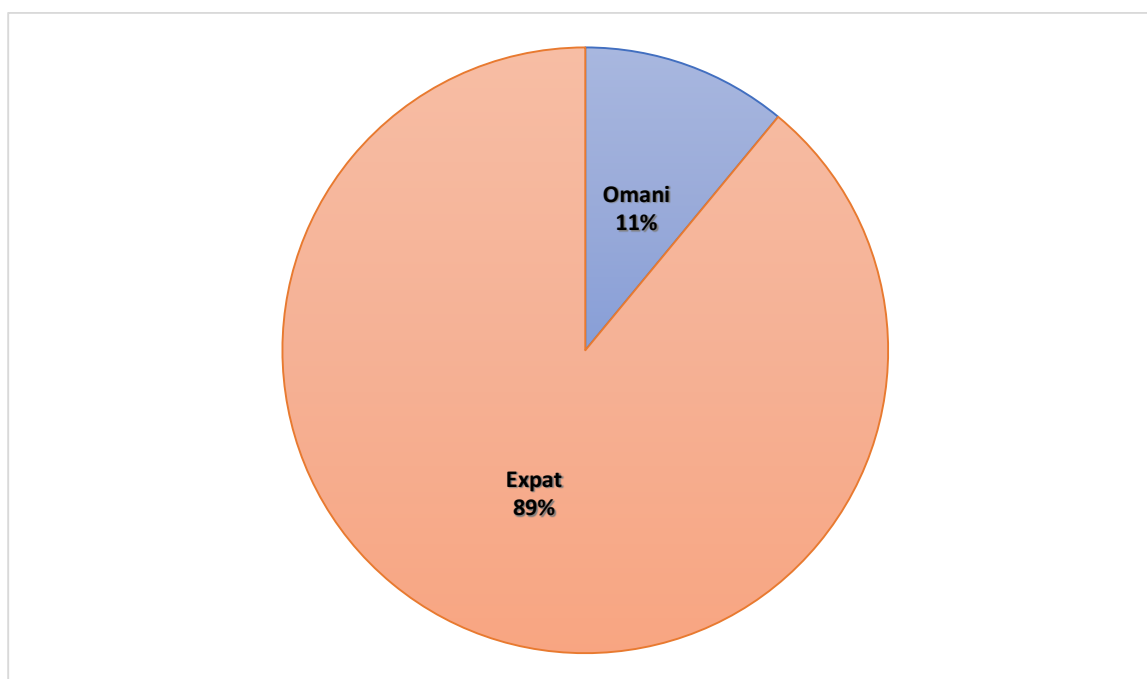


Figure 6-5: Breakdown of the Private Sector Workforce in Oman

Source: Compiled by the author the data was obtained from NCSI (2016c).

6.3.3 Manufacturing Sector Performance

The second symptom of the Dutch disease is the collapse of the manufacturing sector because of two main factors; the workforce crowding out from the manufacturing sector and the appreciation of the exchange rate which makes imported goods cheaper than locally-produced goods. However, the Dutch disease theory assumes the presence of an exporting manufacturing sector before the discovery of oil, which is not the case in Oman. Nevertheless, two interlinked economic problems evolved after the oil discovery in Oman. The first issue was the relative increase in domestic product prices compared with imported goods. The second symptom is the appreciation of the exchange rate. Both the elements had an adverse impact on the development of the local manufacturing sector. Unless the government provides incentives, this makes it less attractive to the investors in comparison to the non-oil non-tradable sectors, such as real estate and financial services. According to an Omani academic:

The massive oil revenues resulted in the currency appreciation which results in weakening the competitiveness of the economy ... the imported commodity prices start to become relatively cheap especially with the development of the logistics sector (BI9, 2016).

Moreover, the oil sector is highly competitive and the added value is much higher than other economic sectors. For example, the production cost of oil is in the range of

USD10/b to USD30/b but it can be sold without any processing for USD40/b to USD50/b. However, it is more related to the competitiveness of other sectors in comparison with the oil sector. This argument was indicated by many interviewees, including a journalist.

If a government decides to diversify the economy by involving other sectors, those sectors must be more competitive and more productive. Whether that sector is providing work opportunities with very high incentives or helping knowledge transformation, the other sectors, such as tourism, agriculture and fisheries, services and any other sector, find it tough to compete with the oil sector (JI4, 2016).

Also, a government official clarifies the reasons behind the limited development in those sectors as:

The slow growth in the traditional sectors, such as agriculture and fisheries, could be easily attributed to the mismanagement. Add to that the transformation of the society from being a productive society to a rentier society (GOI14, 2016).

In summary, this section demonstrates that the weak development of the non-oil tradable sector, mainly the manufacturing sector cannot be attributed to the exchange rate appreciation. Government subsidies provided to the manufacturing sector could reduce the cost associated with the exchange rate appreciation. These subsidies were not limited to soft loans but included feedstock and energy with much lower prices than the international market (MOF, 2016a). Arguably, the manufacturing sector in Oman reflects the overall private sector performance. The next section analyses the exchange-rate appreciation on the overall economic performance.

6.3.4 Exchange Rate Appreciation

The third symptom of the Dutch disease is the exchange rate appreciation as result of the massive revenues from the oil exports. In this context, the main argument of the participants was related to the exchange rate of Omani Rial being pegged to the US dollar. An appreciation of the exchange rate curtails the volume of exports, which become relatively more expensive on the international stage. The movement in the real exchange rate is the channel that connects the national currency to the foreign currencies, other than the currency of the peg. Though the national currency is pegged to the US dollar, the exchange rate of the national currency to other currencies is set by market forces. Therefore, the impact of the appreciation/depreciation in the real exchange rate is passed through to the process of producing goods and services in the local economy. Hence, periods of a strong US dollar in the foreign exchange markets might, partially at least, harm the competitiveness of Omani products in the international markets. Conducting a quantitative test for a such impact is not

straightforward. Moreover, the development of the non-tradable sectors was much higher than the development of non-oil tradable sectors as the oil and gas revenues were received by the government and then directed to the economy through the government expenditure. According to a focus group participant from an NGO:

In Oman, we export oil to the international market, and the income which the government received is utilised in government spending whether it is for salaries or infrastructure development or the service sectors. This kind of expenditure would have a spillover effect in other economic sectors such as the construction sector. In conclusion, I do not think we have Dutch disease in the Omani economy (FNGO1, 2016).

The interviewees did not consider the exchange rate impact on the economic diversification to be important. This could be because the exchange rate is a technical tool that links developments in the international market with the development of the national market. The main task of the exchange rate is to reflect the credibility of the national currency in relation to foreign trade. Importantly, the exchange rate in Oman benefitted the government as its major export is oil which is sold in US dollars. The following statement by a private sector focus group participant summarises the majority of interviewee's opinions about the exchange rate impact in Oman.

For sure we benefit right now from such exchange-rate model because we are exporting only one product, but if we expand our industrial sector then such exchange rate model might not work for us (FPS3, 2016).

The growth of the non-oil non-tradable sector, such as construction and financial services, in Oman was associated with government spending.¹⁷ However, it had a negative impact on the development of the manufacturing sector in particular and the non-oil tradable sectors in general. Accordingly, such an economic structure makes imported goods more attractive as they become relatively cheaper because of the exchange rate appreciation. At the same time, it is difficult for the local manufactures to export their products as the international market determines the commodities prices.

In summary, it can be concluded that the unsuccessful economic diversification in Oman cannot be attributed to the Dutch disease effects. The main Dutch disease hypotheses assumes a negative impact on the existent tradable sectors which is not the case in Oman. The discovery of oil in Oman (and other GCC countries) was associated with other economic

¹⁷ The extra revenues from oil exports increases the demand for non-tradable (e.g. services and construction) sectors at the expense the tradable sectors. The shift from industrial based sectors to non-tradable sectors results in "indirect-deindustrialization" (Corden, 1984:360).

problems. For example, the workforce crowding out in Oman was to the newly developed government bodies, and they were replaced in the private sector by expats. Furthermore, one could argue that the fixed exchange rate regime could be the only rational choice for the oil-dependent countries as they are mainly exporting oil. Such findings contradict previous studies regarding the impact of Dutch disease as the main economic factor hindering the state's ability to diversify the economy from its dependency on natural resources. Accordingly, the next section assesses the impact of oil price volatility on economic diversification policies.

6.4 Oil Price Instability

Resource curse highlights the impact of the resource price fluctuations as one of the obstacles that hinders the state's ability to achieve better economic performance. Since 1970 international oil prices have been through four major price cycles. This section analyses the interviewees' perceptions regarding oil price volatility on Oman's ability to achieve economic diversification. As demonstrated in Chapter Two oil price fluctuations directly impact on the state's ability to implement its economic strategies and policies. Paradoxically, oil price booms also have an adverse impact, as a state tends to expand its expenditure to such an extent that it is not able to sustain the level of expenditure during a period of low oil prices.

Most participants believed that oil price fluctuations have an adverse impact on the state's ability to execute different projects. However, according to one academic:

The main obstacle towards economic diversification in Oman could be attributed to the lack of concentration rather than the effect of oil price volatility. The oil price volatility could be one of the major elements that might affect the implementation of the development plans which include the diversification efforts. It is a procyclical behaviour in the business cycle. The economic activities are associated with oil prices so when we have a high oil prices we have a very active economy but we will have a very slow growth when the oil prices are low to the extent there could be a recession, and that could be a clear evidence of the lack of the institution efficiency in Oman (AI2, 2016).

In contrast, some interviewees argued that oil price volatility is not necessarily negative. For example, in low oil price cycles the government actively engages in economic reforms to reduce their expenditure and to enhance the domestic added value in the economy. However, as soon as the prices start to rise, most of the reforms are overwritten and government spending rises. This was emphasised by a government official.

I would argue the opposite as the oil price volatility could be taken as a wake-up call for the government. In 1986, in 1996 and in 2008, the economy went through five crises. We did not learn much from those situations because the oil price started to recover very fast and I believe the government thought that those prices do not have a long-term effect, so we did not do much to protect the economy from future crisis. The current situation is different as this crisis is very deep to the extent that the government does not know what to do (GOI9, 2016).

Furthermore, the short length of the low oil price cycles raises the levels of confidence among the decision-makers. According to one government official:

The availability of such massive funds might have an influence and raised confidence in the government that there is no need to search for other sources of income (GOI5, 2016).

Overall, the participants highlight two main issues regarding oil price volatility. The first is the government has not learnt from previous oil price falls that it should create a sustainable model for economic development. Second, even though the government initiated expenditure reforms during the low oil price cycles, the measures were lifted gradually as oil prices recovered. The relatively short period of low oil price cycles has had a limited effect on the decision-makers' attitude towards the importance of economic reform. In contrast, countries such as Norway initiated countermeasures including the creation of sovereign wealth fund which act as a safeguard against oil price fluctuations. Oman established a sovereign wealth fund to accumulate budget surpluses which were to be invested abroad. However, the government did not follow this rational, as during high oil price cycles it expanded its expenditure over the planned levels rather than transferring the extra funds to the sovereign wealth fund (see Figure 6-6). Robinson et al. (2006) and Mehlum et al. (2006) suggest that governments that do not have high levels of transparency and accountability tend to expand expenditure in different ways; for example, by increasing public sector employment and salaries or through subsidies which enhance the leaders' popularity. This argument is examined more closely in Chapter Eight as it is related to the political and social factors.

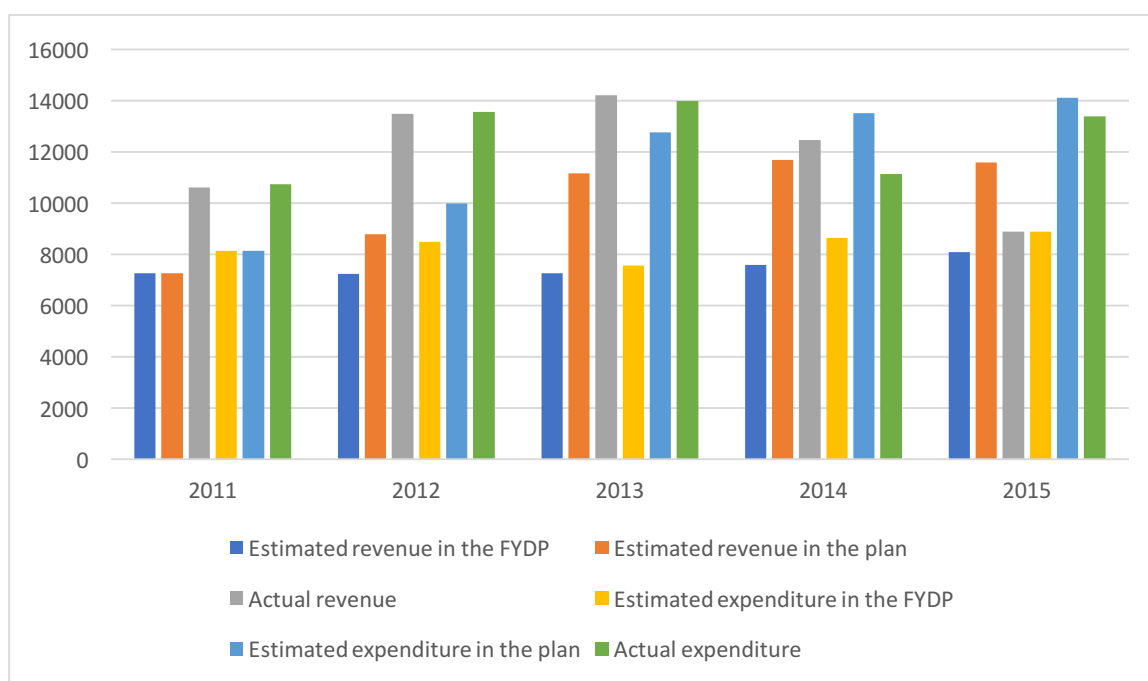


Figure 6-6: Expenditure Behaviour in the 8th FYDP

Source: Compiled by the author with data obtained from (MOF, 2016b).

6.5 Government as the Main Actor in the Economy

This section assesses the claim that high levels of government intervention in the economy is one of the economic factors that hinders the state's ability to achieve economic diversification. This aspect is not considered by the resource curse hypotheses. However, one of the semi-structured interview questions is related to the role of the government as the biggest spender and the ultimate employer in the economy and how this impacts economic performance. Moreover, throughout the interviews and focus groups, government intervention in the economy was highlighted as one of the elements that hindered Oman's ability to diversify the economy.

High levels of government intervention in the Omani economy can be attributed to two main reasons. The first is related to the overall economic structure and the establishment of the modern state in 1970 as during that era there was no effective private sector, therefore the government substituted for the private sector. In addition, the government encouraged officials to engage in private sector activities alongside the traditional traders. This approach was borne out of necessity but resulted in the private sector being controlled by less than ten families and the advent of crony capitalism (GOI3, 2016; BI4, 2016; BI6, 2016; FGO3, 2016; FGO1, 2016). Furthermore, it also created a private sector that relies heavily on government expenditure. According to a focus group participant from the private sector, the second

reason can be attributed to the private sector's unwillingness to be involved in projects that did not provide a return in the short period, or could be seen as risky.

After 1990 there was no shift and no change in that stream. In reality, if the government had initiated a very clear system based on productivity and accountability we could be in a better situation now. Because of that, there is a lack of confidence among the citizens as they do not know what to do in the future. This is a serious security challenge for the country (FPS5, 2016).

However, the government was aware of those two obstacles, and initiated economic policies to encourage the private sector involvement in the economic activities. According to an interviewee from the private sector:

The government was working as a flagship for those sectors. The government usually invested in a particular project and later it will hand it to the private sector (BI5, 2016).

However, the policies to encourage the growth of an independent private sector have not been successful. According to a government official:

At the beginning in 1970 we did not have a proper private sector, now we have a huge private sector, but unfortunately most of its investment is outside Oman. So look at [Anonymised], none of them are willing to invest in Duqm, for example, although we have investments from all over the world in Duqm right now (GOI15, 2016).

Another Omani academic provided a different perspective by arguing that state protection for the private sector makes it unable to compete in the international market and vulnerable if the government cuts its expenditure:

Any sector that grew up with the help of the government subsidies would always remain dependent on those subsidies, and it will be difficult for that sector to be sustained without government help. This will lead to a lack of efficiency and the absence of competitiveness. This was highlighted by the infant industry theory (AI2, 2016).

Many interviewees confirmed the previous statement. For example, a government official highlighted the legal protection which the state provided to the private sector and its impact on its competitiveness as:

The current laws and regulations are protecting those family companies directly or indirectly. They were never exposed to competition from international companies in the local market. That protection did not encourage the private sector to enhance their efficiency and be more active and productive. The government provided such protective laws and regulations for the local companies to strengthen them and give them the opportunity to compete in the international market and to be robust enough to participate in the national economy. Unfortunately, the approach resulted in the creation of a monopolised private sector that is unwilling to take any risk at all. Moreover, to grow just by feeding on government projects. The market

norm is to let the private sector compete, as competition would make it stronger (GOI7, 2016).

In summary, 57% of the participants believe that government intervention in certain sectors had a positive impact on the expansion of the private sector (see Figure 6-7). The creation of some projects by the government was deemed to be the only way to encourage the involvement of the private sector. The expansion of any sector, in reality, requires increasing the number of the actors in the sector. The limited development of the private sector in Oman might not be directly attributed to government intervention. As is demonstrated in this section, government intervention in Oman provided the private sector with protection from international competitors. However, unfortunately this policy resulted in weakening the private sector rather than encouraging it to develop. The monopolistic business environment in the private sector has its roots in 1970s. This outcome is elaborated in depth in Chapter eight in the analysis of the political and social factors. The next section discusses the private sector performance as a vehicle to achieve economic diversification.

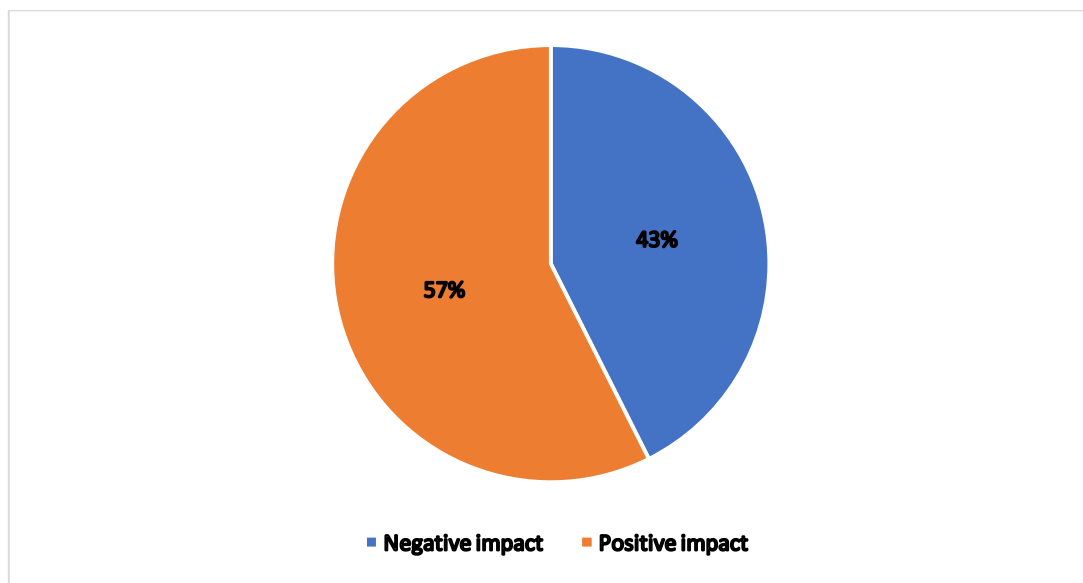


Figure 6-7: Government Intervention Impact on the Private Sector Performance

Source: Compiled by the author from the data been gathered from the participants.

6.6 Private Sector Performance

The previous section highlights the main elements of government intervention in the economy. As demonstrated government intervention in relation to the private sector was not limited to the legal and regulatory spheres, but also included the active promotion of private sector through partnerships, access to projects, subsidies and incentives. The expansion of the

private sector role in the economy was one of the main goals of each FYDP since 1986. However, the majority of private sector activities became concentrated in the non-tradable sectors such as construction, wholesale and retail services, and financial services, alongside oil and gas operations.

In this context, this section analyses the interviewees' perceptions regarding the private sector's performance. The growth of the private sector is crucial towards diversifying from Oman's oil dependency. Furthermore, the expansion of the private sector, especially in the non-oil tradable sectors, can strength the economy and act as a safeguard during low oil price cycles. Additionally, by establishing strong private sector, new employment opportunities can be created. As a result, the government would no longer be the major actor in the economy and would not be the main employer. According to a government official:

The government managed to empower the private sector; however, the private sector in Oman is still not able to be involved in big projects or to invest in projects that require a long time to produce profit (GOI6, 2016).

Most interviewees acknowledged that the private sector in Oman is weak and unable to play a full role in the economy. Participants highlighted three main issues: the oligopolistic structure of the private sector; the private sector is focused solely on government-related contracts; and a weak legal and regulatory environment.

In terms of the oligopolistic structure of the private sector, the private sector is controlled and dominated by limited number of families owned companies. Thus, the private sector in Oman is family-oriented rather than institutionally-structured. Furthermore, the families have an informal mutual understanding that enables each family to specialise in a particular sector, while having smaller entities in other areas. For example, during a question session in the *Shura* Council the Minister of Health stated that more than 80% of the medical supplies fall under the monopoly of one company.¹⁸ As a result, growth in the sector has been constrained. Furthermore, the positive spill over effect is narrow as the profits benefit only a very small number of people. According to an academic:

The government efforts to empower the private sector to involve it in the development process through direct contracts and subsidies was always under the umbrella of rentierism and crony capitalism. That had resulted in the creation of a private sector through the unstable base. The sector becomes inefficient and is highly dependent on government projects (AI2, 2016).

¹⁸ The Minister of Health hearing session in the *Al-Shura* Council, 27/4/2016.

Furthermore, a participant from the private sector explains the private sector setup as:

The private sector is dominated by a small group who adopt monopolistic practices. Such practices make it difficult for newcomers to enter the market and also to expand the private sector (BI2, 2016).

Most interviewees believed that the oligopolistic and monopolistic behaviour in the private sector is a major obstacle to its expansion. For example, a focus group participant from the private sector stated:

In the last 45 years, the government has supported oligopolistic practices in the private sector, and have given all possible support to less than ten family-business groups to control the market. It will be very difficult for any newcomer to penetrate their control. Small and medium enterprises have no access to financial facilities from the banks without heavy guarantees. If the young entrepreneurs did not sustain their projects, then they would be jailed because they could not pay back the loans. Clearly, there is no protection for the small and medium enterprises in Oman. On the other hand, the big family companies own or at least have a big share in the banks so access to financial facilities is not a concern and they will be protected if they could not pay back the loan (FPS2, 2016).

In addition, a participant from the private sector highlighted the relationship between the private sector and the decision-makers as:

In the last 45 years, I have seen ordinary citizens from normal families become multi-millionaires just because they are close to the policy makers and know how to benefit from it. Even the trader families who are not connected to any official position manage to create bridges with the decision-makers to the extent they start to function as part of the government (BI9, 2016).

The monopolistic practice in the private sector is not limited to the control over particular products or services. According to many interviewees, the high cost of government projects can be attributed to the absence of competition among private sector companies. Most participants believe that government contracts are secured through an unwritten understanding amongst private sector companies. The understanding indicates which project a company can win and therefore other companies tender too high so as not to win. One government official provided an example of this practice:

The private sector in Oman reached high levels of greediness that could be attributed to a conflict of interest and corruption. For example, the government announced a local tender for one projects and the lowest bid was OMR185 million which was clearly over-priced by the bidders. Accordingly, the government put out the tender again internationally. It was not a surprise that the highest bid was OMR83 million. There are loopholes in the system that are not regulated precisely and used by rent-seekers (GOI9 2016).

Furthermore, the government has provided generous financial incentives to the private sector. The incentives can be in the form of soft loans, the provision of land for projects or tax exemptions. Moreover, the government established different financial entities that target small and medium enterprises. The main idea behind the initiatives was to increase the number of nationals involved in the private sector and reduce the recruitment pressure on the public sector. Nevertheless, most interviewees indicated that the current private sector environment makes it difficult for any newcomer to establish a business because of the presence of monopolies. The situation was described by one person from the private sector as:

It seems the government finds itself in a position where it must choose between keeping those oligarchs in power or starting to establish a real private sector which is based on small and medium enterprises. The government initiated a OMR70 million fund to finance the small and medium enterprises. The problem is that those oligarchs started to establish their own small and medium enterprises which compete with other newly created small and medium enterprises. For example, [Anonymised] owns one of the biggest resorts in the country right now. A to Z of the suppliers to that resort are small and medium companies owned by [Anonymised] (BI9, 2016).

This occurs despite the fact that in 1983 the Omani government was among the first governments in the region to draft a conflict of interest law. However, the law has not been implemented or enforced. It is clear that without proper governance legislation that should work as a safeguard against such practices, the impact would be severe. The cost of the projects can be exaggerated as the local companies enjoy the state protection from the international competitors. The effects of such behaviour would not be limited to the cost of the project only, but furthermore, it reflects a negative image about the business environment in the country. Accordingly, the foreign direct investment can be negatively affected by such practices.

The second reason for the weak private sector put forward by the participants is the fact that the private sector is focused solely on government-related contracts. Ninety three percent of the participants believe that the private sector in Oman is dependent on the government expenditure (see Figure 6-8). This dependency makes the private sector vulnerable to government cutbacks during low oil price cycles. Thus, the private sector cannot support the economy during low oil price cycles. Indeed, the relationship means that during low oil price cycles when the government curtails spending, the private sector also contracts, thus creating a negative spiral for the economy.

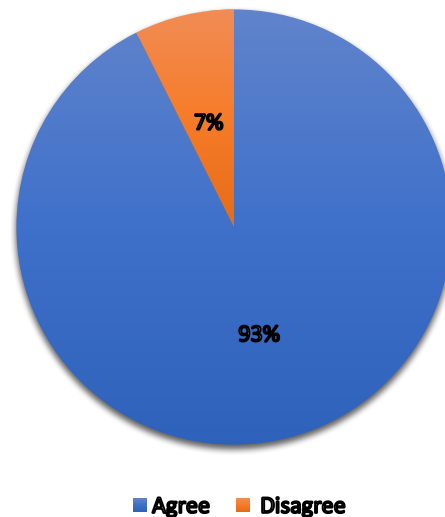


Figure 6-8: The Private Sector in Oman is Dependent on Government Expenditure

Source: Compiled by the author.

The third reason is related to the weak legal and regulatory aspects which did not provide a strong base to enable the private sector to move away from the control of the oligopolies and therefore grow (GOI6, 2016).

Previous studies indicate the importance of a strong private sector in economic diversification (Abukumail et al., 2016; Lienert, 2009; Albassam, 2015; Ross et al., 2011). However, as demonstrated in this section the private sector in Omani is not able to play such role because of the chronic weaknesses in the sector. Nevertheless, arguably factors that act as obstacles to diversification might not necessarily be related to the economic structure. Other factors that affect economic diversification include governance levels and the existence of counter corruption legal framework, while the next section highlights the impact of clandestine trade.

6.7 Clandestine Trade

This thesis contributes to the literature by identifying a new element, clandestine trade which emerged during the interviews and focus groups, to the economic factors highlighted by the resource curse. Clandestine trade can be defined as the situation whereby citizenship becomes a financial asset by which to secure business permits, franchises or access to subsidies and soft loans. Importantly, clandestine trade is not limited to Oman but exists in all the GCC

countries. This can be attributed to the protection offered by the governments to encourage their citizens to become involved in the private sector.

However, most interviewees highlighted the negative impact of this phenomenon on the private sector's involvement in the economy. Business permits allow expats to run the business in exchange for a certain amount to be paid to the permit/license holder.¹⁹ In addition, franchising is used to boost clandestine trade, as highlighted by an interviewed academic:

One family company managed to secure franchises for more than 80 products they do nothing, but at the end of the year they get 20% of the profit that is also clandestine trade (AI1, 2016).

Furthermore, the subsidies and soft loans scheme offered by the government were described by a government official as:

The Omani citizen could secure a business permit and a soft loan, he might know nothing about the business. Obviously, the company will end up in the hands of the expat who does have the know-how but does not have the legal cover to secure such business permit. Unfortunately, such practices were not limited to the craft sector but also in other sectors like the mining permits where the Omani would hand the mining permit to an expat in exchange for a small payment at the end of each year (GOI10, 2016).

Another aspect that encourages clandestine trade is the weak regulation which allows citizens who are employed in the public sector to secure business permits despite already holding a full-time job. As a result, the business has to be managed by someone else. Thus, according to a *Majlis* Oman member:

In my opinion, there is no private sector in Oman. As we could have businesses owned by nationals but in reality the operations are by expats. There is no real input in the economy from that sector (MO5, 2016).

Another Focus group participant from academia added:

There are no clear regulations which clarify who can obtain such permits. The situation now is that anyone can get a business permit even if he is a government employee and has no time to run the business (FGO2, 2016).

Some interviewees indicated that the current licensing procedures resulted in an increase in negative commercial practices. The authorisation procedure prohibits non-Omanis

¹⁹ The literature is increasingly discussing the 'Kafala (sponsorship) system' through which an expat becomes beholden to the Omani citizen who sponsor his/her visa. Accordingly, the sponsorship system can be considered as one facet of the clandestine trade. Furthermore, expat worker trafficking can also be considered part of clandestine trade.

from securing business licenses/permits unless it is in partnership with an Omani citizen. This practice can be used to ensure illegal gains, according to a private sector participant.

