Vision2020 and the Private Sector: An Analysis of Late Rentier Development Strategy in Oman

AL-SAID, AL,KHATTAB,GHALIB,KHALID

Abstract

This thesis assesses the extent to which Oman's economic development strategy (Oman Vision 2020), launched in 1995, has achieved its objectives of making the private sector the engine of economic development. The thesis works within the neo-liberal paradigm, tempered by the human development approach, for understanding economic development, assuming the private sector is the best agency for allocating resources to stimulate economic growth. The thesis argues that prior to 1995, Omani economic development since 1970 had progressed under a State-led development model, built on oil rents, overlaid upon traditional patrimonial socio-political structures which evolved into a neo-patrimonial form of government. In the late rentier condition, however, as Oman sought to both adapt to integrate into the liberal global economy and secure stability from fluctuating oil revenues, Vision2020 represented an effort to move away from the State-led oil-dependent model. However, the thesis shows that trying to empower the private sector to assume the burden of being the engine for economic growth, while maintaining the neo-patrimonial political structures, have proved irreconcilable goals. A study of the processes of policy-making and implementation of Vision2020 after 1995, and of the subsequent performance and capacities of the private sector, demonstrate that neo-patrimonial politics have undermined the liberal substance of Vision 2020 and instead reproduced the flaws and contradictions of State-led development. This invites the question as to whether the private sector can ever assume the mantle of responsibility for economic development in Oman without there first being substantive political reform. This thesis thus challenges arguments that late rentierism might be a sufficient response to globalization on the part of the oil-monarchies and supports literatures that argue for simultaneous or prioritized liberal political reform.

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Alkhattab Ghalib Al-Said

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List of Abbreviations

/b	per barrel
BOO	build, operate, own
BOOT	build, own, operate, transfer
bpd	barrels per day
ECLA	Economic Commission for Latin America
ESCWA	United Nations Economic and Social Commission for West Asia
FDI	foreign direct investment
FTA	free trade agreement
FYDP	five-year development plans
GCC	Gulf Cooperation Council
GDP	gross domestic product
GFCF	gross fixed capital formation
GNP	gross national product
GNVQs	General National Vocational Qualifications
HDI	Human Development Index
IMF	International Monetary Fund
IPC	Iraq Petroleum Company
IPO	initial public offering
ISI	import substitution industrialisation
LDC	less developed country
MEED	Middle East Economic Digest
MENA	Middle East and North Africa
MNC	multi-national corporation
MSM	Muscat Securities Market
NCSI	National Centre for Statistics and Information
NVQs	British National Vocational Qualifications
OECD	Organisation for Economic Co-operation and Development
OMR	Omani rial
ONVQs	Omani National Vocational Qualifications

OPWP	Oman Power and Water Procurement Company
PDO	Petroleum Development Oman
PPP	private-public partnership
R&D	research and development
SAL	structural adjustment loan
SAR	Saudi Arabian rial
SGRF	State General Reserve Fund
SMEs	small- and medium-scale enterprises
SOE	state-owned company
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
UNRISD	U*nited Nations Research Institute for Social Development*
US	United States of America
USD	US dollar
USD/b	US dollar per barrel
WTO	World Trade Organisation

Statement of Copyright

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Dedication

This thesis is dedicated to all Omanis who have participated in the development of Oman and those who are contributing for a bright and prosperous future of Oman.

INTRODUCTION

0.1 BACKGROUND

This thesis assesses the extent to which Oman's economic development vision (as set out in the Oman Vision2020 document; hereafter Vision2020), launched in 1995, has achieved its stated objectives of making the private sector the engine of economic development in Oman. The thesis works within the neo-liberal paradigm for understanding economic development, assuming that the private sector—acting within a 'free' market—is the best agency for allocating resources to stimulate economic growth. In this paradigm, the State retains a role, although this is largely regulatory and aims to maximize the efficiency of markets, fill gaps where the market cannot provide appropriate common goods at affordable prices, and to protect the human development of the population. The thesis argues that prior to 1995, Omani economic development in the modern era (since 1970) had proceeded under a State-led development model. Economic development resulted from the evolution of significant oil-derived 'rents' which accrued to and were then distributed by the State. These rents enabled the formation of a specifically 'rentier State' form, in which modern bureaucratic institutions were overlaid upon traditional patrimonial socio-political structures, resulting in a neo-patrimonial format for government. A State-led development model evolved as a strategy through which the economic development being driven by the State, funded by oil rents, serving as the backbone of the social contract.

The thesis argues that diminishing oil resources, fluctuations in oil revenues, and resulting vulnerabilities indicated the fragility of this strategy by the early 1990s, and as a result Oman adjusted its development strategy towards what Matthew Gray (2011) has termed 'Late Rentierism'. This revised strategy, encapsulated in Vision2020's development strategy, aimed at a controlled liberalization of the economy and the reassignment of the private sector to become the engine for that development. As such, Vision2020 represented an effort to move away from the State-led oil-dependent model of development.

However, scrutiny of the process by which Vision2020, and the subsequent five-year development plans (FYDPs) which supported its implementation, indicates that the Document itself was shaped as much (if not more) by those same neo-patrimonial interests of the State and its constituent agents. The consequence of this was that the Plan retained the rentier dynamic: the State retained ownership of the principle capital resource of the economy (the oil rent). Moreover, the State retained its roles in allocating that resource and dictating the terms of activity in the market. Oil revenues continued to be the primary frame of reference for the economy (put bluntly, when revenues went down, policy-makers turned to the private sector to fill the gap, but when they went up, policy-makers resumed traditional State-led preferences). In fact, as late rentier theory predicts, the State developed its own capitalist entrepreneurialism, expanding its own role in the market and inhibiting (or crowding out) those private sector elements which were not already 'captured' within the rentier circuits of accumulation and distribution. The result of this process was a failure for the private sector to assume the role assigned to it in Vision2020, but the failure did not lie only in the direct actions of policy-makers and their development strategy, fault was also within the private sector.

Thus, the thesis closely examines the responses of the private sector itself to Vision2020 and its implementation. It demonstrates that the private sector is not a single, homogenous entity. In Oman it remains to a large extent 'captive' and rent-seeking. Elements, which are more closely affiliated to neo-patrimonial institutions (such as the Chamber of Commerce and Industry), are able to gain greater reward from their rent-seeking behaviours. Small and medium-sized firms, at a greater distance from such institutions, may still exhibit a rentier mentality but have greater desire to push back against the State's domination of the market. Even among these elements, however, there remains an expectation of State protection which is evident in the substantial debate around the 'readiness' of the private sector to assume the mantle of engine for development. The private sector as a whole lacks the risk-taking mentality which would seek them to genuinely push back against the State's controlling role in the market and to fill that space as neo-liberal orthodoxy would require.

The thesis argues then that 'late rentier' strategies assume the private sector will fill the spaces that the State might vacate but that the State does not actually do anything to help the private sector overcome the rentier mentality and behaviours which have evolved in response to previous State-led development strategies. Instead, Late Rentierism *reproduces* a rentier private sector rather than a genuinely entrepreneurial private sector.

The case of Oman suggests then that Late Rentierism remains just that – rentierism. Far from removing the State from the market, it adjusts the State's role IN the market. It defers dealing with the deficiencies associated with rentierism, rather than addressing them at their source.

This can be attributed to the continuing *political* dynamic of State elites preserving the neo-patrimonial social contracts and subverting the liberalising components of the revised development strategies. For such States (elites/regimes), the question remains how long late rentier strategies can be sustained given the finite nature of oil resources and revenues.

0.2 STATEMENT OF THE PROBLEM

In line with most emerging economies and driven by the success of the advanced economies, the Sultanate of Oman has attempted to shift from state-led to private sector-led development. This shift in the economy was designed through the New Development Strategy (also known as 'Vision 2020') launched in 1995. 'Vision 2020' set out a series of objectives and targets for the development of all sectors in order to decrease the economy's reliance on oil (Ministry of Development, 1996). In addition, the Omani government was among the earliest of the Gulf Cooperation Council (GCC) countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) to realize the risk of depending heavily on oil and its expatriate worker force. In 1996, oil accounted for 41% of GDP, 85% of government revenues and 78% of total exports (Al-Yousef, 1997). These structural factors added to the pressure for the government to implement reform in order to reduce the country's dependency on the oil sector and to create jobs for the locals in the private sector.

The two main objectives of Vision 2020 were:

Economic diversification. This aim was to diversify the economy away from depending on the oil sector to non-oil industries by enhancing the role of the private sector in the economy and introducing new policies to encourage foreign direct investment. The aim was to reduce the oil sector's share in the economy from 41% in 1996 to 9% in 2020 and to increase the share of non-oil industries from 7.5% in 1996 to 29% in 2020, with an increase in the gas sector's share of gross domestic product (GDP) from 1% to 10% (ibid., 1996).

Human resources and employment. This was to develop the country's human resources by strengthening the quality of the education system and increase spending on educational and vocational training programs. The policy was termed 'Omanisation' which refers to replacing expatriate workers with Omani workers in order to increase the participation of Omani nationals in the labour market, especially in the private sector. The target was to increase the number of nationals working in the private sector from 7.5% in 1995 to 75% in 2020, and to reduce the share of expatriates in the workforce from 25% in 1995 to 15% in 2020 (ibid., 1996).

Despite the government's efforts to implement this long-term strategy through a series of FYDPs, starting in 1996-2000 and ending in 2016-2020, very limited achievements have been witnessed to date. Thus, according to the latest data from the Central Bank of Oman, oil still accounts for 47.2% of GDP, 84.3% of government revenues and 65.5% of merchandise exports. In terms of employment, in 2014, Omanis only accounted for 11.2% (i.e. less than 198,000) of the 1.7m private sector workforce, while over 210,000 worked in the bloated public sector.

Hence, the objective of this research is to assess the extent to which Oman's economic development Vision) as set out in the Oman Vision2020 document, launched in 1995, has achieved its stated objectives of making the private sector the engine of economic development and how can we account for its performance.

0.3 AIMS, OBJECTIVES AND RESEARCH QUESTIONS

The overall objective of this research is to examine the ability of the private sector to lead economic development in Oman. The specific objectives of the research are to examine:

- The ability of the private sector to lead the economic growth and its response to Vision2020 and its implementation;
- The business environment for private sector led development;
- The ability of the private sector to generate job opportunities; and
- The relationship between the private sector and the state in economic development.

Thus, the main research questions are: "What is the role assigned to the private sector in the Omani Vision2020 plan for the development of the economy?" and, "To what extent has it fulfilled this role and how can we account for its performance?". In order to achieve this, the research answers the sub-following questions:

1. How does the Vision2020 document understand and evaluate development?

The second questions are derived from the first:

2. What has been the trajectory of development in Oman before 1995 and why?

The third questions are subsidiaries of questions two and focus on the objective of making the private sector the engine of economic growth:

3. How does Vision2020 define the role of the private sector in development and how does it seek to achieve this?
4. How has the private sector performed against these objectives?
5. How can we explain the shortfalls in the performance of the private sector under Vision2020?
6. Ultimately, can the private sector be the engine for development in Oman?

0.4 CONTRIBUTIONS OF THE RESEARCH

The thesis makes an important contribution to Late Rentier theories, by demonstrating that it is not only the State which must be an object of study, but the private sector itself. Change needs to occur not only at the level of policy-making and institutional structures, but also within the private sector if it is to be able to overcome its rentier legacies and become the engine for growth.

This invites the question as to whether the private sector can ever assume the mantle of responsibility for economic development in Oman without there first being substantive political reform. This thesis thus challenges arguments that Late Rentierism might be a sufficient response to the era of globalization on the part of the oil-monarchies and supports literature that argues for simultaneous or prioritized liberal political reform.

0.5 STRUCTURE OF THE THESIS

Chapter One starts by reviewing the literature in relation to development theories in the post-World War II period when the economic orthodoxy switched to Keynesianism. In the 1950s and 1960s, this orthodoxy posited an important role for the State in establishing and creating conditions for development through different State-driven models, such as import substitution industrialisation (ISI), which was adopted in the main in Latin America and by some of the Arab socialist countries in the Middle East and export-led growth strategies followed by countries in Asia. Thereafter, the focus moves on to discussing the rise of neo-liberal era which gained acceptance in late 1970s with its focus on rolling back the State and positing the private sector as the main agent of growth. This discussion is important for understanding how the role of the private sector in the development process has changed over time and therefore what are considered to be the appropriate policies of the State towards the private sector.

This is followed by a discussion of post-development theory and human development theory which gained popularity in the 1990s and 2000s. Post-development theory is critical of the role of the State, arguing that it has become too powerful vis-à-vis society. Thus, post-development theorists, such as Esteva (1992), Escobar (1995) and Rahnema (1997), seek to empower people from the bottom up in order to decide their happiness and welfare. Human development theorists also question the assumption that 'development' should be just about economic growth, arguing that it requires a wider understanding, including human development. This thesis is positioned within a neo-liberal approach to development.

Chapter Two offers a chronological narrative of Oman's specific development trajectory before 1995, so as to allow the thesis to establish the relevance and inter-connectedness of the concepts of the rentier State and neo-patrimonial politics as explanatory tools. To the extent that these guide the subsequent analysis of the Vision2020 plan and process, the thesis therefore takes a deductive approach to its subject.

In Chapter Three, this is explained in greater detail as the methodology and research methods used are elaborated upon. The thesis draws upon a mixed-methods approach, including textual analysis, small-scale surveys, semi-structured interviews and focus groups which enable an assessment at the levels of both meta-policy and macro-level economic performance on the one hand, and the 'bottom-up' responses of individuals and constituencies who are the recipients of policy.

Chapter Four examines the Vision2020 strategy itself. The discussion includes the origins, evolution and content of the Vision2020 strategy, in order that we can fully understand the nature and function of the Vision, as well as the politics behind its limitations. The chapter assesses the extent to which the strategy constituted a 'late-rentier' move to adjust the national development strategy to overcome the negative impacts of the 'flows' of the rentier economy, and the degree to which neo-patrimonialism was able to shape its evolution and objectives.

Chapter Five offers a survey of the macroeconomic performance of the private sector as was (or was not) implemented by the Vision2020 strategy to date. In particular, the chapter seeks to establish the extent to which the private sector has been able to 'push back' against State ownership of, and control over, production, exchange finance and trade. Indicators such as the relative size of the private sector compared to the public sector, its relative share of output, trade and investment, and the degree to which it has been able to enjoy a diminution of the State's regulatory oversight and intervention, all indicate whether or not Vision2020 has had a significant impact on the role of the private sector in economic development.

Chapter Six turns the focus onto the private sector to analyse and explain its performance in relation to its responses to the objectives set for it in Vision2020, which as seen in Chapter Five, it did not achieve. Thus, the chapter identifies the factors that the interviewees and focus group and questionnaire participants believed inhibited the private sector from leading development in Oman and the impact of rentier state neo-patrimonial structure on its performance.

Chapter Seven summarises the findings of the study and offers conclusions to the thesis and assesses the study's overall contribution to the literature. It also highlights the limitations of the study and makes suggestions for further research.

CHAPTER ONE:
THE STATE, THE MARKET AND THE PRIVATE SECTOR IN THEORIES OF DEVELOPMENT

1. INTRODUCTION

This chapter establishes the theoretical understanding of the role of the private sector in economic development strategies, and its relationship relative to the state and the market in determining the most appropriate allocation of resources in order to support economic development.

It begins by interrogating the evolution of definitions and determinants of economic development, from Rostow's stages of growth theory and structural change theories of modernisation, through structuralist accounts of underdevelopment of less developed countries (LDCs) and the State-led remedies of import substitution industrialisation (ISI) and export-oriented industrialisation, to the rise of neo-classical approaches to development (including a discussion of the concept of human development) and finally to post-development critiques of development theory as a whole. At each stage of this exploration, the basic tenets of the theory are presented and critiqued, and an evaluation made of the suggested role of the private sector, relative to the State and the market.

The chapter concludes that contemporary economic development is most usefully and appropriately understood as a paradigm based primarily on economic growth but mediated by the requirements of ensuring the broader human development of a country's citizens. In this context and given the increasingly important possibilities for growth based on integration in global liberal markets, the private sector is considered to be best placed to be the principal engine for economic growth. Active intervention in production and exchange by the State acts to distort markets and inhibit efficient growth, but the State still plays an important role in preserving the efficient functioning of markets, facilitating human development where markets are weak, dysfunctional or cannot price necessary common goods at affordable prices.

This chapter allows the researcher, in subsequent chapters, to assess and categorise Omani development strategy prior to the development of the Vision2020 plans, and to determine not just the role historically assigned to the private sector, but also to explain its historic underperformance.

1.1 DEVELOPMENT PRIOR TO THE SECOND WORLD WAR

Development in a simple definition means the process by which someone or something grows or changes and becomes more advanced. In political economy terms, the process of development involves the transformation of the economy and society, which are based on complex interactions of cultural and environmental factors. The aim of development in this context is to improve personal, family and ultimately society's material well-being.

For classical economists, who initially developed the concept for the contemporary social world, development meant only one thing, economic growth. Adam Smith's '*The Wealth of Nations*' (1776) strongly believed in market forces and trade policy as a means of creating the wealth of a country. Smith argued that an international division of labour leads to a more productive process. Therefore, a nation's wealth can be enhanced through specialisation and exchange. He also argued that the presence of competition encourages private investors to maximise their own interests and, thus, national output directed by the 'invisible hand' of the market (Skousen, 2007). The 'invisible hand' concept has become the basis for the efficient workings of the market economy or capitalism. In this approach, there is only a minor role for the government in economic activities, otherwise its interference is thought to create inefficiencies in the market. Thus, classical economists argue that free trade, private property and competition are the bases for boosting economic development and minimising poverty, ultimately leading to an overall improvement of humankind (ibid.).

However, since the end of the Second World War not only has the term 'development' become heavily contested but the debate around development has evolved. Each theory of economic model evolved in response to the perceived failures of the previous positions to explain development failures. Furthermore, these are historically contextualised. For example, the stages of growth theory grew out of the experience of the industrial and post-industrial countries. It assumes universality, so what applied to one, automatically applies to all. However, it failed to take account of the fact that industrialised countries grew out of their ability to exploit the resources of the less industrialised countries. Therefore, the development of one country is not just about what is internal to that country but also about external relations.

Since the Second World War, the debate on economic development has been directed by several main schools of thought: 1) the successive stages of the growth model; 2) theories and patterns of structural change models, 3) Marxist-structural approaches 4) UN Economic Commission for Latin America (ECLA) approach, 5) ISI and export-oriented industrialisation, 6) the rise of neo-classical 'neo-liberal' development theory; 7) the concept of human development theory in the 1990s; and 8) post-development theory in this century. By elaborating the debate around development, it contextualises how Omani policy-makers have defined development and evaluated the efforts to promote the private sector in Oman within a wider understanding of what constitutes development, how to achieve development, and what roles should be assigned to the private sector and the State in economic development.

1.2 STAGES OF GROWTH THEORY

The philosophy of the 1950s and early 1960s that dominated development concentrated mainly on the stages of economic growth theory in which development is considered as a sequence of linear stages through which all nations must pass. The theory argues that the appropriate levels of savings, investment and foreign aid were necessary conditions for Third World countries to develop in a similar manner to the advanced nations. Hence, in these theories, development was equated with rapid economic growth and the achievement of an advanced economy (Todaro, 1989).

An important growth theorist was W. W. Rostow. Rostow (1960), in "*The Stages of Economic Growth: A Non-Communist Manifesto*", argues that for a country to shift from underdevelopment to development or self-sustained growth, it must go through five different but linked stages of development. The five stages of development are:

1. Traditional society;
2. Pre-conditions of take-off;
3. Take-off into self-sustaining growth;
4. The drive to maturity; and
5. The age of mass high consumption.

According to Rostow (1960), all developed countries have already passed through the stages to reach the era of mass consumption. He argues that the stage at which a country is located is based on the rate of investment in the economy. In turn, this is determined by the rate of saving which a country can achieve. For example, the investment rate in a traditional society and pre-conditions of take-off stages is 5 percent or less, while in the take-off into self-sustaining growth stage, the rate is between 10 percent and 15 percent. Finally, the rate of investment in the drive to maturity and the age of mass high consumption stages is above 15 percent. According to Rostow, the higher rates of investment outstrip population growth, therefore leading to a "distinct rise in real output per capita" (1960, p.37), thereby freeing capital for savings. According to Schultz and Strauss: "Increased savings were viewed as a major means to increase rate of growth" (2008, p.2112).

For the LDCs, reaching the take-off stage is the most critical issue. To reach this stage requires the rate of productive investment to increase above 10 percent and to create one or more bases of manufacturing that have high growth potential. In addition, the country also requires to develop the sort of framework of social, political and economic institutions that would help to expand the economy and become connected with modern external economies (Rostow, 1960).

Stages of growth theory also had political drivers. They were put forward by a group of American scholars against the backdrop of the Cold War (Kambhampati, 2004, p.70). In this context, US policy-makers suggested that US aid could be used as investment to jump start investment in LDCs allowing them to develop and catch up with the developed countries. This would mean LDCs depended on US aid and friendship instead of turning to the USSR for aid; thereby keeping these countries non-Communist (ibid.). However, despite access to US aid, the economies in LDCs did not develop (ibid.). This was partly because US aid came with strings and its use within the country was political rather than where the market needed it. However, it also failed because other aspects were not addressed, such as the necessary social, cultural and political changes. Thus, the need for "comprehensive social and economic change" required a theory to make this structural change in order to transform LDCs from non-industrial into industrial societies (ibid.).

1.2.1 The Role of the State in Stages of Growth Theory

The stages of growth theory raised the question as to which actor is responsible for the drive to increase the rate of capital accumulation and transform the production structure. According to Rostow (1960), it is the State's role to direct the country's development by creating the necessary conditions for take-off. It is clear that the role of government is seen as very important in the take-off stage. This approach is supported by Keynesians, such as Nurkse (1952), who argues that in any underdeveloped country, the government has to take the first step to make large investments in several industries simultaneously. This, turn, will increase productivity, expand the market's capacity, and offer an incentive for the private sector to invest.

Stages of growth theorists argue that the policies suggested by neo-classical economics cannot make the 'big push' that is required for development (Rosenstein-Rodan, 1961). Thus, Nurkse's (1952) first stage by the government is the 'big push'. According to Rosenstein-Rodan (1948), to achieve sufficient investment that can reduce unemployment and underemployment, the scale of industrialisation should be large enough to reach an optimum size. Thus, he stressed the importance of State intervention that can offer public investment in social overhead capital and to correct market failures in underdeveloped countries. "The price mechanism in such imperfect markets cannot therefore be relied upon to provide the signals that guide a perfectly competitive economy towards an optimum position" (ibid., p.207). Similarly, Brohman (1996) argues that the mobilisation of investment capital in order to bring about industrialisation requires State intervention with support from foreign direct investment (FDI) and development aid.

Thus, State intervention through planning and action was considered a necessary prerequisite to overcome the low levels of new capital formation in LDCs, which was thought to be the main constraint to the development of these countries.

1.2.2 Critiques of the Stages of Growth Theory

Todaro and Smith (2011) argue the basic reason that the stages of growth approach did not work was because more saving and investment is a necessary but not sufficient condition for accelerated rates of economic growth. For example, the Marshall Plan worked for European countries because these possessed the necessary structural, institutional, and attitudinal conditions (e.g. well-integrated commodity and money markets, highly-developed transport facilities, a well-trained and educated workforce, the motivation to succeed, and an efficient government bureaucracy) to convert new capital effectively into higher levels of output. In contrast, the underdeveloped countries lack these fundamental conditions. Hence, even with the 'correct' level of savings, it was difficult for those countries to develop.

1.3 STRUCTURAL-CHANGE MODELS

Structural-change development theory focuses on how underdeveloped economies shift the structure of their national economy from a substantial reliance on subsistence agriculture to a more urbanised, modern economy that is directed to the industrial, manufacturing and service sectors (Todaro & Smith, 2011). It uses the tools of neo-classical price and resource allocation theory and modern econometrics to explain how this transformation course takes place (Todaro, 1989) .Two pioneering approaches are the 'two-sector surplus labour' model by W. Arthur Lewis (1954) and Hollis B. Chenery's (1975) 'patterns of development'.

The two-sector approach of Lewis is an example of a modernisation model. A country, as suggested by the model, can grow through the transfer of the surplus labour from the over-populated rural sector to the modern productive industrial sector (Lewis, 1954). The level of industrial investment and capital accumulation in the modern sector are the determinants of the rate of labour transfer. Re-investing profits by capitalists is the source of this investment. There is constant economic development until the surplus rural labour has been absorbed into the industrial sector. As a result, the entire economic structure, including factors such as global trade, is changed through the transformation of the production system from an agrarian-based one to an industrial one.

Chenery (1975) explains how countries can become wealthy though different trajectories. The paths that countries follow depend on size, resources and other factors, such as the current income level and to what extent these countries have a comparative advantage over other countries (Chenery et al., 1975). The process involves the transformation of the country's economic, industrial and institutional structure to allow new industrial sectors to replace the traditional agriculture sector as the engine of the economic growth.

1.3.1 The Role of the State in the Stages of Structural-Change Theory

Under structural-change theories, since the environment in most LDCs was characterised by economic backwardness and a dearth of private sector enterprises, the government had to step in to drive any change (Bauer, 1991). The government was required to perform crucial and large-scale changes essential to break down the 'tough' hindrance to development and maintain the process of development, through economic growth. In addition, the capacity of the government to ensure the support of the country's elite in the process was important in the success of the modernisation process. The modernising elite would act as an agent of change initiating the spread of the concepts of modern and entrepreneurial values. Strong States, rather than promoting democracy, were advocated by the supporters of this theory in order to provide the stability required to implement the necessary policies (ibid.).

1.3.2 Critiques of Stages of Structural-Change Theory

Structural-change approaches such as the two-sector surplus model were subjected to several criticisms. The structural-change model focused on urban development rather than rural development, which resulted in an increase in the wealth gap between urban and rural communities. Furthermore, the two-sector surplus model assumes that there is a surplus of rural labour. However, empirical studies show that rural labour surpluses might only be seasonal. Therefore, any transfer of labour to the urban environment could undermine the productivity of the agricultural sector. The approach as a whole is also criticised due to its lack of a theoretical framework (Todaro & Smith, 2011).

Furthermore, structural-change theories assume that the national economy exists in isolation. It takes no account of possibilities such as emigration of labour if wages are better elsewhere. Also, it takes no account of the fact that growing urban populations still require feeding but, unless you increase agricultural productivity, then the move of labour from the countryside to the cities reduces food supply and requires imports of food, adding pressure to the current account position, raising questions of how to fund the increase in imports, and, in turn, adding pressure to the exchange rate.

1.4. MARXIST-STRUCTURALIST APPROACHES

The main aspects of Marx's theory deal with colonial systems, class interest, and the change in modes of production. According to Marx's economic (materialistic) interpretation of history, the development process consists of different stages of which capitalism is one of the stages. This is preceded by feudalism and followed by socialism. Each of these stages of development is characterised by a particular 'mode of production', the physical aspects of which relate to the accumulated capital and technology and social relations which arise from the production process, i.e. the class structure of society. In each mode of production, i.e. at each stage of development, the class structure consists of two main classes; the 'dominant' class which appropriates and uses 'surplus' produced by the 'oppressed' class. For example, in feudalism the two classes are landlords and serfs (and bonded peasantry) and under capitalism the class struggle is between the capitalists and the proletariat (Hirst & Hindess, 1975).

Under capitalism, capitalists make profit (surplus value), which is extracted from the proletariat. In order for them to maintain profits, they keep on investing, innovating and increasing the productivity of labour resulting in change within the system (Kambhampati, 2004, p.68). However, over the time, this creates pressure on the average rates of profits. Therefore, to avoid this pressure, capitalists start to expand into pre-capitalist societies, through exporting capital, gaining external markets, and opening new territories and expropriating the wealth of pre-capitalist societies in the form of imperialism/colonialism (ibid.).

However, the concern of this section with Marxist-Structuralist approaches of development is limited to understanding development and in particular how the political/military power-imbalance between countries is manifested through imperialism/colonialism. This acted to make international markets unfair and unequal, inhibiting the capacity of LDCs to take advantage of comparative advantage. This unevenness of development motivated the ECLA to respond to these contradictions. Thus, the next section elaborates on the ECLA's attempt to understand the conflict between the producers and exporters of manufactured goods and exporters of primary commodities.