It could also be used for tax evasion purposes as according to the law a company that makes less than OMR30,000 profit it is exempt from tax so they could distribute the profit through different companies to use this loophole (BI7, 2016).

The business environment has been affected negatively as clandestine trade is associated with issues such as a decline in the quality of services, the dominance of a particular nationality over certain sectors and unfair competition with Omanis

In summary, clandestine trade clearly has a negative impact on the private sector performance, as well as on the economy in general. The effects of the phenomena may explain the unbalanced labour market in which there is a high growth in Omani unemployment but a high growth in the inflows of expats. As illustrated in this section, the lack of a strong legal and regulatory framework are behind the clandestine trade. This creates other problems in the private sector environment such as unfair competition between the expats who are running the business on behalf of Omanis and new entrants into the market who are unemployed young nationals searching for a better opportunity. For example, according to NCSI (2016a), 44% of the national workforce in the private sector have higher education qualifications in comparison to 6.5% of expats. However, 62% of Omanis employed in the private sector receive less than OMR500 per month (see Figure 6-9). That could be attributed to the unfair competition posed by expat managers, because encouraging Omanis to develop their careers ultimately jeopardises the positions of the expats. Furthermore, one of the main insights of this thesis reveals is the illegal use of clandestine trade to evade taxation; in other words, such practices hinders state revenue diversification.

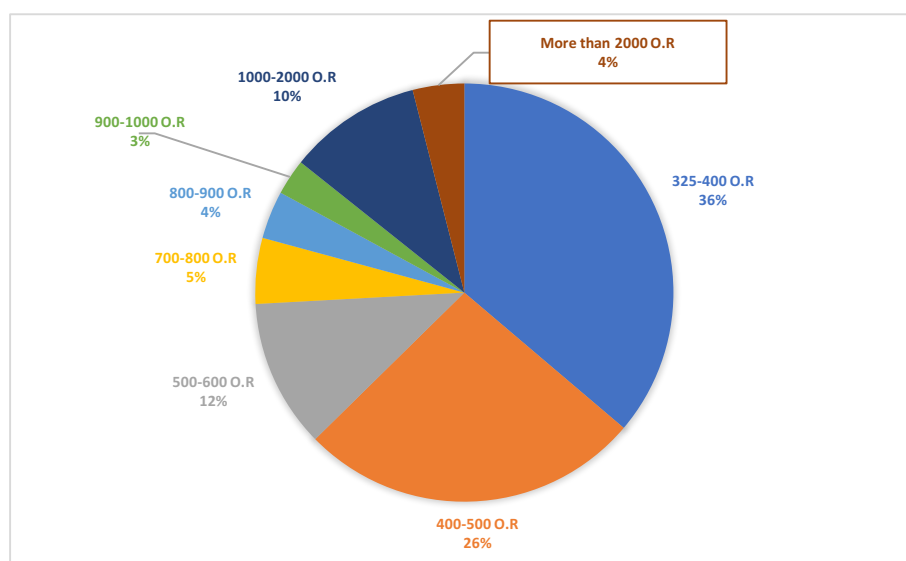


Figure 6-9: National Workforce in the Private Sector by Wage

Source: Compiled by the author with data was obtained from NCSI (2016a)

6.8 Conclusion

This chapter provides an in-depth analysis of the economic factor as a channel of the resource curse that impedes economic diversification in Oman. The oil revenues have provided the state with the means to develop the infrastructure of the country. However, the massive revenues have distorted the economic structure including the labour market. As suggested by the resource curse theory, the economic factors such as the Dutch disease and the oil price volatility are key reasons behind the state's inability to diversify the economy. In contrast, although the Dutch disease hypotheses predicts that the exchange rate appreciation and the crowding out effect of the workforce from the other economic sectors to the newly developed public sector and the flourishing non-tradable sectors are behind the limited development of the tradable sectors. However, as demonstrated by the participants, the Dutch disease symptoms are not fully evident in Oman.

Similarly, oil price volatility is not believed by the participants to be an influential factor in blocking economic diversification. In fact, most interviewees indicated that oil price volatility is a driver for reform policies rather than the opposite. Furthermore, the question triggered by many of the interviewees was, why has the government not learnt from the previous oil prices crises? This thesis argues that the answer is related to the decision-makers' lack of belief in the importance of the economy diversification. For example, in 1986 when oil prices were weak the government initiated expenditure reform measures; however, as soon as the oil price started to rise the measures were abolished.

The chapter highlights two of economic diversification tools being used by the government. The first was the creation of the SGRF which was intended to utilise surpluses from oil revenues by investing the funds for future generations and to support the government deficit during the low oil prices cycles. The second example was the creation of a new multipurpose city to utilise the strategic location of the country. In both examples the mismanagement, lack of consistency, and the overlapping duties have affected negatively those economic diversification tools.

In addition, this chapter analyses the role of the government as the main actor in the economy which to a large extent is a model of economic statism.²⁰ However, economic statism in Oman is subtly different. In 1970, there was a dearth of state institutions. The need to create a modern state structure resulted in the government being responsible not only for the creation of a public sector but also for kick-starting a private sector. Since 1970, government has provided a limited number of top-level officials with the financial means to establish private sector companies. However, over time the officials have been transformed into oligarchs as they have the financial means and the political support needed to expand their businesses. This has resulted in the creation of an oligopolistic environment in the private sector which limited the expansion of the sector through competition from other enterprises. The relationship between capital and political influence is recognised in the literature as part of the resource curse channels.

In summary, the economic factor as a channel for the unsuccessful diversification policies in Oman did not match the resource curse hypothesis. In this context, the political and social environment has had a greater impact on the economy environment than the impact of oil price volatility or the Dutch disease. Issues such as a lack of accountability, the absence of checks and balance measures, inconsistent decision-making, individualism and lack of a strong regulatory environment were repeatedly raised by the interviewees. In conclusion, the economic factors are the result of other factors, such as the lack of human resource development, institutional inefficiency and social and political factors. This finding supports the main argument of the thesis that the unsuccessful economic diversification is not the result of the economic channels alone. Accordingly, the next chapter investigates the human resource development deficiencies as another obstacle towards economic diversification in Oman.

²⁰ Economic statism occurs when “the state intervenes extensively in the development process” (Lewis, 1994:438).

Chapter 7 Human Resource Development

7.1 Introduction

This chapter analyses the second of the four factors that impede Oman's ability to achieve sustainable economic development without a dependency on oil; human resource development. The importance of human resource development is highlighted in most economic development literature, as human resources are the cornerstone of any development strategy (Al-Lamki, 2000; Daniele, 2011; Manning, 2004; Pineda & Rodríguez, 2010). The literature concludes that achieving sustainable economic development requires educated, trained and skilled human resources (Bravo-Ortega & Gregorio, 2007; UNDP, 2003; Wadho, 2014).

Decision makers in Oman have been aware of the importance of human resource development since 1970. This has been a goal in each of the FYDPs and also regularly features in Sultan Qaboos's speeches. For example, in a speech on the occasion of the second National Day on 18 November 1972, he stated:

Education is my great concern, and I saw that it was necessary to direct efforts to spread education. We have given the Ministry of Education the opportunity and supplied it with our capabilities to break the chains of ignorance. Schools have been opened regardless; the important thing is that there should be education, even under the shadow of trees (cited in MOI, 2015:19).

Similarly, in his speech at the Vision 2020 Conference in 1995, he argued:

Development is not a goal in itself. Rather, it exists for building man [sic], who is its means and producer. Therefore, development must not stop at the achievement of a diversified economy. It must go beyond that and contribute to the formation of the citizen who is capable of taking part in the process of progress and comprehensive development (cited in Al-Lamki, 2000:4).

As discussed in Chapter Two, there has been an impressive improvement in the indicators associated with human development in Oman, and especially in combination with healthcare services and literacy ratios (MONE, 2012). Many factors, however, have prevented the country from benefiting fully from such improvements. These factors include the economic structure, the dominant role of the state and the rentier environment. Therefore, it is not surprising that the country is now facing negative consequences of the missed opportunity on human resource development, such as the relatively limited participation of its citizens in the private sector (Hazim, 2003:139). As a result, in recent years, the government introduced various initiatives to deal with the challenges facing human resource development. One of the main initiatives was the 'Omanisation Strategy' that commenced in

1988 (MONE, 1995). In 2014, the government announced its *Human Resource Development Strategy, 2040*, which aims to deal with many problems, but mainly focuses on reducing the gap between the output of the education system and the private sector demands for the workforce (EC, 2014:12).

The availability of funds from oil exports has helped the government to initiate large-scale development programmes that focus on improving the infrastructure. However, the labour market demonstrates a chronic distortion. For example, the government has been asserting in each FYDP the importance of Omani employment in the private sector. The government has attempted to implement its plans toward larger participation of citizens in the private sector through two dimensions. The first dimension is through the expansion of the private sector, and attracting more foreign companies to operate in the country. The second dimension is through attempts to encourage more citizens to apply for jobs in the private sector. However, the reality is somewhat different. The expat population in 2003 was around 450,000, but by December 2016 had jumped to around 2 million, which accounts for more than 45% of the total population (NCSI, 2016c). Figure 7-1 highlights labour market participation in the private sector by nationality in 2011 and 2013. The growth of expat workers from India, Bangladesh, Pakistan and other nationalities is shown to be much higher than the growth of Oman's citizens joining the private sector. These outcomes could be the result of a distortion in world labour markets, but also suggest that there are specific issues in labour market development in Oman.

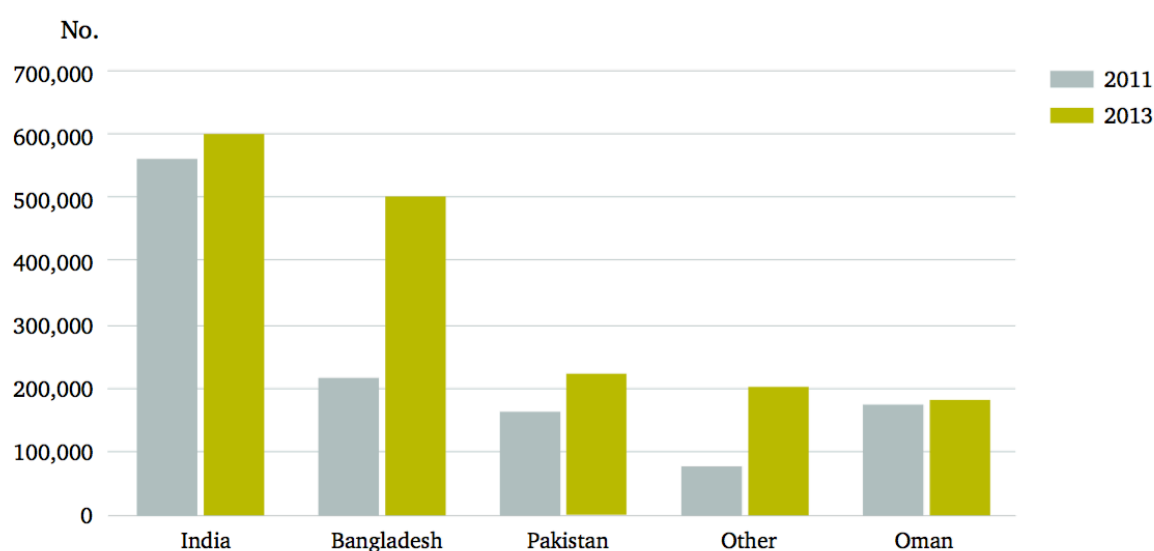


Figure 7-1: Private Sector Labour Market Participation by Nationality, 2011 and 2013

Source: Ennis and Al-Jamali, (2014:13).

As discussed previously, rentier state characteristics are apparent in Oman with the government being the main employer and the use of employment in the public sector being the primary method of wealth distribution. According to NCSI (NCSI, 2016a), around 48% of the total domestic labour force work in the public sector, but only 12.7% in the private sector. Public sector employment in this context is behind the development of a rentier mentality, which affects productivity levels because of the absence of performance measures in the public sector. Furthermore, because of the increasing social tensions linked with the wider Arab Spring, in 2011, the government announced the creation of 50,000 new jobs in the public sector, which resulted in the transfer of more than 6% of Omanis from the private to the public sector. In turn, this led to sharply falling Omanisation levels in the private sector (see Figure 7-2). Furthermore, according to Al Harithy (2013), the increasing numbers of young graduates mean that the state will not be able to sustain this type of recruitment strategy, and the only option is to encourage young graduates to work in the private sector.

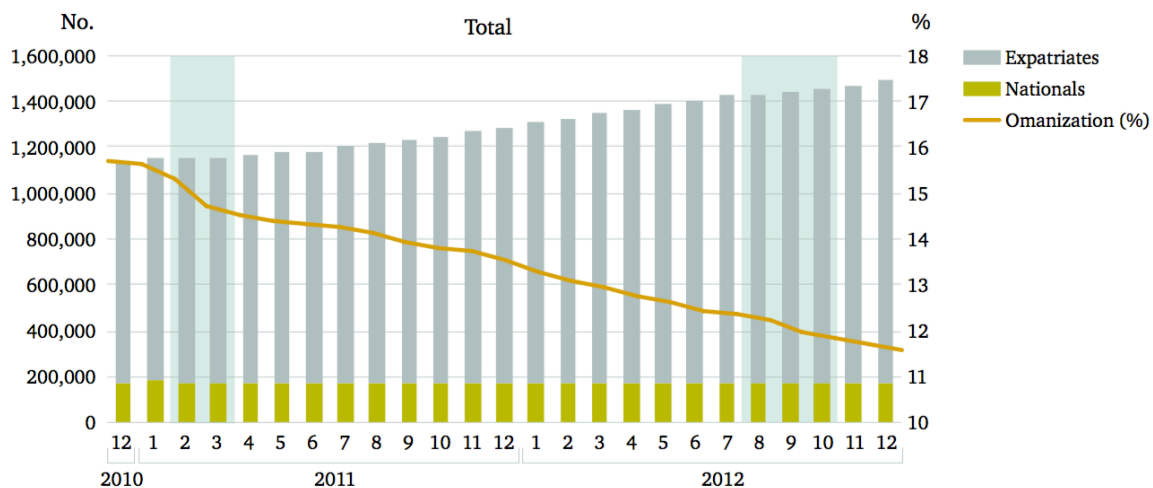


Figure 7-2: Omanisation in the Private Sector, 2010 to 2012

Source: Ennis and Al-Jamali, (2014:12)

In addition to the rentier mentality which reduces the motivation to obtain employment in the private sector, there are other challenges in the labour market. One of which is related to the mismatch between demand and supply of skilled workforce (EC, 2014:88). In order to narrow this gap the labour market needs to work more closely with education institutions. This approach is normally absent in rentier states which is partly due to financial differences, job security and status that is often associated with public sector employment but not usually with the private sector.

In order to analyse the participants' views on the impact of human resource development on economic diversification policies, this chapter is divided into five further sections. The first section provides an overview of the importance of education in achieving economic diversification and the performance of the Omani education system. Section two assesses the labour market structure on the implementation of economic diversification strategies. Section three evaluates the labour market environment in Oman, Omani participation in the private sector and obstacles that prevent Omanisation in the private sector. Section four analyses the importance of research and development (R&D) in transforming the oil-based economy to a knowledge-based economy. The section also analyses the R&D environment in Oman and highlights the main challenges that face its expansion. The final section summarises the main findings of the chapter.

7.2 Human Resource Development

This section provides an analysis of the impact of educational policy on human resource development. The importance of human resource development in achieving economic diversification requires a strong understanding levels of education and knowledge needed by the private sector labour market (Hazim, 2003; Sajwani, 1997). More Omanis employed in the private sector would not only help to expand the private sector and decrease remittance outflows, but ease the economic pressure on the government that is currently the main employer, and increase productivity levels in both the private and the public sectors.

Employment is a critical issue in Oman as there are around 130,000 registered job-seekers, 110,000 registered students in the universities and an expectation that by 2020 around 250,000 to 300,000 will be seeking jobs (NCSI, 2016a). The capacity for recruitment in the public sector has been shrinking in the last few years. Furthermore, during the period between 1970 and 2015, the total number of jobs that the private sector was able to provide for Omanis was only around 207,000 (NCSI, 2016a). The growth rate of Omani unemployment is related to the growth rate of expat workers, and indicates ineffective policies as suggested in an interview with a government official:

We achieved very good overall development in all the aspects as services are available in every corner in the country where you can see schools, healthcare centres, and most of the important services. However, the distortion in the labour market is one of the main problems that could be attributed to the lack of a proper education system. Add to that we have overlap between the government institutions that are responsible for the education (GOI1, 2016).

Although human resource development has been addressed in each FYDP, the eighth FYDP (FAERC, 2011) argued that the economy diversification policies were incompatible with human resource development. Therefore, this has resulted in limited Omani participation in the private sector labour market. The plan highlighted that previous economic diversification policies focused on the expansion of the non-tradable non-oil economic sectors, such as construction, which resulted in an increased demand for a cheap workforce. Thus, the policies, rather than the lack of government expenditure, is the reason behind the weak human resource development, according to a *Majlis* Oman participant:

All the GCC countries are facing a similar problem, which is not only the lack of human development, but also the availability of skilled human sources. In my opinion, it is not an economic problem, and it is not about allocating enough resources for education. As our expenditure in education and healthcare as a percentage was almost similar to other countries (MO2, 2016).

In this context, most participants highlighted the importance of the performance of the education system as a cornerstone in achieving effective human resource development. For example, they suggest that the unsuccessful economic diversification in Oman and in other GCC countries can be attributed to the lack of proper human resource development (GOI13, 2016), which, in turn, is related to the quality of education and the lack of good training opportunities. This relationship is also emphasized in the UNCTAD (2014:13)²¹ report, which concludes that quality of education is an issue of concern, especially regarding the enhancement of technological knowledge and related skills. The mentioned report highlights that even graduates of Sultan Qaboos University, the top university in the country, lack the competencies that are required by the labour market; for example, the curriculum in universities does not contain courses in communication skills, business practices, management skills or business research skills. UNCTAD stresses the importance of improving coordination between the primary and the university levels, and also suggests that universities should focus more on R&D, technology adaptation and innovation.

In addition, the World Bank Enterprise Survey confirms that the observations related to the quality of education reported in the 2003 survey remain the same as in 2014. The main observations reported were:

²¹ The UNCTAD report was conducted in response to a request by the Government of Oman. During visits to the Sultanate of Oman, the team held nearly 100 interviews and meetings with representatives of government agencies, research institutes, universities, trade unions, chambers of commerce, businesses and non-governmental organizations (UNCTAD, 2014).

Labour-related constraints are the most severe for Omani firms. (...) Skill deficiencies, due to foundational reasons or lack of specific proficiencies, could explain the disproportionately lower growth rate and the “structural unemployment” of Omani labour in private sector employment between 2006 and 2014 ... The skill level of the private sector workforce is low and does not add value to the composition of economic activities. The Omani private sector is not benefiting from the large inflow of unskilled expat workers, and Omani workers are not well-trained to assume highly paid positions (Abukumail et al., 2016).

The previous quotes indicate that participants and literature findings identify that one of the major challenges facing human resource development in Oman is the quality of education, which is analysed in detail in the following sections.

7.2.1 Education Quality

Chapter Two explained that prior to the discovery of oil there were only three schools in Oman but by 2016 there were 1,647 (NCSI, 2016d). This was the result of huge government investment as Sultan Qaboos wanted the government to prioritise education as a means by which citizens could improve their living standards. To achieve this goal, the government initiated a large-scale development programme to provide basic education in all regions. According to Buckley and Rynhart (2011), Omani investment in education as a percentage of GDP was higher than the GCC average. This investment in the education system resulted in significant improvement in education participation and lower the illiteracy rates. According to Alsarmi (2014:33), the rationale behind the horizontal education philosophy was to decrease the illiteracy levels in the country as a first step. The second stage was to focus on the quality of education and to provide higher education opportunities. Thus, in 1986 the first university was established. However, the quality of primary education remains below international standards (GOI6, 2016; MOE & WB, 2013).

Most participants acknowledge that the horizontal education philosophy was vitally important for providing equal opportunities in education. However, although the government has allocated appropriate funds to build schools and training institutions, it has failed to prioritise the development of human resources to staff these effectively. Alsarmi (2014:37) confirms that to establish effective large-scale educational institutions the state needs to invest in teacher development programmes. In the case of Oman, the teachers' development programme has mostly targeted students who have not been able to achieve other opportunities. Thus, most participants attribute the deterioration in primary education in Oman to the teacher selection process as it is not based on effective standards (Albalushi,

2014:10). The selection process has resulted in recruiting teachers who are generally not motivated to deliver effective learning, but instead are often motivated only to secure a job (MOE & WB, 2013:126). Teacher selection processes and training have resulted in replacing well-qualified foreign teachers with less-qualified Omani teachers, as indicated by a focus group participant from the government:

In the 1970s and 1980s we had the best teachers in the education system ... people genuinely believed in their message and their duties (FGO3, 2016).

Furthermore, government official interviewee (GOI16, 2016) adds a further point that there have been poor financial incentives for teachers to undertake further professional training.

In addition, the poor quality of primary education has negatively influenced standards in higher education. According to an interview with a political scientist (AI2, 2016), although the government invested large sums in the education system, it has not resulted in improving the quality of performance. The results of a survey by Abukumail et al. (2016) show that the lack of adequately educated citizens was the third most rated obstacle in the business environment constraining the sustainability of companies. This confirms that the horizontal education policy had a negative impact on the quality of higher education. This situation can be described as a circular dilemma. The universities receive students who graduate from a poor quality primary education system, and some of these students then become teachers, which contribute to maintaining the poor quality. This was confirmed by an academic participant:

A government entity published a work opportunity announcement for an Arabic text reviewer. Most of the people who applied for the job were Arabic teachers; however, none of them fulfilled the job requirement and demonstrated a very low knowledge (AI1, 2016).

Due to the poor quality of the educational process, general education students do not have the minimum knowledge required by the universities (Almamary, 2015). According to MOE and WB (2013:152), higher education institutions are forced to establish a foundation year because the students are not sufficiently qualified to study at university, especially in English, information technology, science and mathematics. This was confirmed in an interview with a *Majlis* Oman participant:

SQU initiated a one-year programme that students must go through in order to achieve a particular requirement to start a course. Otherwise they have to continue the qualifying course; for example, out of 1200 students being accepted by one private university only around 20 were qualified to start their courses immediately, and the rest entered the qualifying course for one year. Through that year, only

20% successfully completed qualifying course, and the rest had to take an extra year. Unfortunately, this resulted in universities being forced to lower their teaching standards to be able to deal with these students (MO4, 2016).

Furthermore, students in schools and universities often lack basic skills that are needed to compete for jobs in the increasingly competitive labour market.

One of the issues raised by most participants was the financial incentives gap between teachers and other public sector institutions; for example, students who undertake a four-year teacher training programme graduate with a salary much lower than if they had chosen to enrol in a two-year military training programme. Figure 7-3 highlights the civil service employee distribution by financial grade in Oman. Ministry of Education employees are concentrated at financial grades 4, 5 or 6, but university graduates are recruited at grade 6 level and over time can be promoted subject to the availability of funding. One academic participant (AI1, 2016) suggested that problems in the education system started when the government first established teacher training colleges. Students who could not find a better opportunity enrolled in these colleges. This was a two-year programme,²² and then the graduate was recruited as a teacher without any further training. Furthermore, they received the lowest salaries in the public sector, which contributed to the lowering of educational standards. The main demands of the widespread teachers' protests and strikes that took place 2011 and 2013 were increased salaries and the enhancement of education infrastructure (Aljazeera, 2011; Sky News, 2013). The importance of financial incentives and willingness of students to work as teachers was one of the main issues raised by various participants. For example, a government official argues that:

In other countries like Germany, for example, the teaching is considered as one of the highest paid jobs, and not anyone could be a teacher unless they pass qualification exams to test if they are genuinely willing to teach. In comparison to Oman where the teaching as a job is still the worst in financial incentives. In conclusion, education in Oman was not the top priority in the government agenda, and that results in the outcome we have today (the worst in the region), and for that, we need to have a strategy for education that starts from preschool (GOI2, 2016).

Some participants highlighted the problems related to private higher education institutes, which depend on government scholarships for students as their primary source of

²² The situation changed recently with establishment of teacher training colleges that provide a bachelor degree after four years.

funding. This often results in them accepting too many students which has an adverse effect on the quality of their education. One government official participant comments:

The current higher education institutes in Oman are not producing a quality education as most of the private colleges and universities are seeking profit rather than the quality of education. This had resulted in graduates who do not have the minimum level of soft skills that are required by the labour market (communication, ...). For that reason, the government tried to create an educational strategy that will cover and try to solve the problems in the current education system. That will also mean a restructure of the educational system in Oman to include vocational education. Unfortunately, we do not see that strategy yet (GOI2, 2016).

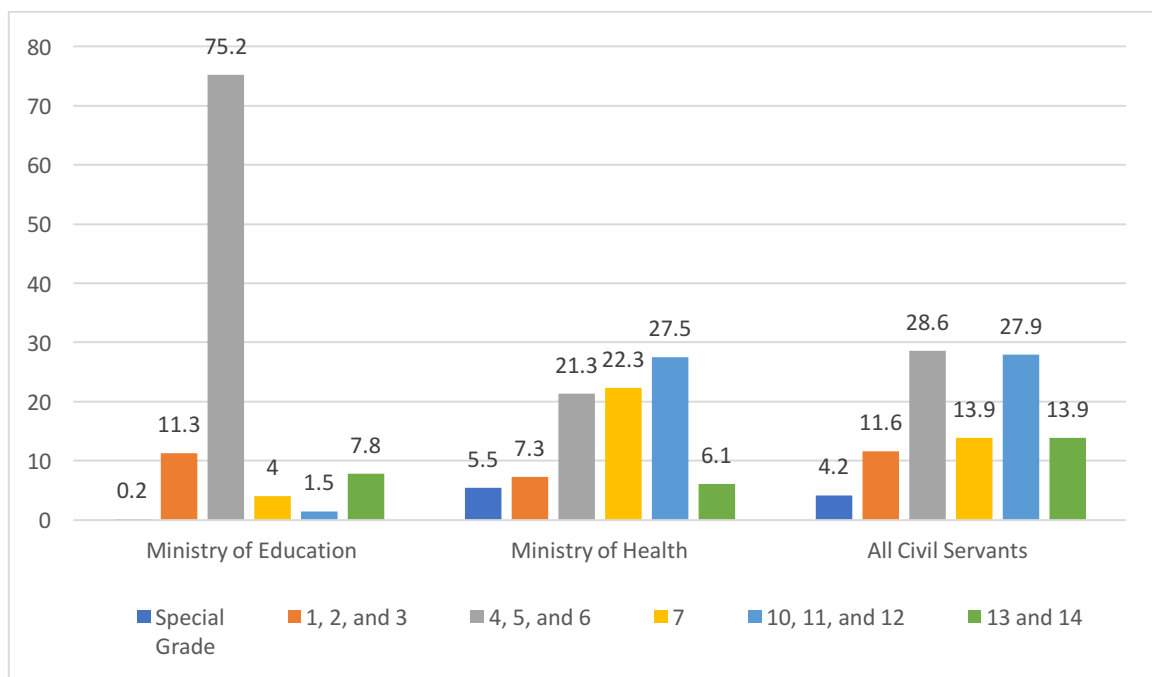


Figure 7-3: % Civil Service Employees Distribution by Financial Grade.

Source: Compiled by the author from data obtained from MONE (2010:104-112).

Although financial incentives and social recognition for the teachers can influence the quality of their performance, human resource development depends on the sustainability of education policies. Therefore, the following section analyses policy constraints hindering the improvement of the education system in Oman.

7.2.2 Education Policy Sustainability

Key factors that affect the implementation of strategies are a lack of coordination and consistency in the strategy. The participants were asked about their views regarding the execution of the human resource development strategy as a subset of the main development strategy in the country. All participants acknowledge the importance of the sustainability of

economic planning, which should include human resource development alongside overall state development. For example, a *Majlis* Oman participant (MO2, 2016) highlights the gap between the annual budget and the implementation of the long-term development plan. Additionally, he identifies the absence of coordination between annual budgets, the FYDPs and Vision 2020.

In addition, many participants identified that the education system in Oman suffers from a structural problem in terms of the government bodies that are responsible for the education system and the overlap of duties between these institutions. For example, the Ministry of Manpower is responsible for vocational training, the Ministry of Education is responsible for general education, and the Ministry of Higher Education is responsible for higher educational establishments. There is one other body, the High Council for Education, which operates under the Royal Court and alongside the Educational Committee in the House of Parliament and an Educational Committee in the State Council. All these bodies draft plans without any coordination. This lack of effective planning is reflected by the low ranking in all international educational measures TIMSS; for example, Ludger (2015)²³ concludes that the education system in Oman was amongst the five lowest ranked countries in the world alongside Morocco, Honduras, South Africa and Ghana. These findings are supported by a *Majlis* Oman participant:

There is no education law or education strategy. The education strategy drafting process started in 2003 and in 2007 the draft was sent to the Cabinet till 2011 when the State Council decided to step in and request that strategy to be handed to the State Council, and since 2011 it is still under draft (MO4, 2016).

In this context, the State Council responds to the public calls for the education system enhancement. In March 2017 the State Council announce that there are critical challenge currently facing education quality as a result of the overlap of responsibilities requires an urgent resolution (TSC, 2017).