1.5. STATE-LED APPROACHES TO DEVELOPMENT

1.5.1 The ECLA's Approach to Development

Much of the theoretical debate on development had taken place amongst academics in advanced countries. However, the ECLA under the auspices of the UN was established in 1950 in an attempt to understand what caused the inequality that had emerged between producers and exporters of manufactured goods and exporters of primary commodities. This phenomenon is known as 'the declining terms of trade' and was considered to be a long-term secular phenomenon. In technical terms, Bhagwati (1986) argues trade is "characterised by effective exchange rate for imports (EERm) [which] is greater than the effective exchange rate for exports (EERx), thus there is a bias against exports" (1986, p.92). In essence, over time commodity producers were able to buy fewer manufactured goods in exchange for their exports. Prebisch (1950) argues that Latin America was challenged by a long-term failure in their terms of trade because of the decreased world demand for their exports, whilst their demand for imports was increasing. This view clashed with the orthodox view of comparative advantage. Based on this analysis, the ECLA and Prebisch promoted an inward-oriented growth model of economic development.

Prebisch (1950) divides the world economy into two broad groups of trading countries. The ‘centre’ or ‘core’ consists of industrialised developed countries, which export manufactured goods and import commodities. The ‘periphery’ comprises the developing countries, which export commodities and import manufactured goods. He argues that the way forward lay in the transformation of domestic economic structures of the periphery countries in order to change the structure of the economy from a commodity exporter to a manufacturer of goods; this would overcome the declining terms of trade. This effectively overthrew the orthodoxy of comparative advantage. According to Cardoso and Heiwege,

> These contributions amended the orthodox view of economic growth through comparative advantage and capital accumulation in three ways: the specification of macroeconomic adjustment, the identification of microeconomic distortions and, following from the above, a strong role for government intervention (1992, p.8).

Thus, the ECLA structuralist economists developed a new body of theory designed to explain that, contrary to the principles of mainstream (neo-classical) international trade theory, the primary commodity export orientation of LDCs is the reason why they have remained underdeveloped. The key point is that structural/dependency theorists acknowledge that economies do not exist in isolation, but their development is dependent on where they sit in the world economy (in terms of what they produce, the international division of labour, trade relations, etc.).

Other factors proposed for the failure of the LDCs to catch up with the advanced countries in this theory, include:

- Volatility of primary commodities: Since there is volatility in prices and demand is particularly sensitive to recession, it is considered risky to focus on exports of these products (Bruton, 1989; Rapley, 2007).
- Balance of payment deficits: This would be solved through ISI, because imports are easier to cut by blocking their entry rather than focusing on increasing exports (Bruton, 1989; Rapley, 2007).

In order to overcome these impediments to development, Prebisch's strategy for Latin American development called for a structural change in the international division of labour and for the region to industrialise through ISI. Gillis et al. define ISI as "the substitution of domestic production for imports of manufactures" (1996, p.502). According to Bruton (1989), ISI would create an economy that was more independent, resilient, diversified, and better capable of producing increased welfare as a matter of routine when the imports of particular goods are replaced through domestic production.

Initially, the strategy recommended that domestic industry be protected from foreign competition through tariffs, but once competitive ability was achieved, local firms would no longer be protected. In order to pay for the necessary imported capital goods to establish the industries, the strategy recommended that the income from the export of raw materials should be used.

Importantly, ISI differs from protectionism, as it develops new industries rather than protects existing ones (Cardoso & Heiwege, 1992). Licensing, tariffs, an overvalued exchange rate and direct government investment in the main economic sectors were the main tools used when applying ISI. In the first stage, consumer goods, especially processed foods, beverages, textiles, clothing and footwear were the sectors to be industrialised, with imports of these goods curtailed. These products were thought to have comparatively standardised technologies easily accessible to LDCs, and that the higher costs of local production could be tolerated by consumers. In the second stage, industrialisation was to move to the more capital-intensive production of capital goods. This stage proved to be a lot more difficult to achieve.

1.5.1.1 The Role of the State under ISI

To achieve ISI, ECLA argued that State planning was necessary. The reason State planning was needed was because the private sector was owned by the comprador bourgeoisie, local elites who owned the land and forced the workers to produce the commodities for export. These local comprador elites had a vested interest in maintaining the status quo, usually dominating the political system in order to do so. Therefore, dependency theory suggested internal revolution was needed, to replace these elites with a State bureaucracy which took on the role of capitalist, directing surplus into investment for manufacturing (unlike comprador elites who spent it on themselves, invested it abroad, or used it for speculation rather than investment).

Therefore, it recommended the establishment of policies which empowered the role of the State in the economy. These policies included:

- Reforming the banking and monetary system.
- Funding industrial projects and infrastructure to make it attractive for FDI. However, FDI was by its nature controversial, as it meant profits returning overseas, rather than being re-invested in the national economy.
- Implementing tariffs system to support the growth of new industries.
- Offering State guarantees for external loans to support export activities.
- Developing backward sectors, through State-funded planning activities.

This approach resulted in the creation of a new bureaucracy of middle-class intellectuals whose function was to stimulate the pace of technological innovation and set economic policies. In addition, it sought to protect Latin American interests in the world market. Furthermore, the ECLA and Prebisch built a form of 'state corporatism' that paralleled approaches suggested by European economists, such as Singer (1950), Myint (1954), Lewis (1955) and Myrdal (1956) (cited in Meier & Baldwin, 1957, p.326).

Hence, the State's role was to promote industrialisation, and, in turn, economic development. The State was the chief resource allocator and also directly played a role in the industrialisation process through the creation and ownership of certain industries. The State, based on planning, had to make decisions as to which industries were to be supported. Thus, the State became the main actor in the economy. In contrast, the private sector played a marginal role in the economy. Large companies with a close relationship to the State, and the state-owned companies (SOEs) were able to succeed because of their ability to win State contracts and projects. Private sector companies without close ties to the State experienced difficulty in accessing credit from the banking sector and international companies. Furthermore, the State had to collect surplus through taxation of the private sector to fund the process of ISI. As a result, the private sector inadvertently became squeezed by the State.

For example, in Mexico the government nationalised the oil sector and railways, and import licensing was introduced, protecting domestic industrialists. Companies were given tax-free breaks lasting for up to ten years. Subsidised credit was provided through a state bank established in 1933. The State, also, invested heavily in infrastructure to facilitate the operation of new industries (Rapley, 2007). Likewise, in Chile the government also played a main role in the industrialisation policy. Furthermore, the State created 140 public firms in leading roles in their sectors, established state development banks or corporations and invested heavily in industrialisation, industry, and infrastructure (Griffith-Jones, 1987).

Pamir (1993) highlights a further example in relation to Turkey, where the government established a wide range of State enterprises, some of which were wholly State-owned and others were public-private partnerships. The government also used trading monopolies to take surplus revenues out of the agriculture sector. A five-year State development planning strategy also took place. In the Arab world, Egypt adopted a similar model to Turkey. A policy of nationalisation was introduced in 1957 with State involvement in most of the heavy industries, such as steel, iron and chemicals. The State also controlled most of the banks and financial institutions, and FDI was virtually eliminated. In addition, stock trading was banned (Owen & Pamuk, 1998). Other Arab countries also adopted a similar model, which came to be known as Arab Socialism.

The policy of ISI spread to a number of Asian countries, albeit with different strategies. Thus, India adopted Soviet-style planning and focused on heavy industry. However, unlike the experience in Latin American countries, India allowed the development of a private sector economy, if tightly controlled. The State concentrated its resources in heavy industry, leaving the consumer-goods sector to local capitalists. The government also assumed sole responsibility for the distribution of essential commodities, such as cotton, cement and steel. It began implementing a series of regulations to direct the development of the private sector. Government regulations were promulgated to obtain licenses, particularly in relation to industries seeking foreign technology or investment, while transactions involving foreign currency had to be made through the Reserve Bank. As a result, the private sector prospered (Rapley, 2007).

Overall, ISI was initially successful because it transferred national wealth out of the hands of a few into the hands of the State and invested it in growth. It benefited economic growth in a number of countries, such as Taiwan and South Korea (Wade, 1988). By the 1960s, the larger Latin American countries produced their own textiles, processed foods, refrigerators and paints. Furthermore, steel works were developed in Argentina, Brazil, Mexico, Peru and Venezuela, and by the end of the 1960s cars were being produced (Parkinson, 1984). In addition, evidence of the success of ISI can be found in Africa, such as in Kenya (Gillis et al., 1996). Thus, by the 1960s, ISI became one of the dominant strategies for promoting industrialisation and economic development in LDCs. However, the problem of ISI was its sustainability.

1.5.1.2 Critiques of ISI

Despite these apparent successes, ISI received considerable criticism because of a number of weaknesses. These included its lack of effectiveness, its creation of rent-seeking in the economy, the onset of over-capacity in a number of sectors, the negative impact on the agricultural sector, and it was capital intensive, requiring significant imported inputs and, therefore, did not solve the balance of payment problems (ibid.). Furthermore, the data collected by Balassa (1971) and Little, Scitovsky, and Scott (1970) highlight that ISI leads to major distortions and misuse of resources in the economy. Issues, such as bottlenecks and misallocation, could not be addressed by the use of planning.

In addition, State intervention was based on essentially political decisions, not rational economic decisions because it had to find legitimacy from the population. Furthermore, when the State took on all these functions, it needed to employ people to do the work (planning, managing and producing). It, therefore, consumed resources as fast as it produced them, and since it was now both employer and the representative of the employees, it was unable to set wages and prices according to market rates but according to political expediency.

Onis (1991) argues that the extensive intervention by the State to implement ISI policies led to the development of inefficient companies that could only survive through the use of subsidies. Furthermore, the implementation had little prospect of achieving international competitiveness in the industries chosen. In addition, the extensive government intervention created 'rent-seeking' on a significant scale. Economic agents became distracted from productive activities to lobbying for improved government allocations and protection. Finally, he argued that the LDCs, which achieved the fastest growth (Taiwan, Hong Kong, South Korea and Singapore), adopted an outward-oriented model supported by market incentives and a robust private sector not an inward-looking ISI approach.

In essence, ISI failed because:

- Economic decisions were politicised.
- The State became such a large consumer of the national product that there was insufficient capital left for investment.
- National economies did not provide the economies of scale needed for efficient competitive production.
- Without market control, production become inefficient, bureaucratised and politicised.
- Countries still had to import capital goods but only had depleting commodity revenues to pay for this since their national industrial production was directed towards domestic consumption.
- When interest rates were low and inflation high, they borrowed to fill the gap between income and expenditure. However, when interest rates rose and developed countries fell into recession, they purchased fewer commodities, and the LDCs were unable to repay the loans.

Furthermore, the new policies, including sets of incentives, controls, and mechanisms to spread risk, interfered with the existing interests of key members of the elite, especially government leaders, who sought to fight any change. As a result, the work of policy-makers had to overcome pressure groups that supported the status quo. By the 1970s, it was apparent that ISI had largely failed. However, countries such as Taiwan and South Korea adopted different outward-looking polices.

Specifically, in relation to the Arab world, Ayubi (1995) explains why political and economic liberalisation is considered to be slow and ineffective. The characteristics of the political structure in the Arab world including the GCC countries is derived from the structures of power used by ruling family structure including the traditional tribal characteristics. The nature of this type of rule has been based on tribal competition. To stay in power, the ruler shares power within the ruling family and with wealthy families or the business class by offering them the main government posts and ministries. The ruler uses a “carrot and stick” policy to maintain a close relationship with these families. This, in turn, undermines the potential for any political and economic liberalisation as liberalisation would undermine the power and authority of the ruling elite, while the business class would lose its economic privileges and protection. Hence, neither the political elite nor the business class are eager for real economic and political liberalisation. According to Ayubi:

> Although always pushing for increased privatisation, the business community may not necessarily opt either for full economic liberalisation or ultimate autonomy from the State. To start with, its members will always ask for as much State subsidy, protection and support as possible (1992, p.52).

Furthermore, at the institutional level, Ayubi (1995) argues that the governments are handicapped by the limits of institutional structures that they build to protect their redistributive and interventionist policies. Because of this structure, institutions face difficulty in adopting new policies or new regulatory environments. In addition, Ayubi also provides cultural elements in his argument on the barriers to economic liberalisation. Ayubi argues that private property rights have been very weak. These never developed in the way that occurred in the West because of the rulers continually reallocated agriculture estates in order to stop the establishment of a hereditary landed nobility and also because this meant wealth and status stemmed from closeness to political power rather than from economic productivity. Ayubi's discussion is important as it helps understand the shortfalls of Oman Vision2020 in liberalising the economy.

1.5.2 Export-oriented Industrialisation

Not all countries that followed a State-led approach to development adopted the inward-looking approach of ISI, other countries adopted an outward-looking export-led growth strategy (Cohn, 2015). Export-led growth is a development strategy aimed at growing productive capacity by focusing on exporting to foreign markets, especially focusing on taking low added-value manufactures away from the core. It was first initiated in Germany and Japan in the 1950s and 1960s (Palley, 2012). Thereafter, the four East Asian tigers (South Korea, Taiwan, Hong Kong, and Singapore) adopted this strategy in the 1970s and 1980s. Later in the 1980s and 1990s, it became a popular strategy in other South East Asian countries such as Thailand, Indonesia and Malaysia (ibid.).

It was part of a new consensus among economists about the benefits of economic openness that gained prominence in the 1970s. This new consensus rested on a fusion of three arguments. The first argument, which is based on comparative advantage theory, is about the gains from trade between economies with different capital-labour ratios (Dornbusch et al., 1980; Hecksher & Ohlin, 1933; Samuelson, 1948). The second argument concerns the benefits of openness for controlling rent-seeking, a problem for which ISI development was strongly criticised

(Krugman, 1987). The third argument, which developed later, was the benefits of openness for growth. The claim is that trade encourages technology diffusion and knowledge spill-overs that contribute to faster productivity growth (Grossman & Helpman, 1991).

The aim of the strategy is to gain a higher share of the global market for their exports, as well as to meet domestic demand, and to have sufficient 'hard currency' to import other manufactured goods and services. The aim was built on the argument that policy focused on external markets helps capture the economic benefits of openness for developing countries by encouraging adoption of best practice, promoting product development; and exposing firms to competition (Kambhampati, 2004).

The recipe for promoting this strategy focuses on reducing tariff and non-tariff barriers, devaluing the currency, which encourages exports, and then allowing the exchange rate to float (i.e. to follow the rate set by the market). It also involves State incentives, subsidies and easy entry to the local markets for the export-focused industrial sector (Goldstein & Pevehouse, 2013). It also depends on keeping labour costs (i.e. wages) lower than in more advanced countries.

A significant improvement in economic performance was noticed when countries adopted these strategies. For instance, the gross domestic product (GDP) in South Korea grew at an average annual rate of more than eight percent during the 1960s, while its exports increased sharply from about USD31 million in 1960 to USD882 million in 1970 (Cohn, 2015). In the 1960s, most South Korean and Taiwanese industrial exports required relatively little capital and large amounts of unskilled labour, but industrial wages gradually increased and there was a structural transformation as the two economies began producing more sophisticated industrial goods with highly skilled labour. By the late 1980s, Taiwan and South Korea were the 10th and 13th largest exporters of manufactures, respectively (Page, 1994).

1.5.2.1 The Role of the State in Export-oriented Industrialisation

Importantly, the export-led growth model is dependent on significant State intervention (Kambhampati, 2004). The State supports a small number of key industries that it identifies as the most likely to succeed. Thus, State intervention is highly selective and strategic and, therefore, appeared to be more effective. One of the key differences between ISI and export-led growth is the presence of the private sector in export-led growth (Cohn, 2015).

This experience was modelled in the developmental states' literature. In their introduction to a special issue of the *IDS Bulletin* on developmental states in East Asia, White and Wade argue that East Asian states carry "the historical legacy of a strong and economically active state" (1984, p.3). In this context, Leftwich, who traces the idea of the developmental state back to List and Colwell (1856), defines developmental states as "states whose politics have concentrated sufficient power, autonomy and capacity at the centre to shape, pursue and encourage the achievement of explicit developmental objectives" (1995, p.401). Thus, both ISI states and export-led states are considered to be developmental states because as long as the State intervenes to direct resources (directly or indirectly) into industrialisation and plans the sectoral development of the country, then it is a developmental state.

In developmental states, economic management and development are run by an economic bureaucracy. While this occurs in many developing countries, in a developmental state, the economic bureaucracy is very powerful, and most economic decision-making is centralised. For instance, in South Korea, several government bodies were established to manage the overall planning strategies in the country. Ministries such as Finance, Industry, Commerce, Tourism, and Foreign Affairs have different developmental tasks to fulfil. For example, the Economic Planning Board was head of planning, price controls, loans and investments, transfer of technology, foreign aid and collection of statistics (Sercovich et al., 1999, p. 231).

Thus, a developmental elite is created. In time, this elite is able to influence policy-makers for their own interests. Its power is greater than that of the political and legislative elites. They are also dynamic and have the ability to represent shifting coalitions of benefits. The developmental state becomes autonomous from any particular interest (class, regional and sectoral) by working in the 'national interest' (Jenkins, 1992; Johnson, 1987). For example, in South Korea, because of receiving a substantial amount of foreign aid, the government's dependence on locally generated revenues declined. Furthermore, the developmental state is able to increase its powers and autonomy by co-opting civil society movements, specifically the press and labour rights' organisations. In this context, it is claimed (Jenkins, 1991; Chowdhury & Islam, 1993) that the developmental states in East Asia have more politically stable labour movements than their counterparts in Latin America, allowing for the State's economic power to be reinforced.

1.5.2.2 The Demise of Export-oriented Industrialisation

Thus, the export-oriented strategies followed by the developmental state, changed the political economy of those states. It empowered, the State and created a developmental elite while at the same time allowing the private sector to flourish. However, the export-led growth model became afflicted by five structural problems. First, the model relied on robust consumer markets in developed economies (particularly the US) to buy their exports and justify the level of domestic and foreign investment. For 25 years those markets were artificially strong, fuelled by rising debt and asset price inflation. That pattern was unsustainable, and when the debt bubble burst it left a hole in the logic of the export-led model (Palley, 2012).

Second, the emerging market's share of the global economy has risen from 39.1 percent in 1980 to 50.8 percent in 2008. They gained such a large share of the global economy that their exports have driven a hole in the industrialised economies, on whom the export-oriented economies were reliant for continued growth. Paradoxically, therefore, the success of the export-oriented economies in this period made future growth more difficult as the advanced economies entered a period of lower growth (ibid., 2012). Third, with the export-led growth strategy being so widely adopted, a new declining terms of trade problem emerged. Similar to the one that afflicted commodity producing developing countries in the second half of the 20th century, the problem became one of increased supply of low technology manufactured goods, undermining their price. This means that unless export-oriented economies produced more output to cover the cost of their imports, they faced an increasing balance of payments problem (Sarkar & Singer, 1991).

The fourth problem is what globalisation critics term the 'global race to the bottom'. Because it is easy for multi-national corporations (MNCs) to shift production between countries, it has created a 'race to the bottom' dynamic, in which developing countries undermine each other. Each country attempts to obtain a competitive advantage through a combination of wage suppression, suppression of labour, environmental and social standards, suppression of business regulations, shifting of the tax burden from capital to labour, the creation of extra-judicial export processing zones, and competitive devaluations that create financial instability.

Since many countries adopt the same approach, none gains significant competitive advantage. Instead, this destructive competitive dynamic undermines the development of standards, institutions, income equality, and wage growth that are needed for deeply rooted development. The only beneficiaries are the MNCs whose profit margins are increased (Palley, 2012).

Finally, the adoption of export-led growth by China siphoned FDI and demand away from other emerging market economies. China was able to take advantage of its large, cheap labour force. China's emergence poses two problems for other developing and emerging economies. First, its size blocks access to the traditional ladder of development for newcomers. Second, its entrance on the global stage has caused South-South competition to increase alongside the already extant North-South competition. This explains why the benefits of export-led growth have been so limited for stage three countries such as Mexico (Palley, 2012).

In real terms, the 1997 Asian financial crisis highlighted the problems that built up by adapting the export-oriented strategy. Several economists, including Joseph Stiglitz (previously Senior Vice-President and Chief Economist of the World Bank), suggest that most nations within East Asia implemented sensible procedures relating to economic factors. They argue that the financial burdens that became important during the 1997 crisis, were not the consequence of government financial mismanagement or the macroeconomic outlook, but rather the high levels of debt taken by the private sector (Sundaram, 1998). Stiglitz (1998) blames the problems on the misallocation of investment, unhedged short-term borrowing and very high debt-to-equity ratios by the private sector. He also adds that it was the minimal rather than excessive involvement of States that contributed to the issues that many nations encountered. Implicitly, Stiglitz suggests that these countries stopped implementing the policies that had previously been effective. For example, a number of countries introduced financial reform that provided more freedom for banks to lend money; however, this was mismanaged and effective regulations were not imposed.

In summary, the export-led growth model had several advantages, and the Asian countries that adopted these strategies achieved substantial economic growth in the 1970s and 1980s. Politically, the East Asian tigers took a different route from the ISI countries by suppressing wages and ensuring a continuing supply of cheap labour for the private sector, thereby making their exports competitive. In contrast, ISI countries such as Egypt co-opted labour unions by promising wage rises and improved workers' rights. Ultimately, they could not maintain this because they did not earn the money to pay the workers. As a result, strikes erupted that were repressed by the authoritarian State in the early 1970s. Therefore, the developmental state (whether following ISI or export-oriented policies) is not a liberal state. It exists by repressing alternatives to State decisions/interventions in the market.

Undoubtedly the export-led growth model has a number of advantages. However, the 1980s-foreign debt crisis and the outbreak of the 1997 East Asian financial crisis, highlighted the weaknesses of the export-oriented model. In summary, the State-led development strategies had a number of strengths. However, these strategies also can be seen as having a number of issues, including fiscal deficits, low productivity, rent-seeking, cronyism, politics, low growth rates and poverty. However, prior to this crisis, the IMF and the World Bank were promoting a new strategy termed the neo-liberal model, which is discussed in the next section.

1.6 NEO-LIBERAL DEVELOPMENT STRATEGIES: STABILISATION AND STRUCTURAL ADJUSTMENT

Neo-liberalism is the revival of ideas associated with laissez-faire economic liberalism in 19th century. The approach is derived from market-based ideas including economic liberalisation policies such as privatisation, deregulation, and free trade by reducing the government's role in order to increase the role of the private sector in the economy and society. According to Gillis et al. (1996), the virtues of market-oriented, outward-looking private development strategies were promoted by the neo-classical school before the oil shock of 1973 and the subsequent debt crisis. The Chicago School, which included the Nobel Prize winners, Milton Freedman, George Stigler and Theodore Schultz, was the main driver of these policies, termed neo-classical or neo-liberal. Building on this theoretical framework, in practical terms, the US through Reaganomics and the UK following Thatcherism were leaders. The move towards market-oriented economies was further boosted by countries, particularly in Latin America, embracing the Washington Consensus. The term 'Washington Consensus' was first used in 1989 by the economist John Williamson to describe a 10-point set of policies promoted by the IMF and the World Bank through which emerging economies were supposed to achieve growth and development. The ten points of the agenda are fiscal policy discipline, reduction of public spending, tax reforms, trade liberalisation, privatisation of State enterprises, deregulation, legal security for property rights, competitive exchange rates, interest rates that are market determined, and liberalisation of inward FDI (Williamson, 2004).

Interestingly, neo-liberalism returns to the roots of early development theories by understanding development simply as economic growth. Thus, advocates of the Washington Consensus claim that there should be minimal State intervention since free markets are effective in all circumstances and government intervention merely impedes the efficiency of the market. Factors, such as the failure of State interventionist policies, the reinterpretation of the success of the East Asian newly industrialised countries as being due to free-market and outward-oriented policies and the election of pro-monetarist governments in the West enhanced the neo-classical school's popularity (Cohn, 2015; Kiely, 1998; Rapley, 2007). Importantly, the measures also became a set of terms and conditions imposed by international financial institutions on a country seeking financial support.

The following are the primary expectations of the neo-classical school:

- One Policy for Development: In contrast to dependency theory, differing policies are not needed for developed countries and LDCs because of the strong ideological belief in free markets and free trade (in line with relative advantage). Therefore, the growth process is not believed to be impacted by the individual history and culture of each country.
- The Market is King: The neo-classical school believes that resources will be effectively allocated in terms of supply and demand by the 'unseen hand' of the market based on 'rational' individual behaviour. According to the neo-classical specific definition of this term, individuals are assumed to be self-interested and to have well-identified goals that they pursue in the most efficient way possible. Therefore, development is enhanced by low price distortion, with a dependence on free markets and minimum intervention by the State (Cole et al., 1983). Thus, free markets enhance the attainment of the optimal signals for investment and production decisions. Furthermore, the correct scarcity values of goods and resources, in the present and future, are shown by prices (Todaro, 1997).
- Export Promotion: The adoption of export promotion is associated with various advantages. The benefits realised from X-efficiency facilitate dynamic gains. This means that costs will fall, slack management will be removed, over-manning addressed, and rent-seeking behaviour eradicated through the exposure of domestic industries to global competition. Additionally, faster diffusion of technology from openness will facilitate gains based on export promotion. Pack (cited in Gillis et al., 1996) identified

that there will be allocative effectiveness as a result of export promotion. This is because labour, capital, and land are moved more rapidly from low to high productivity sectors.

Neo-liberal policies are based on the assumption that State involvement in the economy introduces distortions and undermines the efficiency of the economy through price distortions, rent-seeking behaviours, corruption, and barriers to trade. The advocated policies of stabilisation and structural adjustment were mainly focused on reacting to the sovereign debt crisis, caused by twin deficits on the current account and the fiscal account, and the decline in economic growth during the 1980s. In line with this argument, the United Nations Research Institute for Social Development (UNRISD) states: “The theory was that changing the structure of incentives would empower market-oriented groups and eventually make them sufficiently strong to enforce new role of behaviour both State and society to develop new institutions” (1995, p.49).

Thus, advocates argued that it is first necessary to address the macroeconomic issues through immediate policies to stabilise the economy (stabilisation). Second, the policies would fix the structural problems facing the economy and make it work more efficiently (structural adjustment) (Cohn, 2015; Rapley, 2007). The measures aimed to improve allocative efficiency of the price regime by eliminating subsidies, managing labour market distortions, and deregulating the financial market (Pieper et al., 2001). In addition, foreign trade liberalisation policies included a devaluation of the currency (which had usually been kept artificially high), abolishing import quotas, phasing out export subsidies and reducing tariffs, and eliminating barriers to external capital flows (ibid.). Third, the policies were supposed to address the levels of sovereign debt by implementing massive cuts to government current and capital spending, credit restraints and high interest rates, and increasing the tax base (Pieper et al., 2001; Cohn, 2015; Rapley, 2007). Furthermore, privatisation programmes were encouraged to enhance the role of the private sector, to increase the flow of FDI and roll back State involvement in the economy (ibid.).

Gerald (1995) sums up these policies as:

- Trade reform: Removing controls over imports, decreasing tariff levels, attaining a more constant tariff structure and supporting non-traditional exports, as well as decreasing restrictions on foreign investment;

- Devaluing the exchange rate to support export-oriented industries and to compensate for the removal of import protection;
- Financial reform: Modifying interest rates to levels that are above the inflation rate in order to remove excess demand for credit, or, rather, freeing credit markets to decide on interest rates, and supporting new credit instruments and institutions;
- Freeing prices on farm products to encourage investment and improvement in agricultural production;
- Eliminating wage controls and other regulations that artificially boost labour costs, or, at least, allow inflation to wear away the costs' real value; and
- Remove controls over prices and otherwise decrease regulation that inhibits the nature of the market.

Structural change policies were frequently connected to structural adjustment loans (SALs) offered by the World Bank during or after the stabilisation process. The five components of a full reform package resulting from the neo-classical paradigm were (Gerald, 1995):

- Freeing markets to determine prices (letting markets work);
- Regulating controlled prices to scarcity values (getting prices right);
- Shifting resources from government into private hands (privatisation);
- Rationalising the remaining role of the government in growth (budget rationalisation); and
- Reforming institutions to perform the new role of the government (deregulation).

Overall, these neo-classical policies attempted to:

- decrease the role played by the State, which the theory argues resulted in market distortions;
- increase the role played by the private sector; and
- develop a market system.

The main effect of the policies in the short-term was a downturn of the economy, as excess demand and spending by customers and government was curtailed. However, in the longer term it posited that economic growth would be achieved.

1.6.1 The Role of the Private Sector Relative to the State and the Market

Theoretically, as discussed earlier, neo-liberal policies envisage a minimal role for the State but a significant role for the private sector. This is why the World Bank and its sister organisation, the IMF, promote economic policies, such as privatisation, and encourage the State to undertake economic reforms in order to increase the role of the private sector. Hence, policies including stabilisation, structural adjustment and a market-friendly approach are all meant to support the private sector, which is supposed to take advantage of this opening. In this context, the following quote, from a study on structural adjustment and economic liberalisation in Egypt, demonstrates the significance placed on the private sector by the neo-classical school.

> In essence, Egypt's economic reform initiative amounts to moving from a centrally planned, public-sector-dominated economy towards a competitive, market based one in which the private sector is to play a leading role. The objective is to achieve rapid, efficient, and sustainable growth-something that the past centrally planned model has not delivered. By fostering private sector development (PSD), it is expected that the living standard of Egyptians, especially that of the poor, will be raised to its potential. In other words, PSD is the core tool in the country's new development strategy (Giugale & Mobarak, 1996, p.1).

The promotion of the private sector is supposed to address four major challenges: unemployment, poverty, weak investment levels and constrained exports. The World Bank also highlights a number of gains expected by developing the private sector:

> Many low-income countries have made impressive advances in the past three or four decades. The most successful ones have pursued market-friendly development strategies. Their private sectors have been the engine of growth, generating sustained increases in income to allow investments in broadly based and long-term development. And their governments have been focusing on macroeconomic stability, on business environment, and on basic physical infrastructure and human resources. The result: sustained high growth rates, with widely shared gains in living standards (1995, p.1).

However, the neo-liberal approach does not totally exclude the State from the development process. The role of the State is still essential in facilitating and partnering the private sector but not directing it. As noted in the following quote in the World Development Report:

> Development—economic, social, and sustainable—without an effective state is impossible. It is increasingly recognised that an effective—not a minimal one—is central to economic and social development, but more as partner and facilitator than as director. States should work to complement markets, not replace them (1987, p.18).

This raises the question about the extent to which the State should intervene in the market. As illustrated in Figure 1.1, there is always a role for the State no matter the level of development attained. For example, in countries with low State capabilities, it should focus on providing public goods, such as property rights, defence, public health, macroeconomic management and social and legal structures. These are the basic functional requirements for any country. However, equally, providing the basic services should build on the strengths of the market, civil society and state agencies. When these basic functions are in place, the role of the State moves towards providing intermediate functions. Functions such as social insurance, basic education, environmental protection, public goods, regulations and unemployment. Importantly, the State should provide these elements but should work in close conjunction with the private sector and civil society to ensure the services are provided. When the States are strong in terms of their capabilities, their role becomes more activist. In this role, the State is expected to deal with market failures, fostering market and cluster initiatives. For example, in East Asia the role of the State became central in promoting markets through industrial and financial policies.

Table 1.1 Functions of the state

	Addressing market failure			Improving equity
Minimal functions	*Providing pure public goods:* Defense, Law and order, Property rights, Macroeconomic management, Public health			*Protecting the poor:* Antipoverty programs, Disaster relief
Intermediate functions	*Addressing externalities:* Basic education, Environmental protection	*Regulating monopoly:* Utility regulation, Antitrust policy	*Overcoming imperfect information:* Insurance (health, life, pensions), Financial regulation, Consumer protection	*Providing social insurance:* Redistributive pensions, Family allowances, Unemployment insurance
Activist functions	*Coordinating private activity:* Fostering markets, Cluster initiatives			*Redistribution:* Asset redistribution

Figure 1.1: Hierarchal Functions of the State
Source: World Development Report, 1997. p.27.

1.6.2 Critiques of Neo-liberalism

Neo-classical theory has attracted a number of critiques. The first of these focuses on the harmful economic costs for some of the countries involved. Among the costs were constrained output and low economic growth, falling employment, extreme compression of demand, and cuts in real wages. Weak management of the economy was noted in countries that followed the neo-liberal policies, apart from Chile (James & Dietz, 1997). The weak management was a result of States' failures to provide the rule of law, accountability, transparency, predictability, security of investment and popular consent. As Fukuyama (1992) argues, liberal economics do not work with illiberal government. These aspects were missing in countries that adopted neo-liberal policies and failed to achieve its objectives. Mexico provided a good example as the policy was effective in handling inflation and the budget deficit, but the economy failed to develop, leading to a decline in living conditions and the near removal of the small-business sector (James & Dietz, 1997).

The second critique revolves around the failure of export promotion and trade liberalisation to boost growth. Liberalising the economy in exporting countries means that the economy becomes more dependent on external trade with developed countries in particular and on the world economy in general. This makes the exporting economy vulnerable to external shocks and economic recessions, such as the great recession after the global financial crisis that broke in 2007.

The third critique argues that an increase in competition is not really facilitated by privatisation. This is because the most significant determinant is the effectiveness of privatisation; how it occurred and the degree of regulation. In certain cases, privatisation was merely a transfer of monopolies from the public to the private sector elite. Thus, social, political, and economic results of poor privatisation can be counter-intuitive (Merriam & Fluellen, 1992). In addition, privatisation was hindered by the lack of a suitable business environment, as highlighted in the first critique.

The fourth critique highlights the poor environment for private sector growth. Rodrik (1990) argues that an environment harmful to private investment is created by structural adjustment liberalisation policy because of the feeling of instability created by its short-term effects. Therefore, instead of investing, the private sector waits for greater policy constancy and sustainability. Meanwhile, public sector investment is curtailed by its budget cutbacks.

The final critique is concerned with the increases in poverty levels and income inequity because of the liberalising policies: social welfare provision, such as health and education, is curtailed due to government spending cuts. For example, Cornia (1987) highlights how child welfare, such as infant mortality, malnutrition, and educational achievement, abruptly worsened in numerous LDCs in the first half of the 1980s when SALs were applied. Furthermore, setting market prices for social goods made these goods too expensive for the poor; thus, markets became imperfect.

1.7 THE CONCEPT OF HUMAN DEVELOPMENT

From the discussion to date, it is apparent that the debate around development has evolved but remains heavily contested. For example, in the stages of growth models, development was mainly concerned with upgrading LDCs from an agrarian society to an industrial one, along the lines of the advanced countries. However, this approach became linked with the political interests of developed countries in the Cold War era. Furthermore, the approach failed to recognise the importance of improving the countries' facilities in terms of structural, institutional and attitudinal conditions including human development. Similarly, structural change models also treated the human as a machine for industrialisation. The approach meant there was no role for humans, other than to be a component in the production process calculation.

However, ISI and to some degree export-led growth differed from the previous models by understanding development not only in terms of material well-being but also in terms of the welfare of the society. Thus, for example, the welfare system widely provided education and health provision free of charge for the populace. However, evidence shows that in certain countries this welfare system became a tool by which the political elite gained legitimacy. This political elite was not in the business of providing human well-being as a right but in the business of using it for political gains.

The neo-liberal approach to development reverted to understanding development as economic growth and maximising profits in the hands of the private sector. The debate focused on the private sector rather than the State as the driver or promoter of economic growth, the size of the State, and policies to promote a greater role for the private sector. More importantly evidence shows that some developing countries which adopted neo-liberal policies experienced a high rate of unemployment, an increase in poverty levels and rising income inequality.

Whether the issue was about the relevance of the policies and their applicability to these countries, or the mismanagement of these countries in adopting these policies is not the story, the story is people were left suffering from social issues such as unemployment and poverty. This encouraged scholars to rethink the whole concept of development in terms of the quality of people's lives, their education, health, social welfare, human and political rights. Hence, this section discusses the concept of human development.

In 1990, the United Nations Development Program (UNDP) shifted the understanding of development theory, its measurements and its policies to the concept of 'Human Development', which considered progress as being related to improved human well-being. Human development is defined in the first UN *Human Development Report* launched in 1990 as "a process of enlarging people's choices. The most critical one, are to lead a long and healthy life, and to be educated and to enjoy a decent standard of living. Additional choices include political freedom, guaranteed human rights and self-respect" (UNDP, 1990, p.1). As ul Haq notes, this shifts "the focus of development economics from national income accounting to people centred policies" (1995).

The UNDP report uses Sen's (1989) 'Capability Approach' as a conceptual framework for the study of contemporary development issues. Later reports have focused on different development patterns such as sustainable development, governance, globalisation, poverty reduction and gender inequality as means by which to address human development (Fukuda-Parr, 2003). Sen's (2001) perspective of development is to improve people's lives in different areas, such as health, education, knowledge, access to resources and the freedom to practice their civil and political rights. Therefore, he argues development is about removing the obstacles that could be a barrier to improving people's lives. Fukuda-Parr (2003) argues Sen's theory of development highlights that it is important to differentiate between people and development in the human development approach. According to Sen, there are two aspects; the 'evaluative aspect' and the 'agency aspect' (cited in Fukuda-Parr, 2003). The evaluative aspect refers to evaluating the changes in human lives as an explicit development aim and using these measures as an indicator of progress. This contrasts to other development theories which focus on economic performance. The agency aspect is concerned with what human beings can do to achieve such improvements, particularly through policy and political change. Hence, the human development approach is linked with the evaluative side, while the agency aspects are less valued (Fukuda-Parr, 2003).

Similarly, ul Haq (2011) argues that human development shifts the focus on to people. He states, while human productivity is a vital part of economic growth, to treat human beings only as a resource for the production process disguises the significance of people at the vital end of development. Thus, human development is concerned not only with improving human abilities through investment in education and health, it is also important to use those capabilities fully through facilitating a framework for growth and employment. Therefore, although economic growth is important for human development, the quality and distribution of growth is critical for human lives and to its sustainability. As Jolly (2003) notes:

> the Human Development (HD) approach embodies a robust paradigm, which may be contrasted with the neoliberal (NL) paradigm of the Washington consensus. There are points of overlap, but also important points of difference in objectives, assumptions, constraints and in the main areas for policy and in the indicators for assessing results.

According to the *Human Development Report* (UNDP, 1990), the plans for human development should follow several steps to achieve its objectives. The first step is to give greater attention to developing the existing human resources and skills, to peoples' health, education and nutrition, their absolute and relative poverty, their employment and underemployment and their progress in the demographic transition. It also includes equal rights between females and males and a fair distribution between rural and urban areas with no discrimination among different income groups. Attention should also be on the cultural ethos and real motivations of the people (UNDP, 1990).

The second step is to identify priorities by evaluating the current situation, comparing it with the objectives of the plan and then implementing the mechanism to translate these objectives into reality. The greater the difference, the greater the possibility for improvement and the greater the priority for policy (UNDP, 1990).

Third, once the priorities have been identified, it is important to rank them according to peoples' preferences. The preferences differ across countries according to the level of human development and their resources. A country's preferences can be adjusted according to their effective mechanisms for determining people's preferences. The level of effectiveness depends on the level of democracy and decentralisation of the political and economic systems and the degree of encouragement for participatory development (UNDP, 1990).

The fourth step is to make these priorities into specific aims for primary indicators, such as life expectancy, literacy, and nutrition. The aims are developed in the light of the programmes and targets for specific policy tools and important indicators, such as access to health, education services and clean water (UNDP, 1990).

The final step in human development planning is to ensure the cost of planned human development programmes are the same as the available resources. The UNDP recommends that the capacity of the resources that can be made available for human development programmes through domestic expenditure and by increasing further resources is important for policy makers to consider (UNDP, 1990).

These plans tend to be undertaken at the domestic level. However, in some cases, if a State lacks the necessary resources to implement these plans, international agencies can provide the essential technical knowledge and support, as long as the governments of these countries request help. More specifically, the UN system is at the forefront of this role (UNDP, 1990).

According to ul Haq (2011), the essential difference between economic growth models and the human development model is that economic growth emphasises the increase in income while human development focuses on aspects of humanity. The human development model questions the association between expanding income and expanding human choices. Such an association depends on the quality and distribution of economic growth, and not only on the quantity of such growth. Thus, according to the human development model, a link between growth and human lives should be created through thoughtful public policy, such as public spending on social services, and fiscal policy to redistribute income and assets. Such a careful public policy has been absent in many developing countries.

In this context, ul Haq (1995) argues that people are both the ultimate and main objective of human development, whereas economic growth is only a means by which to achieve it. To achieve a long and healthy life, to be educated, and to enjoy a decent standard of living are the most important fundamentals of the human development model. However, other components such as political freedom, broader human rights and environmental sustainability have also become important elements of the human development model. As ul Haq notes: “The genius of the human development framework stems in large part from its ability to flexibly absorb a broad complex agenda, while remaining relevant as an analytical tool and foundation for conceiving creative policy and institutional reform ideas” (2001, p.8).

1.7.1 The Role of the Private Sector Relative to the State and the Market

While neo-liberalism calls for rolling back the State, the human development approach calls for the State to be responsible for promoting human development, including education and health in particular and social aims and objectives in general that can build human capacity. These aspects demand State mobilisation (Anderson, 2014, p.69). Thus, the UN Declaration on the Right to Development (1986) clearly emphasises the importance of the State’s contribution in ensuring “equal opportunities for all people to receive basic resources, education health services, food, housing, employment and the fair distribution of income” (Article 8). According to Article 8:

> States should undertake, at the national level, all necessary measures for realization of the right to development and shall ensure, inter alia, equality of opportunity for all in their access to basic resources, education, health services, food, housing, employment and the fair distribution of income.

However, the approach raises several questions. Who ensures the provision of these services? Which economic growth model is appropriate—free market or State-led? What type of political system is suitable—liberal or autocratic? As discussed in previous sections in each economic growth model, who drives economic development, the market or the State, is always contested. The provision of social services including health and education are key means to improving people’s lives and fighting poverty. Thus, human development cannot be isolated from income growth as an objective of development.

Evidence shows both market and State-led development approaches achieved high records in health and education indexes. What was important was a strong government commitment to health and education. Anand and Ravallion (1993) on Sri Lanka, Johnson (1982) on Japan, Grice and Drakakis-Smith (1985) on Singapore and Kirk and Erisman (2009) on Cuba show that countries with limited resources but a strong government commitment achieved significant improvements in health and education. For example, Anand and Ravallion (1993) note that the life expectancy at birth of a Sri Lankan is 71 years, the infant mortality rate is 19 per 1000 live births, and the literacy rate is 99 percent. However, Bhalla and Glewwe (1986) and Sen (1981) dispute this argument, instead claiming that Sri Lanka’s record was achieved because of the exceptional growth relative to its income during the period 1960 to 1978. Johnson's (1982) study on Japan also shows how the country has strong social systems committed to building human capacity while industrialising successfully. Similarly, Grice and Drakakis-Smith (1985) show how the State in Singapore invested heavily in education and improved its labour skills force as a key element for its successful industrial development. Likewise, Kirk and Erisman (2009) show how Cuba paid special attention to education and health, which enabled it to become a centre of biotechnology medicines.

In summary, human development theory emphasises the importance of the State in improving human development regardless of whether the country follows a market or State-led approach to development.

1.7.2 Critiques of the Human Development Approach

Although the Human Development Reports use the Human Development Index (HDI) as a measure of poverty, Srinivasan (1994, p.241) calls for improved conceptual tools to overcome empirical weaknesses, such as unequal access to education. In this context, Sen (2000), reflecting on a decade of human development, advises that the human development model should not be a "stagnant pool" but should grow through serious assessment, and the formation of exploratory investigation methods. One such approach is Nussbaum's (2001) analysis of simple, core and joint capabilities. Furthermore, Matthews (2008) argues that the arrival of the post-Washington Consensus, post-development criticisms and social movements within the Global South may help retheorise the issue of poverty.

Other critiques also focus on the conceptualisation of the HDI. According to Srinivasan:

> The HDI is conceptually weak and empirically unsound, involving serious problems non-comparability over time and space, measurement errors, and biases. Meaningful inferences about the process of development and performance as well as policy implication could hardly be drawn from variations in HDI (1994, p.241).

Thus, Srinivasan focuses on the index as an inaccurate measure. Stanton's (2007, p.17) criticism focuses on poor data in terms of data collection and measurement errors, wrong indicators included in the HDI components, the wrong specification of the formula used in the HDI in terms of its income cap, the use of logs, issues with redundancy and the wrong measure of income per capita. Nevertheless, Stanton (2007, p.27) emphasises the importance of the Index as it provides a tool for measuring well-being and is an alternative measure to GDP per capita by which to measure development for countries. Others argued that the Index was limited in that it only took into account three capabilities, literacy and schooling, life expectancy and adjusted income. According to Fukuda-Parr 2003:

> Unfortunately, the human development approach has often been misconstrued as being narrowly limited to the three capabilities included in the HDI, or even more narrowly to their indicators (literacy and schooling, life expectancy, and adjusted income). This, in turn, has led many to conclude that the human development approach has little to offer that is different form the basic needs approach of the concept of human resource development (2003, p.307).

Although the human resource approach to development has focused attention on aspects related to human development, challenges still remain. Thus, Fukuda-Parr (2003, p.315) calls for improvements in the measurements tools, a clear policy mechanism for policy makers and refining the conceptual underpinnings of the human development approach. The real problem with human development is still within the neo-liberal framework, because it still understands human being as labour resource as a tool of economic growth.

1.8 POST-DEVELOPMENT THEORY

Schuurman (2000) argues that there have been a lot of changes experienced in the development discourse. This has been facilitated by the changes in the global environment. These changes include the fall of Soviet socialism, and the end of apartheid in South Africa. Due to these changes the terms articulated in the development discourse of both the cultural left and the neo-liberal right have collapsed (Hart, 2001). This provided space for post-development theorists, such as Escobar (1995), Esteva and Prakash (1998), Ferguson (1994), George and Sabelli (1994), Latouche (1993), Rahnema and Bawtree (1997), Rist (2002) and Sachs (1997) to argue that development strategies as they had evolved did not achieve their objectives, had never worked and were always unfair and biased. For example, Sachs (1997) argues that after 40 years of the development agenda, its importance has been limited. The gap between the rich and the poor has not been bridged and, indeed, has widened to a point at which it is difficult to imagine that it can be closed. This is because post-developmentalists argue, the West has neglected the importance of the limited resources and unproductive economy of the LDCs, as well as the West's lack of awareness of the local historical contexts and cultural heritage when they attempt to apply Western models of industrialisation. Thus, post-development theorists argue that instead of the West having a dominant role in development, there should be greater pluralism (Ziai, 2007, p.7). Furthermore, post-development theory challenges the neo-liberal epistemology of 'development theory' and the role of both markets and the State.

Theorists such as Escobar (1995) and Esteva and Prakash (1998b) view development as a top-down approach, directed by authoritarian regimes and Western international development organisations. Therefore, they argue that development based on a Western idea of growth or progress will lead to cultural and social homogenisation, threatening people's autonomy (Escobar, 1995, p.42). The concern with individuals is underlined by Sen (2001) who proposes that view 'development as freedom'. He argues that "the process of development is best seen as an expansion of people's capabilities" (Sen cited in Cowen and Shenton 1996 p.449).

On a different tack, Cowen and Shenton (1996) believe that all schools of development visualise a process of development through the exercise of 'trusteeship over society'. Trusteeship, as defined by Cowen and Shenton, is "the intent which is expressed by one source of agency, to develop the capacities of another" (ibid., p.454). The authors argue that trusteeship occurs in development through identifying both a distance and disjunction between the intent to develop and the practice of development as it requires an exercise of power in which the capacity to state the purpose of development is not accompanied by accountability. Duffield agrees with Cowen and Shenton and argues that this results in "'culturally coded racism' which decides the limits between the included and excluded" (ibid., p.227). However, Parfitt (2002) states that a level of trusteeship is inevitable in the process of development, whether it is through the policies of the government or international development organisations.

In a practical example of the failure of development, Ferguson and Lohmann (1994) in '*The Anti-Politics Machine: Development, Depoliticization, and Bureaucratic Power in Lesotho*' argues that people in Lesotho faced enormous negative consequences when development projects and policies failed. This failure was because of the misunderstanding by the international community of both the cultural and economic principles of the Basotho (the people of Lesotho). Neglecting those values when implementing development policies ultimately leads to unexpected results (Ferguson & Lohmann 1994).

In response to these failings, Latouche (1997, p.134) defines development in post-development terms as growth which is regulated, corrected, and healthy and thus is good growth. Therefore, Latouche describes development in simple words as a given ‘good’. However, he points out that previously development was considered as material progress as measured by the country’s GDP, which is a reductionist view. The triumph of the North is that the reality of the trickle-down effect of growth is posited as the universal remedy for development. Latouche adds that this trickle-down effect in the North has been attained because it has exported poverty to the South.

The post-development school is not only critical of development theories; it also provides various methods for achieving positive change. The post-development school provides a certain view of society which excludes the discourse of development promoted by the West and implemented by centralised authoritarian regimes. In this context, Escobar (1995) defines the key features of post-development thought. He argues that the post-development school of thought is interested in providing an alternative to development based on local knowledge and culture and a bottom-up approach using pluralistic grassroots movements. Post-development thought takes its inspiration from local societies, the informal sector and frugal rather than materialistic lifestyles. Furthermore, post-development theorists advocate structural changes. According to Escobar, post-developmental thinking believes that the economy must be based around solidarity and reciprocity, policy must focus on direct democracy, and knowledge systems should be traditional, or at least a hybrid of modern and traditional knowledge.

1.8.1 Post-Development Theory: The Role of Power, the State and the Private Sector

It is not clear what role post-development theorists propose for the State and the private sector. Post-development arguments focus on the “power that the States have and how they use it against their people through development policies” (Ziai, 2004, p.1056). Thus, the State is considered to be a problem, while the private sector is not discussed. The private sphere in post-development is concerned with local groups and the informal sector. Both the State’s and private sector’s roles are virtually ignored. Post-development theorists argue that ‘development theory’ has privileged institution of power such as State capital, the international financial institutions and the private sector, and not the people, and that policy should respond to local ways of doing things and values and not to the needs of international capital.

1.8.2 Critiques of Post-Development Theory

A number of works are critical of post-development theory. One critique concerns the sweeping argument that all development is imposed on the developing world by the West. In this context, Edelman (1999) argues that the simplistic perspective of development is not viable because a large proportion of development has risen from, rather than been imposed on, the developing nation. Furthermore, Rapley (2004) argues that post-development translates to cultural relativism. This is because when the cultural behaviours and beliefs are accepted as valid, then universal standards of life are rejected. Assessments need to be more particular about their intention when they purport to be post-development since development carries a lot of varied meanings.

1.9 CONCLUSION

The concept of development, and thus the substance of diverse development strategies, has evolved in generalisable terms to refer to macro-economic growth, which conforms to socially-approved expectations of distribution (and resulting human development). In the current era, what we may think of as the mainstream and essentially neo-liberal discourse around development identifies the private sector as the most efficient agent to both drive economic growth and to determine the subsequent allocation of resources. The role of the State is limited, being confined to regulating markets to maximise their efficiency, to compensating for market failures, to enhancing the business environment within which the private sector operates, and to protecting socially desirable aspects of human development (responding to both the need for properly skilled human resources and to social norms and values regarding equity and social justice).

For the purposes of this study, and in order to answer the research question (To what extent has the Omani Vision2020 achieved its stated objective of making the private sector the engine of development), we can locate this strategy within a broader neo-liberal understanding of development. For the private sector to fulfil this role, the role of the Omani State must correspondingly be limited and confined to the functions identified above. To answer the research question, the study must therefore examine what has happened since the initiation of the strategy to BOTH the private sector and the State, as two agents occupying relative space in the Omani economic market.

The following chapter enables us to locate the relative roles and status of State and private sector as they stood at the initiation of Vision 2020. To do this, it traces their evolution through the narrative of the Omani development experience in the modern era (since 1970).

CHAPTER TWO:
OMAN'S ECONOMIC DEVELOPMENT UNTIL 1995

2. INTRODUCTION

This chapter reviews Oman's economic development in the modern era up to 1995, which sets the scene for the formulation of Vision2020. During this period, Oman embarked on a process of modernisation, moving from a traditional economy comprised of low added-value agriculture, fishing and merchant trading around the Arab Gulf and beyond. Modernisation of the economy, including the development of transport and communication infrastructures, welfare provision, enhanced international trade and a State machinery, was made possible by the discovery and export of oil. The oil revenues provided significant sums of 'rent' to the Sultan and the State became primarily an instrument of distribution or allocation of this rent.

Oman, thus, developed the classic features of a 'rentier economy' presided over by a 'Rentier State'. In this context of State-led development, there was no room for an autonomous private sector to develop out of the old mercantile business. The private sector was either 'captured' by the State or expelled to the peripheries of economic activity. State intervention distorted local markets and Omani access to, and engagement with, international markets.

The result of this development model is demonstrated through an examination of the outcomes of successive five-year development plans (FYDPs), as well as a review of a major World Bank assessment of the economy provided in 1994 which was to be the launch-pad for the Vision2020. In order to achieve this, the chapter has the following structure. The first section outlines the major theoretical propositions of Rentier State Theory and highlights its usefulness for explaining patterns and problems of development in the oil-dependent Gulf Arab States, including Oman. It explains the development of the Rentier State in Oman from the early classical Rentier State until it entered a period of 'Late Rentierism'.

The second section traces the economic and political conditions in Oman before 1970 when it was a traditional economy based around a patrimonial socio-political structure leading up to the start of the flow of oil revenues. These saw the creation of a rentier state economy driven by a state-led development model based around a neo-patrimonial socio-political structure. The reasons behind the change are also discussed.

The third section discusses the State-led development model in Oman under Sultan Qaboos's leadership through the implementation of a series of FYDPs starting in 1976 until the emergence of Vision2020 during the Fourth FYDP in 1995. This section shows how rentierism evolved through the planning process, especially in terms of the private sector's role, capacities, and performance. It shows how rentierism and neo-patrimonialism were manifested through State-led development at the level of strategic policy and planning in terms of their impact on the development and the role of the private sector.

The fourth and fifth sections concentrate on the outcome of the state economic development strategy as promulgated through the four FYDPs to 1995. The sections highlight how the development strategy had failed to sustain, leaving the Omani economy vulnerable to fluctuating oil prices and, therefore, revenues. In addition, the reliance of oil rent had consolidated the rentier economy and Rentier State and created a private sector built around a rentier rather than risk-taking mentality. Furthermore, change was made more difficult by the evolution of neo-patrimonial power structures.

The final section discusses the review process that led to the formulation of the new strategy document, summarising what Omani government officials felt were the key challenges and their proposed remedies. The section draws on both Omani documents, as well as interviews with officials involved in the process and individuals in the private sector who observed the process and who offer their own critique of what was happening. At the end of this section, the process of developing the Vision2020 document is assessed in terms of how it reflected and reproduced the neo-patrimonial characteristics of the Rentier State, despite the proclaimed objective of energising the private sector to become the engine for sustainable growth.

2.1 RENTIERISM IN THE ARAB GULF STATES

According to the principal body of literature Arab Gulf States (including Oman), the particular pathway to their economic, and consequently socio-political development has been determined by the large volumes of oil (and latterly gas) revenues, termed 'rents', accruing to the State

(Gray, 2011). However, for the most part this literature on rentierism has focused empirically on the wealthier states rather than on Oman.

Rentier State Theory is a political economy theory that explains the relationship between State and society in countries in which natural resources constitute a large proportion of their revenues (Gray, 2011). The theory is based around the concept of 'rent', which is defined as "the difference between the return made by a factor of production and the return essential to maintain the factor" (Bannock & Baxter, 1992, p.129). According to Gray (2011), Rentier State Theory has developed in three phases as new waves of rentier state theorists have emerged. The first phase is 'the Classical Rentier State Theory', which was developed by Mahdavy (1970) and further expanded by Beblawi (1987, 1990) and Luciani (1990). This phase tended to focus on explaining how the role of the State and the State-society relationship developed because of the peculiarities of the large flows of oil rents. The second phase of Rentier State Theory includes 'Specialised Rentier State Theory', as presented by Crystal (1990), Chaudhry (1997), Davidson (2008, 2009) and Hertog (2010), and 'Conditional Rentier State Theory' developed by Herb (1999), Schwarz (2008), Al-Rasheed (2010), Jones (2010) and Foley (2010). These stages emerged in 1990s and 2000s. The third phase of Rentier State Theory termed 'Late Rentierism' was developed by Gray (2011). The rest of this section analyses each of these phases of Rentier State Theory. The analysis forms the basis for Section 3, which discusses Oman's development through the lens of Rentier State Theory.