The overlapping responsibilities have created a further structural problem in the labour market, whereby the increased growth rate of Omani unemployment is also associated with the increased growth rate of the expat workers (Ennis & Al-Jamali, 2014; Espinoza, 2012; Hertog, 2010b). This issue can be attributed to weaknesses in government institutions

²³ The findings were presented at the World Education Forum in South Korea. The rankings are based on a mixture of international assessments, including the OECD's Pisa tests, the TIMSS tests run by US-based academics and TERCE tests in Latin America, putting developed and developing countries on a single scale.

that are not able to improve performance of education systems; for example, 80% of Omanis employed in the private sector are non-graduates, and 88% of foreign expats are employed in the private sector (NCSI, 2016d). This indicates that the labour market does not require highly skilled employees, because of the structure of the private sector, which mainly consists of the non-oil non-tradable sectors, such as services and construction. In this context, a *Majlis* Oman participant suggests that the state should aim to expand academic education, or concentrate on vocational and technical training:

Right now, we have 110,000 students in the universities. How can the government employ them in the current situation when there is a weak private sector? For that reason, the first step towards human resource development might be the enhancement of the education institutions' performance (MO2, 2016).

Similarly, an academic participant (AI3, 2016) argues that weak education quality can be attributed to mismanagement associated with lack of planning. For example, the government is anxious to provide higher education opportunities for all general education graduates, but the labour market does not require workers with such qualifications. As one government official participant points out, the current education system structure does not work in harmony with labour market demands:

Oman's need to create a layer of semi-skilled graduates that could work and replace the experts in jobs like plumbing or electrical work or even car mechanics (GOI13, 2016).

Other participants (GOI14, 2016; GOI12, 2016) suggest a further reason for the weak human resource development is the lack of accountability, without which it is difficult to impose reforms. For example, it is not possible to fire unproductive employees even when they are a liability to the institution, which contributes to poor productivity.

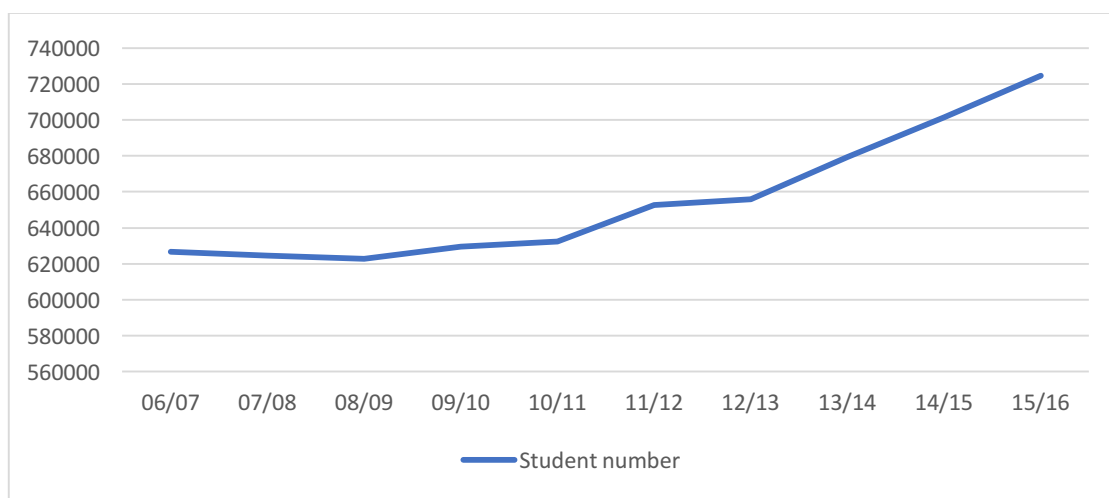


Figure 7-4: The General Education Student Growth from 2006/07

Source: Compiled by the author from data obtained from NCSI (2016c:423-424).

Most participants indicate a lack of coordination between different government entities; for example, the population censuses²⁴ in 1993 and 2003 gave decision-makers the required data regarding demographic growth. However, although the data clearly indicated the required number of teachers to sustain the educational process, Royal Decree No. 62/2007 transformed five colleges of education into colleges of applied sciences (EC, 2016). Figure 7-4 illustrates shows that general education student numbers have increased sharply since 2010/11, which could have been calculated from the 2003 census. Thus, a government official participant states:

The government decided to close most of the teacher colleges under the justification that the Ministry of Education will not require any more teachers for the next seven years. However, before those seven years ends the government discovered that the state needed more than 20,000 new teachers to sustain the general education system. That is evidence of lack of planning in the sector (GOI7, 2016).

The participants also highlighted issues related to the consistency of implementing strategies in terms of the teacher selection process. A focus group participant argues that the lack of coordination between government institutions that are responsible for different aspects of education and financial incentives for teachers (FNGO2, 2016).

7.2.3 Summary of Human Resource Development Findings

Three key findings can be derived regarding the importance of human resource development to achieve economic diversification. The first finding in this section underscores that although the government has created an education system accessible to all citizens, the quality of education was not a top priority for the government, even though the authorities were aware of the importance of human resource development. The second finding identifies that the sustainability and consistency of human resource development depends not only on policies and strategies, but also on the implementation process. In Oman, this process is hindered by too many bodies having responsibility for education, resulting in a lack of coordination in the implementation of policies. The third finding highlights the structural problems in the education system in Oman and the root causes of low quality in the education

²⁴ The census covered subjects such as demographics, education, housing, household, assets, employment, migration, fertility and disability.

processes. Most participants indicate that apart from the lack of effective application of human resource development strategies, there are other contributory factors, such as the lack of accountability and overlapping of duties of different government institutions. In addition, the lack of financial incentives for teachers has negative effects on the quality of teaching processes. These findings are supported by UNCTAD (2014:10), which reports that the education system in Oman focuses on quantity rather than quality. Thus, the education system needs reform with a focus on policies that improve educational outcomes. This report also suggests that the Omanisation policy adopted in the education sector has resulted in replacing foreign teachers with local teachers who do not have the required level of competency or motivation. Additionally, the report also highlights that:

The need to improve basic education in Oman is confirmed by the fact that most tertiary education institutions require their students to take “foundation courses” before beginning undergraduate studies. Piecemeal information from Trends in International Mathematics and Science Study (TIMSS) produced by the International Association for the Evaluation of Educational Achievement (Boston) indicates that Oman performs rather poorly in international education tests (UNCTAD, 2014:10).

In conclusion, ineffective human resource development is related to the quality of education that can be attributed to poor institutional quality. The next section analyses the reasons for the gap between education system outcomes and the private sector demands for its workforce. This thesis argues that this gap between supply and demand in the labour market is not limited to the quality of the education itself, but also includes other aspects that are discussed in the following sections.

7.3 Labour Market Supply and Demand

Another issue raised by the participants about the impact of human resource development in relation to economic diversification is that of the labour market in Oman. According to a Chatham House report (Ennis & Al-Jamali, 2014:18), the Omani government deals with labour market problems by crisis management rather than the implementation of long-term strategies. “Oman is returning to old economic patterns, extending patronage rather than strengthening economic citizenship” (Ennis & Al-Jamali, 2014:18). This section highlights the main issues that hinder citizens participating in the private sector work force: Omanisation, rentier mentality and expat competition.

7.3.1 Omanisation Strategy

The rentier political and economic structure reflects the fact that the government is the main employer in the economy. According to NCSI's recent survey (2015), 95% of jobseekers prefer to work in the public sector, because working in the public sector provides stability and security, promotion opportunities and better financial incentives than the private sector. Thus, three main factors affect individuals' decisions to apply for a specific job, namely: 1) financial incentives; 2) the status associated with the job; and 3) the availability of adequate training. Chapter Two discusses the Omanisation Strategy that started in 1988, which aims to replace expat workers with Omanis in the public and private sectors. However, by 1995 around 80% of the workforce in the public sector were Omanis, and the policy of Omanisation then focused only on the private sector labour market. Figure 7-5 shows that despite the various human resource development strategies and the Omanisation programme, Omanis as a percentage of the private sector workforce has fallen sharply from 1975 to 2015. The other observation is that the predicted Omanisation percentage in the private sector in 2020 does not reflect the reality of the situation with only a few years to go before the target date is reached.

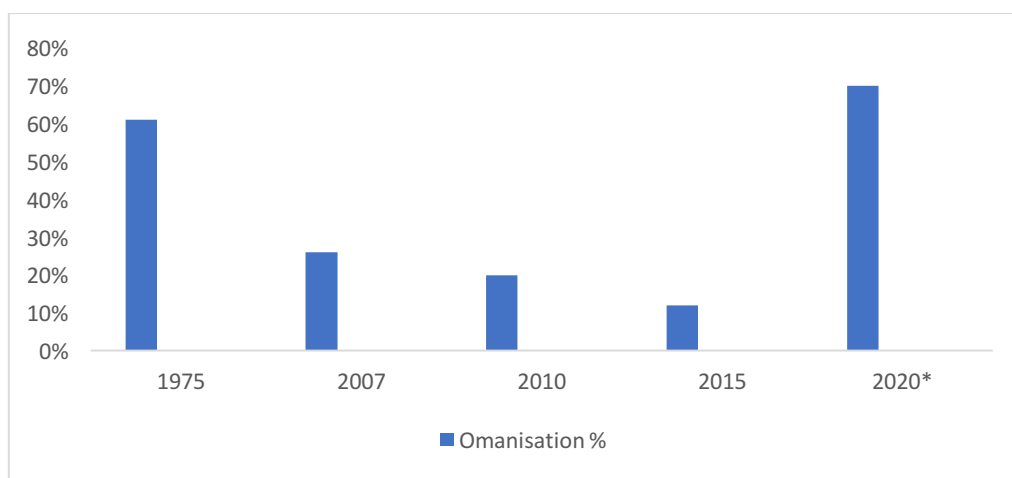


Figure 7-5: Omani Percentage in the Private Sector Workforce

Source: Compiled by the author from data obtained from multi publications of NCSI.

Note: * Vision Oman 2020 Estimate.

Drilling down further into the data, certain sectors of the private sector have achieved higher levels of Omanisation than others. Figure 7-6 illustrates the breakdown of Omanis and expat in various categories of the private sector. Financial services, utilities, transport and communication and property have achieved high levels of Omanisation, but the percentage of citizens' participation in all the other sectors is relatively small. The participants were asked why they thought that institutions, such as banks, insurance companies and communication

companies, had higher rates of Omanisation than other sectors. One government official participant suggested that the high levels of Omanisation in certain sectors was not only because of effective regulatory bodies, but also because the financial, insurance and telecommunications sectors provide generous financial incentives, which make these sectors more attractive to Omanis. In addition, work security and career development plans are provided by these sectors, which helps to attract more citizens (GOI6, 2016). Most participants confirm that financial incentives affect individuals' decisions to choose their work opportunity. According to an interviewed government official:

I think it is all about incentives for all those sectors paying high salaries compared to other sectors. Also, the government is aware that those sectors could absorb a high number for national employment, and the Omanis will have no problem to work in those sectors that have prestige. Furthermore, there is a good foundation in those sectors; for example, we have the banking institute (GOI2, 2016).

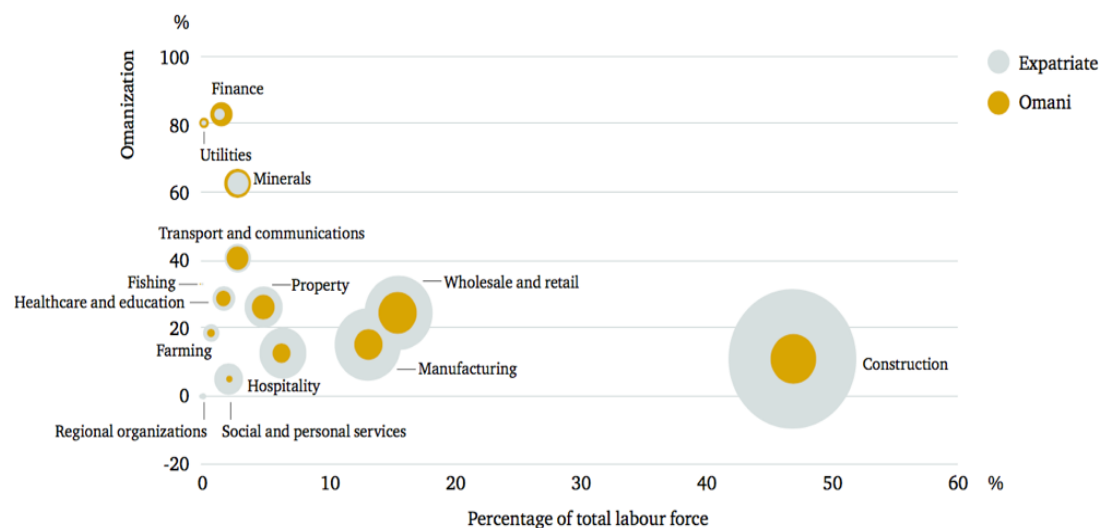


Figure 7-6: Labour Distribution in the Private Sector

Source: Ennis & Al-Jamali (2014:13).

Political decisions could underlie the higher rates of Omanisation in some sectors; for example, the Banking Institute (which later became the College for Banking and Financial Studies) was one of the first specialised colleges that provided higher education opportunities for the Omanis. The establishment of this college was associated with orders from the Sultan to increase Omanisation in the banking sector over a period of 10 years. The political decision came from the top and was implemented immediately, with rational and gradual target to increase the ratio of Omani working in the sector. According to an interviewed government official:

There were direct orders from the Sultan to nationalise the employment in the banking and the insurance sectors. So those institutions started the Omanisation

process using the bottom to top approach. They started with the clerics and cashiers all the way up to deputy CEOs and then later to CEOs. However, the Sultan was not happy with the bottom-to-top approach, and then ordered the opposite approach from top-to-bottom, and that helped those sectors to increase the percentage of national employees gradually over five years. Today they have achieved around 90% (GOI12, 2016).

Although some participants agreed that various sectors had achieved satisfactory levels of Omanisation, there remain negative aspects of employment, such as nepotism. According to NCSI (2015:50), 87% of university level students and 65% of jobseekers believe that nepotism negatively affects their ability to obtain a job. Furthermore, the presence of nepotism could undermine productivity and performance, as implied by a government official interviewee:

The banking, financial sector and the telecommunication companies are better, as they have competitiveness procedures to filter who should be recruited and after that, each employee has a productivity and performance audit on a yearly basis. However, there are many cases where people are promoted because of their relationship to influential officials and this is a reflection of the nepotism (GOI8, 2016).

Many participants suggest that the private sector is not taking responsibility for becoming more involved in the education system. This lack of partnership has resulted in a gap between labour market demands and graduates' skills and knowledge (MO1 2016; AI2 2016; AI3 2016; MO4 2016; GOI4 2016; GOI12 2016; BI8 2016; BI9 2016). Responses also show that this gap is not only the result of education system standards, but is also related to the absence of practical on-the-job training in higher education (AI2, 2016; JI1, 2016; BI5, 2016). Some respondents argue that particular trades do not require higher education certificates, but require on-job training. However, the monopoly of certain companies over private training institutions has a negative effect on the quality of the training. This is highlighted by a government official respondent:

If somebody conducts scientific research to check how much the government paid for the training, I'm sure we will find that we had paid a lot of money but the outcome was not good. Most of the training centres in Oman are under the management of certain companies. If we could guarantee that international training centres with a good reputation would come to the country and open branches on one condition, that there is no hidden partner with them, then we might get a good outcome. In conclusion, I agree with you that we have a lack of human resource development (GOI12, 2016).

According to the Ministry of Education and the World Bank (2013:153), vocational training in Oman is still relatively limited and does not reflect the increased demand for specific qualifications in the private sector.

Another factor is that most students study non-scientific subjects, which “reflect a serious dysfunction in the education system as a whole” (MOE & WB, 2013:153). Figure 7-7 illustrates graduate distribution by subject. In comparison, Figure 7-8 shows that expat qualification distribution, with around 75% having only a general education certificate or merely the ability to read and write.

The outcome of these factors according to a government official respondent (GOI1, 2016) is the existence of two groups of jobseekers in the labour market. The first group are those without skills or qualifications, and the second group is comprised of university graduates without the competencies that are required by the labour market. Therefore, there is a limited number of semi-skilled or middle level skilled jobseekers, which contributes to increased numbers of expats in the country.

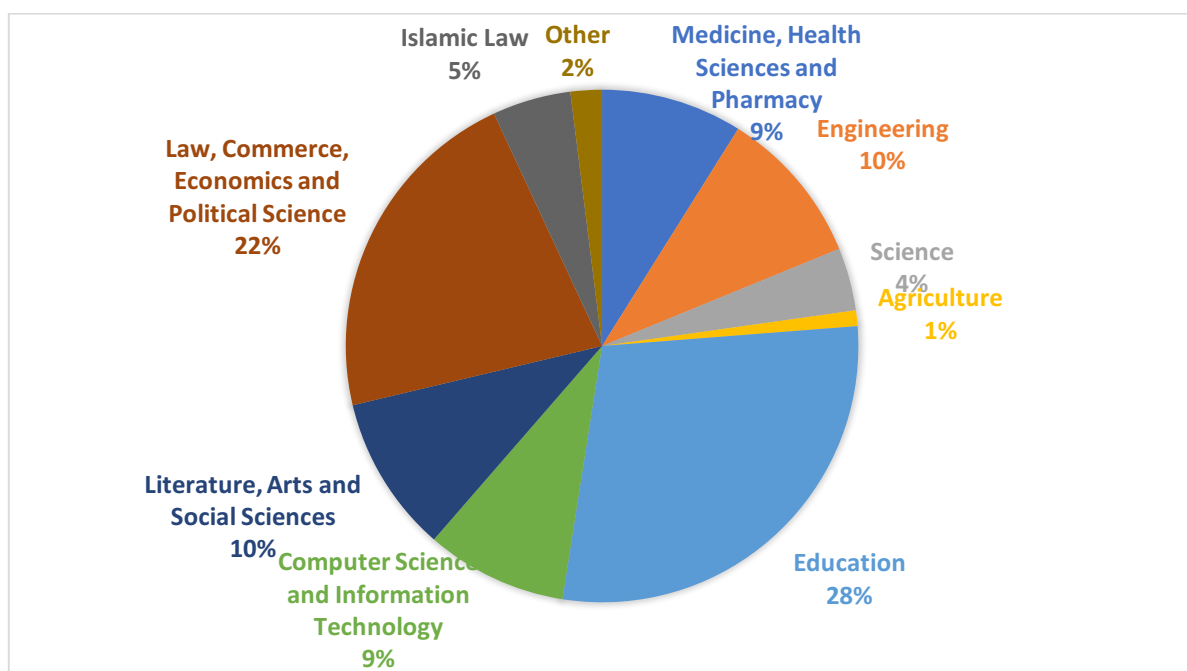


Figure 7-7: Graduate Distribution by Subject

Source: Compiled by the author from data obtained from MOE & WB (2013:155).

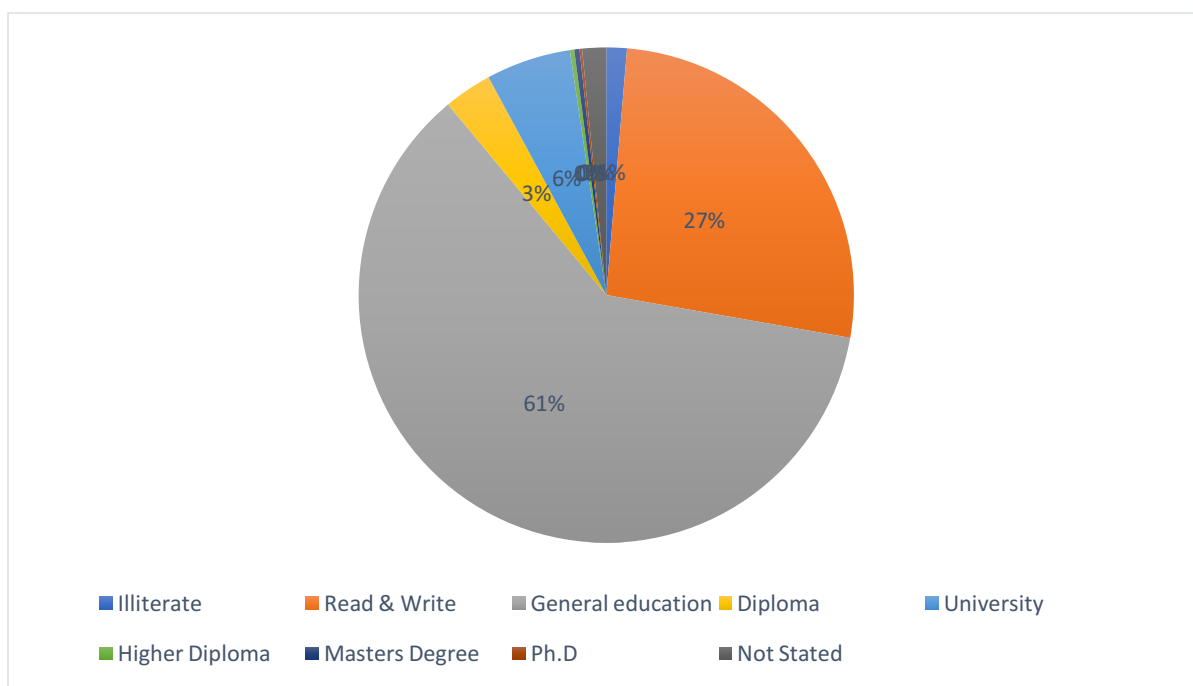


Figure 7-8: Expat Qualification Distribution

Source: Compiled by the author the data obtained from NCSI (2016d).

Some interviewees suggested that the distortion in the labour market is because of the mismanagement by and the overlap between government institutions that are responsible for the management of the labour market. For example, a focus group participant from *Majlis* Oman (FMO1, 2016) suggests that there is the problem of overlapping responsibilities between various institutions. One example is role of the Ministry of Manpower which is not limited to regulations, but is also involved in the daily operations of companies through setting the details of projects' workforce's requirements. Therefore, instead of just regulating the labour market, the Ministry also forces companies to hire Omanis without taking into consideration factors such as the timeframe required to train Omanis in order to be up to speed with the work requirements. Kuwait's more flexible approach might provide a lesson to Oman on how it could reach its Omanisation targets with clear framework. Additionally, the respondent added:

We need to restructure the entire work market in Oman so we should have a regulatory authority working separately from the ministries (FMO1, 2016).

These observations raise another question: if the government identifies the financial gap between the public and the private sector as hindering the Omanisation process in the private sector, why does it not attempt to address this gap? The answer is proposed by various participants that the issue is not about the financial gap but is about the regulatory environment in the labour market. According to a response by a government official (GOI12,

2016), there is a lack of regulation in the labour market despite the Ministry of Manpower's responsibility to check if companies are fulfilling the Omanisation requirements. He argues that the authorities fail to provide any incentive to encourage these companies to provide adequate training for new recruits. In contrast, the central bank has forced the financial institutions not only to fulfil the Omanisation requirements, but also to provide a career plan for new recruits including training. This type of policy has proven to be effective in increasing Omanis participation in the financial sector. Furthermore, according to a participant from the private sector (BI7, 2016):

If there is serious political support, the government could start to work with the biggest companies in the country, and enforce legislation that limits executive management positions in these enterprises to citizens. Over time that should help the recruitment and the expansion of the Omanisation percentage in these companies. The main problem in Oman is that the decision makers themselves have no trust in the citizens' capabilities and with the continuous existence of such a mind-set, I do not think we will be able to expand the Omanisation process in the private sector (BI7, 2016).

A further obstacle to the Omanisation process raised by the participants was the competition from expat workers. The main argument regarding the competition is based on the perception that expat workers do not mind working long hours, they accept lower wages, and tolerate poorer working conditions and more physically demanding jobs. Furthermore, participants argue that many private companies are owned by expats, who are not willing to recruit Omanis as this would involve paying higher wages. Indeed, they appear to prefer to recruit their own nationals for various reasons, but mostly to hide commercial secrets from national workers. One government official respondent made the following observation:

The Omanis are exposed to unfair competition from the foreign expats; for example, the foreign expats have no social commitments; their living standards might be lower as you could see ten foreign expats living in a one-bedroom apartment and therefore an expat could work for longer hours, as they have no commitments to a family. In comparison, the Omanis have social responsibilities, as you know we are a social community. Also, the living standard is a critical issue, as well as to take care of the family, so the Omani jobseeker would not accept a salary less than OMR300 but the foreign immigrant would accept OMR150 for the same job (GOI4, 2016).

7.3.2 Rentier Mentality

According to NCSI (2015:29), 89% of jobseekers believe that the government is responsible for providing them with appropriate opportunities. Other results show that in 2013, 59% of higher education students believed the government was responsible for providing work opportunities, but by 2015 81% of university level students believed this. This clearly

indicates the existence of rentier mentality among citizens seeking jobs in Oman. In addition, most participants agree that the government has used recruitment in the public sector to achieve stability, which is a feature of the rentier state. For example, an interviewed *Majlis* Oman member suggests that there is over-staffing in government departments, and gives an example below:

In the last report for the World Bank, a comparison could be drawn between the education system in Finland with the education system in Oman. In Finland, there are only 1,000 administrative staff employed their education system, while in Oman we have 20,000 administrative staff, not teachers just administration staff (MO8, 2016).

Another interviewed government official participant adds:

The other issue is about incentives. We all know that you should do well to be rewarded, but this is not the case in Oman. You do not need to work hard, you do not need to suffer, you do not have to be highly skilled, you do not have to be creative, and you do not need to publish papers to be rewarded, because you only need to be close to the authority to be rewarded. At the time, this is the mindset of the entire society. In fact, all government employment policies are enhancing the rentier mentality, and could create a serious problem in the future. This has affected the productivity among the young Omani employees (GO15, 2016).

According to an UNCTAD report (2014:27), the situation in Oman can be described as a dilemma whereby the labour market has both a shortage and a surplus. The shortage is increasing, because employment opportunities in the private sector are growing much faster than suitably qualified Omanis. The surplus is the direct result of citizens' preferences to work in the public sector, which has reached maximum levels of employment. In addition, most Omanis in the private sector consider their job only temporary as they plan to move to the public sector immediately if a vacancy occurs. One worrying fact in this report is:

There is a general expectation that the Government will continue to provide employment opportunities for its nationals. Recent increases in public sector jobs in response to concerns about social unrest, particularly among the youth, have reinforced such expectations (UNCTAD 2014:27).

Oman's dependency on oil export revenues could have a serious impact in the near future due to low oil prices necessitating the imposition of austerity measures, including cut backs in public sector employment. This could fuel social tensions, as according to NCSI (2015:12), 60% of university level students are not satisfied with the government's performance regarding workforce policies.

7.3.3 Expatriate Competition

According to NCSI (2015:35), 76% of students at university level and 76% of jobseekers believe that competition from expat workers affects their chances of finding work. In this context, the participants highlighted the financial gap between the cost of recruiting citizens and expats rather than the quality or the level of skills between the two groups. Some participants argued that Omani graduates are well qualified to work in the private sector. According to an interviewed government official, many have proven themselves to be able to hold CEO positions in international companies. The concept that “Omanis are not well qualified to work in the private sector” has benefited expats, thus Oman needs a national plan to solve this problem. He adds:

The government will need to fight with the monopolists and the expat lobbies who will definitely fight back, as such things will affect their profits (GOI2, 2016).

In contrast, other participants believe that it is not unfair competition imposed by expats, but the issue is related to rentier mentality. In this context, one participant from the private sector (BI8, 2016) argued that the rentier mentality means everybody in society believes that the government is responsible for education, training and recruitment. Unfortunately, even the curriculum cannot overcome the rentier mentality, which affects the work ethic.

7.3.4 Summary

This section provides an overview of the labour market structure in Oman. It demonstrates that there are a number of chronic structural problems, such as the Omanisation strategy implementation, rentier mentality and expat competition. Several participants highlighted the rentier mentality, which curtails the desire of nationals to work in the private sector. This is exacerbated by the financial rewards in the public and private sectors. In addition, there is a gap in the qualification distribution of expats in the private sector, which could mean that the government would be able to replace expats with nationals. However, according to some participants, this action requires taking political decisions. The evidence highlights that parts of the private sector, such as banking and telecommunications, have achieved high levels of Omanisation as a result of positive political decisions. The monopoly in some private sector companies has created unfair competition from the expats over Omanis, according to some participants’ observations.

Various reports and studies have identified problems in the labour market in Oman. One of these is the World Bank Report, which was conducted at the request of the Omani government, that concludes:

Optimum Omanisation strategy would be based on recognition of the fundamental need to raise Omani productivity and developing an efficient labour market. It would rest on the following six pillars: (1) raising the quality of basic education and improving, particularly through on-the-job training, the work skills of Omanis; (2) fostering realistic expectations and competitive attitudes among young Omanis; (3) eliminating present sources of Omani unearned income (rent); (4) eliminating present labour market imperfections and avoiding the creation of new ones; (5) unifying the labour market by working overtime towards the elimination of public/private and Omani/expatriate remuneration differentials between people having comparable education, training, skills and experience; and (6) eliminating any implicit subsidisation of expatriate employment by ensuring that the employer or the expatriate employee pays the full marginal external costs to Oman of the expatriate's residence in Oman (The WB 1994:101).

Similarly, a Chatham House report (Ennis & Al-Jamali, 2014:18) concludes that:

The main obstacles to economic reform in Oman are the embedded structural conditions requiring wholesale changes. At present, the country is mired in a self-perpetuating feedback loop, returning to old patterns and nursing status quo expectations. ... The post-2011 employment environment has been one of ad hoc fixes in response to discontent. There is little doubt that these were only temporary fixes, which ultimately undermined efforts aimed at resolving labour market challenges.