2.1.1 First Phase: Classical Rentier State Theory (1970s and 1980s)

Iranian scholar Hussain Mahdavy (1970) was the first academic to use the term Rentier State in relation to the oil economies of the Middle East, when he wrote about pre-revolutionary Iran in the 1960s. He defines the Rentier State as a State that obtains rents from external parties such as individuals, corporates or governments. For example, revenues received by the State (in this case Egypt) from ships passing through the Suez Canal is considered as rent. Also, oil producing states selling oil and receiving direct payment (rather than indirectly through the taxation of these activities) can be categorised as rent. Therefore, he argues that the role of the governments in these States became increasingly important in the economy—what he describes as fortuitous étatisme—as the State is able to use the rents to finance expenditure without having to raise taxes. Based on his analysis, Mahdavy (1970) suggests two consequences of a Rentier State. First, the socio-political structure of the country continues to be underdeveloped as the income received from external rents is not used efficiently but is utilised in expanding facilities for the citizens. Second, the economy is dependent on government spending. Thus, rentier governments stimulate demand for certain goods and services but there is no guarantee that it will lead to sustainable macroeconomic growth.

Beblawi and Luciani (1987) expanded on Mahdavy's work by using his theory to describe the rentier economy and Rentier States in the context of the Arabian Peninsula. A rentier economy according to Beblawi and Luciani is: "An economy substantially supported by the expenditure of the state whilst the state itself is supported by the rent accruing from abroad" (ibid., p.11). Furthermore, they define a Rentier State as: "any state which derives a substantial part of its income from foreign sources and under the form of rent" (ibid.). Thus, the income is not generated from productive internal activities. Adopting a purely economic definition, Luciani argues that a Rentier State obtains a high percentage of its income from renting their natural resources to external parties. Rentierism has been measured through the percentage of total government revenue made up by oil rent; for instance, Luciani argues that states relying on oil or other external sources for at least 40% of their economic revenue should be classified as Rentier States (Luciani, 1990, p.72).

These States then allocate the rent to their populations through public sector jobs, high social welfare provision and subsidies. The large volume of the revenues means that the local economy does not become designed to extract government revenues through taxation. Consequently, economic growth in the Rentier State does not come as a result of endogenous growth but external forces. Luciani (ibid., p.76) claims that the stability of the regime and the State is linked with the availability of sufficient resources to buy the support of the population as the most important pre-condition. He also claims, that the rentier Arab countries, which he terms allocative states, are able to control their economy without extracting revenue locally (i.e. through taxation).

Beblawi (1990) provides a further explanation of the Rentier State, which he argues has three characteristics. First, the economy is dominated by rent. Second, there are limited domestic productive sectors contributing to the growth of the economy, which is based on one natural resource (in this case oil). Third, a small segment of the population is involved in generating rent while the State distributes the rent. Furthermore, to refer to a country as a Rentier State, the government must be the direct beneficiary of the external rents. Beblawi, who uses the term ‘distributive states’ and argues that oil revenues, which constitute 90% of the budget revenues, 95% of exports, and 60% to 80% of the GDP, are made and distributed by 2-3% of the labour force in the oil-based states. These revenues are fully controlled by the government and the role of the State is to distribute these rents. This means that economic growth and development is unsustainable in the long run and, therefore, structural changes are required to correct this problem.

However, the main contribution of Beblawi (1990) to the Rentier State Theory is what he calls ‘rentier mentality’. According to Beblawi, rentier mentality excludes the work-reward causation which happens in conventional economic behaviour. People become more or less the economic beneficiaries of rents as the income is not linked with work or with a result of production. Consequently, a structure based on layers of rentiers arises. At the top, there is the state as receiver and distributor of rents, while on the bottom layer the citizens who receive the rents. According to Beblawi (1987, p.386):

> Rent that is held in the hands of the government has to be redistributed among the population. Special social and economic interests are organized in such a manner as to capture a share of government rent. Citizenship becomes a source of economic benefit. Different layers of beneficiaries of government rent are thus created, giving rise, in their turn, to new layers of beneficiaries. The whole economy is arranged as a hierarchy of layers of rentiers with the state or the government at the top of the pyramid, acting as the ultimate support of all other rentiers in the economy. It is important to add that in the MENA the rentier nature of the new state is magnified by the tribal origins of these states. A long tribal tradition of buying loyalty and allegiance is now confirmed by an état providence, distributing favours and benefits to its population.

In such cases, Beblawi argues that people in these countries feel unwilling to ask for political rights. As long they receive rent from the State, their loyalty to the State will remain. Hence, they will not question the legitimacy of the government unless the rent diminishes or is removed (Beblawi, 1990).

Thus, the role and the nature of the State are greatly affected by the presence of oil rents. The State or the government, being the principal rentier in the economy, plays the main role in the economic activities. Furthermore, according to Beblawi (1987, p.385), this creates a group or a social class driven by a rentier mentality behaviour to obtain access to easy income (i.e. the cycle of rent) rather than a productive behaviour. Therefore, the rentiers form a social group or a business elite with a close relationship to the government in order to secure their access to the government rent. Thus, this group will fight any social, political or economic change to defend their rights.

According to Classical Rentier Theory, the preponderance of rents has a number of distorting effects on the political economy of a country and its ability to develop. Thus, Chaudhry (1989) claims that Rentier States fail to develop extractive capacities. Normally, States extract and redistribute the economic surplus. However, in these conditions the State's role becomes one of distribution but not extraction. This is important, because in the event of decline in the inflow of income, the government will no longer be able to distribute the same volume of funds.

In the absence of taxes financing the budget, the political system is one of 'no taxation, no representation' or conversely "no representation without taxation" (Okruhlik, 1999, p.296). Consequently, social groups have little hope of demanding political rights (Lisa, 1987). There are also negative impacts on the economic structure, so that productive sectors, such as industry, agriculture and manufacturing, remain underdeveloped (Chatelus & Schemeil, 1984). This threatens long-term economic development policies. Furthermore, Rentier States often lack the information necessary for the formulation of a coherent economic policy. The extractive and allocative functions of the State require different types of information. When there is no extraction, the governments of the Rentier States lack adequate information about the national economy and society. In these circumstances, political considerations become the basis of economic decisions. In particular, in developing countries, where the State and the business community alike engage in new economic activities without prior experience, the lack of adequate information can have serious consequences for economic development (Chaudhry, 1989).

Anderson (1987) agrees with Chaudhry and argues that although these States usually play a major role in the domestic economy, they are not well connected with domestic society. Indeed, in some cases the political regimes in these states are totally isolated from their societies. As Anderson notes, Rentier States are "relatively insensitive to the changing character of the domestic population … and to the sometimes-deleterious results of policies they advocate" (1991, p.102). Similarly, Crystal (1990) argues that Rentier States fail to develop cooptive institutions because they are financially autonomous from domestic productive forces. Their financial independence allows them to function without being responsive to the demands of the domestic society. Rentier states are managerial states that work on the basis of what is good for the rent-generating sector rather than what is good for the country at large.

2.1.2 Second Phase: Specialised and Conditional Rentier State Theory

According to Gray (2011), Specialised and Conditional Rentier State Theories comprise the second wave of Rentier State Theory and were developed by theorists including Crystal (1990), Chaudhry (1997), Davidson (2008, 2009) and Hertog (2010) in terms Specialised Rentier State Theory, and Herb (1999), Schwarz (2008), Al-Rasheed (2010), Jones (2010) and Foley (2010) in terms of Conditional Rentier State Theory. These academics sought to develop the concepts of Classical Rentier State Theory by addressing but not refuting the main criticisms of the classical approach (Gray, 2011, p.9). Specialised Rentier State Theory addresses the weakness of the classical theory along three main lines including the importance of historical dynamics, international relations theory and the role of major external powers on the dynamics of Rentier States (ibid., pp.12-14). Meanwhile, Conditional Rentier State Theory does not agree with the classical phase argument that the states enjoy independence from society to the degree suggested (ibid., p.14). In this context, the Rentier State-society relationship, which depends on the interaction of rent collection, allocation and distribution, suggests that the Rentier State has legitimacy not independence or autonomy as suggested in phase one. Thus, according to Conditional Rentier State Theory, what distinguishes Rentier States from non-Rentier States in terms of the state-society relationship is that the Rentier State is more exposed to sharp changes in the volume of external rent it receives and any change in the social contract between the ruler and the society.

Schwarz (2008, pp.599-621) provides an in-depth example of Conditional Rentier State Theory when discussing the political economy of Arab state formation. He proposes two arguments. First, he argues that conventional wisdom surrounding state formation is heavily anchored in the European experience; thus, irrelevant to the Arab Middle East. According to Schwarz, the process of state formation in the Arab Middle East is based on using the oil resources and revenues in order to secure legitimacy and authority, while in Europe it was driven by domestic taxation for the purposes of war-making. Thus, in the Arab Middle East, the State's security apparatus was among the first institution developed but this was for the purpose of imposing internal authority rather than for any external purpose as in Europe. Hence, in a Rentier State, the security function is strong, the representation function is weak and whether the welfare function is weak or strong depends on the volume of rents the State is able to access ibid., p.607).

Although Schwarz proposes valid differences between the Arab Middle East and Europe in terms of state formation, his argument has several weaknesses. While he links legitimacy to the representation function in Rentier States, legitimacy also should be linked with the welfare function in Rentier States. It is apparent that the social contract between the State and society in Rentier States is built on the allocation of rent by the government in order to secure legitimacy. Hence, the welfare function is of more importance than the representation function within a Rentier State. Second, Schwarz argues that a measure of the strength of a State is based on its ability to be involved in administrative functions, by which he means the ability to effectively collect taxes. However, the allocation of revenue is also an administrative function, albeit in a different form, such as through public expenditure and public-sector employment. Hence, the measurement of the strength of Rentier States should also take into account the ability to allocate revenue to the population in a way that does not cause political instability or violence.

2.1.3 Third Phase: Late Rentierism

The third phase of Rentier State Theory was developed by Gray (2011), in which he uses the concept of 'Late Rentierism' to understand and explain the changes and transformations that happened in the political economies of the Gulf Cooperation Council (GCC) countries[1] during the 1990s and 2000s. Although, Gray believes that "there is more to Gulf politics than rents" (ibid., p.36), he believes that Rentier State Theory still has "explanatory primacy" (ibid.) when explaining the political dynamics of the Gulf region. According to Gray (ibid.), the globalisation process, economic and development imperatives, population growth and employment pressures significantly impacted the GCC states. These challenges became the sources of Rentier State maturation. Thus, the Gulf states entered a new rentier phase in which a forward-looking management of rent, in anticipation of either the resources running out or a decrease in its relative value, took on prime importance. The decline in oil prices of the late

[1] The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). The GCC was formed in 1981 in response to the Iran-Iraq war, which broke out in September 1980.

1980s and 1990s brought new financial pressures to the Rentier States that did not exist in the 1970s and early 1980s when oil prices and revenues were higher.

According to Gray, these late rentier economies demonstrate seven features. First, as a result of globalisation, population growth, employment pressures and technological advances (among other things), the States became more responsive and less autonomous but were still undemocratic by Western standards (ibid., p.32). The weakening of revenues and, therefore, the social contract meant they felt the need to be more responsive to society to protect their own survival (ibid., p.33). Second, they became more open to globalisation, although a degree of protectionism still exists (ibid., p.34). Third, the State developed an economic policy that is oriented towards development (ibid., p.35). Fourth, the economy is no longer solely centred on the energy sector but is supported by a diversification of the economy as an entirely integrated objective (ibid., p.36). Fifth, in comparison with the past, the structure of a more efficient entrepreneurial capitalisation of the state has emerged (ibid., p.37). Sixth, the state becomes strategic; it thinks long-term (ibid., p.38). Finally, the states maintain an active and innovative role in foreign policy (ibid., p.39). Gray (ibid.) sums up the state as responsive but undemocratic, opening up to globalisation but with some protectionism remaining, having an active economic and development policy, having an energy-driven not energy-centric economy, having an "entrepreneurial state capitalist" (ibid., p.37) structure, being long-term in its thinking and maintaining an active and innovative foreign policy.

2.2 THE DEVELOPMENT OF THE RENTIER STATE IN OMAN

This section discusses the evolution of Oman from a traditional economy based around a patrimonial socio-political structure into a Rentier State economy, fuelled by oil rents, and driven by a State-led development model based around a neo-patrimonial socio-political structure. The section also discusses the reasons behind the change.

Before the 1970s, Oman's economic, political and social systems lacked the characteristics of a modern country (Townsend, 1977; Pridham, 1986; Skeet, 1992; Funsch, 2015; Allen, 2016). This lack of development resulted from a combination of the strategy imposed by Sultan Said bin Taimur, who ruled the country from 1932 until 1970, and the weak export capacity before 1967 when oil revenues started to increase (Kechichian, 1995). However, two defining characteristics of the Sultan Said era still impact on the economy, its structure and the socio-political development of the country. The first characteristic is the discovery of oil in Oman, while the second is the roots of the 'merchant elite'. This elite were the main players in the private sector in the traditional economy, and later played an influential role in the political economy of Oman through the creation of a patrimonial political system under Sultan Said.

When Sultan Said came to power in 1932, Oman was a traditional agrarian economy, which was still the case over 30 years later. In 1965, for instance, services comprised 16% of GDP, agriculture and fisheries totalled 61% of GDP, and industry contributed only 23% (World Bank, 1987, p.207). From an employment perspective, in 1965, 62% of those employed worked in the agriculture and fisheries sector, with industry employing a further 15% and services 23% (World Bank, 1987, p.265). In addition, a mere 4% of citizens lived in urban areas in 1960 (World Bank, 1987, p.267). It exhibited the standard characteristics of a low-income state: in 1970, the GDP at current prices was only OMR104m (USD270.1m) and the per capita income was OMR158.38 (USD398.39) (Ministry of Development, 1996, pp.4-5). In contrast, the GNP in Saudi Arabia was SAR19.2bn (USD5.1bn) in 1971/2 (Knauerhase, 1975, p.65). Furthermore, the economy lacked significant FDI; according to UNCTAD, FDI inflows in 1970 amounted to only USD3.0m (UNCTAD, 1971). The State was able to obtain revenue through taxation of crop growers and cattle farmers.

While oil is the backbone on Oman's economy today, its debut on the Omani stage was slow compared with its Arab Gulf neighbours (Funsch, 2015, p.118). Exploration for oil in Oman started in 1937, when because Oman lacked the experience to exploit its oil, Sultan Said granted a 75-year exclusive exploration concession to the Iraq Petroleum Company (IPC).[2] This was the first direct involvement of the Omani government in the country's economy and the country's first investment by a foreign company. However, oil in commercially exploitable quantities was not discovered until 1962 with the Yibal field. This was followed by discoveries in the Natih and Fahud fields. Furthermore, it was not until 33 years after the first concession that Oman exported its first shipment of more than half a million barrels of oil.

[2] The IPC established a subsidiary, Petroleum Development (Oman and Dhofar) Ltd., to begin the search for this precious commodity. At the time, IPC had four major shareholders, the Royal Dutch/Shell group, the Anglo-Persian Company, Compagnie Francaise des Petroles, and the Near East Development Company, each of which had a 23.75% share of the company, with a fifth, Partex, holding the remaining 5% (Allen Jr., 2011).

Even when the oil sector started to boost GDP, there was no immediate improvement in the social or institutional state of the nation (Townsend, 1977). Indeed, Oman retained numerous characteristics conventionally identified with an underdeveloped state (Townsend, 1977; Allen, 2016). Thus, in 1970, no modern government was in place and public services, including communication, education and medical provision, were severely lacking. Indeed, there were only three schools, two hospitals and only 15kms of tarmacked roads (Ministry of Development, 1996). Furthermore, private sector activity was highly constrained and confined mainly to pre-take off activities. The private sector was unable to create the necessary rate of surplus capital for investment. Thus, in relation to Rostow's model the take-off stage could not be attained. The lack of state institutions means that data on the private sector at this time is lacking. However, the majority of Omanis were employed in the agriculture and fishing sector as a means of subsistence rather than for capital accumulation.

Nevertheless, Sultan Said used the oil revenues to co-opt his traditional supporters among tribal leaders and merchant elites. By distributing the oil income under the State's management, the Sultan was successful in obtaining the support of influential groups within Omani society and ensuring the stability of the existing political system. Thus, the redistribution of oil revenues became important in securing the patrimonial society (Fareed, 1994, p.257).

Importantly, although the Rentier State model may help explain the challenges of development in Oman, other obstacles such as the social and political structure, which was built on patrimonialism, also need to be acknowledged. Therefore, this section discusses the theories of patrimonialism and patterns associated with leadership of a country in which power is concentrated in the hands of the leader.

Weber defines patrimonialism as "the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests" (2009, p.152). Thus, to Weber, patrimonialism is a form of authority in which all the power emanates from the leader and is the sole source of legitimacy. According to Weber, patrimonial authority is sanctioned by tradition and the status of a leader is supported by the leader's personal administration. A patrimonial leader's authority, apart from being restricted by 'tradition', is characterised by discretion in the use of his power. Weber argues that there are two types of patrimonialism. One is a top down structure in which the ruler/Sultan/emperor rules on the basis of his own legitimate authority through traditional bureaucratic administrators. The other type is also a top down structure but in which the ruler leads on the basis of legitimacy derived from outside his authority.

Other scholars following Weber provide different definitions of patrimonialism. For example, Quimpo defines it as a "type of rule in which the ruler does not distinguish between personal and public patrimony and treats matters and resources of state as his personal affairs" (2010, p.2). Meanwhile, Pipes defines it as a "regime where the rights of sovereignty and those of ownership blend to the point of being indistinguishable and political power is exercised in the same manner as economic power" (2011, p.22). Furthermore, Fukuyama (2011, p.439) believes patrimonialism is political recruitment by the leader based on close relationships and shared interests. Thus, all the definitions have one aspect in common, which is that power is concentrated in the leader and this concentration affects the nature and practice of politics and, by extension, economics in the country.

According to Bill and Springborg (1994), patrimonialism has been the dominant pattern of leadership in Middle Eastern politics. It has six characteristics including personalism, proximity, informality, balanced conflict, military prowess and religious rationalisation.

- **Personalism**: In a patrimonial society, the leader leads through a small group of trusted people based upon personal relationships. Most of the economic and political decision-making is undertaken through personal networks (see Figure 2.1). Although government institutions are developed in the country, their authority is blocked by those close to the leader, creating an inefficient bureaucracy
- **Proximity**: In patrimonial politics, recruitment is based on personal relationships not on objective qualifications. Thus, only those who are close to the leader can attain major political positions. By doing this, the leader enjoys a leadership dependent upon his power.
- **Informality:** The leader tends to rule using his power and authority neglecting the well-defined formal institutions. Thus, there is a lack of transparency and governance.
- **Balanced Conflict:** In a patrimonial society, the system is built on rivalry between the subordinate leaders under the patrimonial leader. The leader rules through a policy of 'divide and rule'.
- **Military Prowess:** In some Middle Eastern countries, the patrimonial leader controls the military force for his personal use. According to Max Weber: "With the

development of a purely personal administrative staff, especially a military force under the control of the chief, traditional authority tends to develop into 'patrimonialism'" (Weber, 2009, p.347).

- **Religious Rationalisation:** This pattern also provided the patrimonial leader with rationalisation and justification of their positions. Thus, some leaders have taken Islam as a pretext to add legitimacy to their rule, since Islam commands obedience to the ruler.

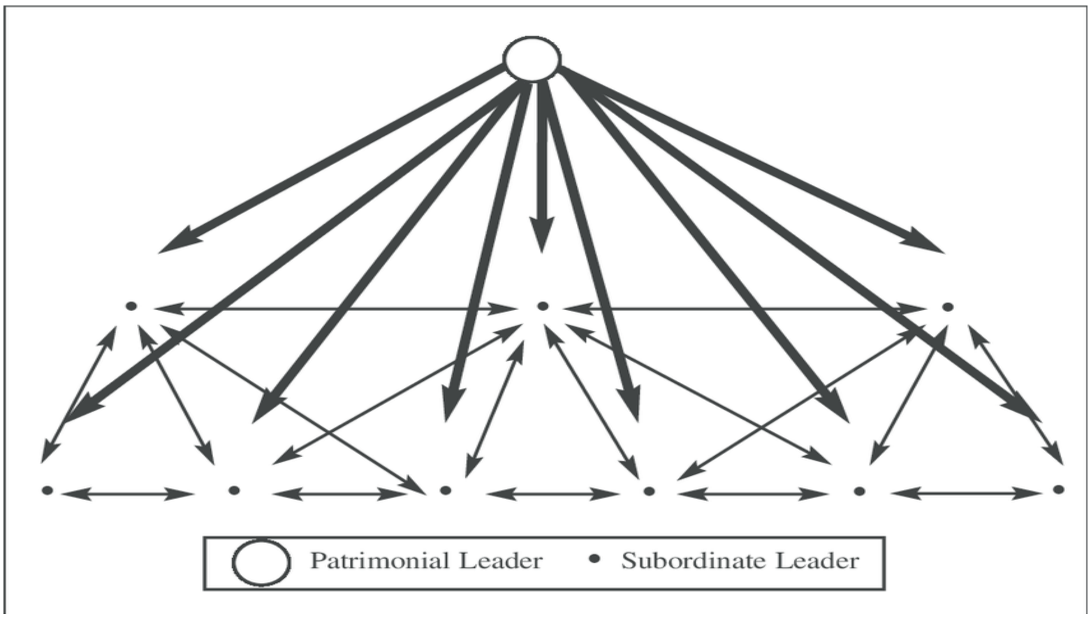

Figure 2.1: Patrimonial Leadership in the Middle East
Source. Bill and Leiden (1974, p.107).

These characteristics underpinned Sultan Said's rule in Oman. Prior to the formation of the modern Sultanate of Oman, the Ibadhi[3] Islamic Imamate was the dominant political system, which was based around the tribal society. It played an important role in the historical development of Oman starting with the election of Imam ibn Masood in 751 to the death of Imam Muhammed al Khalili in 1954 (Rabi, 2011, pp.169-188). The current dynastic monarchical system is derived from the Ibadhi Imamate. The Albusaidi dynasty

> which all the Sultans originated from including Sultan Said bin Taimur and Sultan Qaboos. The founder of the current dynasty is Ahmed bin Said Al-Busaidi who became an Imam in 1753. At the time, the situation in Oman was struggling with Persian invasions and tribal wars. Thus, the *ulama* [4] chose him to be the Imam [in order] to rescue the country from the struggle (Al-Farsi, 2013, p.52).

[3] An Islamic ideology prominent in Oman.
[4] Islamic scholars.

It is important to note that the selection of the Imam or ruler was influenced by the Ibadi notion of choosing the Imam from among themselves based on who was capable of ruling rather than a dynastic system. This notion fulfilled the characteristics of patrimonialism discussed by Bill and Leiden (1974, p.107). However, over the time, the concept of Imam in Oman changed into a dynastic monarchy after Imam Ahmed bin Said is descendants referred to themselves as Sayyids and then Sultans.

In the context of a tribal society, Sultan Said's leadership style was characterised by the concentration of power and authority in his hands. The administration of the government was mainly dependent on him and a few close confidants drawn from the merchant elite and trusted British advisors. Thus, the patrimonial pattern of leadership was apparent under Sultan Said. As Bill and Springborg put it: "In the patrimonial style of Middle Eastern leadership, the leader becomes the fount of all important ideas and strategies. Policies and programs emanate from him. New ideas and suggestions that others might have must somehow be submitted to the leader, who may propose them as his own" (1994, p.154).

The merchant elite in Oman have been important actors in the patrimonial socio-political structure of Oman because of their very close relationship with the rulers in Oman starting with Sultan Taimur bin Faisal, then with Sultan Said and to date with Sultan Qaboos. In the Sultan Said era, the merchants were active in a number of sectors, particularly in the export and import trade in the port cities of Muttrah and Muscat in which they held a monopoly. According to Valeri (2009), the group did not threaten Sultan Said politically, but benefited from their close relationship with the Sultan in terms of protecting their economic interests. The weak economic position of Oman during Sultan Said's rule resulted in him seeking financial support from the merchants. This became the main source of government revenues; both through loans and taxation. Both sides gained advantages from their trading and financial relationship. The Sultan was able to form a strong alliance to support him financially and politically, while the merchants were able to increase their ability to intervene in the decision-making process (Valeri, 2009, p.41).

Many of the merchants originally came from outside Oman. These included Hindus and the Lawatiyya who were of Indian origin. They established themselves in the coastal cities in Muscat and Oman during a trading boom under Sultan Said bin Sultan (1804-56) (Allen, 1978, p.187). Omanis included the Al-Zawawi family, the Darwish family, the Al-Shanfari family, the Al-Rawas family and the Al-Zubair family whose political role is apparent in the Sultan Qaboos era. However, outside of the trading sector, there was little private sector involvement in the economy, primarily because of the weakness of the economy.

In short, the close interdependent relationship between the rulers of Oman and the merchant elite has historical roots. Politically, because many of the families were originally from abroad and had no political ambitions, the Sultans trusted them. The traders, because they had a trading network with foreign companies and were importing and exporting food products, were the only private sector companies able to benefit in a weak business environment. Furthermore, when the Sultans needed to borrow money, they were able to rely on the merchant families for financial support. This close relationship built up prior to 1970 also helped the merchant elite to play a major role in Oman's political economy in the Sultan Qaboos era.

However, pressure for change built during the 1960s driven by a number of interrelated internal and external factors. Domestically, the failure of development resulted in a lack of a modern infrastructure which made travelling between the main cities difficult. Moreover, the country lacked the necessary health service structures. As a result, diseases, such as malaria, trachoma and leprosy, spread. Furthermore, the whole country had only three schools. Two Western elementary schools were in Muscat and Muttrah and one in Salalah (Valeri, 2009, p.67). However, there were almost 50 Qur'anic schools that offered a traditional education in the villages. Against this background, oil revenues had yet to flow, constraining the government's ability to improve standards of living.

In addition, the Sultan faced a number of rebellions. The most important of which was in the south where the rebellion was supported by Marxists from Yemen throughout the late 1960s and into the 1970s. This not only threatened Oman's sovereignty but also depleted its population and financial resources. These rebellions drew in external actors, in particular, the Soviet Union, which wanted to take advantage of the weakness of a number of countries in the Middle East, noticeably in Oman's neighbour Southern Yemen after the vacuum caused by the British withdrawal from east of Suez. Furthermore, the rise of Arab nationalism, radicalism and the Suez War were proving that the European powers could no longer act in the Middle East if they did not have the support of the US. Although Timpe argues that the "events of Suez had no apparent effect on Britain's relationship with Oman. The record clearly indicates that Suez was not responsible for any change in the substance or style of the patron-client relationship that had developed between Great Britain and Oman" (1991, p.321). However, Owtram views it differently.

> The effect of Suez was far more at the level of British policy to the whole East-of-Suez arena: the failure to assert British hegemony in Egypt meant that Britain's positions in the Gulf and Oman was now set increasingly in the context of attempts to secure British interests after British imperial withdrawal from the area. A key objective of the political movements of Arab nationalism after 1956 and later the left-wing radicalism of the 1960s and 1970s in South Yemen and Dhofar was to remove the British from their position of overbearing influence on the Arabian Peninsula from Aden to Kuwait. The pressure of these political movements forces the British to initiate schemes for economic and political development on occasionally reluctant rulers (1999, pp.145-146).

Against the background of instability and the weak economic, political and social conditions a consensus emerged that Oman required a new leadership. Thus, as the challenges facing the country mounted, on 23 July 1970 Sultan Qaboos came to power after Sultan Said signed an instrument of abdication (Funsch, 2015, p.62; Valeri, 2009). Qaboos brought with him a different view for the economic development of Oman.

2.3 STATE-LED DEVELOPMENT UNDER SULTAN QABOOS BIN SAID

In this section, the development of the Omani Rentier State and neo-patrimonial system through the State-led development policies implemented by Sultan Qaboos rule are examined. The State-led development in Oman was made possible by the rising flow of revenues extracted from the production and export of oil. The institutions associated with a modern state were developed and this saw the traditional patrimonial relationship between the Sultan and other groups in society including the ruling family, merchant families and tribal leaders evolve into a neo-patrimonial system. The Sultan's vision was to ensure that Omanis relied on and gave loyalty to the State rather than their tribal leaders as previously, which had resulted in instability. As Valeri puts it:

> The primary goal was to replace the *'asabiyyat'*, traditional sources of legitimacy that were dwarfed by the new state's economic and social achievements so that they could no longer provide what was their raison d'etre, the protection and socio-economic wellbeing of their tribesmen. This trend has gone with a symbolic process of national unification, through the reinvention of the frames of identity references around the person of the Sultan, assimilated in new historiography the state and subsequently to Modern Oman as a whole (2009, p.72).

Thus, Sultan Qaboos helped the populace to identify with Omani nation, while creating the basis of his legitimacy around the 'personalised' State.

The discovery of oil in the GCC countries has changed the political economy of the region in a significant way. The rent or revenues received from the export of oil played an important role in shifting these states, including Oman, economically from an underdeveloped country to a modernised country. The State owned the oil sector and was thus able to monopolise and manage the oil rent. These revenues became the main source of government revenues which were then used to finance the development process. At that time, the State did not have a focused economic or development policy as the aim was to accelerate the development process by all means. Politically, the oil rent helped the government to create a redistributive welfare system for the different groups in society. In order to pursue a policy of state-led development, it was necessary to build the state institutions including a bureaucracy to manage the overall planning process and implement development projects. It also required ownership of the necessary assets, such as oil.

The control of the oil sector, and therefore oil revenues, was achieved through Petroleum Development Oman (PDO). As highlighted previously, PDO was initially formed as a subsidiary of the privately-owned Iraq Petroleum Company (IPC) and called The Petroleum Development (Oman and Dhofar) Ltd. In 1937, IPC was granted a 75-year concession and exclusive exploration rights by Sultan Said. However, in 1974, the government acquired a 25% stake in the company, and six months later increased this to 60%, with Royal Dutch Shell holding a 34% stake, and the French companies Total and Partex holding 4% and 2% respectively (PDO, 2017). PDO became the largest oil and gas producing company in the country. However, other international oil companies also participate in the oil sector (Ministry of Oil and Gas, 2017).

In comparison to its GCC neighbours, Oman is a modest oil producer; according to the *BP Statistical Review of World Energy 2017*, Oman's proven reserves total 5.4bn barrels (0.3% of the world's reserves), while Saudi Arabia holds 266.5bn barrels (15.6% of total reserves). Nevertheless, Oman's revenues from oil exports increased between 1970 and 1980, primarily as a result of the increase in the global price of oil. As a result, oil export revenues increased sharply from OMR88m in 1972 to OMR1,294.5 in 1980 (Ministry of National Economy, 2001, pp.9-10 and pp.23-24) (see Table 2.1).

Table 2.1: Oil Data, 1967-80

Year	Production ('000 bpd)	Price (USD/b) (Dec.)	Reserves (bn b)	Oil Export Revenues (OMRm)	Oil Revenues as % of GDP	Oil Revenue as % of Government Revenues	Oil Share of Exports (%)
1967	57	1.82	1.9	-	-	-	-
1968	241	1.82	1.8	-	-	-	-
1969	327	1.82	1.7	-	-	-	-
1970	332	1.82	1.5	44.8	68%	98%	99.1%
1971	294	2.31	1.7	88.0	69%	96%	99.5%
1972	281	2.62	1.7	88.6	54%	94%	99.5%
1973	293	5.62	1.8	114.9	56%	90%	99.5%
1974	291	12.3	1.6	419.1	68%	96%	99.7%
1975	340	12.5	1.5	489.2	67%	96%	99.8%
1976	366	12.55	1.3	551.2	59%	93%	99.0%
1977	342	13.98	1.4	559.1	56%	93%	98.0%
1978	314	13.07	1.5	552.0	52%	92%	94.5%
1979	295	28.3	2.5	787.4	56%	92%	95.0%
1980	283	36.61	2.5	1294.5	61%	92%	96.0%

Sources: Ministry of National Economy, (2001), pp.9-10, 13-14, 23-24.

With the backing of the newly flowing oil revenues, His Majesty Sultan Qaboos' initial plans for the development of the country were ambitious. Sultan Qaboos wanted to make massive changes to the country and people's lives through a process of modernisation. He wanted to implement change in order to improve economic prospects and supply the country's citizens with the required levels of services, including education and health provision (Ministry of Information, 1994, pp.8-9). On 23 July 1970, on his accession to the throne, he issued a call to those who wanted to restore Oman to its rightful place in the world.

> I promise you to proceed forthwith in the process of creating a modern government. My first act will be the immediate abolition of all the unnecessary restrictions of your lives and activities.
>
> My people, I will proceed as quickly as possible to transform your life into a prosperous one with a bright future. Every one of you must play his part towards this goal. Our country in the past was famous and strong. If we work in unity and cooperation we will regenerate that glorious past and we will take a respectable place in the world.

> I call upon you to continue living as usual. I will be arriving in Muscat in the coming few days and then I will let you know of my future. … My people, my brothers, yesterday it was complete darkness and with the help of god, tomorrow will be a new dawn on Muscat, Oman and its people. God bless us all and may He grant our efforts success (Ministry of Information, 2015).

When Qaboos came to power, the country was in a bad shape. Huge obstacles faced the new Sultan. Johnson sums up these challenges as "the obstacles of illiteracy, isolation, high mortality rates, insufficient social development, inadequate or non-existent healthcare, dwindling educational opportunities, unsurveyed natural resources, and a civil war" (cited in Ministry of Information, 1997, p.26). The civil war was a series of internal rebellions such as in Dhofar that were not suppressed until 1975 and which distracted efforts from building a modern Oman.

In order to pursue a policy of State-led development, driven by seemingly ever-increasing oil revenues, it was necessary for Oman to build the relevant State institutions, including a bureaucracy to manage the overall planning process and implement development projects. It also required ownership of the necessary assets, such as oil resources. In addition, the Sultan also needed to build political alliances to gain the endorsement of society and legitimacy in order to implement his vision. Given the fact that the new Sultan had little administrative experience and had limited information about Oman's political and commercial elite, Sultan Qaboos stressed the importance of shared responsibility for the enormous tasks that lay ahead (Valeri, 2009). So, unlike other GCC monarchies in which the royal family held the primary power in the political system, Sultan Qaboos followed a different pattern by allying with the traditional elites (the merchant families and tribal leaders close to the palace) and Sultan Said's expatriate advisers, led by the military secretary Hugh Oldman (Allen & Rigsbee II, 2014, p.34).

On 2 January 1972, Sultan Qaboos formed a new government with himself holding the key posts of Prime Minister, Minister of Defence, Minister of Finance, and Minister of Foreign Affairs (ibid., p.36). In addition, two members of the royal family became minsters; Thuwaini Al-Said as Special Adviser to the Sultan and Fahad Al-Said as Minister of State for Foreign Affairs. The cabinet also included tribal leaders such as Buraik al-Ghafri and Walid al-Hanai as Governor of Dhofar and Minister of Culture and Education, respectively. Other members were a mix of tribal and technocrats. In May 1973, three members of the established business community became minsters; Qais al-Zawawi for Foreign Affairs, Muhammed Zubair al-Hutti for Commerce and Industry and Said al-Shanfari for Petroleum and Minerals ibid., p.38). The use of ministerial positions illustrates how the Omani rentier model enabled the Sultan to co-opt the traditional commercial and tribal elites through access to political power, but all the time keeping the main organs of power in his hands. As Allen and Rigsbee II argue "unlike other rentier states where the commercial class lost political power and were limited to accruing profits, in Oman just the opposite occurred as the major business houses demanded and gained entry to the government and their own benefit" (ibid., p.38).

The co-optation of the business elites into the political system created potential conflicts between the interests of the State and the interests of the company. In this context, Sultan Qaboos promulgated two important decrees in 1974 that laid down the rules for signing contracts or agreements[5] and dealing with conflict of interest[6] (Skeet, 1992, p.69). Thus, although the aim was to avoid conflicts of interest and misuse of public positions in granting government contracts (ibid., p.69), these did occur.

In the years 1970 to 1980 Oman met many of the measures of a classical Rentier State. Oil contributed between 52% and 68% of GDP, it accounted for between 90% and 98% of government revenues and its share of total exports was in the range 94.5% to 99.8% (see Table 2.1). Thus, it met Beblawi and Luciani's (1987) measures of a Rentier State. It also displayed other characteristics of a Rentier State in terms of the State's distributive policies on education,

[5] According to the memorandum: "The aim of this decree is to avoid a conflict or opposition of interest and to prevent the misuse of public positions in granting government contracts. In order to achieve this aim, this decree forbids government officials to possess business with the exception of any which they had in their possession before taking up public positions or before the issue of this decree. Notification should be given by a government official of any interests he officially possesses. By this decree government officials are also forbidden to use their influence on behalf of commercial enterprises or to work as brokers for any commercial enterprises. Furthermore, the decree stipulates that the government may not enter into any contract with commercial enterprises in which government officials have an interest without obtaining written authority from His Majesty the Sultan. It is also forbidden by this decree for any government official to accept private positions without the Sultan's approval or to accept awards or gifts from those having trade connections with the government. The decree allows the Sultan to dismiss any officials from his post who contravenes the law or to fine, imprison or to award any other punishment to any official, in addition to the punishments stipulated by the Panel Code. All awards received by a government official contrary to this decree will become government property". Promulgated in 1974, No. 22/74 dated 20 May 1974 and published in the Official Gazette of 1 June 1974.

[6] The definition of interest in the decree is: "Interest in a Commercial Enterprise-means possession of 10 per cent or more in the profit and loss of any commercial enterprise or being an owner, partner, director, treasurer, person responsible or employee of a commercial enterprise. Any interest possessed by a husband, who is a government official or his parents, children, brothers or nephews or nieces, will be considered as the interests of a government official for the purposes of this law". Promulgated in 1974, No. 43/74 dated 25 November 1974 and published in the Official Gazette of 15 December 1974.

health and public-sector employment. In the early 1970s, most of the development projects focused on infrastructure and government welfare spending; roads, water, electricity, hospitals and schools. Health and education were provided free to all Omanis. For example, the number of government schools increased massively from three schools in 1969-70 to 176 in 1974-75 (Ministry of Development, 1995, p.571) as expenditure on education rocketed; in the 1970s, annual growth rates reached 60 percent.

The embedding of the rentier economy saw the introduction of a widespread rentier mentality. For example, in the 1970s, most of the private sector activities were in the construction sector in response to State expenditure plans which focused on developing the infrastructure of the country including projects on roads, hospitals and schools. In addition, public-sector employment increased sharply. As illustrated in Table 2.2, the total number of Omanis working in the public sector increased from 1,008 in 1966 to 24,550 in 1980. Omanis sought employment in the public sector rather than the private sector for many reasons including the State's promise to provide jobs for job-seekers (Birks et al., 1988), because of better conditions of employment (life-long jobs, fewer working hours, and better pay) (Sajwani, 1997, p.38), and social and traditional values that rejected artisan, manual and menial occupations (Ali, 1990; Al-Jassim, 1990). The World Bank (1981) argued that the employment of local labour in the GCC was essentially used by the State to distribute wealth to the population. Thus, Al-Khaliq (1995) argues that the locals in the GCC countries felt that public sector jobs were a basic right and an obligation on the part of the State. Thus, the rentier mentality became the norm in the private sector in terms of gaining access to government contracts and among Omanis working in the public sector.

The flow of oil revenues not only brought about a Rentier State, but also subverted the socio-political system of patrimonialism. As previously discussed, to build the identity of Oman in the face of various rebellions and overcome the lack of economic development of the country, Sultan Qaboos adopted a policy of building political alliances. This helped him to gain the endorsement of wide sectors of society in order to manage the overall planning process. Specifically, he formed alliances with the old merchant elite and the important tribal families. These later became a political elite that was autonomous from society in the neo-patrimonial political system of Oman (Allen & Rigsbee II, 2014, p.103).

Table 2.2: Public Sector Employees, Selected Years 1966-1980

Year	Omanis	Non-Omani	Total	% of Omanis
1966	1,008	82	1,100	92.5
1970	1,630	120	1,750	93.1
1971	2,857	255	3,112	91.8
1975	13,616	5,507	19,123	71.2
1980	24,550	15,790	40,340	61.0

Sources: World Bank, 1981; Ministry of Development, 1997.
Note: The data excludes those employed in National Security and Ministry of Defence

The original concept of patrimonialism has been extended by academics to take account of changing circumstances. Therefore, while the power in patrimonialism rests on the leader's personal authority, supported by a personalised bureaucracy exercised under the direct control of the ruler, under neo-patrimonialism personal authority is underpinned by a legal-rational bureaucratic domination (Erdmann & Engler, 2006, pp.18-19). The term 'neo-patrimonialism' was first used by Eisenstadt (1973) to differentiate patrimonialism in a traditional and modern context. Thus, according to Erdmann, "neopatrimonialism is a type of political domination which is characterised by insecurity about the behaviour and role of state institutions (and agents)" (2006, p.19). Similarly, Clapham's definition of neo-patrimonialism is:

> a form of organisation in which relationships of a broadly patrimonial type pervade a political and administrative system which is formally constructed on rational-legal lines. Officials hold positions in bureaucratic organisations with powers which are formally defined, but exercise those powers, so far as they can, as a form not of public service but of private property (1985, p.48).

Thus, neo-patrimonialism is a 'modern' form of the traditional patriarchal rule. The difference is that in patrimonialism, all the power comes from the leader, while in neo-patrimonialism power comes to certain members of the State who use resources of the State for their own interests and power.

Bratton and van de Walle (1997, pp.63-68), focusing on the African context, identify three informal practices of a neo-patrimonial system; concentration of political power (presidentialism), systematic clientelism and particularistic use of state resources. In relation to the "concentration of political power", power is concentrated in one individual person who controls everything including policies and politics (ibid., p.63). However, Hutchcroft (1998, pp.46-55) argues that in neo-patrimonial systems the power and the dominance of the political landscape is concentrated in a group of people such as oligarchic elites, land owners, political dynasties, or economic elites. Thus, all State activities are in the hands of these groups. This definition is closer to the case of Oman, where power is concentrated in the hands of the Sultan. In addition to being the Sultan, he also holds key positions in the political system including that of Prime Minister, Foreign Minister, Defence Minister, Finance Minister and Central Bank Governor (see Figure 2.2). Nevertheless, he has built alliances with the commercial and tribal elite.

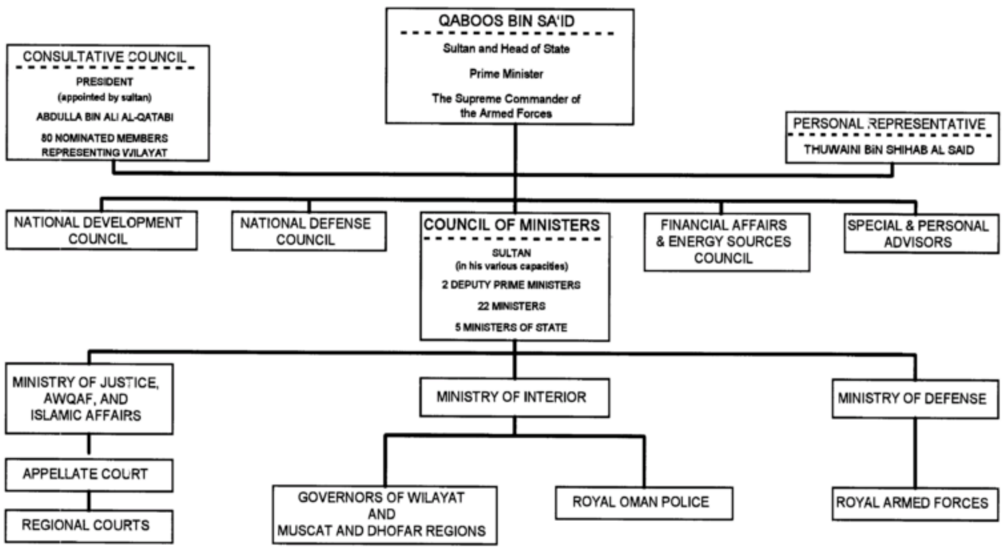

Figure 2.2: Oman Government Structure, 1996
Source: Adopted from Alabdulkarim (1997, p.132)

The second characteristic of neo-patrimonialism is systematic clientelism. This is a practice through which the ruler consolidates his or her rule by distributing public resources by providing contracts and projects, licenses and public-sector jobs (Soest, 2010). Thus, loyalty to the leader is secured through an "extensive network of personal patronage, rather than through ideology or impersonal law" (Snyder, 1992, p.379). The third characteristic 'particularistic use of state resources', according to Bratton and van de Walle (1997, p.66) is when the ruling regime does not distinguish between public and private money. Thus, members of the regime use the State treasury for their own political needs. This can be seen in the case of Oman, where the use of public sector employment rocketed in the early stages of the Rentier State, as did welfare spending and the use of subsidies.

Pawelka (2002, p.434) points out one of the downsides of neo-patrimonialism in that the relationship between the leader and the elite creates rivalry within the latter. In turn, obstacles are created for building reliable political institutions and strong governance within the neo-patrimonial political structure. Thus, Oman effectively became a neo-patrimonial state in the early years of Sultan Qaboos' rule. To what extent, the role of the neo-patrimonial system has affected the growth of the private sector is discussed in detail in Chapter Six.

2.3.1 The Five-Year Development Plans: Outcomes for the Private Sector

This section discusses how rentierism evolved over time through the planning process, using the FYDPs as case studies, especially in terms of the private sector's role, capacities, and performance. It shows how rentierism and neo-patrimonialism were manifested through State-led development at the level of strategic policy and planning in terms of their impact on the development and role of the private sector.

As discussed earlier, a key early priority for the Sultan was to win the war in Dhofar in order to restore security across Oman. The Dhofar war lasted almost 10 years before it ended in 1975 when Sultan Qaboos proclaimed the official end on 11 December 1975. External powers including Britain, Iran, and Jordan played a crucial role in supporting the Sultan (Valeri, 2009, p.63). Halliday points out the international implications of the rebellion:

> Although Britain was initially the sole outside party involved, the conflict in Dhofar became a highly internationalised one, in which at least nine foreign powers participated in the campaigns to crush the guerrillas. The participation of these powers is illustrative not only of the fact that the suppression of the Dhofar guerrillas was essential to the region's stability, but also of a new interstate system being built in the Gulf (1997, p.24).

In addition to the external power support, the oil rent also supported the Sultan financially in the war in two ways, according to Valeri:

> The sultanate authorities had a radical change of heart, as they decided to use the oil rent in wide-scale development programs (education, health, agriculture), but also in establishing tribal units (*firqa*) under the sheikhs' authority, in order to involve their credibility directly in the results of the operations. Defence expenditure increased in 1971 to 50% of the State budget. Thousands of tracts announced that a general amnesty, combined with financial help, would be granted to rebels who surrendered (2009, p.61).

Thus, defence spending cut the expenditure available for development sectors in the first five years of Sultan Qaboos' rule.

As a result, the government began initiating its FYDPs in 1976. This followed numerous studies between 1974 and 1975 which were supposed to identify an appropriate means of implementing this. The World Bank's (1974) '*Report and Recommendations to the Executive Directors*' was one of the most crucial documents, indicating the importance of economic planning as a necessary way forward (Townsend, 1977). In this context, Todaro and Smith define economic planning as:

> a deliberate governmental attempt to coordinate decision making over the long run and to influence, direct, and in some cases even control the level and growth of a nation's principal economic variables (income, consumption, employment, investment, saving, exports, imports, etc.) to achieve a predetermined set of development objectives (2011, p.513).

Various reasons underpin state planning exercises; as Thirwall (2002) points out almost all developing countries, whatever their political ideology, have made and still make development plans. First and foremost is the economic imperative to overcome market failure caused by imperfect markets, distorted prices, and lack of knowledge. Second is the need to facilitate the mobilisation of resources, both internally in a country and externally (Hvidt, 2012, p.191). According to Martinussen, there are five situations in which market mechanisms are not an efficient or appropriate allocation for goods and services.

> These situations are where natural monopolies exist; where increased production is associated with decreasing unit costs (for example, electricity, gas and water supply); where substantial externalities exist and are not reflected in the accounts of private suppliers (for example pollution and environmental damage); where it is difficult to charge for a service or to exclude those who do not pay; and where merit goods are involved (1997, p.229).

In relation to Oman, the 1974 World Bank report stated:

> The proposed technical assistance project is an essential first step in Oman's development… The assistance for economic planning would help devise the general framework and strategy for development… Now that the Government has succeeded in stimulating economic growth, it recognises the need to administer the development, and guide its future direction (cited in Townsend, 1977: p.156).

Thus, the Omani government established the Development Council and the Financial Affairs Council by Royal Decree No. 41/74 on 17 November 1974. The role of the Financial Affairs Council was to set short-term and medium-term fiscal policies, while the Development Council's role was to set long-term goals and objectives for development and formulating the five-year plans. The Ministry of Finance and Economy was responsible for raising the funds for public expenditure (current and capital) and controlling expenditure, with the Central Bank of Oman in charge of monetary policy (Oman, 1976). The Sultan was the Chairman of the Development Council and the Financial Affairs Council, while the Deputy Prime Minister for Finance and Economic Affairs was the Deputy Chairman of these two councils (Development Council, 1976). Additionally, an Economic Development Law was issued in 1975 by Royal Decree No. 9/75 on 1 February 1975, outlining the legal framework for Development Council to contribute to the country's development strategies (Development Council, 1976).

The responsibilities allocated to the Development Council as mentioned in the Economic Development Law were to:

- Implement a strategy for the nation's economic progression and to identify means of progressing towards and realising the aims of the development process.
- Prepare annual development budgets and an annual review of the success of the development process.
- Agree and implement suitable policies based on the priorities of the time.
- Scrutinise the extent to which the targets are being achieved by reviewing feedback from the consultant leading a project.
- Oversee the actions of the state in terms of utilising the development policies.
- Introduce regulations and stipulations relating to money lent by the government.
- Liaise with development enterprises and monitoring the actions and achievements of these relevant firms (Development Council, 1976, pp.3-13).

These responsibilities were intended to help achieve the long-term objectives authorised by the Development Council in the Strategic Development Process, the aims of which were:

- Growing new means of national income with the intention of reducing the reliance on revenues from the oil trade.
- Increasing the percentage of investments by targeting funds towards fields likely to acquire income, including agriculture, industry, mining and fisheries.
- Ensuring the advancement of the human resources within the local area to ensure they can make a significant contribution to the development of Oman's economic status.
- Ensuring an equal and reasonable division of investment across Oman, with a particular focus on enhancing living conditions within under-developed locations.
- Maintaining attempts to construct basic services and systems within Oman.

- Allocating assistance to the support of commercial actions within the local areas, providing necessary facilities, such as transportation and storage provision, and eradicating any commercial hindrances.
- Completing the preliminary period of constructing an economy dependant on the private sector and offering monetary support for significant schemes depending on the scale of resources available.
- Improving the ability of the government's organisational capacity (Development Council, 1976, p.22).

Thus, the objectives were targeting every aspect of Oman's social and economic development, including both the private and the public sectors. The emphasis was to overcome the absence of a proper social and economic infrastructure in terms of roads, ports, electricity, water, transportation and housing, which were seen as constraints to economic growth. These projects were to be implemented by the private sector. Thus, the merchant class, who were the only private sector available at that time set up agencies and, in the case of building and specialised equipment, partnerships with expatriate firms. Total imports into Oman jumped from OMR14m in 1972 to OMR136m in 1974, while recurrent civil expenditure rose from OMR10m to OMR60m and development expenditure from OMR20m to OMR128m (Development Council, 1986, Tables 169 & 215).

Oman adopted a project-by-project approach between 1970 and 1975, at the start of its development process. However, the failure to co-ordinate between these projects on one hand and between the implementing ministries and the treasury on the other, led to a severe financial crisis in 1974. This resulted in the adoption of formal planning through the FYDPs (Development Council, 1976).

2.3.1.1 The First Five-Year Development Plan: 1976-1980

The First FYDP, which covered the period 1976 to 1980, commenced in August 1976 by Royal Decree (23/176) (Development Council, 1976). It was launched at a time when the economy was growing strongly, driven by high oil prices, which boosted both the oil and non-oil sectors.

This period also saw the start of the natural gas sector in Oman. Several factors influenced the formulation of the First FYDP. According to Al-Yousef:

> These included, first, the need to extend government services to the South with the end of civil war in that area; second, the threat to Oman's financial stability arising on account of the debt burden created by the large financial commitments of the pre-plan period; third, the fiscal burden of meeting the progressive increase in civil current expenditure; and fourth the expected decline in oil production and its impact on the government's ability to maintain the development momentum (1997, p.267).

The main aims of the First FYDP (Development Council, 1976, pp.3-14) were:

- To acquire significant annual average growth of 8.1% in terms of the value-added by activities defined as non-petroleum. This was to counteract the anticipated contraction of 1.3% per annum of the petroleum sector.
- To obtain an appropriate compromise between government revenues and expenditures; this was to be achieved by implementing a gradual decline in government investment from OMR256m in 1976 to OMR106m in 1980.
- To reduce the State's indebtedness by 1979, so as to ensure its borrowings within narrow limits.
- To broaden the level of investment from the private sector in the goods producing and service sectors to reach OMR420m representing 31% of total investment for the period 1976 to 1980. At the end of the Plan in 1980, the aim was to achieve private investment equivalent to 11.8% of GDP compared with 6.5% in 1976.
- To instigate the process of industrialisation by constructing a range of manufacturing industries, relating to cement, flourmills and oil refineries. These were either to be run as SOEs or else joint enterprises with private organisations. Additionally, the intention was to create a development bank to ensure access to long-term investment for the private sector.
- To obtain a rate of gross fixed capital formation (GFCF) that corresponded to 25% of nominal GDP, which was anticipated to be OMR806m by 1980.
- To increase the capacity of Oman's national economy.
- To improve the breadth of the nation's economic outlook.
- To begin offering subsidies.
- To help the private sector growth, the State was to be responsible for developing roads, schools, hospitals and government activities.

Table 2.3 gives a breakdown of the planned revenues and expenditures associated with the plan.

Table 2.3: Planned Revenues and Expenditure in the First FYDP (OMRm)

Description	1976	1977	1978	1979	1980	Total
Revenues:						
Oil revenues	470	458	447	436	425	2236
Other revenues	25	27	30	35	40	157
Loans and grants	155	136	66	28	19	404
Total revenues	**650**	**621**	**543**	**499**	**484**	**2797**
Expenditure:						
Defence and national security	275	219	179	154	144	971
Civil current expenditure	103	115	129	145	163	655
Government share of PDO	12	15	15	15	15	72
Civil capital projects	192	190	140	96	82	700
Joint investment projects with the private sector	6	5	4	4	4	23
Government share of PDO capital investment	18	20	20	20	10	88
Repayment of loans and interest	44	53	46	51	47	241
General Reserve	-	4	10	14	19	47
Total Expenditure	**650**	**621**	**543**	**499**	**484**	**2797**

Source: The First Plan, Development Council, Sultanate of Oman.

In the hope of successfully achieving the aims of the plan, the following policies were incorporated into the process (ibid., pp.44-74):

- Establishing funds specifically intended to enable the agricultural and fishery industries to develop.
- 54% of the expenditure in public services was to be dedicated to making improvements to roads, ports, education and medical provisions.
- A further 21% was to be used on essential services, such as electricity, water, communication devices, and travel and hospitality facilities.
- The remaining 25% was to be used to broaden the range of goods produced, so as to broaden the economy and increase the range of products the country offered.

- A development bank was to be created to ensure continued investment in the private sector.
- Funds were set aside to overcome the geographical disparity across the country.