The distortion in the labour market and the limited Omani participation hinders the expansion of the private sector. This can be attributed as a direct result of inefficient government institutions, as well as the lack of political will to implement and to force the corrections required. Human resource development needs to be connected to the development of the overall economy.

Economic diversification could result in the expansion of economic activities, but cannot be achieved without R&D, which requires the creation of an environment that encourages innovation. Therefore, the following section analyses R&D in Oman as a tool by which to achieve economic diversification.

7.4 Research and Development in Oman

The first indication of Oman's desire to create a knowledge-based economy²⁵ was its inclusion in Vision 2020 launched in 1995 (MONE, 1995:229). The transformation of the oil-based dependent economy to a knowledge-based economy was one of the nine pillars in the plan. However, it took 10 years to create a government body responsible for science, technology and innovation policy. The Research Council (TRC) was established in 2005 to work as a focal point between different stakeholders in the government. Many participants confirm that the government created the TRC, which has the responsibility for the creation and implementation of an R&D strategy for the country. According to the TRC (TRC, 2015), investing in R&D is not about targeting specific research projects, but more about enhancing human resource education and training in order to be able to undertake R&D. In this context, human resource development boosts R&D, in turn leading to the creation of a knowledge-based economy.

7.4.1 Decision Makers' Lack of Belief in R&D

Most of participants acknowledge the importance of R&D in economic development. Many indicate that achieving R&D requires an effective education system, as discussed in previous sections; however, some participants highlight that the lack of R&D in Oman might not be attributed to the quality of education, but is related to decision makers' lack of belief in the importance of R&D. According to one interviewed government official:

I do not think the government believes in research and development. We also have a very limited number of researchers in Oman. Also, even in the current industrial sector, you do not see companies trying to apply R&D methods to minimise costs for example or to achieve an optimal and sufficient use of raw materials. If we did not invest more in research and development, we would always stay just a user for the technology (GOI13, 2016).

Furthermore, an interviewed academic adds:

The government officials do not understand yet the importance of R&D as a tool for sustainable development and economic diversification (AI3, 2016).

Meanwhile, another government official interviewee indicates that the main obstacle regarding R&D is the lack of political will on behalf of top-level government officials:

There is no champion or a single person who could take a decision to make such things happen immediately without hesitation. The other problem that the Minister responsible for financial affairs is a person who does not understand the economic

²⁵ The knowledge economy is when the economy is heavily based on the production, distribution and use of information and communications technology (Čerić 2001:182). The theory suggests that increasing investment in R&D would create an economy able to generate knowledge that can be used to create wealth for the nation.

aspects, and the only thing he looks at whether this is too costly, and there is no direct income from it (GOI4, 2016).

According to MONE (2012:123), R&D activities are still at an early stage in Oman, as a result of a lack of an R&D infrastructure in the country. Government funding for R&D was around 0.17% of GDP, but according to UNESCO recommendations, funding should not be less than 1% of GDP. In this context, according to an interviewed *Majlis* Oman member, the TRC faces several challenges, such as a lack of clear transformation planning, the proposals are not supported by a clear legal framework, and it receives limited funding (MO2, 2016).

Additionally, some participants comment that belief in the usefulness of R&D requires a social transformation in the mindset of Omani citizens. According to an interviewed academic:

You can bring the water to the horse, but you cannot make it drink. Let's hope with time this will change. To achieve such things, we need to adopt the following reforms:

- Enhancing education quality;
- The creation of research institutes;
- Creating more incentives for the people who are working in research and development; and
- Legal reform (AI2, 2016).

7.4.2 Utilisation of R&D

A government official highlights that although the government provides generous financial incentives to private sector technology companies, it does not set conditions that encourage knowledge transformation (GOI5 2016). This observation could support the findings about decision makers' lack of belief in the importance of R&D. According to another interviewed government official (GOI13, 2016), a World Bank report mentions that Oman has invented many technologies used in enhanced oil recovery. However, the government receives no royalties, although international companies such as Shell benefit from these inventions. According to the UNCTAD report (2014:11):

PDO dominates the oil and gas sector and has a robust R&D infrastructure. It has been developing advanced technology for enhanced oil and gas recovery. So far, such technology seems to have been used only by Shell for its own operations worldwide. There are few, if any, spin-off businesses emerging from this innovative endeavour. Contacts and joint work between PDO and universities and other R&D structures seem to be limited. More generally, PDO appears to function as a kind of isolated island within the Omani innovation system.

Some participants argue that the limited confidence in R&D might be related to cost and benefit analysis. According to one interviewed government official, decision makers believe that investment should be an intangible asset that should have an immediate return, whereas R&D takes longer to return profits (GOI4, 2016). This observation is supported by evidence, as the government invests around 0.17% of GDP in R&D, which contradicts published strategies that aim to transform the oil-based economy to become a knowledge-based economy. This contradiction between government strategies and reality could be attributed to ineffective institutional performance and a lack of appropriate governance.

However, even if the government becomes involved in a large-scale R&D project, it might not be able to maximise the benefits. One interviewed government official provides an example as follows:

There is a clear example of the lack of appreciation of scientific research that could be the glass point project in the oilfields. When the company offered to set up their pilot project, the company value was around USD500,000. At that time, the government did not invest in that company, but Shell did, and they bought 35% of company shares after the successful pilot project. The massive savings on the enhanced oil recovery technique increased the company's value and it reached 1 billion dollars. At that stage, only the government had the vision to invest in that company (GOI4, 2016).

Some participants highlight the lack of coordination between different government bodies regarding R&D. According to an interviewed *Majlis* Oman member:

There is no coordination between the Ministry of Higher Education and the other stakeholders in the country to check what problems they are facing, so the Ministry of Education should announce their PhD research scholarship according to those requirements (MO4, 2016).

In contrast, other participants argue that Oman needs practical R&D that focuses more on solving the problems and challenges facing different industries. According to an interviewed government official (GOI2, 2016), most R&D projects do not target economic applications. Thus, research institutions should conduct practical R&D in relation to the problems currently facing the economy; for example, how to increase fish farm productivity, because this might persuade the Cabinet to invest more money into R&D. There are many practical fields that require R&D; for example, natural resources, such as chromite, which is currently exported as a raw material. The interviewee adds:

There is a gap between researchers and decision makers. We have a very clear example in the agriculture sector where Oman was famous for their dried limes.

Actually, it has been known all over the world as the Omani lime, but this fruit tree was affected with a particular kind of disease, which resulted in the extermination of the Omani lime tree, as the government could not cure the affected trees and the only solution was to cut them down (GOI2, 2016).

7.4.3 R&D Summary

The main observation from the responses suggests that R&D in Oman is in its infancy, which could be attributed to various reasons. The first relates to decision makers' lack of belief in the importance of R&D. The second reason is the cost and benefit approach applied by decision makers, which looks for an instant return on investment. In addition, many participants indicated that current R&D applications in Oman are not related to the practical challenges faced by the economy. Finally, the lack of coordination between government institutions is another obstacle.

These findings support reports ordered by the government to evaluate the R&D environment; for example, UNCTAD (2014:10) reports that there is limited information related to innovation systems that are described as cursory and piecemeal, and weakened by critical problems as they are seriously fragmented. In addition, there appears to be a lack of cooperation between academic institutions and business organisations, as well a lack of coordination between academic institutions, other than at a personal level. Also, research institutions are relatively small, and it would be difficult to expand R&D activities because of the salaries' structure. Finally, in the current environment, innovation projects do not result in outcomes that can be industrialised. The UNCTAD report (2014:ix) also highlights lack of coordination between R&D programmes, and their applications within the business sector:

Apparently, none of the programmes includes mechanisms to involve the business sector in their design phase to maximise innovation performance and impact. This feature may be explained by the reluctance of the Government to directly support the business sector's R&D. However, such hesitation may result in losing the economic relevance of the programmes, as well as the opportunity for applications of their results. To some extent, this is compensated for by the Academic Innovation Programme, which is working towards commercialising 15 research outcomes within the next two years. Universities are free to pursue the commercialisation of their research output by linking with the Innovation Hub.

One of the main challenges facing the transformation of the current oil-based economy to a knowledge-based economy is the separation and integration of innovation within national strategy planning and operational decision-making. Furthermore, the UNCTAD report (2014:xii) explains that:

Overall funding support to research and innovation remains quite small when compared with funding by the government for other items, such as the road infrastructure. Implementation of policy measures seems relatively slow, possibly due to a series of factors, such as a lack of capacity in concerned government bodies, a cautious approach in selecting projects or delivering funds, cumbersome bureaucratic procedures, and the political and social culture of consensus-building.

7.5 Conclusion

Oil export revenues have helped the government to invest heavily in physical infrastructure, such as schools, hospitals and roads. However, despite high levels of investment in the education infrastructure, the strategy has not improved the quality of education although human resource development is one of the main drivers to achieve economic diversification. The findings of this chapter indicate chronic structural problems in the education system. Some challenges are related to teachers' qualifications in general education, and the lack of financial incentives offered to teachers. Other problems are related to higher education, where because of poor general education outcomes, institutes are affected by low academic standards. Finally, because of a lack of consistency in the strategy, education outcomes do not meet the demands of the labour market in terms of skills and qualifications. Therefore, Omani employment in the private sector has not achieved the growth rate forecast by the FYDPs and Vision 2020. The findings also indicate insufficient coordination between different government entities and a lack of clarity in terms of responsibilities are further contributory factors to the weak quality of education in Oman.

In terms of Omanisation, the study reveals that some companies in the private sector have achieved high levels, which is attributed to three main factors. The first is related to political decision making and a political will to change the labour structure in specific sectors, such as banking. The second factor relates to availability of relevant training opportunities, and the final factor is concerned with monopolistic practices in specific sectors. However, various government publications identify other factors, such as those related to financial incentives (NCSI, 2016a).

This chapter also discusses findings related to the effect of rentier mentality, which negatively affects individuals' motivations to seek work opportunities in the private sector. Most participants and various published reports confirm that employment in the public sector is the preferred choice for young Omanis. This is not only about the financial gap between employment in the private and the public sectors, but also relates to perceptions of status in the public sector and security of employment. However, the government has attempted to

minimise these gaps in order to encourage young Omanis to perceive the private sector as an attractive option. Nevertheless, the data regarding Omanisation clearly indicates these policies have met with limited success. The other factor that appears to hinder greater employment of citizens in the private sector is attributed by the participants to competition posed by expat workers, because expats accept lower wages, tolerate poor working conditions and long working hours, and are not subject to demands of their families, as experienced by Omanis.

The chapter also analyses the role of R&D as a vehicle by which to achieve sustainable economic performance. The findings indicate that R&D is limited because of a lack of belief by decision makers on its importance. Some participants suggested that achieving high levels of R&D requires improving educational quality. R&D management is another issue highlighted in these findings, as although the TRC is the main body responsible for research and development, it does not coordinate its efforts with other R&D entities, such as the PDO.

In summary, this chapter concludes that the lack of human resource development could be an obstacle to achieving economic diversification. The next chapter analyses institutional quality as an obstacle to achieving economic diversification in Oman.

Chapter 8 Institutional Quality and the Political and Social Factors

8.1 Introduction

This chapter analyses institutional quality as well as the political and social factors as two elements that hinder the state's ability to achieve sustainable economic development. The focus on institutional quality is because, as demonstrated in Chapters Three and Four, the literature concludes that it is one of the characteristics of the resource curse. In this context, most of the literature highlights that the lack of institutional quality is one of the main channels that hinders the state's ability to diversify the economy from its dependence on natural resources and achieve sustainable development (see Appendix 1). In this thesis, institutional quality is considered to be an umbrella that includes the rule of law, government regulations and services and government performance.

Similarly, the literature suggests that political factors are another channel of the resource curse. However, this chapter analyses not only the political factors but also adds a new dimension that is related to the structure of society and its impact in oil-dependent states. The political factors are analysed primarily through the impact of corruption which under its wider umbrella includes crony capitalism and rent seeking. Furthermore, this thesis considers that FDI inflows in the oil dependent states are primarily influenced by political decisions. In fact, recent research, such as Poelhekke and van der Ploeg (2013), argues that natural resource dependency decrease FDI inflows into non-natural resource related economic activities. Considering FDI as a matter of political decisions provided the researcher with the opportunity to analyse the reasons behind the limited inflows into the Omani economy.

The first section of the chapter analyses the institutional quality in Oman and its impact on the economic diversification policies. The section discusses different factors that affect institutional quality, such as rentier mentality, nepotism (*wasta*) in the bureaucracy, consistent strategies and their implementation, policy management, accountability and governance, individuals' performances, the overlapping of responsibilities between different government departments and the lack of job descriptions in the public-sector. The third section analyses the political factors which are clustered around corruption which under its umbrella covers rent-seeking and crony capitalism. The section also identifies the rules of crony capitalism in Oman, FDI inflows and the use of subsidies. The last section is the conclusion.

8.2 Institutional Quality

The broader definition of the public sector focuses on taking the responsibility for providing various public goods, such as national security, healthcare, education, and social services and the state's regulatory responsibility (Lienert, 2009:5). However, in Oman the state is the main driver of the economy and the largest employer, as well as the main stakeholder in some of the service and utility companies such as electricity and water desalination facilities.

Concerns around the importance of institutional quality in Oman can be traced back to the first FYDP (1976-1981) in which the government announced a series of pillars for the development programme among which was the enhancement of the institutional quality (TDC, 1976). This pillar has been included in each subsequent FYDP (TDC, 1976, 1981, 1986, 1991, MONE, 1997, 2001, 2006; FAERC, 2011) and is also included in the state's Basic Law (TOG, 1996) and Vision 2020 (MONE, 1995). However, although the physical infrastructure has been successfully rolled out across the country, as early as 1994 the World Bank (1994) highlighted issues with institutional quality that undermined the government performance, including:

- There are serious deficiencies in the education and health quality.
- A lack of inadequate legal framework governing the business environment.
- The business environment suffers from monopoly and monopolistic private trading.
- Subsidies had encouraged the emergence of wasteful behaviour.
- Public spending on defence and national security was amongst the highest in the world; it accounted for about three-quarters of government investment expenditure and was three times the level of spending on education and seven times the level on health.

Studies that assess the resource curse impact on institutional performance (Alonso & Garcimartín, 2013; Apergis & Payne, 2014; Hamilton & Ruta, 2006; Hvidt, 2011; Selim & Zaki, 2016) highlight a wide range of challenges facing institutional performance. The challenges include: a lack of accountability; an absence of audit procedures; an absence of transparency; a lack of job descriptions either for the institution or for the employees; an

absence of Key Performance Indicators (KPIs);²⁶ and a lack of coordination between the different government entities which creates an overlap in responsibilities.

The participants were asked to provide their views regarding the institutional quality in Oman and if the current institutional structure is one of the factors that hinders the government's ability to diversify the economy away from its oil dependency. Eighty seven percent of the participants agree that Oman suffers from poor institutional quality. Furthermore, they indicated that the institutions in Oman are facing different challenges, some of which are related to the set-up of the administration, while others are related to its performance, productivity and the lack of proper accountability measures. Similarly, the participants provided examples of the deficiencies of the government performance. For example, some participants highlighted the increase in the income distribution gap which resulted in more welfare-dependent families (see Figure 8-1). They also highlighted the quality of education and the limited employment opportunities for the citizens (see Chapter Seven for more details) as other indicators of a weak government performance.

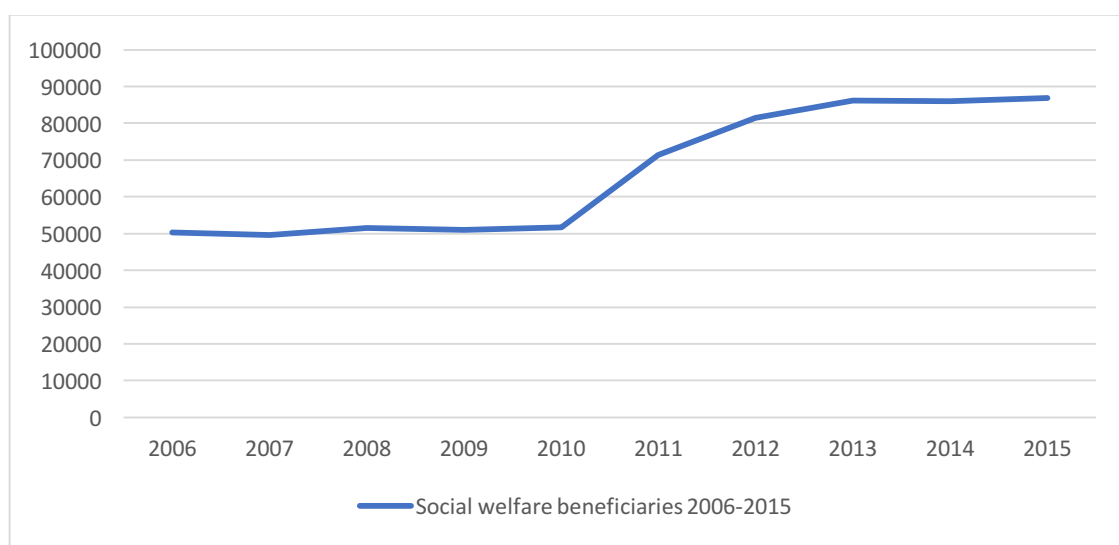


Figure 8-1: Social Welfare Beneficiaries, 2006-2015

Source: Compiled by the author from data obtained from NCSI (2016:447-448).

Other participants highlighted a further indicator of weak institutional performance which is related to the efficient use of the infrastructure. As one interviewed government official (GOI10, 2016) indicated, most of the diversification efforts are not fit for purpose.

²⁶ KPIs are performance measurement tools that help to evaluate how well units, projects or individuals are performing compared to organizations' strategic goals and objectives. They are considered to be critical cross-examination instruments that provide a clear understanding of current levels of performance (Bala & Koxhaj, 2017).

For example, the government has invested massively in the development of the seaports but they are not utilised efficiently. Furthermore, encouraging foreign investors by providing them with cheap gas is not sustainable because as exports of gas on long-term contracts at a massively discounted price left the country facing a domestic gas shortage. Likewise, oil and gas related industries are usually capital but not labour intensive, thus they only employ a limited number of Omanis and have a minimum level of knowledge transfer. One company, which is in partnership with the Sultan's Special Advisor for External Liaison, is getting the gas for USD0.38 per British thermal units (BTU) which is lower than the market price. There is no added value in this project and other similar projects for the country. According to Vision 2020, natural gas should account for 10% of GDP in 2020 but at present this is unlikely to be achieved (MONE, 1995). As shown in Figure 8-2 Oman suffers from a significant deficit in gas supplies which will increase further unless new sources of gas are found. Hence, the government has started to tackle this problem by signing a new contract for gas exploration with BP and is entering bilateral negotiations to build a new gas pipeline with Iran.

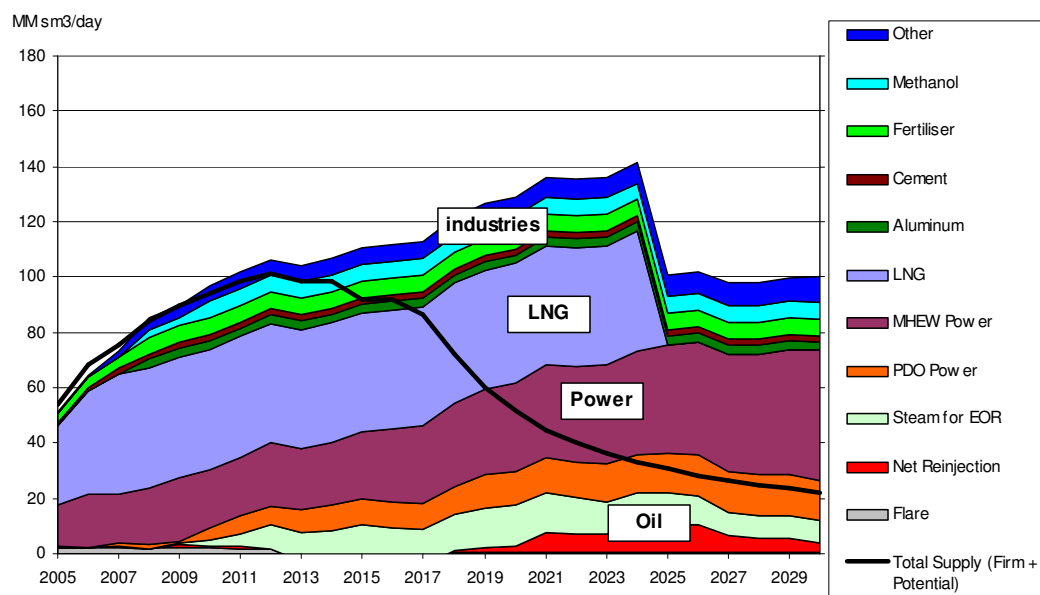


Figure 8-2: Base Case for Balance of Demand and Supply

Source: BMI Research, (2013)

The participants argued that being able to draft short-term and long-term plans requires implementation guidelines. One of the most repeated examples was Vision 2020, which was the country's main development plan but has achieved little, although it is only a few years from completion. According to an interviewed *Majlis* Oman member (MO9, 2016), there is now a gap between the development planning institutions and the execution

institutions. Previously, planning was the responsibility of one minister who was at the same time the Minister of Financial Affairs. In other words, there was good communication between the departments. However, the structure was changed in 2012, which created a conflict between the Supreme Council for Planning and the Ministry of Finance. According to an interviewed government official (GOI15, 2016), the Supreme Council for Planning has inherited most of the dismantled Ministry of Economic Affairs duties regarding economic planning. However, there is no single economist in that body. In this context, the following sub-sections analyse the factors that affect the institutional performance in Oman through the lenses of: 1) management, implementation and consistency; 2) overlapping responsibilities; and 3) accountability/governance.

8.2.1 Management, Implementation and Consistency of the Strategic Plans

One of the issues highlighted by the participants around institutional quality was how funds were invested. According to interviewed participant from the private sector (BI4, 2016), the government invested in infrastructure without taking into consideration the maintenance costs. In addition, the government did not take serious action to cap the expenditure in the infrastructure. For example, in each FYDP they could fix the percentage of the annual budget allocated towards infrastructure development, which should not be exceeded. In fact, the infrastructure project cost can be linked to the legal framework that protects the local companies and gives them the priority in the projects which is conditional on the availability of proper governance.

According to Said (2014), the *Shura* Council discussions with the tender board chairman in 2014 revealed some of the major challenges that face the planning and execution of public projects in Oman. For example, some *Shura* Council members indicated: lack of proper regulation; lack of proper planning; loop holes in the tendering process; and oligopolistic practises which resulted in a situation where only about 30 companies were being awarded around 82 percent of the projects. Furthermore, the tender board chairman announced that:

The main challenges the Tender Board faced was that authorities do not follow procedures as laid down by the articles in the law.

Consequently, as demonstrated in Chapter Six, local oligopolies companies increase the cost of the projects, which is exacerbated by the absence of international competition.

One of the main issues related to the FYDPs is the process of evaluation and revision in relation to the FYDPs and Vision 2020. Most participants highlighted that there was an absence of measurable achievement indicators and a lack of periodic evaluation, which meant that implementation was poor. Without continuous evaluation of the strategies economic diversification is difficult to achieve.

Furthermore, according to a government official focus group participant (FGO3, 2016), many strategies have been drafted, including a logistics strategy, a tourism strategy, an education strategy and a health strategy. However, the strategies are merely pieces of paper without an action plan. The requirements for any action plan, such as its structure, its human resource requirements and its legislation, do not exist. Thus, according to an interviewed government official:

Even the five-year development plan revisions were not drafted according to the economic norms but according to the political norm so it was politically guided. We are very good at playing with the numbers and drafting public speeches. But we do not have a single government official who can differentiate between a productive economy and a rentier economy (GOI5, 2016).

In addition, although strategies have been developed, there is a lack of an overall roadmap which leads to mismanagement. For example, according to an interviewed academic (BI7, 2016), in 2014 the government transferred the commercial containers' handling facilities from the main seaport of Qaboos to Sohar. The transformation came as a surprise to the business community as there was no prior indication of the plan. Transferring the facilities resulted in lowering the capacity from 110,000 containers per month to less than 33,000 per month due to constraints at Sohar port. Consequently, companies started to use Dubai ports for their imports. Another example of mismanagement is Duqm port in which the government invested around OMR2bn. The port was completed in 2011, unfortunately without any container handling facilities (MO8, 2016). According to Al Harthy (2017) "The port's container terminal is currently under construction and will be commissioned in the course of 2019".

Furthermore, the mismanagement had a negative effect on the success of some government policies to expand the private sector through privatisation. According to an interviewed government official (GOI6, 2016), there are more than 100 government owned companies, most of which are loss-making. Unfortunately, the government has not attempted to understand the reason behind the limited success and low productivity in these companies,

whether it is because of mismanagement or due to the business model. Privatisation could be a solution, because when a company adopts private sector norms it has better governance. However, even privatisation in Oman has its own problems. According to an interviewed government official (GOI13, 2016), the government started to privatise one of the electricity companies by targeting the sale of a 61% stake to a foreign strategic partner. However, the strategic partner takes loans from local banks reducing credit availability for local companies and provides no knowledge transformation or innovation. Another example was provided by interviewed government official:

The mismanagement of the government projects is why some projects are very expensive. For example, the capital city sewage system was associated with many problems from the outset. Another example is the water supply project to mountain cities which was contracted to a company that could not complete it. The project was then handed to another company. Such practise is not limited to those examples and that is clear evidence of a lack of proper planning (GOI3, 2016).

In contrast, other participants highlighted the individualistic decision-making style in the country as a factor affecting the lack of consistency in the implementation of the development strategies. For example, ministers in Oman often stay in their positions for more than 15 years. However, when the Deputy Prime Minister for Economic and Financial Affairs, Qais Al-Zawawi²⁷ whose team was responsible for drafting Vision 2020, was killed in a car accident in September 1995, the position was left vacant. Consequently, Vision 2020 lost its champion, which negatively affected the plan's continuity and the consistency of its implementation. According to an interviewed government official (GOI9, 2016), the individualism in the decision-making style can be identified when a new minister is nominated, as in the first few months he drafts new strategies and projects and cancels the previous ones. This is not only financially expensive but also hinders the performance of the economy. This was highlighted by an interviewed government official:

Duqm project was the idea of the previous Minister responsible for Finance who vacated his seat in 2011. Right now, the government invested more than USD2bn in that project but because there is no longer a champion the entire project is at risk. We need to shift from individualistic planning to establishment planning otherwise the entire state is in danger (GOI7, 2016).

Most participants highlighted the absence of consistency and continuity on the lack of development in the non-oil sectors. Since 1976, the government initiated development plans

²⁷ According to TNA (1981:35), Qais Al-Zawawi was one of a group referred to as 'The Omani Mafia'. He became Minister of Foreign Affairs in 1973 and Vice-Chairman of the National Development Council in 1974. In 1982 he became the Deputy Prime Minister for Economic and Financial Affairs (Zawawigroup, 2017).

targeting the non-oil sectors with little success. In particular, the government emphasised the importance of the agricultural, fisheries, manufacturing and tourism sectors. However, the sectors contribution to GDP is still lower than plan. Several interviewees (MO1, 2016; GOI4, 2016; GOI8, 2016; BI6, 2016) believe that the limited growth can be attributed to the bureaucracy and weak government efficiency, which has resulted in a long chain of steps to secure the necessary permits. For example, securing a tourism permit requires having land, which requires a permit from the Ministry of Housing in coordination with the Ministry of Local Municipalities. Additionally, the business also requires labour permits from the Ministry of Manpower. One of the repeated examples provided by the participants was the dismantling of agriculture marketing agency, which curtailed growth in the sector. The agency was responsible for collecting products directly from the farmers, and for the standardisation of agricultural products. Furthermore, each farmer was aware of which crop should be grown. The government tried to justify their decision by saying that the agency was not making a profit. According to an interviewed government official:

The agriculture marketing agency might not be making a profit because of mismanagement and the involvement of different parties in its operations (GOI2, 2016).

8.2.2 Overlapping Responsibilities

One of the roles of the government is to provide a suitable business environment through proper regulations. As demonstrated in Chapters Six and Seven, the existence of independent regulatory bodies for the financial institutions and for the oil and gas operations has increased the Omanisation levels in those sectors, as well as performance and efficiency. Against this background, the participants were asked which government institution they believed was primarily responsible for the implementation of the economic diversification strategy. Significantly, answers included the Ministry of Finance, the Supreme Council for Planning, and the Financial Affairs and the Energy Resource Council. Logically, the Ministry of Financial Affairs should be the government entity that is responsible for issues related to the budget and the allocation of funds. The Supreme Council for Planning does not contain a unit for economic policies, while the Financial Affairs and Energy Resource Council is responsible for the strategy for issues related to finance and the oil and gas contracts. Arguably, the complexity of the overall government structure leads to an overlapping of responsibilities. Table 8-1 shows 22 directorates in the Royal Court that have overlapping responsibilities with other ministries. Many participants (MO2, 2016; FGO2, 2016; GOI12,

2016) claim that the role of the Royal Court means unlimited financial and political support for the projects.