To support the FYDP and to promote private sector development, in 1978 the government issued the Industry Organisation and Encouragement Law. The Law offered a number of incentives for the private sector including tax holidays, tariff rebates, protective tariffs, financial support, the development of industrial infrastructure including services such as subsidised utilities, technical support through the Ministry of Commerce and Industry, marketing assistance and guaranteed government purchase of locally produced products.

Although the First FYDP sought to increase the role of the private sector in the economic activities by, for example, providing financial support, it only allowed the private sector to contribute in the goods and services sectors. The industrial sector was to be in the hands of the public sector through establishment of a number of manufacturing industries, such as an oil refinery, a cement company and a flour mill, either as SOEs or joint ventures with the private sector. Thus, the government still sought to play a key role in the economy. Such government intervention in the long run will crowd out private sector investment. However, it was clear that the government was committed to continue investing in infrastructure projects such as roads, port, education and health facilities. A total of 54% of public investment was allocated to those projects. Furthermore, it is important to note that defence and national security (40%) and total civil current expenditure[7] (around 20%) accounted for much of the budget. This indicates that the government's priority was to restore security and build an appropriate physical infrastructure.

The outcome of the plan was significantly impacted by the rise in oil prices and therefore the oil revenues. The planned revenues in the first development plan were OMR2,797m whereas the outcome was OMR3,703m. Consequently, government expenditure increased to OMR3,589m from the plan of OMR2,797m (ibid., p.19). Despite the ending of the civil war, defence and national security expenditure jumped from OMR971m planned expenditure to

[7] Total civil current expenditure includes three categories: A) total salaries and wages, allowances, remuneration and contribution to Pension Fund; B) expenditure on purchase of goods and services, purchase of goods for resale at subsidised prices, purchase of services and expenses of government services; and C) subsidies and other current transfers.

OMR1,450m actual expenditure, which represented almost 40% of total expenditure. The second most important sector was civil development expenditure with 25.2% of total spending (Development Council, 1981, p.40). However, this fell short of the target; the plan was OMR723m but the outturn was OMR698—an implementation rate of 96.5% (Development Council, 1976, p.19).

Driven by increased government expenditure, the overall growth rate was impressive. The value-added by activities relating to petroleum increased at an annual average of 21.3% compared to 1.3% of the planned annual growth. As a result, the oil sector's share of GDP grew to 62% in 1980 compared with 57% of the planned target. Furthermore, nominal GDP grew at an annual average rate of 23.3% which was significantly above the planned average of 2.2%. Thus, in 1980, total GDP reached OMR2,064m, significantly higher than the planned OMR806m (Development Council, 1986, p.378).

In terms of the performance of the non-oil sectors, the manufacturing sector grew at an average annual rate of 49.3% but failed to meet the planned rate of growth of 64.1%. However, the service sector grew significantly at an annual average of 32.5% compared with the plan of 10.1%. This was an inevitable result of the government investing in infrastructure projects which boosted the services sector led in the main by the private sector. The performance of the agriculture and fishery sector was annual average growth of 21.1% compared to the 8.2% targeted rate. However, the growth rate was significantly lower than other sectors such as petroleum and the service sector (ibid., p.378).

It can be argued that the outcomes were mixed. From a macroeconomic perspective, final consumption increased from OMR422m to OMR1,076m, an increase of approximately 155%. The total investment grew to OMR1,670.2m against the target of OMR1,356m, of which public investment accounted for OMR1,203.6m (against the plan of OMR466.6m). However, while the GDP grew at an annual average rate of 23.3%, the growth was mostly driven by the oil sector, which, in turn, was a result of the increase in the global price of oil rather than increased output (ibid., pp.51-52). As a result, these impressive figures do not necessarily give a real indication of the development of the economy. This meant that the economy was increasingly, rather than decreasingly, dependent on the oil sector to lead the growth. Furthermore, the government continued to recruit the local workforce into the public sector; as a result, numbers grew sharply from 19,123 in 1975 to 38,840 in 1980. In contrast, the private sector relied heavily on foreign labour. Thus, the number of expatriates increased by around 100%, growing from 65,000 in 1975 to roughly 130,000 by 1980 (ibid., p.99 & p.114).

In terms of projects, there was a significant expansion in the availability of basic public services, including infrastructure, such as roads and ports, public utilities including water, the postal service, electrical provision and telecommunications, and education and medical provisions. In addition, numerous industrial projects designed to drive growth were also successfully launched during the period, either as State entities or as joint ventures with private companies. For example, several factories and companies were established, such as flour mills, date production, a fishing company and an animal husbandry company. On a larger scale, a copper mining and smelting project, a cement factory and an oil refinery were established (Development Council, 1981, pp.4-6). However, most were SOEs, while the private sector was mainly concentred in the construction and trade sectors.

In summary, the First FYDP did succeed in fulfilling many of its stated aims. For, example, the State was able to make a significant contribution towards promoting development. However, several negative conclusions can be drawn for the outcomes of the Plan. First, the inflated oil price lead to the Dutch disease syndrome.[8] Hence, the agricultural and manufacturing industries both failed to achieve their planned level of contribution to GDP. Agriculture was only able to contribute 2.5% to GDP rather than its aim of 3.7%, by the end of the Plan, while the manufacturing sector failed to achieve its 3.1% contribution target and instead achieved only 0.8%. Second, the rise in the oil price resulted in an increase not a decrease in oil revenues, the spending of which by the government boosted Oman's dependence on foreign trade and foreign labour. The third element was the increase in public expenditure due to rising oil revenues. The actual investment expenditure during the FYDP was 11% above the planned target, while current expenditure exceeded the target by about 27% (ibid. pp.4-6). Furthermore, the private sector's main activities were concentrated in the construction sector and trade and services sector, in a rational response to increased government expenditure. Therefore, in political economy terms, the outcome consolidated

[8] The term 'Dutch disease' refers to a condition in which a country discovers large natural resources, the extraction of which increases the equilibrium exchange rate/or general wage levels, thereby putting pressure on the competitiveness of the other tradable sectors in the economy. Therefore, the structure of the economy becomes based around the resource, which will negatively affect the growth of other tradable sectors in the economy (Ahrend, 2006).

Oman's rentier economy and strengthened the characteristics of the neo-patrimonial socio-political system.

2.3.1.2 The Second Five-Year Development Plan: 1981-1985

The late 1970s and the 1980s witnessed a substantial change in the context of development economics, which was characterised by the resurgence of neo-classical economics. It was the time when privatisation and liberalisation were considered to be indispensable to securing development, with mainstream academic economists, the World Bank, the IMF and policy makers in most countries supporting this view (Dutt et al., 1994, p.3). It was being increasingly argued that the success of the East Asian economies, rather than being because of wholesale State intervention, was due to a more limited and balanced role of the State, as well as to the more appropriate 'market-conforming' economic policies of government (World Bank, 1993).

Despite the changes taking place in approaches to development the Omani approach to the FYDPs did not alter at first. The Second FYDP was set against a background by falling oil prices which dropped from an average of USD36.83/b in 1980 to USD27.56/b in 1985 (BP Statistical Review of World Energy, 2017), and therefore a decrease in oil revenues, which resulted in a recession in many countries that were dependent upon oil production (Development Council, 1981, p.31). However, in Oman the State was able to keep oil income at a steady level by increasing production to 181.8m barrels in 1985, from 103.7m in 1980. This reflected average annual growth of 12%. Additionally, the level of natural gas production grew from 93bn cubic feet in 1980 to approximately 142bn cubic feet in 1985 (Development Council, 1986, p.3).

Similar to the previous development plan, many objectives focused on the role of the private sector. The main aims included:

- To achieve an average annual real growth rate of 13.1%.
- To encourage the private sector to become involved in productive activities in agriculture, fisheries, manufacturing, mining and handicrafts.
- To focus on improving education, health and other social sectors (Development Council, 1981a, pp.32-33).

Table 2.4 highlights the planned investment over the period of the Plan, while Table 2.5 highlights planned revenues and expenditures.

Table 2.4: Planned Investment in Second Plan (OMRm)

Description	1981	1982	1983	1984	1985	Total
Government Investment	325	371	423	484	552	2155
Private Investment	170	194	224	269	311	1168
Total Investment	495	565	647	753	863	3323

Source: Development Council, Oman, Second FYDP, (1981)

In terms of the outcome, private sector investment was 97% of the planned level. However, there was disparity in investment across various sectors; for instance, the services sector achieved a figure 16% above the targeted level of investment. However, aside from investment in the petroleum industry, investment in the agriculture, fishery and manufacturing fields were even more disappointing than they had been during the First FYDP (see Table 2.6). This outcome may have been caused by the paradoxical role of the oil sector in the national economy and the low implementation rates of public investment in these sectors.

As far as the other aims of the plan were concerned, there were a number of successes. The ongoing policy of ISI continued in this Plan with several projects being established. These included the oil refinery, two cement factories (the Oman Cement Company was wholly owned by the government, while the Raysut Cement Company was a public-private joint venture) and the animal feed factory (a joint venture with the private sector) (Development Council, 1986, pp.3-8). In addition, the private sector developed factories for producing soft drinks, beverages including mineral water, cooking oil, petrochemicals, plastic insulators including polystyrene, detergents, cartons, and fishing boats. As had been intended, the government supplied financial support to industries such as mining and quarrying, supplementing the loans granted by the state-owned Development Bank. Furthermore, 3,374 low cost houses were built, whilst the Oman Housing Bank provided loans worth OMR85m (ibid., pp.3-8). The Second FYDP also saw significant developments in the fields of education, medical care, infrastructure and public services. Table 2.7 summarises the outturn against the plan.

Table 2.5: Planned Revenues and Expenditures (OMRm)

Description	1981	1982	1983	1984	1985	Total
Net oil revenues	1176	1207	1267	1330	1396	6376
Natural Gas	21	28	35	47	61	191
Other revenues	58	63	68	74	80	343
Grants already committed	20	17	-	-	-	37
Total revenues	**1275**	**1315**	**1370**	**1450**	**1537**	**6947**
Current expenditure defence & national security	499	557	595	615	707	2973
Civil re-current expenditure	284	327	376	432	497	1916
Government share of PDO's recurrent Expenditure	40	45	49	54	61	249
(A) Total Recurrent Expenditures	**823**	**929**	**1020**	**1101**	**1265**	**5138**
Development Expenditures:						
Civil Ministries	404	322	285	248	158	1417
Support to Private sector	18	22	27	34	34	135
Financing for ODB	4	4	4	4	4	20
Financing for Housing Bank	4	4	4	4	4	20
Agriculture& Fisheries Bank	1	2	4	5	7	19
(B) Total Development Expenditures	**534**	**460**	**430**	**406**	**325**	**2155**
(C) Participation in International and Regional Organisations and Contingency Fund	15	15	15	15	15	75
Total Expenditure (A+B+C)	**1372**	**1404**	**1465**	**1522**	**1605**	**7368**

Source: Development Council, Oman, Second FYDP, (1981)

Table 2.6: Planned against Actual Investment, Second Plan (OMRm)

Description	Actual	Planned
Public Investment	2755.9	2155.0
Private Investment	1137.5	1168.0
Total	3893.4	3323.0

Sources: Development Council, Oman, Second FYDP, (1981).

Table 2.7: Outturn against Plan for Revenue and Expenditure (OMRm)

Description	Planned	Actual	%
Internal Revenue			
Oil Revenues	6376.0	5729.2	89.9%
Natural Gas Revenue	191.0	128.3	67.2%
Other Revenue	343	747.7	218%
Total of Internal Revenues	**6910.0**	**6605.2**	**95.6%**
Expenditure			
Defence and National Security	2973.0	3247.0	109.2%
Recurrent Civil Expenditure	1916.0	1987.9	103.8
Government share in PDO Recurrent Expenditure	249.0	282.9	113.6
Development Civil Expenditure	1417.0	1632.4	115.2
Government share in PDO the Development Expenditure	544.0	455.7	83.8
Private Sector Support (Low Interest Loan)	135.0	15.4	11.4
Financing of Oman Development Bank	20.0	7.5	37.5
Financing of Oman Housing Bank	20.0	7.5	37.5
Financing of Oman Bank for Agriculture & Fisheries	19.0	15.7	82.6
Total Expenditures	**7368.0**	**7872.2**	**106.8**
(-) Surplus (+) Deficit	-458.0	-1267.0	276.6%
Net means to recover deficit (Net Loans Aids)	458.0	657.8	143.6%
Withdrawal from the State General Fund	-	585.0	-
Surplus (+) Deficit (-)	-	24.2-	-

Source: Statistical Year Book 1985, Oman, p.379.

During the Second FYDP, the neo-classical development strategy of permitting unrestricted imports (i.e. free trade), including expatriate workers, resulted in certain detrimental effects being endured by Oman's underdeveloped private sector; the economy was dependent on a solitary primary good (oil), with markets and services only just developing. This was demonstrated by the significant growth in expatriate remittances, which grew by 139% during the plan to OMR327m in 1985 (ibid., p.323). These remittances resulted in a significant decline in the external account surplus and increased the gap between savings at a gross domestic and gross national level. Furthermore, the less expensive and more skilled expatriate labour force saw Omani workers unable to compete in the job market. Furthermore, the liberal trade strategy meant the nascent domestic industries and the agricultural and fisheries sectors faced challenging conditions. Thus, private sector investment tended towards the services sector, in which competition was less intense. Thus, private investment in the services sector ended up being higher than planned, whereas private investment in other sectors was significantly below the plan. Finally, it led to a boom in imports. This is the typical problem of Rentier State economies, where the private sector develops around the circulation of rent in the economy, rather than around production.

Furthermore, as with the earlier plan, it did not result in significant investment in the agricultural and manufacturing sector, which gained only 7% of the OMR3,302.6m public and private investment (Development Council, 1986, pp.20-21). In addition, significant expenditure was allocated to the military and civil development. According to Allen and Rigsbee, "the general trend of military spending continued upward after 1976. Starting at a low of $735 million, expenditure increased from $1.1 billion in 1980 to $1.9 billion in 1985, during the height of the Iran-Iraq war" (2000, pp.65-66).

A further issue was that public sector investment was concentrated in the capital, Muscat, and focused on projects in low-priority areas such as the Sultan Qaboos Sports Complex and Al-Bustan Hotel Project.

The income derived from the oil industry boosted economic growth during the Second FYDP. This helped to ensure that the developmental requirements of the country continued to be fulfilled. Oil revenue also helped advance economic development and to boost capital formation to almost 25% of GDP.

However, the contribution of the private sector remained limited. It was planned that the private sector would engage more in productive activities, such as manufacturing, mining and handicrafts, agriculture and fisheries, supported by a new financial incentives' programme. However, the outcomes were poor. The contributions of private sector investment in the manufacturing, and agriculture and fisheries sectors were below even what was planned in the First FYDP plan. However, private sector investment did exceed the plan in the services sector by 16%. The low level of private sector contribution can be explained, to a degree, by the limited space that the state provided to the private sector. In a situation where the State is playing a major role not only in planning and implementing development projects, but also in economic activities, it has the upper hand over the private sector. Because of the huge revenues the State received from oil, it focused its investment in large-scale industry, by-passing other sectors. This left little room for the small private sector to invest, with the exception of the less capital-intensive service sector.

The outcome of the plan shows elements of the effects of rentierism. For example, for the first time, the government offered subsidised long-term finance to the private sector and additional loans provided by the state-owned bank, the Oman Development Bank. In terms of civil expenditure, 3,374 low cost houses were built and subsided housing loans were provided for those seeking to construct their own houses. Subsidies were also provided to the agriculture sector for farmers for improved seeds, insecticides and fertilisers. Furthermore, a state-owned bank for agriculture and fisheries was set up in 1980, and between then and 1985, the bank extended soft-loans amounting to OMR13.2m. Moreover, the State participated in the formation of The Oman National Fishers Company, a joint venture company with the private sector (Development Council, 1986, p.3).

In addition, although the oil prices and therefore revenue fell in this period, the government did not cut spending as prescribed by the dominant global neo-liberal economic policies. In fact, the government increased its spending which resulted in a deficit in the general budget (Al-Yousef, 1997, p.284). This part reflects the impact of the rentier mentality and neo-patrimonial structures, as the State proved unwilling to take steps that acted against these forces. In fact, in 1981, Oman created its first consultative council[9] seemingly as a method of involving citizens in the decision-making process. However, its role was advisory, rather an as auditory body, and all the members were appointed by His Majesty Sultan Qaboos from his neo-patrimonial network.

2.3.1.3 The Third Five Year Development Plan: 1986-1990

The Third FYDP (1986-1990) was formulated against a current account deficit, a burgeoning fiscal deficit and a global and regional economic recession because of the decline in the oil

[9] Royal Decree No. 84/81 established 'The Consultative Council of the State'. The number of members of the Council in its first term was 45, including 17 representing the public sector, 11 representing the private sector and 17 representing the different regions of the Sultanate. A Royal Decree was issued in the second term to increase the number to 55 members. The Council continued conducting its business until the issuance of the Royal Decree to establish the *Majlis Ash'Shura* in 1991.

price (Development Council, 1986, p.66). Since the oil revenue was the major source of income for the government, the decline in the oil prices significantly reduced its revenues and, therefore, spending capacity. Because of the economic situation, the government planned short-term objectives for this plan in order to minimise the negative effects of falling oil revenues (ibid., p.67). Importantly, because of the reliance of Rentier States, such as Oman, on rent distribution to establish and maintain legitimacy, any decrease in the rent means that the social contract becomes threatened (Luciani, 1990, p.69). Furthermore, according to Al-Yousef (1997, p.284):

> During this period (1982-85) political support and commitment to planning weakened somewhat. So that whilst the Development Council would meet at least three to four times a year to review the progress in plan implementation, because of waning political support for planning during 1982-85, the council held only two meetings in 1982 and did not meet in 1983, 1984 and 1985.

With regards to the objectives, in many ways, the Third FYDP looked similar to the objectives of the First and Second FYDPs in terms of encouraging the role of the private sector and continuing to invest in infrastructure projects. However, support for the private sector was only in financial terms. Policies towards a market economic system and free competition were not formulated. Furthermore, the State still had direct control of the strategic economic sectors, such as oil. The main objectives of the Third FYDP were:

- To achieve an average annual real growth rate of 4%.
- To counter developments in the global oil market by adopting a balanced policy between increasing the life of existing oil wells and new discoveries, and the requirements of economic and social development for the country.
- To increase the level of crude oil production to an average of 550,000 bpd in the first two years of the plan and a further increase of 575,000 bpd in the remaining three years of the plan.
- To achieve a balance between State revenues and spending and take important and appropriate actions to rationalise government spending.
- To give priority to natural water resources projects and projects in the goods sectors that generate income such as agriculture, fisheries, manufacturing, mining and the exploitation of natural gas.
- To improve regional development with a focus on developing the social services in education, health, vocational training and social housing in different regions.

- To continue to encourage the private sector and work to provide the appropriate business environment to increase its role in economic development within a free economic system and free competition. Therefore, the Plan targeted financial support for the sector of OMR121m, of which OMR50m was for manufacturing projects, OMR71m was for social housing, agriculture, fisheries, and other development projects. The financial support was to be provided in coordination with specialised banks.
- To continue to support the completion of public infrastructure within the available financial resources, with priority given to sewage services, electricity, drinking water, telecommunication projects and creating local markets.
- To continue to support maintenance programmes for the existing public infrastructure projects that were built in previous plans in the country (Development Council, 1986, pp.67-68).

However, even after the plan was approved by the government, oil prices continued to decline significantly from an average of USD27/b in 1985 to USD8/b in July 1986. Thereafter, prices increased to an average USD14/b in September 1986 (ibid., p.69). Thus, oil revenues fell to about half their planned level (ibid., p.69). The main problem that Oman and other oil producing countries faced in this crisis was to minimise the effects of decline in the country's revenues since their budgets were heavily dependent on oil revenues (ibid., p.70). The impact of the oil price fall combined with the neo-liberal approach to development promoted by the international financial institutions encouraged a revamping of the initial Third FYDP.

The main measures of the revamped plan were:

- Addressing the problem of oil price crises.
- Stabilising the economy and helping both the private and public sectors to adapt to the new situation.
- Limiting the effects of the decline in national income in 1986 and to target modest growth in the following years of the plan.
- Solving the deficit in the state budget caused by the decrease in oil revenues. This was through a structural adjustment plan, such as controlling public expenditure and to ensuring spending would not increase against the planned target expenditure on health, education and social affairs.

- Focusing on non-oil production sectors to counteract the shortage in oil revenues.
- Continuing to develop social, health, vocational training and social housing services (ibid., p.70) (see Table 2.8).
- Introducing a privatisation policy for the first-time.

Table 2.8: Amended Third FYDP

Description	Initial Plan	Revised Plan
Revenues		
Net Oil Revenues after Transfer to General Reserve Fund	7171	5045
Natural Gas	196	222
Other Revenues	1200	1120
Refund of Government Loans	89	104
Total Revenues	**8656**	**6491**
Expenditures		
Recurrent Expenditure	6818	6055
Total Development Expenditure	**2211**	**1932**
Private Sector Support	121	88
Loans and Participation in Local, Regional and International Institutions	100	89
Total Expenditure	**9250**	**8164**
Current Deficit	594-	1673-
Means of Financing		
Net Grants	-	4
Net Borrowings	294+	294+
Use of State Funds	300+	1026+
Sale of Government Assets	-	100+
Total Means of Financing	**594+**	**1424+**
Final Deficit	-	249-
Deficit Brought Forward	-	42
Total Final Deficit	**-**	**291**

Source: Development Council, Oman, Third FYDP (1986, pp.51-52)

Table 2.9: High Level Detail of Revamped Third FYDP (OMRm)

Economic Activities	Base Year 1985	1986	1987	1988	1989	1990
Oil Sector:						
Crude Oil	1578	1548	1548	1623	1618	1618
Natural Gas	38	30	33	38	42	48
Total Oil Sector	**1616**	**1578**	**1581**	**1661**	**1660**	**1666**
Non-Oil Sectors:						
Construction	224	208	189	164	148	150
Commerce	384	377	374	370	371	383
Government Services	455	453	471	490	509	530
Other Sectors	636	834	876	1022	1192	1387
Total Non-Oil Sectors	**1699**	**1782**	**1910**	**2046**	**2220**	**2450**
Total Economic Activities	**3315**	**3360**	**3491**	**3707**	**3880**	**4116**

Source: Development Council, Oman, The Fourth FYDP, 1991, p.178.

Other important measures taken by the government on 25 January 1986 included the action of the devalue the rial against the US dollar by 10.2% (ibid., 1986), along with a 10% reduction in all government spending in the Third FYDP, excluding the areas providing services to the citizens such as education, health and social affairs. The reduction in those areas was to be less than 10% (ibid., p.70). The high-level forecast for the plan can be seen in Table 2.9, while a more detailed breakdown of the plan can be seen in Tables 2.10 and 2.11.

The outcomes of the Plan were:

- Despite gross oil revenues declining, the government succeeded in its commitment to transfer part of the oil revenues to the State General Reserve Fund (SGRF).
- The government did not borrow heavily. Only 20% of the fiscal deficit in 1986 to 1990 was backed through loans. Hence, total public external debt increased only from 24.1% of GNP in 1985 to 29.4% of GNP in 1990 (Development Council, 1991, p.85).
- The government failed to cut its current expenditure as planned. The current expenditure increased to OMR6,726m against the planned target of OMR6,055m.
- The government initiated a privatisation process, including its shares in the National Bank of Oman, National Insurance, Sun Farms, Raisoot Cement, and the Gulf Hotel.

Further details are shown in Tables 2.12, 2.13 and 2.14.

Table 2.10: Planned Revenue and Expenditure (OMRm)

Description	1987	1988	1989	1990	Total
Revenues:					
Net Oil Revenues	1081.0	1064.0	1013.0	992.0	5054.0
Natural Gas Revenues	38.2	43.1	48.2	54.2	221.6
Other Revenues	203.3	215.9	228.8	240.8	1120.0
Repayment of Loans	13.0	19.0	20.0	19.0	103.0
Total Revenue	**1335.5**	**1342.0**	**1310.0**	**1316.0**	**6490.4**
Expenditures					
Recurrent Expenditure	1178.3	1197.4	1169.7	1196.8	6054.8
Development Expenditure	417.7	345.6	366.9	333.2	2024.2
Support to Private Sector	21.0	19.0	18.0	19.0	87.0
Participation in Local, Regional and International Institutions	14.0	15.0	15.0	15.0	89.1
Total Expenditure	**1631.0**	**1577.0**	**1569.6**	**1563.0**	**8256.1**
Less Self-Financing by GTO	21.7	12.6	9.6	19.8	92.1
Total Government Expenditure	**1609.3**	**1564.4**	**1560.0**	**1543.2**	**8164.0**
Current Deficit	273.8	222.4	250.0	227.2	1715.6
Deficit c/fwd from previous years	-	-	-	-	42.0
Total Deficit	**273.8**	**222.4**	**250.0**	**227.2**	**1715.6**
Means of Financing Deficit:					
Net Grants	27.0	3.0	-26.0	-	4.0
Net Borrowings	-	40.1	-	38.0	294.0

Source: Development Council, Oman, Third FYDP (1986, pp.51-52)

Table 2.11: Planned Investment (OMRm)

Description	Government	Private	Total
Goods Producing Sectors	710.2	748.0	1458.2
Service Sectors	467.9	269.0	736.9
Social Structure Sectors	317.0	-	317.0
Infrastructure Sectors	730.1	-	730.1
Other Development Expenditure Sectors	35.3	-	35.3
Purchases of Goods to Form a Strategic Stock	16.2	-	16.2
Total	**2276.7**	**1017.0**	**3293.7**

Source: Development Council, Oman, Third FYDP (1986: pp.51-52)

Table 2.12: Plan against Actual GDP (OMRm)

Years	Planned	Actual
1986	2798	2800
1987	2928	3003
1988	2959	2926
1989	2986	3231
1990	3059	4084

Source: Development Council, Oman, The Fourth FYDP, 1991, p.85

Table 2.13: Planned against Actual Oil Production ('000 bpd)

Years	Planned	Actual
1986	550	560
1987	550	582
1988	575	619
1989	575	641
1990	575	185

Source: Development Council, Oman, The Fourth FYDP, 1991, p.85

Table 2.14: Planned against Actual Investment (OMRm)

	Planned Capital Formation	Actual Capital Formation	Actual as % of Planned
Public Sector	2276	2005	88.1
Private Sector	1017	920	90.4
Total	**3293**	**2925**	**88.8**

Source: Development Council, Oman, The Fourth FYDP, 1991, p.85

Several conclusions can be drawn from the outcomes of the Third FYDP. World oil prices crashed in 1986 with negative consequences for the economy and society in Oman. The government attempted to minimise the consequences by taking several measures, the most important of which was to cut back its capital expenditure. This, in turn, hindered the achievement of many objectives originally planned. However, the total current expenditure in the Third FYDP was higher by almost 33% than in the Second FYDP. For example, government expenditure on health increased from 4.2% to 4.6% of GDP, while in education it increased from 7.7% to 10.7% of GDP (World Bank, 1993, p.285). This was further indication that rentier mentality and neo-patrimonialism continued in this period as the government failed to respond to the crisis by adopting neo-liberal ideas of austerity. The State Consultative

Council as part of the neo-patrimonial structure was only able to comment on government policy and programmes rather than audit the policies or suggest changes. Furthermore, the privatisation process lacked rigour and transparency. Overall, economic decision-making was driven by political concerns, not the market. Nevertheless, the increase in current government spending helped to raise human development standards, 12 years were added to the average life expectancy between 1985 and 1990, while the number of students enrolled in primary education increased by 103% (ibid., p.285). Oman's record of progress in human development is highlighted by the 1997 Human Development Report, which states:

> Beginning in 1970, Oman undertook a comprehensive programme of human development, achieving some of the most rabid advances ever recorded. Life expectancy has increased by 30 years, from 40 years in 1970 to 70 years in 1994… [I]mprovements in education have been even more impressive… [I]mprovements in health and education have been accompanied by rapid advances in other areas of human development (UNDP, 1997:P.28).