Table 8-1: Overlapping Responsibilities between the Royal Court and Ministries

Royal Court Departments	Ministry
The Office of the Conservation of the Environment. The Office of the Environmental Affairs and the Arabian Oryx. The Office of the Objects Protected Wildlife. The National Field Research Centre for Environmental Conservation.	Ministry of the Environment
The Office of Medical Services. The Directorate of Therapeutic Services The Directorate of Complementary, Chinese Medicine Clinic, Traditional Medicine Clinic Medicine. The Directorate of Medical Services.	Ministry of Health
Directorate General of One Million Palm Trees Cultivation.	Ministry of Agriculture & Fisheries
The Office of Sultan Qaboos's Special Advisor for Cultural Affairs. Sultan Qaboos Centre for Islamic Culture. Director of the Omani Society for Fine Arts. Director of the Society Photographic. Director of the Lute Hobbies Society.	Ministry of Heritage and Culture
Director of Curriculum & Educational Supervision Director of Islamic Science Institute. Sultan Qaboos College for Teaching Arabic to Non-native Speakers.	Ministry of Higher Education Ministry of Education
The Education Council The National Programme to Promote Economic Diversification	Cabinet of Ministers
Sohar Municipality Dhofar Municipality Muscat Municipality	Ministry of Regional Municipalities

Source: Compiled by the author from various participants' remarks.

Furthermore, there is no clear process for communications between the entities and the Cabinet (GOI3, 2016). Indeed, most participants highlighted the lack of communication between different government institutions, even when they are chaired by individuals who are members of other committees and councils. The lack of communication has a severe impact on performance, as well as increasing the cost of the projects. An interviewed *Majlis* Oman member provided the following example:

The Ministry of Commerce decided to create a new industrial zone which might be transferred to a free zone in the future near the new highway to Saudi Arabia. The Ministry of Housing allocated the land. When the Ministry of Commerce started to put together the blueprint for the project, they were contacted by the Ministry of Oil and Gas asking them to stop their operations as the land was allocated for a future oilfield. The question raised here is: do we talk about one government or different governments? How come three ministers in the same cabinet were doing overlapping projects? (MO2, 2016).

According to an interviewed government official (GOI12, 2016), the overlap between the different government entities is the direct result of the lack of independent regulatory bodies. For example, the banking sector is regulated by the Central Bank, the oil and gas sector is regulated by Ministry of Oil and Gas, and the telecommunication sector is regulated by the Telecommunication Regulation Authority. However, the other economic sectors are not regulated by a single entity but each part is regulated by a different entity; for example, the Ministry of Manpower regulates aspects that are already regulated by the police or by the Ministry of Commerce. Such conflicts in the regulatory structure are harmful for the business environment. The lack of coordination between government institutions has a further negative impact related to benefit maximisation. For example, according to an interviewed government official:

The overlapping in the duties is not limited to the business permits; it can also be seen in the road construction projects. For example, Muscat Municipality contracts some roads, as do the Ministry of Regional Municipalities and the Ministry of Transport and Communication. Sometimes all three keep passing the responsibility to the others. Add to that, there are no standard specifications for the road projects across all of those government bodies (GOI15, 2016).

In this context, Salim Alismaili²⁸ stated (reported in Muscatdaily, 2017):

The more you have government entities in there, the more you are crowding the economy and you're squeezing the private sector. Every time that we think of a new initiative, there is either a government company that is supposed to run the things, or a general organisation or a public authority, an independent authority, doing whatever the private sector has already been doing. This environment is encouraging bribe taking which hurts investment into Oman and does not help to encourage the FDI inflow to the country.

Indeed, overlapping responsibilities have been clearly identified in different government plans, such as the FYDPs and Vision 2020. Furthermore, in 2012 the Ministry of Civil Service held a symposium to discuss the mechanism and the tools that the government could use to enhance its performance. Among the recommendations was the restructuring of government institutions to overcome responsibility overlap (Alshabiba, 2012). However, almost five years since the recommendations were made none have been implemented. In fact, in 2015 the Ministry of Civil Service held a seminar entitled '*Developing Public Organizations' Vision and Mission*', which focused on the enhancing public sector performance and efficiency (Timesofoman, 2015).

²⁸ Dr Alismaili is a minister in the Ministry of Foreign Affairs. His unit is responsible for promoting business opportunities in Oman and attracting FDI. He is also the founder of International Research Foundation. His talk was at the 46th International Federation of Training & Development Organisation conference (Muscatdaily, 2017).

According to an interviewed academic (AI2, 2016), between 1970 and 1996 Oman had strong governance as the Sultan was young and took care of daily operations and used to monitor all the ministries. This helped the country to achieve better development outcomes than the neighbouring countries given Oman's limited resources. To sustain such development, the government institutions duties should have been limited to regulatory field. However, now there is no segregation between the regulator and the policy maker, adding to the overlapping of responsibilities.

8.2.3 Accountability/Governance

As demonstrated in Chapter Six, one of the main obstacles to economic diversification is the lack of consistency and implementation process in relation to planning. For example, in response to oil price cycles, Oman initiates austerity measures during downturns but then resumes its previous expenditure behaviour when prices rebound. This highlights a lack of consistency in policy implementation and also reflects a lack of efficiency in the institutional performance. According to an interviewed *Majlis* Oman member (MO2, 2016), one question raised after each low oil price cycle is: why didn't the government learn from the previous low oil prices crisis? The answer provided by several participants, for example, an interviewed *Majlis* Oman member (MO5, 2016), was the lack of accountability. The lack of accountability is not limited to the implementation of strategies, but is also related to each FYDP, which did not achieve most of the crucial targets, including human resource development, the expansion of the private sector and increasing Omani employment in the private sector. Similarly, an interviewed government official (GOI15, 2016) indicated that the reason behind the limited implementation of counter measures to offset low oil prices can be attributed to the management of financial resources and the funding priorities for certain sectors. It can also be attributed to the absence of a clear guidelines for the strategies that include a lack of return on investment measures. However, an interviewed government official (GOI15, 2016) argues that the lack of consistency and the strategy implementation is not only due to those factors:

It is very clear that we have a lack of real development planning. Because no one been questioned why he did not achieve the goals of each FYDP (GOI6, 2016).

In contrast, all the participants highlighted that when it comes to the top-level decision makers, it is not always about the lack of accountability. According to an interviewed government official (GOI10, 2016), many government officials do not take the initiative because they are afraid of the accountability. To avoid accountability, they create a

committee, including representatives from different government institutions, which leads to longer delays in the process and, in many cases, nothing much will be achieved.

Most participants believe that the political structure in which the Sultan is the Prime Minister, as well as many other key posts, adds to the issue of accountability. Because ministers are connected directly to the Sultan means that it is not possible to criticise their performance as it could be interpreted as criticising the Sultan;

if you criticise the government it will be understood that you are criticising the Sultan (FPS4, 2016).

In fact, most participants stress the important of having a CEO²⁹ to resolve this dilemma. The CEO should have a clear mandate, KPIs and a timeframe, if the goals are not achieved, then he should be replaced by somebody else (GOI2, 2016; MO2, 2016; MO8, 2016; GOI12, 2016). Furthermore, one focus group participant from the private sector (FPS1, 2016) indicated that the decision-making process means a decision of a particular minister can be overruled when he receive orders from somewhere else. The following example was provided by a *Majlis* Oman member participant in a focus group:

The government decided to export liquid gas for a very cheap price. At the time the liquefied gas price in the international market was around USD10/BTU. However, the government decided to sell it for USD1/BTU. Additionally, government recently signed a contract with BP to extract the gas per the contract the government is committed purchase the gas for USD5/BTU for 20 years, but at present the liquid gas price in the international market is around USD1.7-USD2/BTU. We do not know who is responsible for this decision. This would create a huge financial burden in the government for the next 20 years (FMO1, 2016).

One tool established by the government to create check and balance measures was the SAI.³⁰ The SAI has been given the legal support to perform its duties, including the right to coordinate with the public prosecution to establish legal procedures in the cases where it uncovers criminal activities (SAI, 2017). However, the SAI cannot publish its findings to the public, as it needs to report any irregularities to the relevant minister. Accordingly, the minister has the right to act on or ignore the SAI report. Thus, even if the SAI uncovers criminal activities it does not mean that action will be taken against those involved. For example:

²⁹ The participants use the concept CEO to refer to the importance of the separation of the role of the Sultan and Prime Minister, with the CEO being the Prime Minister.

³⁰ The SAI was changed to an independent unit in 1999 working directly under the Sultan. Furthermore, the SAI was given greater powers in 2011 that included administration audit, as a result of public demands.

The CEO of one of the government owned companies had been jailed in a bribery case recently. The same person was nominated to be a CEO in another government owned company responsible for more than OMR1.6bn worth of projects (GOI3, 2016).

According to an interviewed *Majlis* Oman member:

The Cabinet could use some governance. If a company that is listed in the stock market faces management problems, then the entire board of directors is responsible for the mismanagement. However, unfortunately, what we have in the Cabinet that if a minister mismanages his ministry then the responsibility is his alone. In fact, the entire cabinet in reality are partners in the mismanagement (MO5, 2016).

One policy the government adopted towards expanding the private sector was privatisation, which started with the electricity, water and telecom companies. According to an interviewed government official (GOI14, 2016), the government decided to privatise its share in the telecommunication company in 1996 to reduce current expenditure at a time of low oil prices. The telecommunication company had high operating costs, when compared to BT, especially in relation to salaries. The comparison also revealed a lack of efficiency and governance in the company. Listing the company on the stock market meant it started working to market norms and gradually reached a good level of efficiency. The lack of efficiency and governance are also present in all government owned companies and probably the government itself. Problems such as lack of governance, of transparency and of accountability and KPIs add to the lack of accountability.

Furthermore, an interviewed *Majlis* Oman member (MO8, 2016) added that the lack of transparency shielded the government from any kind of social accountability. Social accountability is usually achieved through two channels: the first is through public representation in parliament; and the other is through criticism in the media or social media. For example, two Saudi Arabia ministers lost their positions as result of the public protests in the social media over their performance (AlSharekh, 2016; The Economist, 2014). However, the situation in Oman is different; for example, if a government official has social status, then he can be protected socially from any direct criticism. Furthermore, criticising the Ministry of Higher Education for example will be considered as personal criticism of the Minister. In this context, an interviewed government official (GOI3, 2016) believes that the lack of transparency, especially in relation to the announcement of the plans, helps the government avoid accountability if the goals are not met. Additionally, the state-owned media never

criticises projects and always try to show the positive rather than the negative aspects. It is also the case with the results from SAI.

I believe publishing the audit results would be the first step towards institutional reform (GOI3, 2016).

Another interviewed government official (GOI3, 2016) indicated that the misuse of political power is apparent in the second LNG train project. The government was aware of the limited gas supplies in the country and pursued the establishment of the second LNG train. However, this project was not based on a viability study and is working at less than 60% of its capacity and some of those involved in the project are being prosecuted for bribery.

From the previous example, the government is not willing to use the power of law against those who misuse the trust (GOI3, 2016).

In fact, in accordance with Article 51 of the Basic Statute of the State (TOG, 1996), the Prime Minister and Deputy Prime Minister are responsible for the supervision and evaluation of the ministers' performance and the fulfilment of their duties. Furthermore, Article 52 (TOG, 1996) indicates that the Council of Ministers' members are responsible collectively to the Sultan. The Article also highlights: "Each of them is individually accountable to His Majesty the Sultan for the manner in which he performs his duties and exercises his authority in his respective Ministry or unit" (TOG, 1996). Additionally, Article 53 (TOG, 1996) provides a clear legal framework for countering conflict of interest and corruption by assuring:

Members of the Council of Ministers shall not combine their ministerial office with chairmanship of or membership to a board of directors of any public joint-stock company. The Government units which they are in charge of or supervise shall not deal with any company or establishment in which they have a direct or indirect interest. They shall always, by their conduct, pursue the interests of the Country and work in furtherance of the public benefit. They shall not exploit their official positions in any manner whatsoever whether for their own benefit or for the benefit of those with whom they have a special relation.

In summary, the lack of accountability measures results in an overlap of responsibilities, which affects government performance negatively. According to an interviewed participant from the private sector (BI6, 2016), this is, in part, because of the concentration of the powers in the hands of the Sultan, which means that there is no single champion to implement policies and overcome challenges. The cabinet operates with every minister working individually creating government in silos. Thus, there is no coordination and communication between the different ministries. Furthermore, the absence of a job

description for top level government positions, such as ministers and undersecretaries, makes it very difficult to measure their performance and ultimately can result in a lack of productivity. According to an interviewed *Majlis* Oman member:

if you do not have accountability and follow up so that official needs to produce certain achievement in a specific timeframe otherwise he should be replaced. Unfortunately, it is not the case as we have ministers holding their positions for the 30 years (MO4, 2016).

8.3 Social Factors

As demonstrated in Chapters Six and Seven, employment is one of the main challenges the government has faced over the last 20 years. In 2011 and as a result of the social unrest the government opened up 50,000 new work opportunities in the public sector. The new recruitment did not reflect a shortage of employees but was a clear representation for the rentier structure in the country. The policy helped restore social stability, although it could only be a temporary solution. The need for the measures reflected the neglect of important social factors in the development strategies including the impact of youth unemployment. According to a government official participant in focus group (FMO1, 2016), Oman could benefit from copying other countries' development planning strategies, such as Singapore and Malaysia, that have achieved significant sustainable social and economic development in less than 40 years. However, achieving sustainable social and economic development needs to overcome social issues such as the rentier mentality and the individual's performance related issues.

8.3.1 Rentier Mentality

Beblawi (1987:385) distinguishes between conventional economic behaviour which is based on the 'work-reward' causation, and rentier mentality where the wealth, income, and rewards are not the result of production, but are a consequence of being citizen in a rentier state. In an oil rentier state the government is the recipient of the oil export revenues which it then distributes to the population. This creates a distorted economic structure, which includes a bloated and over-staffed public sector, with weak effectiveness and low productivity. In an unusual statement by a top-level Omani official, the Minister responsible for Foreign Affairs described the government as "corpulent and that led to the creation of unproductive and inefficient government which is not able to provide adequate services to the public" (AlJahwari, 2013). This statement can be related to the rentier structure of the state in which the government is the main employer. The overstaffing creates what can be described as

‘disguised employment’.³¹ According to one government official participant in focus group (FGO1, 2016), the optimum world model for efficiency is one public-sector employ per 100 of the population. However, in Oman the ratio is five per 100. Thus, according to an interviewed academic:

We have inflation in the public sector employment (AI2, 2016).

Figure 8-3 shows that employment in the public sector is higher than in the private sector. Indeed, in 2009 and 2010 when new employment in the public sector was curtailed and the private sector became the main employer, this arguably was one of the main drivers for 2011 social unrest.

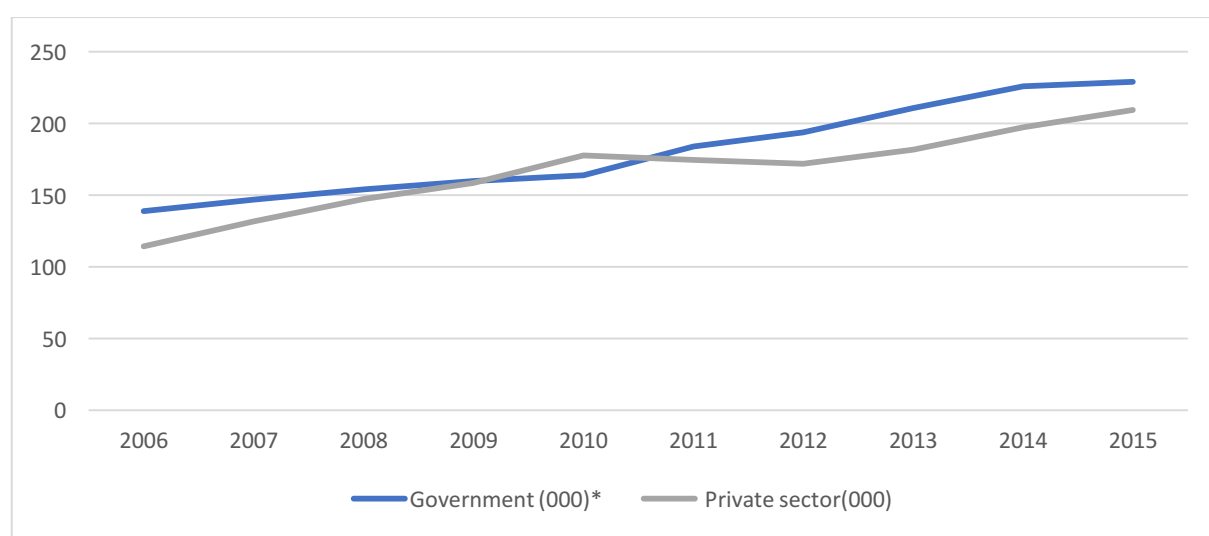


Figure 8-3: Omani Employment in the Public and Private Sectors

Source: Compiled by the author using data obtained from NCSI (2016:93-94)

*: Does not include defence, police and security employees.

Thus, according to MONE (1995:15), even though the public sector has been in continuous development since 1970, the civil service faces critical challenges that include deteriorating performance and productivity, too many employees, an increase in negative bureaucracy and a rigidity in the legal framework and government procedures.

Most participants believed that the limited productivity in the public-sector can be attributed to the rentier mentality as the government uses public sector employment to gain political acceptance. This situation has created one of the biggest challenges in achieving

³¹ According to Komijani and Mohebi 2013:315): “Disguised unemployment exists where part of the labour force is either left jobless or is working in a redundantly and people do not have productive full-time employment, but are not counted in official unemployment statistics”.

high levels of productivity in the public sector. Among the factors undermining productivity is the lack of governance, as highlighted by an interviewed government official (GOI9 2016). Furthermore, according to another interviewed government official (GOI1, 2016), the lack of an evaluation system based on clear standards by which to evaluate an employee's performance also undermines productivity. An effective evaluation system rewards the productive employee and allows managers to sanction employees who are not fulfilling their responsibilities. Furthermore, the 'law of diminishing returns' means if the position requires five employees but they are not performing effectively, then recruiting more employees will not solve the problem but will probably create another ineffective employee.

Furthermore, most of the participants believe that rentier mentality also creates challenges related to the lack of accountability and the lack of the discipline.

8.3.2 The Social Structure in Oman

The second social factor is related to the social structure in Oman. Some of the participants (FNGO1, 2016; FGO3, 2016) believe that institutions in Oman do not suffer from financial corruption but instead from administrative corruption which is connected to the social structure. According to an interviewed government official (GOI8, 2016), administrative corruption is seen through weak bureaucracy and the lack of check and balance measures which results in weak performance in government institutions and distorts the business environment. Thus, an interviewed participant from the private sector states:

There are no KPIs to audit the performance of the employees. That is why a process which should be done in a day might not be completed in a week or more. The processes still depend on the employee mind-set. For example, if a company requires a permit for 10 foreign expats then they will submit a request for 20 because they know that they might need to negotiate with the Ministry of Manpower employees (BI4, 2016).

Furthermore, Dr Salim Al Ismaili, CEO of the Sultanate of Oman Public Authority for Investment Promotion and Export, states:

I'm sure for most visitors who come over here, they love it and they would like to stay here and even invest in Oman, before they go into the jungle of the bureaucracy that we have created. Sometimes you feel that it has been done on purpose so those people in public office can make private benefit (Muscatdaily, 2017).

The administrative corruption is exacerbated by the lack of clear job descriptions, KPIs, and a clear mandate, which results in the creation of a weak or 'negative' bureaucracy and leads to a deterioration in the quality of the government institutions. The weak

bureaucracy means the time required to finish is lengthened considerably: a job that requires half an hour might take up to one week because of the lack of accountability. This is also the case with government projects; the lack of efficiency leads to changing requirements and delays which result in an increase in the project price (JI3, 2016). Most participants believed that the lack of accountability had created an unhealthy work environment in the public sector. Thus, an interviewed Omani academic states:

Each official could do whatever he wants as he knows that nobody is going to question his performance or the outcome. Without accountability, the country will not be able to correct its path. For example, the government was aware that they will need a certain number of teachers in the next 10 years. However, the Minister of Higher Education decided to transform all the education colleges into vocational training colleges. Right now, there is a need for more than 20,000 teachers and nobody can say from where we could meet such demand (AI1, 2016).

Additionally, some participants highlighted the importance of the selection criteria for those appointed to a decision-making position. As the appointment can affect the productivity in that department it is important to put the right person in the right place. However, the social environment in Oman has a negative impact on the selection process because of nepotism (GOI5, 2016). Thus, the tribal structure in Oman can be blamed for the existence of nepotism, which impacts on the selection bias in some government positions. In this context, an interviewed government official stated:

In the development process, you need 10% of the efforts for the planning and 90% for the implementation so what we have are good plans but we still have very bad implementation. Most of the people who are responsible for the implementation do not have the required knowledge to fulfil the job (GOI1, 2016).

Thus, several participants believed that nepotism and the consequent appointment bias is an obstacle to increasing the efficiency of government institutions. According to an interviewed government official (GOI8, 2016), nomination for top-level government positions is not based on competencies but is based on personnel relations, which in some cases has resulted in corruption as in the Oman Oil Company.³²

8.3.3 Individual Performance

One of the main issues highlighted by different participants was what they described as the ‘Superman phenomena’. According to the participants (MO1, 2016; MO2, 2016; GOI6,

³² As a result of the 2011 social unrest the Sultan ordered the authorities to increase their grip on corrupt practices. Since 2011, 20 top level government officials and businessman been convicted for accepting bribes, abuse of office and money laundering. The main cases were related to oil industry (Reuters, 2014).

2016; GOI8, 2016; GOI9, 2016), the Superman phenomena, which is not limited to Oman but is a common practice in all GCC countries, occurs when a government official is nominated for more than 15 other positions alongside his normal duties. For example, a Minister of Finance could at the same time be the head of board of directors in three government-owned companies, the chairperson in various ministerial committees, the chairperson on executive committees, and be on a number of board of directors in government-owned or private sector companies. The participants questioned the ability of one person to manage those duties effectively; thereby, undermining the performance of the institutions affected. In this respect, an interviewed government official stated:

We have the supreme committee of financial resources as it contains (anonymise) and (anonymise) so it is the strongest committee overall. The other committees have almost the same ministers. So if ministers agree in one committee about something it will be the same agreement in others. So where is the innovation or what those people could provide as a new ideas (GOI8, 2016).

Furthermore, several participants indicated that the leadership and administrative style in the country could be behind the lack of quality in institutional performance. The individualistic style of management exacerbates the overlapping responsibilities between different government institutions as demonstrated in Chapter Six and in Chapter Seven. According to an interviewed participant from the private sector (BI5, 2016), the other issue is that most ministers believe that the ministry is their personal territory. As a result, a new minister will not continue the same policies but will create his own administration and projects. Thus, an interviewed Omani academic states:

Unfortunately, there is no accountability in Oman, otherwise those who are practising such behaviour should be questioned (AI3, 2016).

Furthermore, according to several participants (MO5, 2016; GOI9, 2016), the individualistic style of management creates a gap in trust between the decision-makers and the executive level in the public sector which results in low productivity in the sector.

Moreover, certain high-level government officials feel insecure about employing competent personnel to work with them, as this approach might jeopardise their own position. The individualistic management style means they are able to employ an incompetent person to safeguard their own position (MO7, 2016).

Furthermore, despite research by Omanis and NGOs, such as the Omani Economic Association, in relation to economic reform, the government still contracts international consultants to provide solutions for the problems at a high cost. Such studies, which might have little relevance to the situation in Oman, can be a copy of a similar study that they undertook for a different country (GOI8, 2016). According to an interviewed government official:

We know that other country had been through a similar situation, why do not we check how did they solve that problem and learn from them. Instead of keeping contracting with the same companies such as McKinsey asking them for the advice (GOI12, 2016).

Lower down the ladder, individual performance is negatively affected in terms of quality and efficiency by the limited training for government employees. Figure 8-4 shows the training programmes available for civil servants. Sixty-nine percent of the training programmes are directed to issues related to education, which is focused primarily on Ministry of Education and Ministry of Higher Education employees. Only 17% of the training programmes are related to administration. The lack of adequate administration-related training results in lowering the efficiency and the quality of the output, undermining the quality of institutional performance. In addition, only 5% of the training programmes are related to clerical training and only 3% to IT-related training despite the government's attempts to move to a knowledge-based economy.

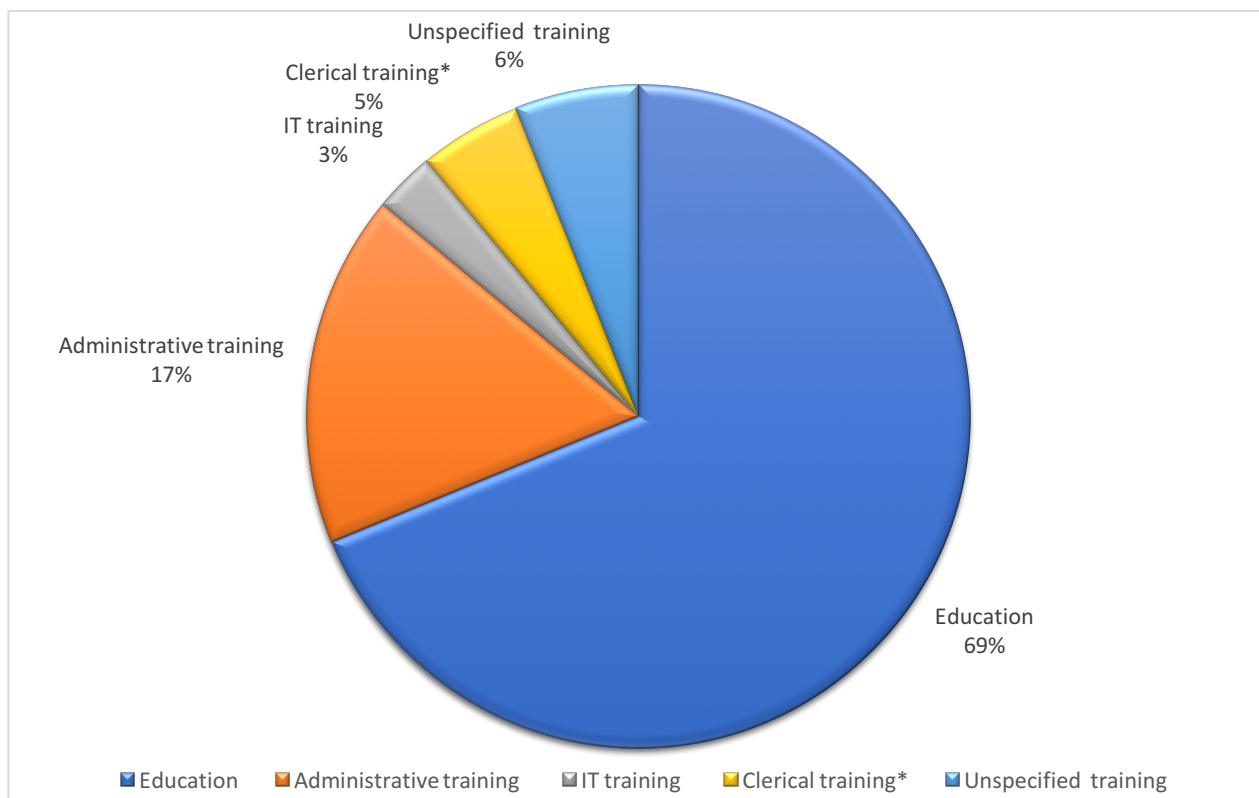


Figure 8-4: Civil Service Employee Training by Category

Source: Compiled by the author with data obtained from MOSS (2014:417).

*: includes clerical training, finance and economic training, youth and sport activities training and foreign language training.

8.4 Political Factors

Turning now to the political factors, the participants were asked to provide their views about the existence of corruption (which under its umbrella contains crony capitalism and rent-seeking)³³ in Oman and if such practices could affect moves towards economic diversification. Ninety eight percent of the participants believe that crony capitalism, rent-seeking and corruption exist in Oman. In fact, the focus group discussion was fruitful in identifying such practices as the transparent debate provided me with a deeper understanding and different perspective on the issue. Most participants highlighted that symptoms of crony capitalism are present in Oman, although it is nearly impossible to prove (as highlighted in the literature), as most large companies are owned by a government official or relative, creating the conditions for conflicts of interest. The long-serving powerful government officials own companies that provide them with the means to control the private sector. Thus, some participants argue that development in the GCC is:

³³ Crony capitalism, rent-seeking, and corruption are usually referred in Arabic by one word 'فساد' (*fasad*). However, using the word can trigger discomfort for the interviewees, therefore I used the term 'راسمالية المحاسيب' (crony capitalism) which was developed by Mahmoud Abdul-Fadill (2011).

A model of development based on the use corruption (MO2, 2016; FGO2, 2016; GOI12, 2016).

8.4.1 Roots of Crony Capitalism in Oman

There is limited literature regarding the existence of crony capitalism in Oman. However, comprehensive research in the British archive has provided this thesis with sufficient information to understand its root causes and development in Oman. According to documents in the TNA (1974), in 1970 the Sultan was searching for internal and external recognition. The internal recognition was achieved through the nomination of the tribal leaders and traders who had links to other regional governments to the Cabinet. The recognition was cemented by providing generous contracts to individuals who had relationships with Saudi Arabia, Egypt, Libya, the UK and the USA. In addition, diplomatic contacts saw the Omani government recognised by the Arab League and the UN. However, the search of legitimacy resulted in those individuals becoming “close to obtaining a degree of control over a large sector of the Omani economy”, according to TNA (1974:14). Moreover, TNA (1974:14) argues that the new group were “fixers par excellence, apparently in the political as well as the commercial sphere and it seems to be their ability to fix things at short notice which has impressed the sultan personally”. Indeed, the individuals were described as a ‘Mafia’ in the British documents (TNA, 1974:14). The Sultan appreciated the help provided by the individuals and he encouraged them to become involved in the state building projects.