Thus, as in any Rentier State economy, the government continued to play an allocative role in terms of the oil rent to protect its social contract with Omanis. Although rent gives the State relative autonomy from the population (it does not need to be formally accountable to them because it does not require revenue from them but rather allocates it to them), this affects its ability to respond to changes in global pricing conditions for its exported commodity. Thus, State-led development policies funded initially through oil revenues proved to be unable to satisfactorily weather the decline in prices. The regime had to keep spending money it no longer had and, in doing so, it reproduced the very conditions which prevented a competitive private sector from emerging.

As the Third FYDP unfolded in the face of declining oil prices, the State realised the importance of not relying solely on oil revenues. Thus, the government started to seriously consider the importance of enhancing the role of the private sector in development. In this regard, the State set about privatising a number of its assets as encouraged by the IMF's and World Bank's economic reform policies. In addition, both human development and the role of the private sector in development became more important in the government plans in the next FYDP. Thus, the State became more open to globalisation than under early State rentierism.

2.3.1.4 Further Liberalisation: 1990 to 1995

The 1980s and early 1990s witnessed many changes at the domestic, regional and global levels. Globally, the structural and stabilisation programmes promoted by the IMF and the World Bank started to receive considerable criticism from economists, academics and international organisations. Most critiques focused on the failure of these programmes to address the issues of poverty and unemployment in the countries affected. In fact, in some cases, the countries which adopted these policies, witnessed a significant increase in unemployment and poverty rates. This was inevitable because the programmes sought to cut government expenditure in general and the social welfare budget in particular. Consequently, governments were unable to promote projects that could generate employment opportunities. As a result of the criticism, the World Bank began to make changes to its approach in order to deal with the issues of unemployment, poverty, human resources, water resource management and the environment.

Regionally, the period witnessed the Second Gulf War in 1990, which initially boosted oil prices but these then fell, curtailing Omani government spending and economic growth. The fluctuation in oil prices and, therefore, revenues added further pressure to the government to change its policies, which had become unsustainable because of the lack of a stable income. Moreover, it also realised that the State-led development approach alone could not be the engine of development. It must support the role of the private sector. This realisation was first mooted in the Second FYDP. However, the State continued with its productive and distributive roles, while the private sector remained constrained in the limited available space, such as the service sector ensuring its access to the cycle of rent. Hence, the first serious steps were taken to empower the role of the private sector in the Third FYDP, such as the privatisation of SOEs and providing greater financial support to the private sector. These policies are now discussed in greater detail.

At the conclusion of the Third FYDP, the Development Council recognised the necessity for Oman to overcome the following issues. First, they would need to improve the country's economic status and strengthen the non-oil sectors. The contribution of the non-oil sectors was planned to increase to 58% by 1995 from 50% in 1990. Second, they would need to reduce the country's reliance on oil income and improve the measures to resolve the problems caused by sharply fluctuating oil revenues. Thus, the share of the oil sector in GDP was planned to decline to 42% by 1995 from 50% in 1990. Third, Oman would need to preserve the resources available to the State. Fourth, it was necessary to increase the involvement of the Omani citizens in the labour market. Fifth, the country would have to increase the role of the private sector. Sixth, it was important to keep public spending at an appropriate level. Finally, Oman would need to ensure an appropriate relationship between government income and expenses (Development Council, 1991).

In this context, the main aims and objectives of the Fourth FYDP were:

- To achieve an appropriate average growth for GDP with an emphasis on diversification of income revenues. The target was to achieve annual average real GDP growth of 6.3% and increase GDP from OMR3,522m in 1990 to OMR4,778m in 1995. The plan was to focus on achieving a high growth rate in the non-oil sectors.
- To increase the ratio of public investment to GDP to 13.5% from 7.5% in 1990, while the ratio of private investment to GDP was expected to rise to 7.0% in 1995 from 4.9% in 1990.
- To maintain the fiscal position of the State.
- To focus on the regional dimension of development, especially on new services projects. In this regard, a plan was made to expand the infrastructure development projects throughout the country.
- To support the role of the private sector in the economic activities. The plan targeted an increase in private sector investment in the non-oil sectors to OMR771m compared to OMR394m in the Third FYDP; an increase at almost 80%.
- To build the principle of self-reliance of the country. The principle was to focus on expanding and diversifying the economic base, with a special emphasis on the productive sectors that generate income. Thus, the share of the non-oil sector was planned to increase to 58% by 1995 from the 50% achieved in 1990.
- To develop domestic human resources and reduce reliance on foreign labour (ibid., pp.110-113).

The levels of planned investment are shown in Table 2.15.

According to Fourth FYDP, it was expected that the oil prices would increase. However, while the oil price increased in 1990, it declined from 1991 onwards. Thus, the average oil price realised during the 1991-1995 period was only USD16.5/b, around 18% lower than the plan's predicted average price of USD20/b (Development Council, 1996, p.22). Consequently, most of the Fourth FYDP's targets were not achieved. The economy grew at an average annual rate of 2.8% rather than the planned growth rate of 6.3%. Furthermore, the government failed to control its current expenditure. Consequently, the rent-seeking mentality became further entrenched in the private sector in particular and among Omanis in general (Al-Yousef, 1997, p.300). For example, the public sector absorbed about 69% of the local labour force (Al-Yousef, 1997, p.300). Although, the share of the non-oil sector in nominal GDP terms increased from 50% in 1990 to 62.4 % in 1995, this was due to the decline in the oil-sector rather than increased activity in the non-oil sector. More positively, the private sector's contribution to capital formation exceeded the planned rate of 32% by increasing to 38.1%. However, the oil sector took the largest share (42.1%) (see Table 2.16 and 2.17 for more details).

Table 2.15: Planned Investment in the Fourth FYDP

Detail	Base Year 1990	1991	1992	1993	1994	1995	Total
Domestic Investment for the Public Sector	353	484	492	553	603	646	2778
Domestic Investment for the Private Sector	175	214	240	249	281	335	1319
Total Domestic Investment	**528**	**698**	**732**	**802**	**884**	**981**	**4097**

Source: Development Council, Oman, Fourth FYDP, 1991, p.105.

Table 2.16: Outturn of the Fourth FYDP

Detail	Base Year 1990 Actual	1991	1992	1993	1994	1995	Planned Average Annual % Change	Actual Average Annual % Change
Oil Sector	2144	1825	1952	1782	1815	2021	4.9	-1.2
Non-oil Sector	2407	2589	2881	3071	3220	3354	7.3	6.9
Commodities	402	444	496	528	552	592	11.1	8.2
Services	2005	2145	2385	2543	2668	2757	6.0	6.6
Government	576	555	615	630	689	706	3.5	4.1
Others	1429	1590	1770	1913	1979	2051	7.6	7.5
GDP	4493	4361	4788	4803	4967	5288	6.3	3.3

Source: Development Council, Oman, Fourth FYDP, 1991, p.46

Table 2.17: Outturn of Gross Fixed Capital Investment (OMRm)

Detail	1991	1992	1993	1994	1995	Planned Average Annual % Change	Actual Average Annual % Change
Gross Investment	655	783	842	782	795	13.2	7.5
Gross Public Investment	410	502	494	491	500	12.9	10.2
% Share of Public Investment in Gross Capital Formation	62.6	64.1	58.7	61.5	61.9	-	-
% Share of Private Investment in Gross Capital Formation	37.4	35.9	41.3	38.5	37.1	32	38.1

Source: The Fifth Plan, Ministry of Development. Sultanate of Oman.

2.4 THE OMANI ECONOMY IN 1995: FAILURES OF STATE-LED DEVELOPMENT

Prior to implementing the Fifth FYDP, there were two diverging views on the way forward; one supported by the World Bank and the other proposed by Omani Ministry of Development. To attempt to resolve the challenges posed in maintaining the development initiative, and to plan for the Fifth FYDP, 1996 to 2000, the Oman authorities undertook extensive research regarding the state of the economy in 1994. At the same time, The World Bank (1994) suggested reducing the role of the State and proposed a variety of orthodox, neo-classical policies, including reducing the role of the State relating to social and financial services and building up extensive external reserves. The outcome of these studies identified several major constraints and challenges that needed to be overcome. These included:

1- The decline in oil reserves meant the economy of Oman was no longer able to continue to base development plans on oil revenues.
2- Symptoms of Dutch disease were identified in Oman's economy. The dependence on the oil sector had affected the growth of the non-oil sectors which remained heavily dependent on the oil sector. The absence of diversification in the economy had not provided space for the private sector to grow.
3- The issue with the lack of availability of experienced and well-trained manpower had resulted in a low level of productive efficiency, while the expatriate labour force was mainly involved in low value-added activities.
4- The contribution of the private sector in the economy was very limited. Although a number of incentives and policies were offered by the State in the 1980s and early

1990s, phenomena such as monopolies and rentier mentality emerged undermining the development of the private sector.

However, the Omani Ministry of Development favoured an alternative approach. Their study emphasised a wider view regarding development. Whilst it recognised the crucial factor of financial prudence and the building of financial reserves, it also believed the State had a significant contribution to make by establishing stronger cooperation between the public and private spheres in order to ensure the diversification process was implemented swiftly. In line with the New Development Strategy, it also recognised the importance of developing the country's human resources. The authorities in Oman argued that this process should not be overseen solely by the market but should instead be orchestrated by the state.

2.5 THE IMPACT OF THE FOUR FYDPS ON THE PRIVATE SECTOR

Before assessing the impact of the FYDPs on the private sector it is necessary to give a brief description of the sector in the Omani context.

2.5.1 Defining the Private Sector in Oman

In general, the private sector is that part of an economy in a country that is owned and managed by individuals or groups of people who are not part of the State. Under neo-liberalism, it is considered to be that part of the economy that drives economic growth, generates employment opportunities and adds to the sustainability and stability of economics globally (World Bank, 2009). Thus, according to the World Bank (ibid.) '*From Privilege to Competition Unlocking Private-Led Growth in the Middle East and North Africa*', the strong growth that has been witnessed in all countries over long periods has been driven by the private sector. The private sector in most countries is the main engine of economic growth and the main creator of job opportunities (ibid., 2009). The private sector generated 90% of jobs in developing countries and has been essential to development plans, has funded more than 60% of investment in developing countries, provided an ever-increasing share of essential services, such as banking, telecommunications, health and education, has been the dominant producer of exports in almost every economy and has contributed more than 80% of government revenue in low and middle-income countries through company taxes, resource rents and income tax on employees (International Labour Organisation, 2014, p.51).

While the private sector is the main driver of the development process in developed and most emerging economies, in most oil-based economies, including the GCC countries, the State plays major and different roles including that of investor, owner of the natural resources (hydrocarbons), engages in productive activities and provides social services and infrastructure projects (Ugo & Fasano, 2003, p.19). According to Khalid:

> Production in the Gulf states is concentrated in two main areas: hydrocarbons (public sector) and non-tradables (private sector). The public-sector extracts oil, redistributes rents, provides public services and employs citizens. Practically speaking, the private sector does not participate in production, but instead receives rent and recycles it through concentrating on three main activities: construction, services and trade imports. This economic model is characterised by exploiting oil booms through maximising short-term rent extraction from fiscal expenditure. A major drawback of this model is that the abundant supply of low skill, low-cost foreign labour available to the private sector has obviated the need to invest in technological improvement and productivity enhancement (2014, p.2).

Thus, the private sector in the GCC countries including Oman can be defined as a rent-seeking private sector. The private sector has become a client of the Rentier State and as a result is highly exposed to political patronage and is strongly connected to the political elites.

In Oman, the private sector can be divided into three main groups: the merchant elite, small and medium enterprises (SMEs), and foreign-owned companies. Many of the merchant elite in Oman have been in business for several generations. Going back to the era of Sultan Said bin Taimur, prior to the influx of major oil revenues, the merchant families provided financial resources to the government in return for the Sultan's protection of their economic interests. This historical alliance continued into the reign of Sultan Qaboos after oil was discovered in Oman. When the State in Oman adopted a State-led development model fuelled by oil rent, the private sector was weak except for the merchant elite who were able to take advantage of the recycled oil rent. Gradually, over time the merchant elite's companies gained control of most of the economic sectors and mega projects in the country, creating an oligopolistic market. According to the Omani e-magazine *Alfalq*, cited in a WikiLeaks document (2009) '*Oman, INC: Business Oligarchs and Government in Oman's Economy*', private sector activities are monopolised by nine big groups of companies including OMZEST Group (owned by the Zawawi family), Suhail and Bahwan Group (owned by the Bahwan family), Zubair Corporation (owned by the Zubair family), W.J. Towell Group of Companies (owned by the Sultan Lawatiya family), Muscat Overseas Group (owned by the Ma'shani family), Shanfari group (owned by the Shanfari family), Mohsin Haider Darwish (MHD LLC, owned by the

Darwish family), and the Khimji Ramdas Group (KR)—a growing force in business with a low-profile role in the private sector—(owned by the AlSaid family) (see Table 2.18).

Table 2.18: The Merchant Elite, Family, Companies and Activities

Name of Family	Name of the Group	Leading Economic Activities Among Others
Zawawi	OMZEST Group	Agriculture, travel and tourism, banking, contracting, manufacturing and pharmaceutical industry
Bahwan	Suhail and Saud Bahwan Group	Engineering and construction, automobile sales, banking, telecommunications, software design, structural steel, chemicals and fertilizer products
Zubair	Zubair Corporation	Automotive sales, heritage, banking, hospitality, telecom and IT, construction, retail manufacturing, advertising and publishing
Sultan Lawatiya	W.J. Towell Group of Companies	Healthcare products, furniture sales, automobile sales, cleaning services, construction services, real estate, grocery retailing and distribution
Ma'shani	Muscat Overseas Group	Trading, contracting, oil field supplies and drilling, tourism, agriculture and real estate, banking
Shanfari	Shanfari Group	Military sales, construction, transport and logistics, manufacturing, tourism sectors, automotive sales
Darwish	Mohsin Haider Darwish (MHD LLC)	Automotive sales, electrical goods and electronics merchandising, chemicals, medical equipment, building materials
Khimji	The Khimji Ramdas Group (KR)	Consumer products, lifestyle, infrastructure, and projects and logistics, dining, retailing, tourism
AlSaid	Tawoos Group, National Company	Telecommunications, agriculture, oil field supplies, tourism, energy services and construction, water, power

Source: Alfalq magazine, cited in a WikiLeaks document, 2009.

The role of SMEs is crucial to the development and sustainability of any economy. In many developed and emerging countries, SMEs are the main drivers of economic growth and job creation. For example, in OECD countries, SMEs account for 60% to 70% of employment and 51% of value added to the GDP (OECD, 2006). However, there is no one agreed definition of SMEs, which varies across countries according to the criteria selected. Definitions can be by number of employees, the scope of financial assets, or the level of sales turnover. However, the number of employees constitutes the main variation across national statistical systems (OECD, 2000).

In Oman, a medium-sized enterprise is a firm consisting of 10 to 99 employees with annual turnover ranging between OMR250,000 to OMR1,500,000, while a small enterprise is a firm that has between five and nine employees with annual sales ranging between OMR25,000 and OMR250,000. A micro enterprise in Oman is a firm with less than five employees and annual turnover of less than OMR25,000. According to a report conducted by the IMF and the World Bank in 2010 titled '*Financial Sector Assessment Program: Sultanate of Oman*', SMEs in Oman contribute 20% of GDP and 40% of the total workforce (Rashid & Jahwari, 2014). According to NCSI in Oman, in 1995 the number of SMEs operating in Oman was 25,980; these were concentrated primarily in the services sector (NCSI, 2016).

Third, FDI in Oman has played an important role in terms of its contribution to economic diversification, export activities and employment. In 2003, only 0.4% of the total number of firms were foreign-owned although they contributed 45% of gross value added in the national economy. According to the Ministry of National Economy (2003), FDI was mainly concentrated in the oil and gas sector, manufacturing sector and financial intermediation sector, but with the oil and gas considerably larger than the others. In relation to employment, according to statistics from the NCSI, foreign firms employed 48% of the Omani workforce in the private sector (Economic Review, 2014). The reason for this high percentage is because of the larger size of foreign firms compared with Omani firms in the private sector. Thus, it can be seen that foreign companies are an important element in the economy of Oman.

2.5.2 The Outcome of the FYDPs on the Private Sector

The speed of Oman's economic development saw GNP per capita rise to USD4,820 by 1995, ensuring that it was ranked among the upper-middle-income cluster of nations (World Bank, 1997b, p.8). Furthermore, by 1995 the structure of the economy had changed; agriculture now comprised only 3% of the Omani output, industry contributed 47% (with petroleum providing roughly 38% of this figure), and services added a further 50% of the nominal GDP (Ministry of Development, 1996b, p.384). In addition, as a result of the emphasis on education and medical provision, Oman's HDI was 0.718 in 1994, placing it in the group of countries achieving medium human advancement (UNDP, 1997, p.147 & p.165). Table 2.19 highlights the planned against the actual outcomes for the four FYDPs.

Table 2.19: Planned and Actual Data for the Four FYDPs

Details		Total Revenues OMRm	Total Expenditure OMRm	Total Investment Public Sector OMRm	Total Investment Private Sector OMRm
First Plan (1976-1980)	Planned	2797.0	2757.0	936.0	420.0
	Actual	2703.0	3389.0	1203.0	466.0
Second Plan (1981-1985)	Planned	6947.0	7308.0	2155.0	1168.0
	Actual	6605.2	7872.2	2755.9	1137.5
Third Plan (1986-1990)	Planned	6490.4	8164.0	2276.0	1017.0
	Actual	16045.0	16043.5	2005.0	920.0
Fourth Plan (1991-1995)	Planned	33091.0	33091.0	2778.0	1319.0
	Actual	24207.0	18440.0	2387.0	1470.0

Sources: Development Council, Oman, The First FYDP (1976, p.25), The Second FYDP (1980), The Third FYDP, (1986, p.379), The Fourth FYDP (1991, p.46), Ministry of Development, Oman, The Fifth FYDP (1996: pp.430-431).

Although the policies that the government adopted helped to develop the role of the private sector in the national economy, the overall outcome was below the target of the various plans. Several reasons account for this failure. The first was the dependency of the Omani private sector on the government recycling oil revenues, which were subject to changes in the price of oil. This created a private sector that was dependent on State contracts further strengthening the rentier mentality in the private sector. Second, the services sector in which the private sector was strong did not produce services that could be exported. It merely recycled the oil rent internally; again, enhancing the rentier nature of the private sector. Third, the private sector reacted weakly to State initiatives to boost its role. Indeed, the neo-patrimonial nature of the socio-political structure in Oman saw certain elements in the private sector take advantage of their close ties with the State. The business elite were able to influence political decisions to ensure that their companies maintained access to State contracts and competition from other business, whether domestic or foreign, was curtailed.

Other negative outcomes of the development strategy were revealed in the slow process of economic diversification and its tendency towards developing the services sectors. Furthermore, although the plans wanted to direct investment into the productive sectors to generate income and diversify the productive base, this objective was not achieved. The dependency of the economy on oil continued; oil accounted for 79% of total government revenue in the period 1991 to 1995.

The Fourth FYDP was the most successful in terms of developing the private sector. Among the reasons for this were:

- Adopting policies to enhance the role of the private sector in the economy, such as the privatisation policy.
- Enhancing the role of the private sector in the economy through increasing the size of investment in the non-oil production sectors to OMR711m, an increase of 80% over the Third FYDP, and an increase in support to the private sector to OMR83.0m, an increase of 181.4% over the Third FYDP through direct government financial support or through Oman's governmental development bank (Ministry of Development, Fifth FYDP, 1996, p.120).

The strategy included:

- Developing and reforming the policies and mechanisms on a regular basis to remove any obstacles to the private sector.
- Developing the role of small and medium enterprises.
- Encouraging the participation of the private sector in the financing of development projects through the issuances of medium and long-term development bonds.
- Activating the Muscat Securities Market.
- Revising and reforming the legal and regulatory framework for private sector activities, including:
    1- Implementing privatisation policies under the decision of Development Council No. 94/71 that included the general principle to give the process of implementing and operating and financing some of the government projects to the private sector.
    2- Improving and updating the Law of Commercial Companies under Royal Decree No. 94/83. The main improvements were to ease the policies to establish companies and obtain a licence to open public companies.
    3- Issuing a new law for FDI under Royal Decree No. 94/102. The law gave foreign investors the right to own capital to a ceiling of 49% in investment projects, with an opportunity to increase it to 65% in specific cases with the approval of the

Minister of Commerce and Industry. This could be increased to 100% in projects that contributed significantly in developing the national economy with an approval from the Development Council. The law also protects foreign investor rights.

4- Other reforms included developing the Muscat Securities Market, reforms related to the commercial register and reforms in government procedures (ibid., p.119).

The strategy had a positive impact in the activities of the private sector, despite government financial support for the private sector being cut from the original level. Overall, the size of the private sector increased significantly: the number of trading companies increased from 4,758 companies in 1976, to 44,427 companies in 1990 and 75,486 companies in 1995. Also, the manufacturing companies increased from 60 in 1976 to 3,484 in 1990 and 4,039 in 1995. Furthermore, the contribution of the private sector in total formation of capital investment reached an average of 38.1% in the Fourth FYDP period compared to the target of 32%, and private sector capital formation to GDP reached 6.1% (ibid., p.120).

Significantly, private sector investment in the oil sector was 42.1% of the total investment of the private sector during the fourth plan, most of which was FOI. Nevertheless, in 1995, private sector investment in the service sector was 32.2% of total private sector investment, and 20.1% in the real-estate and finance sectors. However, in agriculture and fisheries, the percentage was only 7.3% per cent (ibid., p.120). Negatively, in contrast to the plan, there was an increase in the dependency of the private sector on foreign workers. Foreign workers in the private sector increased from 81.4% of the total workforce in 1990 to 85.2% in 1995, while the local workforce contribution in the labour market declined from 42.2% in 1990 to 35.2% in 1995 (ibid., p.121).

Thus, the scene was set for creation of a new economic policy: Vision2020. The formulation of this document is discussed in the next section.

2.6 FORMULATING VISION2020

This section looks at the process behind the formulation of Vision2020. It does so by analysing the four specific areas:

1. The World Bank assessment and summary of the challenges and proposed remedies.

2. The 1994 Omani '*The Proposed Programme for Economic Balance and Sustainable Growth within the Next state of the Development Effort*' report content.
3. Preparation for Vision2020.
4. The lack of an independent private sector's involvement in the process.

2.6.1 The World Bank's Assessment of the Challenges and Proposed Remedies

In May 1994, the Omani government requested the World Bank prepare a report, which was entitled '*Sustainable Growth and Economic Diversification*', assessing the development plans and strategies that had been implemented between 1970 and 1993. The report sought to understand the achievements and failures of the plans and, importantly, identify the main challenges facing the country in terms of further development. The report also included a proposal on the strategy and the measures and policies to be taken by the Omani government to address the current and future challenges for the purpose of achieving sustainable development and economic diversification (Ministry of Development, 1996, p.139).

According to the Report, one of the greatest challenges was the overwhelming size of the role played by the State.

> The Omani Government's extensive involvement in the economy includes: the direct provision of a rage of commercial goods and services; guidance and subsidies to private sector activity; controls over the labour market and investment; targeted and subsidized Omanisation; the provision of medium-term financing to the private sector; overinvestment (by normal developing country standards) in urban infrastructure and public buildings; and the supply of extensive municipal services (World Bank, 1994, p.5).

In this context, the Report recommended that the government restrict itself to the provision of traditional functions:

> Most of this involvement appears unnecessary and counterproductive. The cost of government could be considerably reduced, and the efficiency of the economy greatly increased, by narrowing the Government's focus and concentrating its efforts on the effective fulfilment of the traditional public functions (ibid., p.5).

Furthermore, despite (or perhaps because) of this dominant role, there were serious deficiencies in the State's ability to deliver its traditional functions, while its regulatory and legal role was inadequate, which curtailed the potential for the private sector to grow and diversify its activities. Specifically, the World Bank report argued:

> The role of the government in Oman goes considerably beyond the traditional functions of providing public goods, developing public institutions, promoting efficient resource allocation, stabilising the economy and promoting an equitable distribution of national income. At the same time, the Government's discharge of the traditional functions has been mixed. There are serious deficiencies in the quality of basic health and educational services. The legal framework governing private investment and business activity is inadequate. Efficient resource allocation has been promoted by low tariffs and the absence of foreign exchange controls but hampered by public monopolies, legally sanctioned monopolistic private trading and production arrangements, poor internal allocative efficiency in the public sector, and distortion-creating subsidies. The stabilization of the economy has been only partly effective and at the expense of a rundown in savings for the future. The promotion of a more equitable regional infrastructure but thwarted by limited productivity growth in agriculture and fishing. The promotion of a more equitable interpersonal distribution of income has been fostered by the provision of free access to education but counteracted by the emergence of a privileged class of highly paid public employees, private entrepreneurs and upper-level private sector employees (ibid., p.5).

The report went on to highlight the other issues facing development were an increase in the general budget deficit, increasing dependence of the economy on a single depleting resource (oil), and weak links between the oil sector and other economic sectors, such as the productive and services sectors that were characterised by being inefficient and of poor quality. Furthermore, there was a low participation of Omanis in the labour market but also an increasing level of expatriate labour. The national labour force lacked the skills to meet the demands in the high-tech field and the lack of productivity in and low contribution of domestic output to the national economy were also highlighted. Importantly, in terms of the private sector, the Report argued that because the efficiency of the market was impaired, private investment in general was crowded out and resulted in the private sector limiting itself to investing in the goods and services sectors. All these factors ultimately affected the ability to compete at the global level (World Bank, 1993, p.5).

Many of these challenges related to the issues highlighted by the successive waves of Rentier State Theory. In particular, Rentier State Theory highlights the dominance of the State in the economy, the distributive role of the State, the State's failure to develop an extractive capacity, economic decisions being driven by political concerns rather than the market and the State having an entrepreneurial function. It is also highlighted by the Dutch disease model, which results in the non-oil sector atrophying and acting as a drag on the economy. However, the fact that the government of Oman approached the World Bank, one of the international financial institutions that promote neo-liberal economic policies, was an indication that the State was moving from the classical type of Rentier State to a late rentierism model open to globalisation.

To overcome the challenges, the World Bank suggested a set of comprehensive reforms to move forward with an economic development policy in line with the neo-liberal orthodoxy of economic growth. Thus, according to the World Bank report (1994, pp.118-119), if the government wanted to pursue a long-term strategy to increase Oman's rate of economic growth, reduce macroeconomic instability, enhance the role of the private sector, promote industrial diversification and increase economic efficiency, the government is key objectives should be:

1- Narrowing the scope of government and focusing on the more effective discharge of traditional public functions.
2- Eliminating public sector deficits, mainly by cutting public expenditure.
3- Generating and maintaining a high rate of public saving by permanently restraining the growth of public consumption.
4- Strengthening the private sector by:
    - Continuing with reforms to the legal framework.
    - Attracting foreign capital.
    - Privatising most public enterprises and authorities.
    - Phasing out subsidies where feasible.
    - Strengthening the role of private banks in the provision of longer-term financing.
    - Limiting subsidized Omanisation.
5- Reforming the labour market to attract Omanis working in the private sector by improving the quality of education, discouraging rent-seeking behaviour, introducing a gradual target for Omanisation in the private sector, proper pricing of expatriate labour and promoting competitive behaviour between locals and expatriates in the workforce (ibid., pp.118-119).

To what extent the Omani government considered these recommendations when preparing the Vision2020 is discussed in subsequent sections.

2.6.2 The Omani Response to the World Bank and IMF

In parallel and in the same month, the government consulted with the IMF in order to assess the country's financial and fiscal positions. The IMF suggested a range of measures with regards to the economic adjustment process in order to avoid the negative impact of the current government expenditure policies (Ministry of Development, 1996). However, neither the Omani government nor the IMF published the assessment. As a result, the researcher depended on the government report entitled *'The Proposed Programme for the Achievement of Economic Balance and Sustainable Growth within the Next Stage of the Development Effort'* published in July 1994 which included the recommendations of both the World Bank and IMF.

The report focused on the historical process of Oman's development from 1970 to 1993 and included the economic and social achievements (Ministry of Development, 1996). It set out a proposal for corrective measures that should be implemented. These measures, policies and programmes were to be a road map for achieving the objectives for the next stage of development to 2020, starting with the Fifth FYDP 1996-2000. It also highlighted the obstacles hindering the realisation of high growth rates, the diversification of the economy, the growth of an autonomous private sector and enhancing the national income sources under an appropriate framework for take-off.