Furthermore, the documents argue that the influence of the ‘The Omani Mafia’ was not limited to financial rewards for facilitating the involvement of international companies, which increased the prices of the projects, but also they tended to force complicated projects onto incapable companies (TNA, 1974:45). This approach not only increased the cost of the project massively but undermined the quality of the work, leading to the award of further contracts for maintenance. In fact, the behaviour of the cronies provided them with the opportunity to monopolise the market, whether by representing international companies or by creating local companies specialising in the supply of the services and products required by the government projects. Being close to the Sultan gave them access to the information about the government's projects, enabling them to maximise their benefits; “it was virtually impossible for anyone to obtain a large contract unless they dealt through them” (TNA, 1974:18). Importantly, one interviewed government official (GOI5, 2016) argued that even if the families control the private sector they are not corrupt.

Part of the reason behind the creation of the business elite was the political desire to create a strong private sector, which could work in partnership with international companies on the infrastructure projects. The Sultan thought it would be better to have a local partner with the international companies to access knowledge transfers and thus be able to work independently on similar projects in the future. This argument might have been valid if the companies had not misused their political affiliation to secure projects in Oman. For example, according to an interviewed government official (GOI4, 2016), there are companies which dominate the gas sector and are able to force government decisions in their favour. They can override any decision to raise gas prices and consequently obtain gas more cheaply than in the international market. Conflicts of interest can be established by looking at the owners of the companies and their official titles (see Appendices 4, and 5). The same applies to other natural resources such as mining.

Similarly, the influence of crony capitalism was not limited to securing projects but furthermore they were able to provide “virtually a monopoly of civil work and the defence side” (TNA 1974:16), which meant the construction projects would be given to a particular company without any tendering process. Additionally, the documents highlight His Highness Sayyid Thuwaini’s³⁴ views regarding financial affairs mismanagement in the country as he described the control of the tender board by Qais Alzawawi²⁷ “who now also controls the country’s finances” (TNA, 1981a:24) to the extent that the tender board was only responsible for the projects costing less than OMR1 million. This allowed over-pricing of some projects; for example, “the cost of the road from Mutrah to Muscat has now risen from OMR4m to OMR17m. CCC is the contractor and in this Qais has a large interest” (TNA, 1981a:24). Accordingly, companies could maximise their profits and the funds received by the facilitator, thereby undermining government finances and its ability to diversify the economy.

The TNA material identifies the individuals who controlled much of the business environment in Oman at the time, and argues that “a small group of senior ministers and advisers around the Sultan continued to take too much of the financial cake” (TNA 1981:1). As expected, the same individuals are now the owners of the biggest companies in the

³⁴ Until his death in 2010 he was a Special Representative of the Sultan and was listed next to the Sultan in official line-ups. When the Sultan was absent, he chaired meetings of the cabinet or the specialized councils. He was the President of the Tender Board and a key member of the Financial Affairs Council (Allen & Rigsbee II, 2014:190).

country, the majority of which were created jointly, often with financial institutions such as banks and insurance companies that provide them financial support.³⁵ According to an interviewed government official (GOI12, 2016), the cronies who control the market also control the banking system; for example, (anonymise) controls the National Bank of Oman, (anonymise) controls the Arab Bank of Oman; (anonymise) controlled the Oman International Bank until he sold it recently to the HSBC but still owns large share in it. Control of the banking system enables access to finance, providing an advantage over competitors or newcomers, as can be seen from Appendix 5 only one major shareholder in the Omani banks has no affiliation to political position. Furthermore, (anonymise), (anonymise) and (anonymise) are members of the Financial Affairs and Energy Resource Council which reports directly to the Sultan. All three have investments in energy intensive projects and obtain the gas for their projects at a discounted price. In addition, (anonymise) and (anonymise) used to control the communication sector as one represented Siemens and the other Eriksson. Undoubtedly, as sleeping partners, they get a percentage of the profits in return for their ability to influence the government.

8.4.2 The Impact of Crony Capitalism on the Economy

This section provides examples of the impact of crony capitalism on the economy. There is no clear distinction between the private and the public sector in Oman. For example, there are influential traders who are at the same time hold government positions, including in the Cabinet. Thus, crony capitalism practices in Oman include monopolistic and oligopolistic practices through the abuse of high office, the use of influence to create obstacles against any legal reforms that could affect their interests and the ability to change government focus to projects that maximise the benefits for the crony capitalists. According to an interviewed government official (GOI13, 2016), some officials work against reforms, such as of the taxation system. For example,³⁶ a particular minister could request a ban on certain economic activities in a particular strategic location. Then, the same minister approaches the Sultan to request a royal exemption that will allow him to establish a business which he banned in the location. According to a government official:

³⁵ See, Appendix 4: Table compiled by the author summarising top business groups (family owned companies) in Oman. Appendix 5: Table compiled by the author summarising the Major shareholders (Non-Government Funds) in the Omani Banks.

³⁶ Some participants provided an example on condition they were off-the-record. A former Minister of Trade and Commerce obtained a Royal order to ban crusher plants in the northern province of Musandam, after which he was granted the sole right to establish a crusher plant in that region.

A newspaper published a photo of a private seaport that exports crusher products. That crusher is owned by a minister and there is no check for the quantities being exported from that site. This sector is not regulated; also, it is not controlled by a strong institution. That had allowed the opportunist to gain from such situation. In my opinion, there is a loophole in the system and that loophole was left unregulated precisely to be used by the rent-seekers (GOI6, 2016).

The other example of crony capitalism highlighted by the participants was the oilfields' chemical supplies contracts, which are worth around USD800m per year. The 10 biggest contracts were given to companies owned by government officials who are responsible for the tendering and contracting process. The local companies benefit is low at between 5% and 10% per contract and there is no knowledge transfer to the country (JI3, 2016). In addition, the Minister of Health stated that 85% of the medical supplies in the country are delivered by a single supplier who is also responsible for the distribution (MO2, 2016).

Furthermore, an interviewed *Majlis* Oman member (MO2, 2016) highlighted that the legal framework does not help to restrain such practices. For example, the anti-monopoly law was amended in 2011 but is still not active. Similarly, an anti-conflict of interest law was formulated in 1983 but never implemented (AlMukhaini, 2013). An interviewed *Majlis* Oman member (MO5, 2016) argues that the existence of powerful cronies, such as (anonymise) and (anonymise) who are responsible for economic planning but also directly or indirectly represent more than 70 international companies (see Appendix 3), highlights a pure conflict of interest. These individuals have created obstacles to any legal reform that would counter their behaviours. In addition, the influential individuals know how to by-pass the system, making it very difficult for anyone to enter the market (BI5, 2016).

Moreover, according to MO1 (2016), MO7 (2016), GOI1 (2016), GOI13 (2016) and GOI14 (2016), rent-seeking in the country is not limited to individuals but has been expanded to the private sector.

The biggest capital cronyism is the private sector. The system was designed to maintain their positions and their control over the market (GOI9, 2016).

In fact, even the few members of the business elite who do not hold any official position have built bridges with the decision-makers, to the extent they can function as if they are above the law (MO1 ,2016; MO7 ,2016; GOI1 ,2016; GOI13,201; and GOI14 ,2016).

In the last 45 years, the government has supported the oligopolistic practices in the private sector, by giving support to less than 10 family companies which control the market. According to a focus group participant from the private sector:

The small and medium enterprises could not have any sort of financial facilities as the banks are not willing to lend them the necessary money to start their business without heavy guarantees. If those young comers do not manage to sustain their projects, then they would be jailed because they could not pay back the loans. Clearly there is no protection for the small and medium enterprises in Oman. On the other hand, those big family companies which own their own banks or at least have large shares in banks, so the financial facilities are not a question and definitely there will be protected if they could not pay back the loans which they owe (FPS2, 2016).

Most participants believe that the private sector is dominated by a small group of families. This control by a handful of individuals is not possible without certain arrangements among them. The families have a mutual understanding about splitting the market, and in what kind of products each family specialises. When the participants were asked about their views regarding the monopoly activities in the private sector most of them indicated that the top 10 business elites in Oman have worked together for the last 45 years (see Appendix 3). According to an interviewed government official:

For sure they are coordinating with each other so I will take this project and you could take the next project. Or by bidding against each other but in reality they exaggerate their bids to make it easier for a particular company to win the tender. It is a kind of conglomerate (GOI7, 2016).

An interviewed government official (GOI5, 2016) provided a different perspective. He acknowledges that even if some of the political elite use their influence to obtain business or obstruct competition, the problem in Oman might be due to security concerns. He argues that the security services used to place obstacles against any development that would increase the number of expats or to open the market to international investors. However, most participants acknowledged that the monopolistic and oligopolistic practices in the country were one of the main reasons behind the social unrest in 2011. According to an interviewed government official (GOI5, 2016), the political elite were aware of the government's intentions to invest in the northern cities. They gained control of land prior to the announcement of the projects, and then started to sell or rent it. This approach created the social unrest in the northern cities. In fact, the practice provides a clear example of crony capitalists' opportunistic behaviour rather than security concerns being behind the limited expansion of the private sector. According to an interviewed journalist:

The main obstacles to achieve economic diversification in Oman is the existence of the crony capitalism and the oligopoly practiced in the private sector (JI3, 2016) .

One of the questions directed to the participants was: *Despite the generous subsidies and financial schemes provided by the government in the period 1976 to 1995 targeting the agriculture sector, there was a contraction in the sector's share of GDP. What are the reasons behind that?* The answer provided by most participants was that most of the funds were acquired by certain members of the political elite and were not used to create a self-sustaining agricultural sector. Instead, the funds were used to establish recreational farms; i.e. the funds were directed to government officials rather than genuine farmers. A further problem with the sector was the amount of debt accrued at the Agriculture and Fisheries Bank threatened its existence, with the result that it was merged with the Development Bank. According to an interviewed journalist (BI5, 2016), the limited development of the agricultural and fishery sector could be attributed to the mismanagement of financial resources, the lack of clear strategies with a clear mandate and clear guidelines, most projects were not based on proper viability studies and the existence of crony capitalism practices.

Furthermore, according to several participants (FGO3, 2016; FNGO2, 2016; FJ3, 2016), the mismanagement of financial resources was not limited to the agriculture and fisheries sector. It was replicated in the 1990s in the industrial sector. Some of the political elite and their associates benefited from government support through cheap credit to gain access to easy money but the outcome was the closure of many factories in a short period because of the lack of viability studies. The main reason to establish those factories was to benefit from the easy credit facilities provided by the government. Similarly, the government initiative to enhance the tourism sector saw crony capitalism in action. Many people started to transform buildings which were not built as hotels into hotels in order to benefit from the generous incentives being provided by the government. According to an interviewed government official:

The economic diversification process became the victim of the opportunists. What happened prior to 2011 was an exaggeration and misuse of the position by many of the political elite was one of the main reasons behind 2011 social unrest (GOI9, 2016).

8.4.3 Foreign Direct Investment Inflows

Although FDI inflows are a normal part of business practice, this study argues that in the case of Oman they should be considered to be a matter of politics as they are linked to the practice

of crony capitalism.³⁷ The participants were asked about their views regarding the weak FDI inflows to the non-hydrocarbon tradable sectors (see Figure 8-5). Most comments indicated that the business environment in the country does not encourage competition from the international market. The legal framework acts as a deterrent to easy access to the Omani market under the justification that the private sector is still pre-mature, and allowing international companies to enter the market will have a negative effect on the local companies. An interviewed government official (GOI15, 2016) highlighted that it is also a matter of access to the government. A foreign investor with good access would be able to obtain the required permits quickly. For example, (anonymise) managed to obtain the land and to be in partnership with the government in a particular project by using his close relationship with the Sultan. As an interviewed government official put it:

Unfortunately, if you are an investor you need to have somebody influential to partner with if you want to make your life easy. Without a gatekeeper, it will be very difficult to access the market (GOI14, 2016).

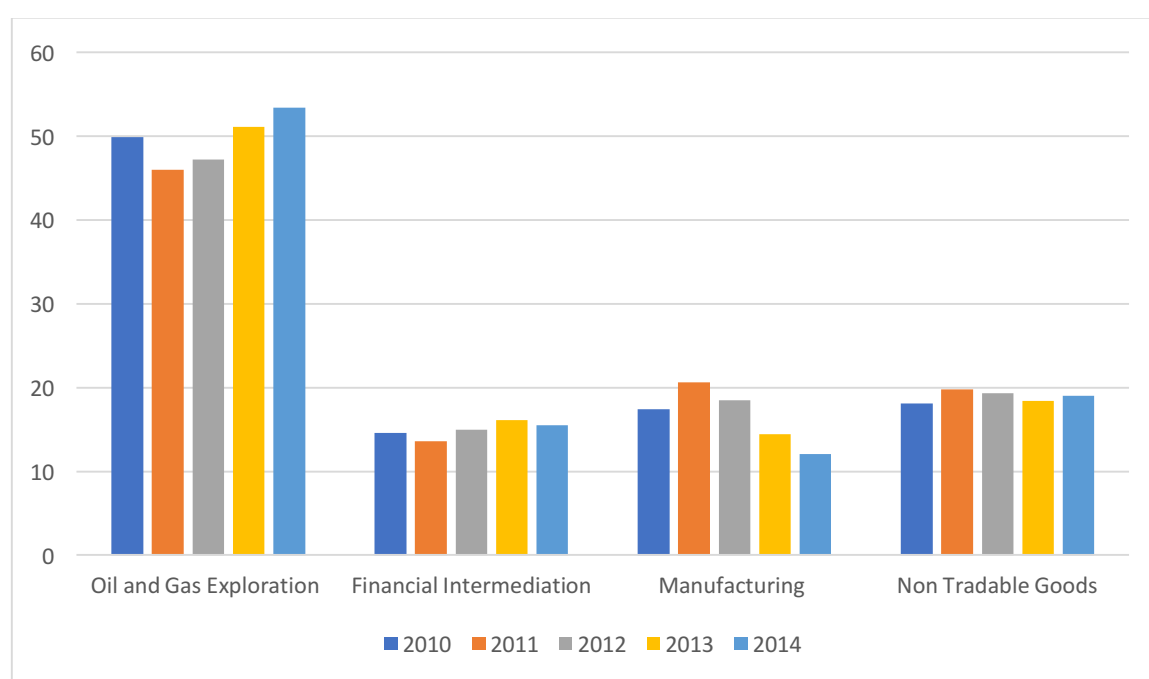


Figure 8-5: FDI by Industry (Relative Share %)

Source: Compiled by the author with data obtained from (NCSI, 2016e)

A further issue for FDI was that several participants implied that the negative bureaucracy diminished willingness of investors to establish new business in the country. In this context, the assets ownership laws were highlighted by interviewed government official:

³⁷ See Al Ismaili remarks in Sections 8.2.2 and **Error! Reference source not found..**

If I have a private land and I would like to use that land for a business entity the law will not allow me to do so this can be in the benefit of the industry. Oman is not business friendly it is very complicated to do business in Oman. Another report, *Doing Business in Oman* also highlighted similar issues (GOI14, 2016).

Although a stable exchange rate and access to cheap gas might encourage foreign investment, investors are unable to access the market without having a partnership with one of the rent-seekers. For example, Omani oligarchs dominate the gas-related industrial sector through their influence on the government. However, the government could encourage independent international investors to establish gas-related industries without the intervention of that group. This would allow the government to maximise revenue by selling its share at a later stage in the stock market. According to interviewed government official:

The cheap energy prices might be the only competitive element in Oman that we could use it to encourage foreign investors. As the other requirements are not as competitive such as the high salaries for the local employees, the lack of human resource development and the lack of work ethic which is a phenomenon that used to be in the public sector but right now has infected the private sector as well (GOI1, 2016).

In fact, crony capitalism and oligopolistic practices have been identified by a number of government publications. For example, the fifth FYDP highlighted that rent-seeking and anti-competitive behaviours were among the challenges facing private sector development and FDI inflows (MONE, 1996:259-265). The fifth FYDP was important because it covered the first stage of Vision 2020. As such it sent a signal that the destructive practices of some of the business elite must be minimised to establish healthy sustainable development. However, according to the participants, little has been achieved in this regard. Similarly, Figure 8-6 shows the results of the World Bank's '*Doing Business Indicators*' (World Bank Group, 2017), which highlight that between 2010 and 2016 there were improvements in terms of the 'starting a business' and 'getting electricity' indices but no improvement in the other indices such as 'enforcing contracts', 'protecting minority investors', and 'resolving insolvency'. Such findings are a clear indication that the legal reforms to create healthy business environment still lag international norms. According to an interviewed *Majlis* Oman member (MO5, 2016), it is common knowledge that if you want to access the Omani market you need to have a partnership with one of those individuals. Similar conclusions were also reached by Allen and Rigsbee II (2014), Skeet (1992) and Valeri, (2009).

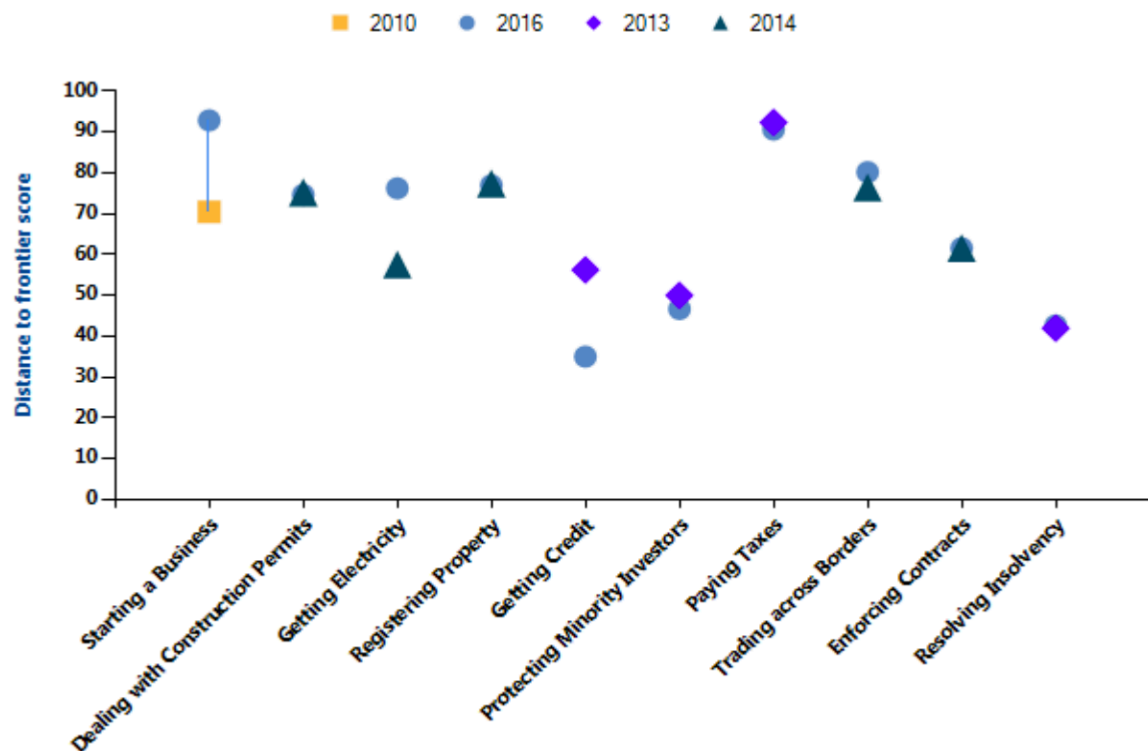


Figure 8-6: Doing Business indicators in Oman 2010-2016

Source: World Bank Group (2017:10)

8.5 Conclusion

This chapter analyses the institutional quality and the social and political factors that impact on the state's ability to achieve economic diversification. Through the analysis of the participants' statements in the semi-structured interviews and the focus group discussion and the secondary data it is clear there is a serious problem in relation to the institutional quality in Oman. Although the government has been aware of the importance of improving institutional quality in its medium-term and long-term strategies, it has faced several challenges. Some challenges are related to the quality of the administration, while others are related to the decision-making structure in the country. The quality of the administration depends on implementing check and balance measures and the availability of performance and efficiency measurement tools. Without these, the lack of accountability and the absence of adequate audit procedures have a negative impact on the institutional performance and efficiency. Furthermore, the absence of KPIs and of an effective evaluation system has a similar negative effect. One of the main challenges Oman might face if oil prices continue to be weak for a long period will be financing the overstuffed public sector, as well as absorbing the growth in youth entrants into the labour market. Furthermore, it will be also difficult to maintain the infrastructure with the same level of lavish spending. Indeed, without proper economic diversification Oman could face a devastating future.

The lack of consistency and the absence of the periodic independent evaluation for the economic development strategies has resulted in the poor utilisation of oil revenues. The lack of consistency can be attributed to the overlapping responsibilities among the government institutions. Additionally, the growth rate in some of the main economic sectors, such as agriculture and fisheries, is much lower than the Vision 2020 forecast, which can be attributed to mismanagement and the lack of a champion who can drive the strategies. Furthermore, the lack of effective governance had a negative effect on economic development procedures as was evident in the analysis of the privatisation process. Moreover, the current decision-making structure in the country with the Sultan as the Prime Minister shields the Cabinet from criticism over their performance or the efficiency of the government bodies that they manage. Additionally, even though corruption and conflicts of interest are targeted in the Basic Law of the State, the implementing institutions are not able to perform their duties because of the administration structure in the country.

One of the factors that has a negative effect on the institutional performance is individual competencies. The public sector faces critical challenges including overstaffing, the lack of adequate training and the concentration of duties in particular individual's hands. Furthermore, the absence of performance indicators and the lack of job descriptions have a negative impact on the administration performance overall.

Additionally, the chapter identifies the roots of the crony capitalism in Oman, which was related to the regime's willingness to gain recognition by supporting certain individuals who were capable of coordinating with officials in other countries. In return those cronies used their close alliance with the Sultan to secure financial gains. The financial gains have been achieved through winning government contracts (with little or no competition) or by representing international companies in exchange of a percentage of the profits. The monopolistic and oligopolistic practices have created an unhealthy business environment in the country which curtails FDI inflows. Furthermore, the cronies shield themselves from competition by generating obstacles against any legal reforms that could undermine their position.

Chapter 9 Conclusion

9.1 Introduction

The concluding chapter presents an overview of the research that focuses on the factors that hinder Oman's ability to achieve economic diversification. The analysis of the empirical evidence led to the conclusion that four factors (economic factors, institutional quality, human resource development and political/social factors) have negatively affected the economic diversification process in Oman. However, the economic factors and the human resource development do have negative effect on the economic diversification, though the institutional quality and the political and social factors clearly negatively impacted the economic factors and the human resource development, which, in turn, led to unsuccessful economic diversification.

This chapter includes four main sections, in addition to the short introduction. The first section presents an overall summary of the research and the key findings. A discussion on the contribution of the study follows. Then, the third section acknowledges the research limitations and the final section offers directions for future research.

9.2 Research Overview and the Main Findings

The objective of the research was to identify and examine the factors that hinder Oman's ability to achieve sustainable economic diversification. These factors were provided by the literature on the resource curse theory, and this dissertation tests these hypotheses in the case of Oman. The factors were divided into four broad categories: the economic factors; human resource development; institutional quality and social and political factors. Furthermore, the research sought to identify which factor had bigger impact on the economy diversification process and how each factor interacted with other factors.

This study started with an introductory chapter that provided the research background, the gaps within the literature, the theoretical foundation of the research, and the research's significance. The literature on resource curse theory does not offer adequate explanations for the resource dependence/abundance impact on economic diversification plans in a particular state. Nevertheless, the theory provides a diagnostic analysis for the symptoms of the resource curse.

Chapter Two provides background information about the case study of Oman and the context of this study. The chapter opens with a brief introduction, before Section Two gives

an overview of the Omani economy with detailed information about the structure of the government's revenue, oil exports as a share of the total exports, the oil sector's linkage with other economic activities, strategic development plans, economic challenges and the Dutch disease symptoms in the Omani economy. This background is followed by an overview on human resource development and provides detailed information about the demographic structure, organisation and challenges of the labour market and the links between the education system output and labour market demand. The next section highlights the institutional structure and quality in Oman by providing overview on governance, and governance and audit bodies, as well as Oman's ranking in the international governance quality indicators.

Chapter Three reviews the literature that concentrates on resource curse theory. The review highlights the major gaps in knowledge that deserve further research. The gaps include a lack of research concerning the four channels of the resource curse that could hinder the state's ability to achieve economic diversification. The second gap is the absence of analysis of the resource curse impact in a single country case study. Additionally, resource curse theory predicts that the abundance/dependence of natural resources will result in limited economic growth. Hence, this research provides a comprehensive analysis of the resource curse channels' impact in a single case study.

Moreover, the literature review highlights that the resource curse theory does not suggest strategic policies to overcome the problems associated with dependence on natural resource exports. Rather it provides a set of symptoms by which the state can be considered to be affected by the resource curse. Therefore, most studies analyse a single-channel of the resource curse; for example, Corden (1984), Matsen and Torvik (2005), Pegg (2010), Smith (2014) and Usui (1997) study the resource curse using the Dutch disease model to clarify the causes of the resource curse, while other scholars (e.g. Hertog, 2010a; Moore, 2002; Springborg, 2013) use the rentier state model.

The comprehensive review of the literature reveals that most studies focusing on the resource curse channels concentrated more on the economic channel, which includes the Dutch disease, crowding out effect, state intervention in economic activities and the limited growth of the non-oil tradable sectors. Other studies focus on institutional quality as the main channel of the resource curse. A few studies give attention to the human resource

development and the political and social factors. As is demonstrated in Chapter Three there are only a very limited number of studies that test for more than one resource curse channel.

The second section in Chapter Three narrows the focus by reviewing the literature on the natural resource impact in the GCC states. The review finds that many researchers (Callen, et al., 2014; Espinoza, 2012; Fasano, 2003; Peterson, 2009; Saif, 2009) argue that GDP growth is positively correlated with oil income and oil exports. However, other researchers (e.g. Basedau & Lay, 2009; Ross, Kaiser & Mazaheri, 2011) posit that a high dependency on oil exports results in unsustainable and distorted economic growth, in part, because hydrocarbons are a depleting resources.

Furthermore, the chapter reviews the literature regarding rentier state theory in relation to the GCC and economic diversification. One observation regarding studies on the GCC is that most are based on quantitative methods using data provided by the governments which could result in a biased conclusion. Furthermore, the review highlights that studies using the Dutch disease model ignore the fact that the currencies in all GCC countries are pegged. The last section in the chapter provides an overview on the literature concerning resource curse in Oman.

Chapter Four presents the theoretical and conceptual framework of the research. The chapter starts with a brief introduction that posits that the availability of natural resource income cannot be considered only as a dichotomy of a curse or a blessing. According to Stevens, Lahn and Kooroshy (2015), the exploitation of natural resource provides low-income countries with the means to create sustainable development. However, the outcome is conditional on effective economic management, such as achieved by Norway and Botswana. The chapter is divided into two main sections. The first section provides an overview on the resource curse theory and its four channels. It also addresses how the thesis overcomes the critiques of resource curse theory through differentiating between resource dependency and resource abundance. The thesis argues that GCC states are resource dependent, while the likes of Australia, Botswana, Canada and Norway are resource abundant states. Furthermore, the chapter outlines various measures of economic performance and economic diversification. The second section narrows the focus to how the thesis addresses the resource curse channels.

Chapter Five justifies the selection of qualitative case study, the case selection, data collection, the methods for the analysis and the discussion process. Moreover, the chapter presents the ethical concerns of the study and the limitations and difficulties associated with the fieldwork. Overall, to underscore the accuracy and rigour of the research, the triangulation method is used. For example, data was collected from three sources, semi-structured interviews, focus group discussions and official documents. Furthermore, the selection of interviewees was also triangulated using two parallel snowball selection methods.

Chapters Six, Seven and Eight analyse the data in relation to the four channels of the resource curse theory. Chapter Six analyses the economic factors impacting on the economic diversification process. The chapter is divided into eight main sections. The introductory section is followed by an in-depth analysis of the Omani economic structure, including a discussion of the diversification of government revenues, economic performance indicators and the economy diversification puzzle. The third section assesses the Dutch disease symptoms in the Omani economy, such as labour force crowding out, non-oil tradable sector performance and exchange rate appreciation. The following sections analyse economic factor channels such oil price instability, the role of the government in the economy, private sector performance and clandestine trade.

One of the main conclusions of the chapter is that the Dutch disease hypotheses is not relevant to the Omani economy. The crowding out of the labour force from the tradable sectors to oil sector does not match the case in Oman where the workforce moved not to the oil sector but to a vastly expanded public sector. The second hypothesis of the Dutch disease is the slow growth of the non-oil tradable sectors is not reflected in Oman because before the oil export revenues start to flow there was very limited industrial activity. The third hypothesis of an overvalued currency does not occur in Oman, as the currency is pegged to the US dollar.

Furthermore, the analysis reveals that oil price volatility was an influential factor blocking economic diversification, although, logically, it should work as a driver to increase the efforts to diversify the economy away from its oil dependency. The chapter also analyses government intervention in the economy, which started in 1970 with the new regime's attempt to establish a modern state structure. To develop the private sector the government

provided top level officials with the financial means to establish their own companies. Over time these officials were transformed into crony capitalists by using their political power and financial resources to create an oligopolistic environment which has curtailed the expansion of the sector. The chapter's main conclusion is that economic channel in blocking economic diversification in Oman does not match the resource curse hypotheses. The economic factors can be considered as intervening variable as they are influenced by institutional inefficiency and the social and political factors.

Chapter Seven presents the empirical findings regarding the human resource development as one of the resource curse channels. The chapter contains a brief introduction followed by four main sections. Section Two provides a comprehensive analysis of the human resource development in Oman by looking at education quality and education policy sustainability. Resource curse theory predicts that oil-dependent states will not be able to expand citizens' participation in the private sector. Therefore, Section Three assesses labour market supply and demand and provides clarification on the existence of the labour market supply and demand gap. The reasons behind the citizens' limited participation in the private sector is attributed to the Omanisation strategy and competition from expatriates. Section Four is set against the background of the Omani government's awareness of the importance of economic diversification to a knowledge-based economy. Consequently, the section assesses the reasons behind the limited development in R&D.

Human resource development has been one pillar in each FYDP, as well as Vision 2020. Although the horizontal education distribution philosophy provided a basic education for most citizens in a short period, the approach had a negative effect on the quality of education. The low-quality output of the education system is attributed to poor teacher training, the lack of financial incentives for teachers and a lack of consistency in education strategies. In addition, the distortion in the labour market can be attributed to the lack of qualifications and skills among Omanis and to competition from better qualified migrants who are less costly to employ and tolerate poor working condition.

Additionally, the education system in Oman suffers from chronic structural problems which is attributed to the inefficient coordination between different government entities and the lack of clarity in responsibilities towards different aspects of the system. In 1980, the Omani government established a strategy to replace the migrant workers with Omanis.

However, the strategy has not been successful as the government is still the main employer of Omanis, with few involved in the private sector. Limited Omani participation in the private sector can be attributed to two reasons. The first is related to political decision-making and the absence of strict policies to impose reforms in the labour market. The second reason is related to the limited training opportunities and the financial incentives gap between the public and private sectors. The chapter also analyses the role of R&D as a vehicle by which to achieve a diversified economy. The findings indicate that the limited role of R&D is because of the lack of conviction among the decision-makers about its importance. As is demonstrated, the quality of the educational system output also undermines the successful utilisation of R&D. The chapter concludes that human resource development is an obstacle to achieving economic diversification in Oman. However, it was affected by institutional quality and the political and social factors.

Chapter Eight is the final empirical chapter and analyses institutional quality and the social and political factors as obstacles towards economic diversification. The chapter is divided into six sections, the first of which is the introduction. The second section analyses the institutional quality in terms of the management, implementation and consistency of economic diversification strategies. It also assesses the issues that affect institutional performance and efficiency, such as overlapping responsibilities and the lack of accountability and governance. The third section provides the analysis of the social factors including rentier mentality, nepotism and bureaucracy and individual performance. The fourth section analyses the political aspects including crony capitalism, rent-seeking and corruption. The section discusses the roots of crony capitalism in Oman and analyses its impact on the economy. Furthermore, the thesis argues that FDI inflows in oil-dependent states are not a result of normal business practice but are influenced by the political willingness to open the market to international investors. This is analysed in the fifth section.

One of the main conclusions of Chapter Eight is that Oman suffers from inefficient institutions. The lack of institutional quality is attributed to the absence of accountability and adequate audit processes, of key performance indicators and of an effective evaluation system. However, the importance of enhancing institutional quality was stressed repeatedly in each FYDP, although the plans themselves also suffer from a lack of performance and efficiency measurement tools. This contributed to the limited achievement of some of the critical goals in the FYDPs and Vision Oman 2020, and, in turn, the failure of economic

diversification strategies. Furthermore, the lack of governance is attributed to the decision-making structure in the country as the Sultan is also the prime minister which makes it very difficult to impose any governance measures. Additionally, any criticism of the performance of the Cabinet is taken as criticism of the Sultan. In fact, although there is a very clear anti-corruption and conflict of interest legal framework, the implementing institutions are not effective because of the administration structure. According to rentier state theory, overstaffing in the public sector is a channel of indirect wealth distribution. However, this policy has a negative impact on institutional performance and efficiency.

The social impediments to economic diversification are rentier mentality, nepotism, bureaucracy and individuals' performances, all of which lead to the creation of an unproductive and inefficient public sector. In addition, the chapter identifies the role of crony capitalism in Oman and its impact on economic performance. Providing a limited number of individuals with political power and financial resources enabled them to gain control of most of the economic activities in the country. This situation has created an unhealthy business environment which has curtailed FDI inflows. Indeed, this thesis argues that crony capitalism has had a negative impact on economic activities for two reasons. The first is related to the legal protection the cronies created in order to protect their positions from international competition. The second is related to their ability to monopolise the business environment to their benefit and build obstacles to any local competition. This environment has not assisted the expansion of the private sector and indirectly hinders economic diversification efforts.

In summary, this thesis identifies four main factors that hinder the state's ability to diversify the economy from its natural resource dependency. Most scholars identify economic factors as the main channel of the resource curse. However, this thesis demonstrates that in the Omani case, economic factors are negatively affected by the institutional quality and the political and social factors. This is the same case for human resource development. The thesis identifies the reasons behind institutional inefficiency, which is clearly linked to the lack of human resource development and to the economic activities in the country. Furthermore, the thesis identifies crony capitalism's impact on the economic performance and that the unhealthy business environment has severely curtailed private sector expansion including FDI inflows.

9.3 Research Contributions and Significance

This thesis seeks to fill a wide gap in the literature in relation to resource dependency in the single country case of Oman. Accordingly, the contributions of this thesis are as follows.

As is demonstrated in Chapter Three, most studies that analyse the resource curse channels are comparative, and are based on a set of different countries. For example, Gylfason (2001) studies human capital development in 65 resource-rich countries, Atkinson and Hamilton (2003) assess the genuine saving rate in 103 countries, Gylfason and Zoege (2006) investigate savings and investment in 85 countries, Bornhorst et al. (2008) study the physical policy in 30 hydrocarbon-producing countries, Apergis et al. (2014) research the agricultural value added in MENA countries, and Bhattacharyya and Collier (2014) assess public capital in 45 developed and developing countries. Therefore, the main contribution of the thesis is to provide fresh analysis on the resource curse impact in a single country study that has been overlooked. Furthermore, the thesis provides a new dimension to the theory as it argues that resource dependency must not be categorised as only a curse or only a blessing.

Most scholars who measure natural resource dependency and abundance focus on the natural resource share of the GDP or share of total exports. For example, Sachs and Warner (1995) and Boschini et al. (2013) use primary exports as a percentage of GDP, Ross (2006), Auty (2007) and Collier and Hoeffler (2009) use the percentage of natural resource export revenues as a percentage of GDP, Gylfason (2001) and Gylfason and Zoege (2006) measure the share of natural capital in national wealth and Dietz et al. (2007) and Daniele (2011) use the share of mineral exports in total exports. Therefore, another contribution of the thesis is to include different factors rather just using one measure to test the reasons behind limited economic diversification.

Furthermore, the methodology used is another contribution to the literature as no previous study had used qualitative methodology to test the resource curse impact in a single case study. In addition, although this thesis analyses the resource curse impact in Oman, similarities with other GCC countries could inform those countries about the possible causes behind their limited economic diversification efforts.

As demonstrated in Appendix 1, most studies analyse the resource curse impacts through one particular channel. For example, Apergis et al. (2014), Karl (2005) and Sachs

and Warner (1995, 2001) test the resource curse impact by analysing the economic performance. Blanco and Grier (2012), Daniele (2001) and Stijns (2005) analyse the resource curse impact through human resource development. Mehlum, Moene and Torvik (2006), Ploeg (2007) and Torvik (2009) assess institutional quality as a channel of the resource curse, while Collier and Hoeffler (1998), Lam and Wantchekon (2003) and Ross (1999) test the political factors. In this context, the research examines for the first time the relationship between four different factors—economic performance, institutional quality, political and social factors, and human resource development. Furthermore, the thesis examines the impact of the political and social factors on the FDI decision-making as it argues that FDI inflows to an oil-dependent state are politically rather than institutionally or economically motivated.

Most studies which assess the economic channels do so through the Dutch disease model. However, the model does not fit the political and economic development in the GCC states after the discovery of oil. Therefore, the thesis argues that the Dutch disease model is not applicable to the GCC states and instead proposes a new conception termed ‘the GCC disease’.

Furthermore, most studies use GDP growth as an economic performance measure. However, the analysis confirms that using GDP growth as an indicator of economic performance and development is not suitable in the case of Oman. Over the past 45 years GDP has grown strongly, but this growth is because of the increase in oil export volumes and the increase in international oil prices. Therefore, this thesis overcomes the debate regarding the economic performance measures by using economic diversification as a proxy for economic performance measure.

The political economy of Oman has generally been ignored by scholars. Allen and Rigsbee II (2014), Rabi (2011), Reilly (2014), Skeet (1992), Takriti (2013) and Valeri (2009) do investigate crony capitalism through their analyses of the economic structure. However, this thesis provides for the first time an analysis of the roots of crony capitalism in Oman and its impact on the economic diversification process.

9.4 Research Limitations

During the research, there were several critical challenges, the biggest of which was conducting the fieldwork in Oman on aspects perceived as sensitive. However, I managed to

conduct 41 semi-structured interviews and held two focus discussions (out of three initially planned). Nevertheless, the participants insisted on anonymising their identities, especially because they revealed sensitive information that was not available to the public. Indeed, I was unable to use some of the material because it was not possible to triangulate it with the secondary data.

Another important challenge was related to the availability of secondary data to triangulate the findings of the fieldwork. It is important to mention that, because of the political system in Oman, most data regarding energy production contracts, SGWF transactions and investments, court cases against corrupt officials, and SOCs financial statements, for example, are confidential. However, some of the participants provided the researcher with the requested data.

Furthermore, it was difficult to access accurate and reliable statistics data. For example, the available data between 1970 and 1980 regarding the non-oil manufacturing sector included hydrocarbon activities such as oil refining. Furthermore, in 2000, the government started to export LNG, which is also classified under non-oil manufacturing activities. In some cases, even though the data is available, requesting access can trigger discomfort, especially if the data is sensitive such as an individual's shareholding in a listed company or unemployment statistics. In addition, the e-government websites, which supposedly provide easy access to information, can lead to a dead end when searching for a comprehensive list of royal decrees because they don't have them online.

9.5 Further Research

Given the similarities between the political, economic and social structure in Oman and the other GCC states, this study can be the base for several other research projects. The most immediate one is applying the same framework to study the unsuccessful economic diversification attempts in the other GCC states. The framework can also be used to study the four channels of the resource curse theory in the other GCC states. This would produce a comprehensive picture of the impact of the regions' political systems and economic structure. Such research would be useful, particularly in relation to regime sustainability. Furthermore, the framework of this thesis could also help in embarking on an international comparative project; for example, the natural resource impact on Scandinavia, Sub-Saharan Africa, and Latin America in comparison to the GCC.

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Appendix 1: The Resource Curse: Its Causes and Effects

Focus	Authors	Conclusions
Economic performance	(Boschini et al., 2007)	The type of resource determines the type of negative impact of the resource curse.
	(Bornhorst et al., 2008)	Hydrocarbon revenues have negative relationship with non-hydrocarbon revenues.
	(Atkinson & Hamilton, 2003; Dietz, Neumayer, & Soysa, 2007)	Economic dependency on natural resources could lead to a low rate of genuine savings.
	(Thorvaldur Gylfason & Zoega, 2006; Stevens & Dietsche, 2008)	Economic dependency on natural resources has an adverse impact on savings and investment growth, which could slow the development of the financial system.
	(Corden & Neary, 1982; Corden, 1984; Limi, 2007; Gylfason, 2001; Papyrakis & Gerlagh, 2004; Pegg, 2010)	Dutch disease is the most prominent economic channel for the natural resource curse, which leads to poor economic performance.
	(Boos and Holm-Müller, 2012)	The factors that lead to the resource curse also have an adverse effect on genuine savings.
	(Apergis et al., 2014)	Negative growth in the agriculture value added is associated with the natural resources rent dependency.
	(Sachs & Warner, 1995, 2001)	Natural resource dependence is negatively correlated with economic growth. Institutions do not play a significant causal role in the resource curse outcome.
	(Davis & Tilton, 2005) (Frankel, 2010)	Natural resource price volatility reduces economic growth.
Human resource development	(Karl, 2005)	Oil-dependent countries economic performance is worse than resource-poor economies because high dependency on oil export revenues has a negative effect on property rights and increases the power of interest groups, and the role of the state.
	(Stijns, 2005)	Natural resource abundance has a positive impact on the state's ability to invest in the human capital.
	(Papyrakis & Gerlagh, 2007)	Natural resource abundance could lead to lower levels of investment in education.
	(Daniele, 2011)	Human resource development is positively correlated with natural resource abundance. However, it is negatively correlated with natural resource dependence.
	(Gylfason, 2010)	Natural resource abundance could have negative effects on education.
	(Blanco and Grier, 2012)	Natural resource dependency has adverse effects on human resource development.
	(Apergis and Payne, 2014)	Better institutional quality reduces the unfavourable effect of oil reserves on the performance of the real economy.
	(Brunnschweiler, 2008)	Institutional quality does not have a significant

Focus	Authors	Conclusions
Institutional quality		role on the negative effects of natural resource dependency.
	(Mehlum, Moene, & Torvik, 2006, Mavrotas, Murshed, & Torres, 2011)	Institutional quality could determine if the resource revenues will bring curse or blessing.
	(Bhattacharyya and Hodler, 2014)	Institutional quality determines the success of financial sector development.
	(Torvik, 2009)	Good governance and effective institutions can be the only way to avoid the resource curse.
	(Sarmidi, Hook, Law, & Jafari, 2014)	If the state manages to reform its institutions and improve their performance, then it is able to avoid the negative effects of resource dependency.
	(Ploeg, 2007)	The state can prevent the resource curse if they have strong institutions and a well-developed financial system alongside an open market for international trade.
	(Karl, 1997)	Rent-seeking behaviours constrain the state's ability to reform its institutions.
	(Mehlum, Moene, & Torvik, 2006)	Good governance and effective institutions are the only way to avoid the resource curse.
	(Isham et al., 2002)	Some agriculture crops such as coffee, cocoa and bananas could have a similar effect to oil dependency on economic performance. However, the only way to avoid the resource curse is the implementation of good policies through efficient institutions.
institutional quality and human development	(Bulte et al., 2005)	Resource dependency leads to low levels of human resource development, weak institutions, promotes autocratic governments and low levels of governance.
Political factors	(Collier and Hoeffler, 1998)	Natural resource dependency raises the probability of civil war. In addition, it hinders any positive economic development.
	(Ross, 1999)	Resource-dependent states implement low tax rates which decreases the level of political accountability.
	(Lam and Wantchekon, 2003)	Corruption, rent-seeking, and income inequalities are the most prominent effects of the political channel of the natural resource curse.
	(Sala-i-Martin and Subramanian, 2003)	Oil export revenue dependency could be the main cause of conflict between the stakeholders at the national level such as the political elite, local tribes and the overall society. It also leads to institutional quality deterioration.
	(Arezki and Brückner, 2011)	High dependency on oil revenues increases political risk and corruption, especially if the state has a monopoly over oil production activities.

Focus	Authors	Conclusions
	(Arezkia and Gylfasonb, 2011)	If the state is democratic, then natural resource dependency is not associated with high levels of corruption.

Source: Compiled by the author.

Appendix 2: Semi Structured Interview Questions Pack



أسئلة المقابلة

Interview Questions

School of Government and International Affairs

كلية الدراسات الحكومية والعلاقات الدولية – جامعة دورهم

"عوائق التنوع الاقتصادي في الدول الغنية بالثروات ، منظور نظرية نقمة الموارد :سلطنة عمان كحالة بحثية "

Obstacles to Economic Diversification in Resource Dependent Countries
through the lens of the Resource Curse Theory: A Case Study of Oman"

تمت إجازة هذا المشروع البحثي من قبل لجنة أخلاقيات البحث العلمي في جامعة دورهم البريطانية، ويتعهد الباحث بالحفاظ على سرية المعلومات

حيث لن تستخدم إلا لأغراض البحث العلمي .

**This study was approved by Durham University Research Ethics Committee.
The researcher undertaking that the material will only be used for scientific
research.**

The interview will take approximately two hours and will be based on the interview topic guide, but it is designed to be flexible so as to meet your needs. The interview will be recorded, subject to your permission. Recordings of interviews will be deleted after transcription. Even if you have decided to take part, you are still free to cease your participation at any time and to have research data/information relating to you withdrawn without giving any reason before 31 June 2016.

The UK Data Protection Act 1998 will apply to all information gathered within the interviews and held on password-locked computer files and locked cabinets within Durham University. No data will be accessed by anyone other than me; and anonymity of the material will be protected by using false names. No data will be able to be linked back to any individual taking part in the interview. You may withdraw your data from the project before 31 June 2017. All recordings of data on audio-equipment will be deleted after transcription. If you ask me to withdraw your data at any time before 31 June 2017 I will remove all traces of it from the records.

I will produce a final report summarizing the main findings, which will be sent to you upon your request. I also plan to disseminate the research findings through publication and conferences in both English and Arabic. If you have any questions or require more information about this study, please contact me using the following contact details:

Alkhatab Alhinai
The Al-Qasimi Building
Elvet Hill Rd-Durham-DH1 3TU-United Kingdom
Alkhatab.alhinai@durham.ac.uk

If this study has harmed, you in any way or if you wish to make a complaint about the conduct of the study you can contact Durham University using the details below for further advice and information:

Dr Christopher Davidson, Senior Lecturer in Political Economy

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Thank you for considering taking part in this research.

إيضاحات

تهدف هذه الدراسة الى تحليل الاسباب التي وقفت عائقا امام سلطنة عمان للوصول الى التنوع الاقتصادي على الرغم من انتباه الحكومة مبكرا لضرورة البحث عن مصادر لتنوع الدخل، حيث ستحاول هذه الدراسة تحليل العوائق من منطلق نظرية لعنة الموارد، وذلك من خلال تحليل عدد من العوامل التي تتبثق من تلك النظرية (عوامل اقتصادية، ضعف تأهيل الموارد البشرية، ضعف كفاءة المؤسسات الحكومية، عوامل اجتماعية وسياسية) في سبيل تحديد فيما اذا كان التنوع الاقتصادي في السلطنة قد تأثر سلبا بواحد او أكثر من تلك العوامل.

The main aim of this thesis is to analyse the economic diversification obstacles through the lenses of the resource curse the. My work will concentrate in Oman as a case study and will cover four main channels of the resource curse mainly economic factors, human resource development, institutional quality and political and social factors. To be able to do so I used qualitative methodology the data was collected through semi-structured interviews and focus group discussion the findings will be triangulated with the secondary data from the government of Oman publication and the World Bank, IMF and other international organizations publications.

نظرية لعنة الموارد: تشير نظرية لعنة الموارد الى ان الدول التي تعتمد في اقتصادها علي مورد وحيد لن تتمكن من الوصول الي التنوع الاقتصادي ،حيث ان اعتمادها علي ذلك المورد ستترتب عليه تبعات اقتصادية من قبيل المرض الهولندي، وتبعات مؤسسية من قبيل ضعف كفاءة المؤسسات العامة وتبعات تتعلق بضعف كفاءة تأهيل الموارد البشرية الي جانب معاناة تلك الدول من تبعات اجتماعية وسياسية.

The resource curse theory main argument is that oil –dependent/abundant states will not be able to diversify their economies as a result of the influence of one of the four factors: economic factors, human resource development, institutional quality and political and social factors.

نظرية المرض الهولندي: تعود هذه التسمية الي ما عاناه الاقتصاد الهولندي عقب تدفق كميات كبيرة من النفط في بداية السبعينات من القرن الماضي ،حيث أدت التدفقات المالية الكبيرة الي رفع سعر صرف الجالدر الهولندي امام العملات الاخرى مما رفع قيمة المنتجات الهولندية غير النفطية ، الامر الذي حرما من القدرة علي منافسة السلع المستوردة التي اصبحت ذات قيمة اقل ،وبمرور الوقت أدى ذلك إلي إنبهار العديد من القطاعات الانتاجية غير النفطية في هولندا كما أدى أيضاً إلى إستنزاف القوى العاملة في تلك القطاعات لتنتجه للعمل في قطاع النفط نظرا للعوائد المرتفعة .

The concept of Dutch disease refers to the situation in Netherlands after the discovery of massive amounts of natural gas. The massive inflow of foreign currency had resulted in increasing the currency exchange rate which resulted in decreasing the non-hydrocarbon exports competition in the international market. The increased importance of the natural resource activities in the economy have resulted in crowding out of the workforce from the

other non-hydrocarbon economic sectors to the hydrocarbon sector which had negative effect on those sectors.

رأسمالية المحاسيب: هو مصطلح يصف الاقتصاد الذي يعتمد فيه النجاح في الأعمال التجارية على العلاقات القوية بين القائمين على العمل التجاري والمسؤولين الحكوميين. ويمكن أن يتسم بالحباة فيما يتعلق بتوزيع التصاريح القانونية أو المنح الحكومية أو التخفيضات الضريبية الخاصة أو غيرها من أشكال تدخل الدولة في توجيه الشؤون الاقتصادية. وتشكل هذه الظاهرة نتيجة اندماج المال مع السلطة.

Crony capitalism is an economic term referring to the business environment in which the successful of any business activity is condition the availability of strong relationship between the decision-makers and the business elite. It can be summarised as the unhealthy environment being created through the mixture of political power and business activities.

عوامل اقتصادية (المرض الهولندي/ تذبذب اسعار النفط /دخول الحكومة بالمشاريع التجارية ،....)

1. هل يعاني الاقتصاد العاني مما يسمى بالمرض الهولندي ؟ وكيف نفسر تراجع نمو عوائد قطاع الزراعة والاسماك وكذلك ضعف نمو الصناعات ؟
2. من وجهة نظرك هل يمكن القول إن تذبذب أسعار النفط كان عائقاً أمام قدرة السلطنة علي تحقيق التنوع الاقتصادي ؟
3. يشير بعض المهتمين إلى أن مزاحمة الحكومة للقطاع الخاص في بعض المشاريع التجارية أدت إلى إضعاف القطاع الخاص. هل من تعليق ؟
4. لماذا لم يتوسع القطاع الخاص رغم الدعم الحكومي المقدم له ؟
5. قامت السلطنة بربط سعر صرف الريال بالدولار الأمريكي لاعتبارات اقتصادية .هل نستطيع القول ان النمو البطئ نسبياً للصادرات العانية غير النفطية يعزى ولو بشكل جزئي الى المستوى المرتفع لسعر صرف العملة الوطنية ؟

Economic factors (Dutch disease, oil price volatility, government intervention in the business activities...)

- 1- In your opinion, what are the symptoms of the Dutch disease in the Omani economy? Would you please highlight your opinion regarding the limited growth on the non-oil tradable sectors.
- 2- In your opinion to what extent have the oil price volatility affected the economic diversification plans.
- 3- Despite the generous financial facilities being provided by the government to the private sector though the government still involved in some of the projects that in other countries been done by the private sector. Any comments?
- 4- What are the reasons behind the limited private sector expansion?

- 5- The Dutch disease model presumed that natural resources exports would result in the currency appreciation. In your opinion to what extent such situation has affected the government efforts towards the economy diversification?

ضعف تأهيل الموارد البشرية

1. على الرغم من الاستثمار الكبير في تطوير الموارد البشرية في السلطنة نجد أن هنالك الكثير من الحديث حول إمتلاك خريجي قطاع التعليم والتدريب المهارات التي يتطلبها الاقتصاد في الوضع الراهن. هل تتفق مع هذا الطرح؟ وما هي الاسباب التي ادت الي وجود مثل هذه الفجوة بين مخرجات العملية التعليمية ومتطلبات سوق العمل من وجهة نظرك؟
2. هل نجحت الحكومة في تأهيل الصف الثاني من القيادات في مختلف المؤسسات الحكومية؟
3. يلاحظ المتابع ان هنالك نسبة كبيرة من الاجانب تعمل في قطاعات ومستويات وظيفية قد يمكن شغلها من قبل عمانيين حيث يثير بعض المتابعين أن التجارة المستترة قد تكون أحد أهم العوامل وراء ذلك. هل تتفق مع هذا الطرح من وجهة نظرك وما هو العائق وراء عدم قدرة القطاع الخاص على إحلال العمالة الوافدة في السلطنة؟
4. تشير الاحصائيات المعدة من قبل المؤسسات الدولية المختصة إلى أن السلطنة بين الدول الاقل انفاقا علي البحث العلمي حيث لا تتجاوز النسبة ٠.١٣٪ من اجمالي الدخل القومي. من وجهة نظرك ما هي دلالات هذا المؤشر؟ وما هي سلياته؟
5. بحسب الاحصائيات فقد حقق قطاع البنوك أعلى نسبة تعمين في السلطنة بنسبة بلغت (٩٢٪) يليه قطاع الاتصالات بنسبة (٩٠٪) يليه قطاع شركات النفط والغاز بنسبة (٧٨٪). كيف نستطيع تفسير نجاح التعمين في هذه القطاعات دون غيرها في حين لم تحقق باقي القطاعات ذات النسب المرتفعة؟

Human resource development

- 1- Despite the intense investment in the education system specially in the human resource development in general though number of national and international publications identified the low quality of the education system outcome. Without the reasons behind that in your opinion and what could be the reasons behind the gap in the qualification requested by the world market and education system outcome.
- 2- “We have leadership problem” do you agree with that statement and if you agree what are the reasons behind that.
- 3- According to the published data those high percentage of experts working in the private sector holding qualifications that could be matched with the citizens however the citizen’s participation in the private sector is very limited. In your opinion, what are the reasons behind that.

- 4- According to the published data the Omani government expenditure on research and development among the lowest internationally (0.13%)/GDP. In your opinion, what are the reasons behind that and what are they expected negative effects of such situation.
- 5- According to published data some economies sectors had achieved high levels of Omanisation for example: banking sector (92%), communication (90%), oil and gas (78%). In your opinion, what are the reasons behind the successful Omanisation in those sectors.

ضعف كفاءة المؤسسات

1. بحسب النظريات فان الدول المعتمدة على النفط تعاني من سوء جودة المؤسسات الحكومية وخدماتها هل ينطبق هذا الامر على السلطنة؟ وهل ثمة مؤشرات علي ذلك؟
2. المتابع للاحصائيات المتعلقة بحجم الصادرات من المواد الخام في السلطنة يجد أن ما تحصله الحكومة من ريع يعتبر ضئيلا حيث بلغ ما تم تحصيله علي سبيل المثال حوالي ٩ ملايين ريال في العام ٢٠١٢ ؟ من وجهة نظرك ما هي التعديلات المطلوبة للسياسات الحالية والمتعلقة بتعظيم الاستفادة من الثروات الطبيعية ؟
3. قامت الحكومة بإستحداث هيئة للتسويق الزراعي إلا أنه تم إلغاء تلك الهيئة في العام ٢٠٠٠م. ما هي مسببات الغاء هذه المؤسسة ؟ ما هي الآثار السلبية والايجابية لهذا القرار من وجهة نظرك ؟
4. يلاحظ المتابع وجود تشابه في الإختصاصات بين عدة مؤسسات حكومية.هل من تعليق حول هذا الجانب.

Institutional quality

- 1- According to the resource curse theory oil dependent states will suffer from inefficient institutions. In your opinion, do you think we have such situation in Oman? if yes is there any indicators.
- 2- According to the published data the mining sector participation in the government revenues was around 9 million OMR in 2012. In your opinion, what are the reasons behind the limited participation of the sector and the government revenues.
- 3- According to the government publications the agriculture and fisheries sector have been provided with a generous financial support however those sectors participation on the GDP is much lower than the government target. Could you please highlight in this issue?
- 4- According to the fifth FYDP the overlap between the different government institutions duties is one of the major challenges to enhance the institutional performance. Can you please comment on this?

عوامل سياسية واجتماعية

1. سبق للسلطنة وأن عاصرت موجات من انخفاض أسعار النفط (٢٠٠٨، ٢٠٠١، ١٩٨٦، ١٩٨٠، ١٩٧٣) وعلى الرغم من ذلك تقف اليوم أمام تحقيق الموازنة العامة للدولة لعجز مالي؟ من وجهة نظرك ما هي الاسباب التي وقفت عائقاً للاستفادة من تلك التجارب؟
2. بحسب الدراسات فإن الدول الغنية بالنفط ذات النظام الرئاسي غالباً ما تتشكل فيها بمرور الوقت تكتلات اقتصادية تستطيع أن تؤثر على أيه قرارات من شأنها أن تحد من إستفادتهم من الوضع القائم. هل ثمة ملامح لمثل هذه الظاهرة في السلطنة؟ هل من مؤشرات؟ وفي حال وجود هذه الظاهرة فهل كان لها تأثير سلبي على قدرة السلطنة في تحقيق التنوع الاقتصادي؟
3. حققت بعض الدول الغنية بالنفط تقدماً نوعياً فيما يتعلق بتنوع مصادر الدخل (النرويج، بتسوانا، كندا) حيث تشير الدراسات إلى أن السبب الرئيسي في ذلك يعود إلى وجود نظام محاسبة فعال. إلى أي درجة يمكن القول أن أحد عوائق التنوع الاقتصادي في السلطنة يعود إلى غياب الرقابة؟ وهل من أمثلة على ذلك؟
4. تتمتع السلطنة بسمعة طيبة فيما يتعلق بالمناخ الاستثماري كما عملت الحكومة على تشجيع الاستثمار الاجنبي من خلال تقديم العديد من الحوافز كالاغفاءات الضريبية، وعلى الرغم من ذلك تشير العديد من الدراسات إلى ضعف تدفقات الاستثمار الاجنبي للسلطنة في القطاعات غير النفطية. فما هي الاسباب وراء ذلك من وجهة نظرك؟
5. من خلال قراءة الخطط الخمسية نلاحظ أن الحكومة إنتهت مبكراً إلى حجم التحديات الاقتصادية ولذلك إحتوت جميع الخطط الخمسية على أربعة محاور اساسية (التنوع الاقتصادي، الاهتمام بتطوير العنصر البشري، تعزيز دور القطاع الخاص، التطوير الحضري) من وجهة نظرك إلى أي مدى نجحت الحكومة في تحقيق تلك الخطط؟ اين يقع الخلل؟
6. تعتبر خطة عمان ٢٠٢٠ إحدى الاستراتيجيات التي اعتمدها الحكومة للتخلص من الاعتماد على النفط. من وجهة نظرك هل تستطيع الحكومة تحقيق الاهداف الموضوعة لتلك الاستراتيجية؟ وفي حال الاجابة بـ (لا) ما هي الاسباب؟

Political and social factors

- 1- The government had faces many oil price downfalls (1973,1980,1986,2001.2008) though in each oil price crisis the government was working to overcome the deficit through borrowing money from the international market. In your opinion, what are the reasons behind this situation and why the government did not learn from the previous experience?
- 2- According to the published studies the monopolistic and oligopoly practice are one of the main observations in a rentier state. In your opinion is there any indicator of such phenomena in Oman? If yes to what extent such environment can hinders the state ability to achieve economic diversification?
- 3- Many scholars argue that the reasons behind the successful economic diversification in natural resource abundant states such as Norway, Botswana, and Canada is the existence of a proper accountability system. In your opinion to what extent was the lack of

accountability one of the reasons behind that successful economic diversification in Oman? Any examples.

- 4- Despite the government efforts to encourage the foreign direct investment inflow by inducing tax exemptions though according to the government publications there are very limited foreign direct investment inflow in the non-oil tradable sectors. What are the reasons behind that in your opinion?
- 5- By reading multi publications of FYDPs that can be seen that economic diversification was one of the main goals of those plans however the hydrocarbon sector still represents the biggest share in the government revenues. What are the reasons behind that in your opinion and what went wrong?
- 6- Vision Oman 2020 was one of the long-term strategies to achieve economic diversification. In your opinion given the remaining time in the vision did the government achieve the goals of the strategy? If no what are the reasons behind that?

إستبيان

1. من وجهة نظرك هل ترى أن اكتشاف النفط وما كان له من آثار تمثلت في التدفقات المالية الكبيرة . كان له أثر سلبي على نمو قطاعي الزراعة و الأسماك. (نعم / لا)
2. وهل ينطبق ذلك على أيضاً على الصناعات غير النفطية(نعم / لا)
3. تهدف رؤية عمان ٢٠٢٠ الى تقليص إعتداد الموازنة علي النفط لتصبح تشكل ما نسبته ٩٪ ورفع نسبة عوائد الغاز الطبيعي الى ١٠٪ وزيادة العوائد من القطاعات غير النفطية لتصل الي نسبة ٨١٪.هل تتوقع نجاح هذه الخطة في تحقيق الاهداف المرجوة (نعم / لا).
4. في حالة الاجابة ب (لا) هل يمكن القول أن السبب في ذلك هو:
عدم وجود نظام لمراجعة مدى تطبيق الخطة. ()
ارتباط الخطة بالأشخاص وليس بالعمل المؤسسي. ()
لم يتم اعداد الخطة بما يتوافق مع وضع الاقتصاد العماني. ()
5. يعد الاهتمام بالعنصر البشري واحد من أهم العناصر في تحقيق إقتصاد مستدام .من وجهة نظرك هل تمتلك مخرجات قطاع التعليم والتدريب المهارات التي تؤهلها لإحلال العمالة الاجنبية (نعم / لا).
6. تشير الدراسات إلي أن أغلب الدول ذات الاقتصاديات النفطية تعاني من ضعف كفاءة المؤسسات العامة. من وجهة نظرك هل تعاني المؤسسات في السلطنة من هذه الظاهرة؟(نعم/لا)

7. من وجهة نظرك هل ترى إن القطاع الخاص في السلطنة يعتمد بشكل كبير على الاتفاق الحكومي. مما نتج عنه قطاع خاص ضعيف غير قادر على المنافسة في السوق الدولي. (نعم/لا).
8. وهل ترى أن مزاحمة الحكومة للقطاع الخاص من خلال الدخول في بعض الاستثمارات أدى إلى إضعاف القطاع الخاص. (نعم/لا)
9. تشير بعض الدراسات إلى وجود ظاهرة تترافق مع الاقتصاديات الريعية، تتمثل في وجود نخب اقتصادية تمارس ما يمكن وصفه بإحتكار القلة، من وجهة نظرك هل لمثل هذه الظاهرة وجود في السلطنة ؟ (نعم/لا)
10. في ذات السياق تشير النظريات إلى أن ذات الدول تعاني من ظاهرة ما يسمى برأسمالية المحاسيب. من وجهة نظرك هل لمثل هذه الظاهرة وجود في السلطنة ؟ (نعم/لا)
11. بحسب نظرية وفرة الموارد فإن الدول التي يعتمد اقتصادها على مورد وحيد لن تكون قادرة على تحقيق تنوع اقتصادي نتيجة لتأثرها بواحد أو أكثر من العوامل التالية . يرجى التكرم بترتيبها بحيث يحصل العامل الأكثر تأثيراً على الرقم (١) ويكون العامل الأقل تأثيراً الرقم (٤) من وجهة نظرك.

- عوامل اقتصادية ()
- ضعف تأهيل الموارد البشرية ()
- ضعف كفاءة المؤسسات ()
- عوامل إجتماعية وسياسية. ()

Questionnaire

- 1- In your opinion “the oil export her negative effect on the growth of non-oil tradable sectors (Yes/No)
- 2- Was it also the same case with the non-oil non-tradable sectors? (Yes/No)
- 3- According to Vision Oman 2020 the oil exports share of the GDP should be 9% the liquid gas revenues 10% and the non-hydrocarbon to increase to 81%. In your opinion, you think such goals are achievable? (Yes/No)
- 4- If your answer is No, in your opinion will be that attributed to:
 - a. The accountability and periodic evaluation.
 - b. The Vision is related to individuals not institutions.
 - c. The Vision did not reflect the reality of economic structure.
- 5- Human resource development is considered as the cornerstone of sustainable economic development. In your opinion, do you think the current educational system

outcome are occupied with the qualification and training that make them able to compete with expat? (Yes/No)

- 6- The institutional quality is one of the measures in which the state can avoid the resource curse trap. In your opinion, do we have efficient institutions? (Yes/No)
- 7- The private sector is highly dependent on the government expenditure which make it very weak and not able to compete in the international market. do agree with the statement? (Yes/No)
- 8- The government involvement in some of the private sector projects had negative effect on the private sector expansion. Do you agree with the statement? (Yes/No)
- 9- One of the resource curse channels is the existence of oligopoly and monopolistic business environment. In your opinion, do we have such phenomena in Oman? (Yes/No)
- 10- Accordingly such phenomena is associated with the crony capitalism. In your opinion, the existence of crony capitalism had severe effect on the economic diversification? (Yes/No)
- 11- According to the resource curse theory natural resource -dependent states would not be able to create a diversified economy as a result of the effects of one or more of the following reasons. Could you please mark the reason which you believe have the most effect with number (1) the second (2) the third (3) and the fourth (4):
 - a. economic factors ()
 - b. human resource development ()
 - c. institutional quality ()
 - d. political and social factors ()

Appendix 3: Group Discussion Pack



محاوَر النقاش

Group Discussion

School of Government and International Affairs

كلية الدراسات الحكومية والعلاقات الدولية – جامعة دورهم

"عوائق التنويع الاقتصادي في الدول الغنية بالثروات ، منظور نظرية نقمة الموارد :سلطنة عمان كحالة بحثية "

Obstacles to Economic Diversification in Resource Dependent Countries
through the lens of the Resource Curse Theory: A Case Study of Oman”

تمت إجازة هذا المشروع البحثي من قبل لجنة أخلاقيات البحث العلمي في جامعة دورهم البريطانية ، ويتعهد الباحث بالحفاظ على سرية المعلومات

حيث لن تستخدم إلا لأغراض البحث العلمي .

This study was approved by Durham University Research Ethics Committee. The researcher undertaking that the material will only be used for scientific research.

The discussion will take approximately two hours and will be based on the topic guide, but it is designed to be flexible so as to meet your needs. The discussion will be recorded, subject to your permission. Recordings of discussion will be deleted after transcription. Even if you have decided to take part, you are still free to cease your participation at any time and to have research data/information relating to you withdrawn without giving any reason before 31 June 2016.

The UK Data Protection Act 1998 will apply to all information gathered within the interviews and held on password-locked computer files and locked cabinets within Durham University. No data will be accessed by anyone other than me; and anonymity of the material will be protected by using false names. No data will be able to be linked back to any individual taking part in the interview. You may withdraw your data from the project before 31 June 2017. All recordings of data on audio-equipment will be deleted after transcription. If you ask me to withdraw your data at any time before 31 June 2017 I will remove all traces of it from the records.

I will produce a final report summarizing the main findings, which will be sent to you upon your request. I also plan to disseminate the research findings through publication and conferences in both English and Arabic. If you have any questions or require more information about this study, please contact me using the following contact details:

Alkhatab Alhinai
The Al-Qasimi Building
Elvet Hill Rd-Durham-DH1 3TU-United Kingdom
Alkhatab.alhinai@durham.ac.uk

If this study has harmed, you in any way or if you wish to make a complaint about the conduct of the study you can contact Durham University using the details below for further advice and information:

Dr Christopher Davidson, Senior Lecturer in Political Economy

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Thank you for considering taking part in this research.

إيضاحات

تهدف هذه الدراسة الى تحليل الاسباب التي وقفت عائقا امام سلطنة عمان للوصول الى التنوع الاقتصادي على الرغم من انتباه الحكومة مبكرا لضرورة البحث عن مصادر لتنوع الدخل، حيث ستحاول هذه الدراسة تحليل العوائق من منطلق نظرية لعنة الموارد، وذلك من خلال تحليل عدد من العوامل التي تبتثق من تلك النظرية (عوامل اقتصادية، ضعف تأهيل الموارد البشرية، ضعف كفاءة المؤسسات الحكومية، عوامل اجتماعية وسياسية) في سبيل تحديد فيما اذا كان التنوع الاقتصادي في السلطنة قد تأثر سلبا بواحد او أكثر من تلك العوامل.

The main aim of this thesis is to analyse the economic diversification obstacles through the lenses of the resource curse the. My work will concentrate in Oman as a case study and will cover four main channels of the resource curse mainly economic factors, human resource development, institutional quality and political and social factors. To be able to do so I used qualitative methodology the data was collected through semi-structured interviews and focus group discussion the findings will be triangulated with the secondary data from the government of Oman publication and the World Bank, IMF and other international organizations publications.

نظرية لعنة الموارد: تشير نظرية لعنة الموارد الى ان الدول التي تعتمد في اقتصادها علي مورد وحيد لن تتمكن من الوصول الي التنوع الاقتصادي ،حيث ان اعتمادها علي ذلك المورد ستترتب عليه تبعات اقتصادية من قبيل المرض الهولندي، وتبعات مؤسسية من قبيل ضعف كفاءة المؤسسات العامة وتبعات تتعلق بضعف كفاءة تأهيل الموارد البشرية الي جانب معاناة تلك الدول من تبعات اجتماعية وسياسية.

The resource curse theory main argument is that oil –dependent/abundant states will not be able to diversify their economies as a result of the influence of one of the four factors: economic factors, human resource development, institutional quality and political and social factors.

نظرية المرض الهولندي: تعود هذه التسمية الي ما عاناه الاقتصاد الهولندي عقب تدفق كميات كبيرة من النفط في بداية السبعينات من القرن الماضي ،حيث أدت التدفقات المالية الكبيرة الي رفع سعر صرف الجالدر الهولندي امام العملات الاخرى مما رفع قيمة المنتجات الهولندية غير النفطية ، الامر الذي حرما من القدرة علي منافسة السلع المستوردة التي اصبحت ذات قيمة اقل ،وبمرور الوقت أدى ذلك إلي إنبهار العديد من القطاعات الانتاجية غير النفطية في هولندا كما أدى أيضاً إلى إستنزاف القوى العاملة في تلك القطاعات لتنتجه للعمل في قطاع النفط نظرا للعوائد المرتفعة .

The concept of Dutch disease refers to the situation in Netherlands after the discovery of massive amounts of natural gas. The massive inflow of foreign currency had resulted in increasing the currency exchange rate which resulted in decreasing the non-hydrocarbon exports competition in the international market. The increased importance of the natural resource activities in the economy have resulted in crowding out of the workforce from the

other non-hydrocarbon economic sectors to the hydrocarbon sector which had negative effect on those sectors.

رأسمالية المحاسيب: هو مصطلح يصف الاقتصاد الذي يعتمد فيه النجاح في الأعمال التجارية على العلاقات القوية بين القائمين على العمل التجاري والمسؤولين الحكوميين. ويمكن أن يتسم بالحباة فيما يتعلق بتوزيع التصاريح القانونية أو المنح الحكومية أو التخفيضات الضريبية الخاصة أو غيرها من أشكال تدخل الدولة في توجيه الشؤون الاقتصادية. وتشكل هذه الظاهرة نتيجة اندماج المال مع السلطة.

Crony capitalism is an economic term referring to the business environment in which the successful of any business activity is condition the availability of strong relationship between the decision-makers and the business elite. It can be summarised as the unhealthy environment being created through the mixture of political power and business activities.

تهدف هذه الحلقة النقاشية للتأاور حول الأسباب التي اضعفت قدرة الحكومة العمانية في الوصول الي اقتصاد متنوع بعيدا عن الاعتماد علي النفط ، وذلك من خلال مناقشة المحاور التالية وتحديد التأثيرات المنبثقة من كل محور.

This group discussion aims to identify the impact of each of the following factors on Oman's ability to achieve economic diversification.

(1) عوامل اقتصادية (المرض الهولندي/ تذبذب اسعار النفط /دخول الحكومة بالمشاريع التجارية ،....)

Economic factors (Dutch disease, oil price volatility, government intervention in the business activities...)

(2) ضعف تأهيل الموارد البشرية

Human resource development

(3) ضعف كفاءة المؤسسات

Institutional quality

(4) عوامل سياسية واجتماعية

Political and social factors

إستبيان

1. من وجهة نظرك هل ترى أن اكتشاف النفط وما كان له من آثار تمثلت في التدفقات المالية الكبيرة . كان له أثر سلبي على نمو قطاعي الزراعة و الأسماك. (نعم / لا)
2. وهل ينطبق ذلك على أيضاً على الصناعات غير النفطية(نعم / لا)
3. تهدف رؤية عمان ٢٠٢٠ الى تقليص إعتداد الموازنة علي النفط لتصبح تشكل ما نسبته ٩٪ ورفع نسبة عوائد الغاز الطبيعي الى ١٠٪ وزيادة العوائد من القطاعات غير النفطية لتصل الي نسبة ٨١٪.هل تتوقع نجاح هذه الخطة في تحقيق الاهداف المرجوة (نعم / لا).
4. في حالة الاجابة ب (لا) هل يمكن القول أن السبب في ذلك هو:
 - i. عدم وجود نظام لمراجعة مدى تطبيق الخطة. ()
 - ii. ارتباط الخطة بالأشخاص وليس بالعمل المؤسسي. ()
 - iii. لم يتم اعداد الخطة بما يتوافق مع وضع الاقتصاد العماني. ()
5. يعد الاهتمام بالعنصر البشري واحد من أهم العناصر في تحقيق إقتصاد مستدام .من وجهة نظرك هل تمتلك مخرجات قطاع التعليم والتدريب المهارات التي تؤهلها لإحلال العمالة الاجنبية (نعم / لا).
6. تشير الدراسات إلي أن أغلب الدول ذات الاقتصاديات النفطية تعاني من ضعف كفاءة المؤسسات العامة. من وجهة نظرك هل تعاني المؤسسات في السلطنة من هذه الظاهرة؟(نعم/لا)
7. من وجهة نظرك هل ترى إن القطاع الخاص في السلطنة يعتمد بشكل كبير على الاتفاق الحكومي. مما نتج عنه قطاع خاص ضعيف غير قادر على المنافسة في السوق الدولي .(نعم/لا).
8. وهل ترى أن مزاحمة الحكومة للقطاع الخاص من خلال الدخول في بعض الاستثمارات ادى الى إضعاف القطاع الخاص.(نعم/لا)
9. تشير بعض الدراسات إلى وجود ظاهرة تترافق مع الاقتصاديات الريعية، تتمثل في وجود نخب اقتصادية تمارس ما يمكن وصفه بإحتكار القلة، من وجهة نظرك هل لمثل هذه الظاهرة وجود في السلطنة ؟ (نعم/لا)
10. في ذات السياق تشير النظريات الى أن ذات الدول تعاني من ظاهرة ما يسمى برأسمالية المحاسيب.من وجهة نظرك هل لمثل هذه الظاهرة وجود في السلطنة ؟ (نعم/لا)

11. بحسب نظرية وفرة الموارد فإن الدول التي يعتمد اقتصادها على مورد وحيد لن تكون قادرة على تحقيق تنوع اقتصادي نتيجة لتأثيرها بواحد أو أكثر من العوامل التالية . يرجى التكرم بترتيبها بحيث يحصل العامل الأكثر تأثيراً على الرقم (١) ويكون العامل الأقل تأثيراً الرقم (٤) من وجهة نظرك.

- عوامل اقتصادية ()
- ضعف تأهيل الموارد البشرية ()
- ضعف كفاءة المؤسسات ()
- عوامل إجتماعية وسياسية. ()

Questionnaire

1. In your opinion “the oil export her negative effect on the growth of non-oil tradable sectors (Yes/No)
2. Was it also the same case with the non-oil non-tradable sectors? (Yes/No)
3. According to Vision Oman 2020 the oil exports share of the GDP should be 9% the liquid gas revenues 10% and the non-hydrocarbon to increase to 81%. In your opinion, you think such goals are achievable? (Yes/No)
4. If your answer is No, in your opinion will be that attributed to :
 - a. The accountability and periodic evaluation.
 - b. The Vision is related to individuals not institutions.
 - c. The Vision did not reflect the reality of economic structure.
5. Human resource development is considered as the cornerstone of sustainable economic development. In your opinion, do you think the current educational system outcome are occupied with the qualification and training that make them able to compete with expat? (Yes/No)
6. The institutional quality is one of the measures in which the state can avoid the resource curse trap. In your opinion, do we have efficient institutions? (Yes/No)
7. The private sector is highly dependent on the government expenditure which make it very weak and not able to compete in the international market. do agree with the statement? (Yes/No)
8. The government involvement in some of the private sector projects had negative effect on the private sector expansion. Do you agree with the statement? (Yes/No)

9. One of the resource curse channels is the existence of oligopoly and monopolistic business environment. In your opinion, do we have such phenomena in Oman?
(Yes/No)
10. Accordingly such phenomena is associated with the crony capitalism. In your opinion, the existence of crony capitalism had severe effect on the economic diversification?
(Yes/No)
11. According to the resource curse theory natural resource-dependent states would not be able to create a diversified economy as a result of the effects of one or more of the following reasons. Could you please mark the reason which you believe have the most effect with number (1) the second (2) the third (3) and the fourth (4):
- a. economic factors ()
 - b. human resource development ()
 - c. institutional quality ()
 - d. political and social factors ()

Appendix 4: Top Family Owned Business Groups in Oman*

Holding company	Founder/Affiliated with	Profile									
		Banks & Financial Services	Property development, Tourism & Hospitality	Industry	Medical Services	Engineering (Construction, IT, ICT...)	Shipping & Logistics	Mining & Minerals	Automobiles	Training & Education	petroleum & energy services
Abdulhafidh Al-Aujaili	Abdulhafidh Al-Aujaili Minister of Agriculture and Fisheries 1979-1986	✓	✓	✓		✓	✓	✓		✓	✓
Al Awam Transport Trading & Contracting	Jumaa' AlJumaa' Secretary General of the Tender Board 1996-2001 Minister of Manpower 2001-2008	✓	✓	✓		✓	✓				✓
Al Hashar Group	The late Saeed Al Hashar Undersecretary in the Royal Court 1988-2008		✓		✓	✓	✓		✓		
Al Hassan Group	Hassan Ali Salman Senior Vice President, Central Bank of Oman 1983-1995			✓		✓					✓
Al Jarwani Group	Mahmood Al Jarwani CEO of the Public Authority for Stores and Food Reserve 1983-1988 CEO of Muscat security Market 1988-1999	✓	✓	✓						✓	
Al Khalili Group	Salim AlKhalili Minister of Agriculture and fisheries 2001-2011		✓	✓		✓		✓			✓
Assarain Group	Said Salim Minister of the Royal Court 1974-1984		✓	✓	✓	✓	✓			✓	✓
Jawad A Sultan Group	Jawad A Sultan Businessman	✓	✓			✓	✓			✓	✓
Khimji Ramdas	Khimji Ramdas Businessman		✓	✓		✓	✓	✓		✓	✓
MB Holding Company LLC	Mohammed Albarwani Contract officer in PDO 1974-1982 Businessman	✓	✓	✓		✓	✓	✓		✓	✓

Holding company	Founder/Affiliated with	Profile									
		Banks & Financial Services	Property development, Tourism & Hospitality	Industry	Medical Services	Engineering (Construction, IT, ICT...)	Shipping & Logistics	Mining & Minerals	Automobiles	Training & Education	petroleum & energy services
Mohamed & Ahmed Alkhonji LLC	Mohamed & Ahmed Alkhonji Businessmen	✓	✓	✓		✓	✓		✓	✓	✓
Mohsin Haider Darwish LLC	Mohsin Haider Darwish Businessman		✓	✓		✓			✓		✓
Muscat Overseas Group	Mustahail Ahmed The Sultan's maternal uncle (Mother side) Minister of Social Affairs and Labour 1983-1990 State Advisor 1990 -present	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
OHI	Maqbool Hamid Undersecretary in the Royal Court 1974 Undersecretary of Work force 1979-1982	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
OMZEST Group	Omar Alzawawi Special Advisor for External Liaison to His Majesty Sultan Qaboos bin Said 1975- present	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
ONEIC, Al Yousef Group	Mohammed Musa Undersecretary of finance 1975-1995 Secretary General of the Supreme Committee for Urban Development 1986-1995 Minister of Development 1995-1998	✓		✓		✓	✓	✓	✓	✓	✓
OTE Group	Saad Suhail Bahwan Businessman			✓	✓	✓	✓		✓	✓	
Qurum Business Group	Ahmed Alhousni Undersecretary in the Royal Court 1990-2005	✓	✓	✓	✓	✓	✓				
SABCO Group	Hamed Hemmod Minister of Royal Court	✓	✓	✓		✓	✓	✓	✓	✓	

Holding company	Founder/Affiliated with	Profile									
		Banks & Financial Services	Property development, Tourism & Hospitality	Industry	Medical Services	Engineering (Construction, IT, ICT...)	Shipping & Logistics	Mining & Minerals	Automobiles	Training & Education	petroleum & energy services
	1970-1974 Sultan Special Advisor 1974-2002										
Saud Bahwan Group (SBG)	Saud Bahwan Businessman	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Shanfari Group	Said Ahmed Minister of Oil and Gas 1974-1997	✓	✓	✓		✓	✓	✓	✓	✓	✓
STS LLC	Salim Hassan Macki (was holding the following duties in different periods Director General of Oil and Minerals (Ministry of Oil and Gas) Member of the board of directors in Oman oil company The Chairman of Oman India Fertilizer Company (represents Oman) the Representative of the Government of Oman on the Caspian Pipeline Consortium (CPC)	✓		✓		✓	✓	✓			✓
Tawoos LLC	His Highness Sayyid Shabib Al Said The Sultan's maternal uncle (Father side)		✓	✓	✓	✓	✓			✓	✓
Technique LLC	The late Faher Al-Said The Sultan's maternal uncle (Father side) Minister of defence 1973-1996		✓	✓		✓	✓		✓		✓
Towell & Co	Maqbool Sultan Minister of Commerce and Industry 1991-2011	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Yahya	Yahya Nasib	✓	✓	✓		✓	✓				✓

Holding company	Founder/Affiliated with	Profile									
		Banks & Financial Services	Property development, Tourism & Hospitality	Industry	Medical Services	Engineering (Construction, IT, ICT...)	Shipping & Logistics	Mining & Minerals	Automobiles	Training & Education	petroleum & energy services
Holding	Governor of Central Bank of Oman 1978-1991										
Zawawi Group	Qais Alzawawi Deputy Prime Minister for Economic and Financial Affairs 1974-1995	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Zubair Corporation	Mohammed Alzubair Minister of Commerce 1974-1983 Advisor to HM Sultan Qaboos bin Said for Economic Planning Affairs 1983-present	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

Source: Compiled by author from (MOCS, 2014), companies websites, and other online material. The companies list is based on various participants remarks and (Findouter, 2017) classification.

*: in alphabetical order

Appendix 5: Non-Government Shareholders of more than 3% in Omani Banks

Bank Muscat

Major shareholders	Affiliated with
Muscat Overseas Co. LLC (3.68%)	Mustahail Ahmed The Sultan's maternal uncle Minister of Social Affairs and Labour 1983-1990 State Advisor 1990-present

Oman Arab Bank

Major shareholders	Affiliated with
Oman International Development & Investment (Ominvest) (51%)	Mohammed Alzubair Minister of Commerce 1974-1983 Advisor to HM Sultan Qaboos bin Said for Economic Planning Affairs 1983- present

National Bank of Oman

Major shareholders	Affiliated with
Suhail Bahwan Group (Holdings) L.L.C (14.7%)	Suhail Bahwan (Businessman)

HSBC Oman

Major shareholders	Affiliated with
Zawawi Group (49%)	Omar Alzawawi Special Advisor for External Liaison to His Majesty Sultan Qaboos bin Said 1975- present

Dhofar Bank

Major shareholders	Affiliated with	Affiliated with
Dhofar International Development and Investment Company SAOG (25%)	Muscat Overseas Co. LLC (16.5%)	Mustahail Ahmed The Sultan's maternal uncle Minister of Social Affairs and Labour 1983-1990 State Advisor1990-present
	Abdul Hafidh Salim Rajab Al Aujaili (12.2%)	Abdulhafidh Al-Aujaili Minister of Agriculture and Fisheries 1979-1986
	Fincorp Investments LLC (6.59%)	Mohamed Musa Al-Yousef: Minister of Development 1995-1998
	Mohamed Musa Al-Yousef (5.54%)	
Abdul Hafidh Salim Rajab Al Aujaili (18.6%)	Abdulhafidh Al-Aujaili Minister of Agriculture and Fisheries 1979-1986	
Abdullah Yosif bin Alawi (6.22%)	Son of the Minister Responsible for Foreign Affairs 1997-Present	
Qais Omani Establishment LLC(5.69%)	Muscat Overseas Group	Mustahail Ahmed The Sultan's maternal uncle Minister of Social Affairs and Labour 1983-1990 State Advisor1990-present

Ahli Bank

Major shareholders	Affiliated with	Affiliated with	
International Finance Corp. (9.9%)	Oman International Development and Investment Company SAOG (Ominvest)	Mohammed Alzubair Minister of Commerce 1974-1983 Advisor to HM Sultan Qaboos bin Said for Economic Planning Affairs 1983-present	
Oman International Development and Investment Company SAOG (Ominvest) (8.8%)	The Zubair Corp (19.2%)		
	Al Anwar Holdings SAOG (9.56%)	Fincorp Investments LLC (23%)	Mohamed Musa Al-Yousef Minister of Development 1995-1998

Bank Sohar

Major shareholders	Affiliated with	Affiliated with	Affiliated with
Oman Investment & Finance Co. SAOG (15%)	Ubhar Capital SAOC (7.75%)	Oman International Development and Investment Company SAOG (“Ominvest” with 36%)	Mohammed Alzubair Minister of Commerce 1974-1983 Advisor to HM Sultan Qaboos bin Said for Economic Planning Affairs 1983-present
	Muscat Overseas Co. LLC (3%)	Mustahail Ahmed The Sultan's maternal uncle Minister of Social Affairs and Labour 1983-1990 State Advisor1990-present	
	Dhofar International Development & Investment Holding Co. (45%)	Muscat Overseas Co. LLC (16.5%)	Mustahail Ahmed The Sultan's maternal uncle Minister of Social Affairs and Labour 1983-1990 State Advisor1990-present
		Abdul Hafidh Salim Rajab Al Aujaili (12.2%)	Abdulhafidh Al-Aujaili Minister of Agriculture and Fisheries 1979-1986
		Fincorp Investments LLC (6.59%)	Mohamed Musa Al-Yousef Minister of Development 1995-1998
		Mohamed Musa Al-Yousef (5.54%)	
Ubhar Capital SAOC (7.75%)	Oman International Development and Investment Company SAOG (“Ominvest” with 36%)	Mohammed Alzubair Minister of Commerce 1974-1983 Advisor to HM Sultan Qaboos bin Said for Economic Planning Affairs 1983-present	

Source: Compiled by author with data obtained from (SURPERFORMANCE, 2017)