In addition, in October 1994, the Ministry of Development prepared a detailed memorandum evaluating the performance of the productive sectors and a number of the service sectors over the previous 20 years. The report assessed the level and size of private sector contribution to these sectors, and suggested measures that should be taken to develop these sectors to 2020 (ibid., p.139). However, most of the report was not publicly available. The only details published were the main points in terms of developmental achievements between 1970 and 1993, and the main challenges and measures to be considered when preparing Vision2020.

In this context, the main challenges mentioned in the Vision2020 document were:

1. The general budget deficit was increasing, while the foreign exchange reserves were falling, and levels of public debt rising. Thus, it was necessary to propose a mechanism to accomplish stability in the public finances.

2. The increasing dependence of the economy on a single depleting resource (oil), which was vulnerable to external economic and political shocks, and therefore unpredictable oil prices.
3. A gradual decline in the oil reserves over the next 25 years.
4. The dominant role of the State in the goods and services sectors, which constrained the ability of the private sector to invest in these sectors.
5. The absence of an appropriate legal framework to provide a suitable business environment for the private sector to grow and diversify its activities.
6. The weak links between the oil sector and other economic sectors, such as the productive and services sectors that were characterised by being inefficient and poor quality, ultimately, affecting the ability to compete at the global level.
7. Government systems that were inefficient and unable to respond to the need of the economy using the available resources.
8. Weak saving rates but increasing rates of consumption.
9. Low participation of Omanis in the labour market and an increasing reliance on expatriate labour.
10. The lack of productivity in and low contribution of domestic output to the national economy.
11. The national labour force lacked the skills to meet the demands in the high-tech field.

It is noticeable, that most of these challenges were similar to those mentioned in the World Bank's 1994 assessment. However, the government's report did not raise concerns about the monopolistic private sector in the trading, goods and productive sectors, which the World Bank report argued restricted free trade, preventing the market from setting prices.

In addition, to the challenges highlighted in the Vision2020 document, a number of other domestic issues faced the planners. These included the limited size of the Omani market, which curtailed the space for the private sector to grow resulting in a lack of investment in the capital-intensive goods sector. Another issue was the demographic pressure caused by the high population growth rate and increasing life expectancy which added pressure to the already constrained budget expenditure. Overall, it was clear that Oman's economy needed to improve and develop the efficiency of its economic policies in order to address these challenges and meet the long-term development objectives.

Further challenges came from the external environment caused by the changes in the global economy by end of the 1980s, and the emergence of a new global order. Thus, challenges, such as Iraq's invasion of Kuwait in 1990 and the subsequent war, witnessed an increase in US military presence in the region and a sharp rise in defence spending by regional states such as Oman, adding further pressure to the fiscal position. Another external factor was the fluctuation in oil production and prices. An international oil embargo on Iraqi oil was implemented, while Kuwaiti production fell because of the Gulf crisis. Similarly, the political changes in the former Soviet Union countries resulted in a massive drop in oil production in that area. The reduction in supply pushed oil prices up before they fell back in response to changing political conditions. The sharp fluctuations in oil prices made medium-term planning in the FYDPs almost impossible.

Undoubtedly, Oman witnessed remarkable development between 1970 and 1995. The oil revenues helped the government to implement its development plans and make progress in providing basic needs in terms of housing, roads, electricity, communication and transportation. However, declining oil reserves, as well as the unpredictable oil price in the global market, and the challenges highlighted meant that Oman faced difficulty in maintaining the same momentum going forward.

The contribution of the private sector was limited to sectors such as services and small manufacturing because of the dominant role of the state in the economy. State intervention in the rentier economy in a neo-patrimonial political system created the phenomenon of monopolies. As a consequence, the private sector had little space in which to grow and because of the rentier mentality was not willing to be innovative and competitive. Against this background, the next section elaborates on the preparation of Vision2020 in terms of those involved in the process, the stages it went through, its objectives and finally the suggested policies.

2.6.3 Preparation for Vision2020

The preparation process for Vision2020 went through a series of stages (see Figure 2.3).

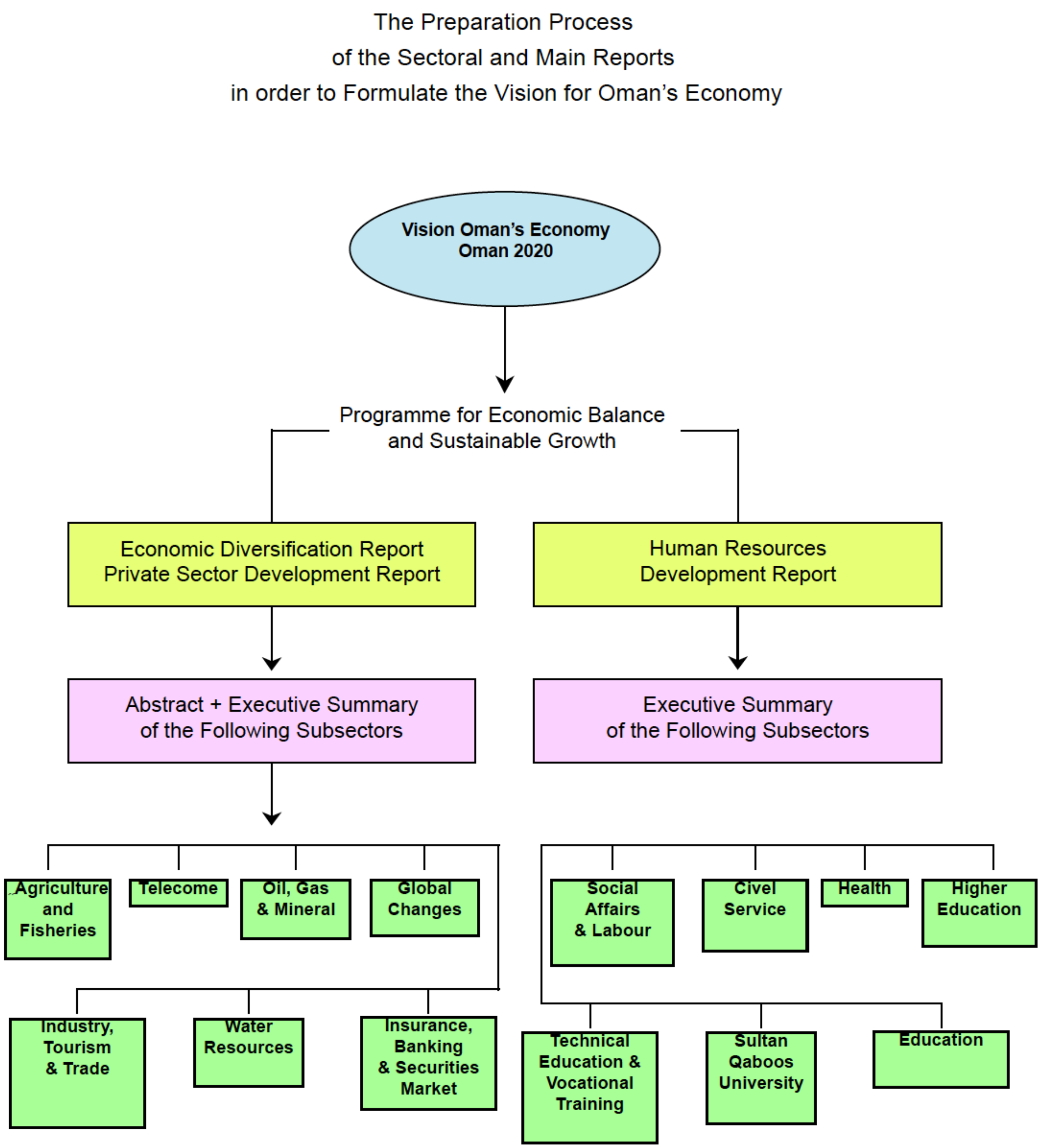

Figure 2.3: The Preparation Process for Vision2020
Source: Ministry of Development, 1996.

Sultan Qaboos was personally involved in the preparation process, which included the evaluation of the economic sectors through a number of studies. The involvement of the Sultan meant that there was a strong commitment from the government to make the preparation stages of the Vision successful. The approach was adopted in order to identify the sectors that could contribute positively to the diversification of the economy away from oil. Following the evaluations by the IMF, the World Bank and the Ministry of Development, three further stages were set out. First, the memorandum prepared by the Ministry of Development was revised, along with measures proposed by the Ministry to improve the performance of these sectors. Accordingly, Resolution No. 79/94 was issued with regards to these measures. Then, following the promulgation of the Resolution, a working group was formed consisting of the relevant officials from different ministries to prepare a set of comprehensive sectoral reports in order to formulate the framework for Vision2020. The next step was a series of meetings of the members of the Committee for the Formulation of the Vision for Oman's Economy: Oman 2020 (the Main Committee).

In the second step following the promulgation of the Resolution, a working group was formed consisting of the relevant officials from different ministries to prepare a set of comprehensive sectoral reports in order to formulate the framework for Vision2020. The previous evaluation studies were considered when creating the detailed sectoral reports. The sectoral reports included: 1) Global changes; 2) Oil sector; 3) Gas sector; 4) Minerals sector; 5) Agriculture sector; 6) Fisheries sector; 7) Water Resources sector; 8) Industrial sector; 9) Tourism sector; 10) Trading sector; 11) Banking sector; 12) Insurance sector; 13) Securities Market sector; and 14) Information Technology and Telecommunications sector. In addition, detailed reports were prepared on human resource development. The ministries involved in this process were: 1) Higher Education (scholarships); 2) Higher Education (Sultan Qaboos University); 3) Health; 4) Civil Service; 5) Labour; 6) Education; and 7) Technical Education and Vocational Training.

The detailed reports were prepared in coordination with the Ministry of Development, the World Bank and other specialists. They focused on:

1. The outcomes of each sector between 1970 and 1993.
2. The obstacles to growth in each sector.
3. The potential and basic factors available for developing the sector in the local and global market.
4. A set of policies and mechanisms to be adopted to utilise the sector's identified potential.

After a number of meetings between December 1994 and June 1995, the Ministry of Development prepared a framework report of issues affecting and affected by the performances of the macro-economy based on the detailed reports compiled in the first phase. The report highlighted four areas of focus: sustainable development and the macroeconomic framework;

human resource development; economic diversification; and private sector development. These four aspects formed the basis for the Vision2020 document and are discussed in detail in the sections dedicated to the Vision.

The third step comprised a series of meetings of the members of the Committee for the Formulation of the Vision for Oman's Economy: Oman 2020 (the Main Committee) to formulate the *Vision for Oman's Economy: Oman 2020*. The Main Committee was chaired by the Sultan, the Deputy Prime Minister for Financial and Economic Affairs and Deputy Chairman of the Development Council and included 14 ministers. After several amendments to the Vision Statement, the Committee approved the *Statement on the Vision for Oman's Economy: Oman 2020* on 23 May 1995. The same day Sultan Qaboos approved the Vision Statement after making a number of amendments.

However, before the Vision was finally approved by the Sultan, the seven ministerial committees—Communication and Global Change; Petroleum, Gas and Minerals; Agriculture and Fisheries Sector; Banking, Insurance and Securities Markets; Water Resources; Industry, Tourism, and Trade Sector; Human Resources and Macro-economy—reviewed and evaluated the reports for a final time. The committees were chaired by the relevant Minister, representatives of the other ministries at the Under-Secretary level and also included members from both the *Majlis Ash'Shura* (the parliament) and Oman Chamber of Commerce and Industry. The huge number of government officials involved in the preparation of the vision, the large number of governmental committees established and concentration of power, authority and the ultimate approval by the Sultan is evidence of the impact of the neo-patrimonial structure of the State.

Furthermore, in order to promote the Vision to a wider audience in Oman, The Honourable Council of Ministers and Development Council arranged an international conference. The conference put forward different perspectives about the Vision by providing examples of experiences on planning from other countries. This was undertaken to show that Oman was promoting the neo-liberal agenda and integrating with the global economy; a move which follows the logic of Oman moving from classical Rentier State to a Late Rentier State. It included several members of the cabinet, advisors, members of *Majlis Ash'Shura* and a group of international experts from other countries, including Arab, South Asia, and Latin American countries and international economic organisations. The agenda focused on the draft of the

Vision. Discussions were held in both open and closed sessions. In the closed sessions, the participants included ministers, the advisors, members of the *Majlis Ash'Shura*, members of the Oman Chamber of Commerce and Industry and international experts. Many recommendations were received, which helped the policy-makers formulate the final draft of the Vision and its policies and mechanisms. The closed sessions were a further example of the neo-patrimonial political structure in which decisions are not open to scrutiny by the majority of the population. As Bill argues in relation to patrimonialism: "Political decision making in the Middle East has been marked by behind-the-scenes planning and negotiation" (1994, p.166).

2.6.4 Perceptions around the Formulation of Vision2020

The interviews with former government officials who were involved in preparing the document, current government officials, academics, economists and a number of private sector representatives who were familiar with Vision2020 raised a number of points in relation to the process behind the formulation of the Vision.

Significantly, several interviewees felt that Vision2020 was not a new approach. They argued that the government had followed a similar approach from the 1970s. However, the challenges of building a modern economy from scratch in terms of roads, ports, schools, hospitals and the other necessary infrastructure meant that it was difficult to achieve the objectives of economic diversification and human resource development, while simultaneously enhancing the role of the private sector. The following quotes support this view:

> From the first five-year development plan in 1975, the government wanted to diversify the economy away from its dependence on oil revenues, to develop human resources and to enhance the role of the private sector. However, because Oman was evolving from virtually an underdeveloped country to a modern one, those objectives were difficult to achieve at that time. This is because the country was in need of massive investment in terms of its infrastructure, education, health provision and human resource development (GO1).

> Economic diversification was in every five-year development plan up to 1995… Vision2020 had the same objectives as the initial five-year development plans in the 1970s (GO1).

> The plan was to have an objective but this objective was there from the first five-year development plan with regards to the importance of diversifying our economy and enhancing the role of the private sector (GO9).

> Vision2020 was not new in terms of its objectives. The objectives, such as economic diversification and enhancing the role of the private sector, were there from the 1970s (PSR5).

> Since 1975 the objective of economic diversification has been in place, which continued in Vision2020 (PSR9).

> Vision2020 focuses on three main objectives, improving people's lives, economic diversification and enhancing the role of the private sector in the economy. But these are not new. His Majesty announced the same vision in 1970. However, then the focus was more on improving everything as the country lacked things such as schools for education, health provision, water, electricity, etc., etc. The government, with the support of the oil revenues, took on the role because the private sector, which was limited to the services sector, was too small to undertake the job. Therefore, it was not possible to suggest policies of economic diversification or enhancing the role of the private sector before establishing the necessary infrastructure, which took a long time to be developed (PSR10).

2.6.5 The Lack of an Independent Private Sector's Involvement in the Process

This section highlights the flaws in the process. One of the issues of the preparation process was that the absence of private sector representatives from the outset of the process meant they were unable to deliver their concerns to the government. Only after a draft of the Vision had been prepared did the government invite members of the Oman Chamber of Commerce and Industry to give their feedback. Furthermore, at that time members of the Chamber were appointed by the government, so were reliant on the State for their positions, meaning they were less likely to criticise the plans. Thus, the Oman Chamber of Commerce and Industry was not an independent body representing the private sector. It did not have the power or the autonomy to argue with the government as it was more or less another State entity.

In this context, a number of interviewees who observed the process of Vision2020, offered their own critiques of the contribution of the private sector in the preparation process of Vision2020. Several argued that the private sector did not contribute to the process.

> As a part of the private sector, I did not see any real contribution from the private sector in this Vision. Yes, the private sector was involved but it was only peripheral (PSR10).

> There was no effective participation by the private sector in preparing Vision2020 (ECO1).

> There was no major participation by all stakeholders including the private sector, society and the youth (AC1).

However, former and current government officials justified the lack of private sector input by arguing that:

> The private sector was not ready for the Vision. Most of the ministries and the private sector were not involved in the preparation of the Vision (GO6).
>
> I think that the government did not believe in the private sector as a partner when we established Vision2020. It considered the private sector as too small and unready to contribute (FGO1).
>
> The private sector was not ready for Vision2020 as it concentrated in the real-estate sector, rather than the industrial and services sectors (FGO3).
>
> The private sector at that time was not communicating with the government. When we needed their views, they did not reply (FGO2).

Nevertheless, four government officials and one private sector representative disagreed with the lack of private sector input. They argued:

> There was participation by the private sector but admittedly it was less effective than we are experiencing now with Vision2040 (GO5).
>
> The private sector representatives who participated at that time were the policy makers. This conflict of interest has been in place for a long time and still continues, albeit to a lesser degree (GO9).
>
> The private sector was involved in the preparation of Vision2020 but not effectively. This is similar to what is happening now with Vision2040 and the ninth five-year development plan (GO11).
>
> The government involved the traditional private sector. What I mean by the traditional private sector is the family business groups who are close to the government (GO3).
>
> The private sector was very much involved in the preparation of Vision2020 (PSR13).

Thus, the absence of the private sector, outside those with strong neo-patrimonial links to the State, meant that the Vision was a top-down effort in which the State inevitably protected itself from potential social and economic pressure. Thus, despite the appearance of a rational neo-liberal approach in terms of the evaluation studies, primary objectives, assessment of economic sectors and future policies, the process shows evidence of neo-patrimonialism. Despite the huge number of ministers (several of whom owned businesses) and officials involved in the decision-making process, other important actors were excluded, indicating the decision-making process was in the hands of the political elite. In addition, the process shows a high growth of bureaucratisation. For example, there were 14 government members in the committees, which could have been reduced in order to be more efficient. The involvement of the neo-patrimonial actors, with differing agendas, meant that the process took about 13 months, because of the need to ensure some form of consensus in the enormous number of meetings, of committees and of people involved. It could have been shorter if there was a clear decision-making process.

2.7 CONCLUSION

Having taken power against the background of significant unrest in the country and faced by an undeveloped, traditional economy in which oil had only recently been exploited, Sultan Qaboos relied heavily on a patrimonial social contract. The rising oil revenues gave him a distributive tool by which to reinforce this contract. This meant adopting a policy of State-led rentier development, which in turn saw the development of a rentier mentality in the public and private sectors and among the population in general. This created a number of problems for the economy, including: 1) vulnerability to fluctuations in the global price of oil; 2) pressure on the fiscal account as the State was unable to cut back expenditure when oil revenues fell; 3) a private sector that was crowded out of many sectors by the State, limiting it primarily to the services and constructions sector, where it relied on the rent distributed by the State, further embedding the rentier mentality; 4) the development of a bloated and inefficient public sector which was used as a source of employment for Omanis; and 5) reliance of foreign workers which resulted in remittances acting as a drain on the economy.

Moreover, as the State adopted a policy distribution rather than extraction, the social relations of patrimonialism were reproduced within the institutions of the State. These institutions were characterised by personalism, informality and a lack of efficiency, all of which hindered efficient decision-making and ensured policy-making and implementation became politicised in the interests of the neo-patrimonial elite rather than for the interests of the country. Thus, the actual institutions of the State became ‘hollow’.

The State itself became huge, dominating the economy at the expense of the private sector, but based on inefficient, unsustainable politically-driven decision-making, such as job creation by the State, that was highly vulnerable to fluctuations in oil prices. Thus, the private sector found its activities curtailed and dis-incentivised from investing in the sectors dominated by the State. The private sector was restricted to sectors, such as services, that fed off the recycling of oil revenues by the State; thereby exacerbating the private sector’s rentier mentality. However, elements of the private sector (the traditional merchant elite) were able to benefit from new social contract networks of patronage in return for them fulfilling the role designated to them by the State. Overall, the State's domination of economic activity distorted local markets, limited the space open to the private sector, and impeded the profit maximisation aim of firms. The consequence was a weak, under-performing private sector and a national over-reliance on oil rent as the generator of economic growth. By 1995, against a background of oil rent instability, the Omani development model appeared increasingly unsustainable forcing the State to review its developmental approach, which resulted in the introduction of Vision2020.

Against this background Vision2020 was formulated. The discussion of this process highlights that despite the Vision being promoted by the IMF and World Bank, with a view to supporting their neo-liberal agenda, the final document showed evidence of how the rentier economy and neo-patrimonial political structure subverted the original objectives.

Having established the relative roles and status of the private sector and the State as at 1995, and how Vision2020 was formulated, this thesis now moves to consider how these were adjusted through the Vision 2020 process. Chapter Three sets out the methodological implications for the study of the use of rentier and neo-patrimonial frameworks in understanding their evolution. Furthermore, it explores the rationale for the data collection methods subsequently used, and the measures taken to ensure the integrity of the data collection process itself.

CHAPTER THREE:
RESEARCH METHODOLOGY

3. INTRODUCTION

This chapter sets out the methodology pursued in answering the research questions: ‘what is the role assigned to the private sector in the Omani Vision2020 plan for the development of the economy?’ and ‘to what extent has it fulfilled this role and how can we account for its performance?’.

The thesis starts by locating its understanding of the appropriate role of the private sector in a country’s development within a neo-liberal understanding of development, tempered by the human development approach. Furthermore, it argues that Oman’s particular development experience has been one of Rentier State-led development, with the State itself exhibiting neo-patrimonial characteristics. Together, these provide a context in which the private sector in Oman has not been able to fulfil its role. Instead, it has been ‘captured’ by the State, and governed by a rentier mentality and clientelist relations of patronage with State officials and the ruling elite. By 1995, it remained secondary to the State as the engine for economic growth. The Omani government’s extensive involvement in the economy includes: the direct provision of a range of commercial goods and services; guidance for and subsidies to private sector activity; controls over the labour market and investment; targeted and subsidised Omanisation; the provision of medium-term financing to the private sector, over-investment (by normal developing country standards) in urban infrastructure and public buildings; the supply of extensive municipal services; the economy dominated by the production of oil, gas and services; and high spending in the area of defence and national security (the highest in the world in terms of share of government spending, equivalent to more than three-quarters of all recurrent expenditure).

The thesis examines the Omani Vision2020 strategy through this theoretical prism, thus taking a deductive approach. In deductive research, the goal of the researcher is to test concepts and patterns known from theory using new empirical data. Thus, deductive research is theory-testing research. As subsequent chapters examine the development of, contents of, implementation of, and private sector responses to the strategy, the study assesses the extent to which the rentier and neo-patrimonial features of the State have adjusted and thus impede the growth and maturation of the private sector, such that its role in providing the engine of macroeconomic growth may have been curtailed.

This chapter comprises five sections. The first section sets out the criteria by which the two theoretical propositions are evident; that is, it establishes how we know a Rentier State and a neo-patrimonial State when we see them and, perhaps more importantly, when we examine the relationship between the private sector and the State. The second section explains the organisational approach to the empirical part of the research project, while the third section provides the rationale for the specific research methods deployed and discusses the relevant issues associated with those methods. The fourth section outlines the ethical considerations of the research, while the final section discusses how any limitations were mitigated.

3.1 THE CONCEPTUAL AND THEORETICAL FRAMEWORK

As highlighted in Chapter One, the process of development involves the transformation of the economy and society, both of which are based on the complex interaction of cultural and environment factors. The aim of development in this context is to improve personal, family and ultimately society's material well-being. However, to best serve the current research, and in order to assess development in Oman, it is important to put development in the political economy context in which different schools of thought look at development through different lenses with regards to the role of the State, the market and the private sector and the relationship between these three elements. Importantly, since the end of the Second World War not only has the term development become heavily contested but the debate around development has evolved.

In this context, the first part of the theoretical framework starts by reviewing the literature in relation to development theories in the post-World War II period when the economic orthodoxy switched to Keynesianism. In the 1950s and 1960s, this orthodoxy posited an important role for the State in establishing and creating conditions for development through different state-driven models, such as ISI, which was adopted in the main in Latin America and some of the Arab socialist countries in the Middle East and export-led growth strategies followed by countries in Asia. Thereafter, the focus moved on to discussing the rise of the neo-liberal era which gained acceptance in the late 1970s with its focus on rolling back the State and positing the private sector as the main agent of growth. This discussion is important for understanding how the role of the private sector in the development process has changed over time and, therefore, what are considered to be the appropriate policies of the State towards the private sector.

This was followed by a discussion of the post-development theory and human development theory that gained popularity in the 1990s and 2000s. Post-development theory is critical of the role of the State, arguing that it has become too powerful vis-à-vis society. Thus, post-development theorists, such as Esteva and Prakash (1998), Escobar (1995) and Rahnema and Bawtree (1997), seek to empower people from the bottom up in order to decide their happiness and welfare. Human development theorists also question the assumption that 'development' should be just about economic growth, arguing that it requires a wider understanding, including human development.

The researcher uses the evolution of development theory to explain how from 1970, when Oman was classified as underdeveloped, the State took the lead role in the economic development of the country using huge oil revenues to make the required transformation in terms of structural, institutional and attitudinal changes. At this stage, Oman was influenced by both ISI and export-led growth strategies. ISI policies empowered the role of the State against the role of the private sector in the economy. However, ISI was linked with issues such as inefficient companies, and 'rent seeking' behaviour on a significant scale. In contrast, the role of the private sector in export-led growth was stronger. The main policies affiliated with export-led growth policies are reducing tariff and non-tariff barriers, devaluing the currency and floating the exchange rate to encourage exports (Goldstein & Pevehouse, 2013). However, export-led growth led to the emergence of a business elite (developmental elite) that were able to influence policymakers for their own ends.

Both strategies are important to understand and explain Oman's industrialisation policies and the role of the State and the private sector within it. Starting in the early 1970s, Oman established government banks to fund industrial projects, created a number of SOEs, owned strategic economic sectors, and offered subsidises leading to the rise of rent-seeking behaviour among the business elite (as discussed in Chapter Two). The two strategies were also incorporated in the objectives of Oman's Vision2020 to diversify its economy (see Chapter Four).

The neo-liberal development policies that became popular from the late 1970s were promoted by the international agencies such as the World Bank and IMF. These policies stress the importance of the free market and the private sector to achieve growth and development. The policy agenda included fiscal discipline, reduction of public spending, tax reforms, trade liberalisation, privatisation of state enterprises, deregulation, legal security for property rights, competitive exchange rates, interest rates that are market determined, and liberalisation of inward FDI (Williamson, 2004). The policies were based on the assumption that State involvement in the economy introduced distortions and undermined the efficiency of the economy through price distortions, rent-seeking behaviours, corruption and barriers to trade. Thus, according to neo-liberal policy, the State should play a minimal role in the economy, with a consequent major role for the private sector. It was this strategy at a high level that Vision2020 attempted to introduce, by promoting the private sector as the engine for development and rolling back the State.

It is important to note that when analysing the Vision2020 objectives with regards to the role and achievements of the private sector, I am using Oman's government understanding of what constitutes development as falling within the neo-liberal orthodoxy of economic growth but tempered by the human development approach which recognise the reciprocities between neo-liberal market economics and the (politically-shaped) rights of citizens to a decent standard of living.

3.1.1 The Criteria for Identifying Rentierism and Neo-patrimonialism Post-Vision2020

It may seem counter-intuitive to start an analysis of the role and performance of the private sector by looking at the State. However, as Chapter Two explains, the Omani private sector exists within the context of a dominating rent-fuelled State-led economy. The State, therefore, circumscribes both its preferred role, and the constraints under which it operates. The character of the State and its preferences must therefore be the starting point. More specifically, Chapter Two establishes the key characteristics of the late stage Rentier State, which evolve from the characteristics of the classical Rentier State, of which Oman was an example at the time of writing Vision2020. These characteristics are:

1- The allocative / distributive role of the State (classical Rentier State);
2- The State plays the main role in the economy (classical Rentier State);
3- The State fails to develop an extractive capacity (classical Rentier State);

4- Economic decisions are driven by political concerns, not the market (classical Rentier State);
5- The State lacks sufficient information on the economy (classical Rentier State);
6- The State is more responsive to social forces but not yet democratic in a Western-liberal tradition (Late Rentierism);
7- The State is more open to globalisation than under early State rentierism (Late Rentierism);
8- The State is willing to adopt diversification (Late Rentierism);
9- The State has an entrepreneurial function (Late Rentierism); and
10- The State thinks long-term (Late Rentierism).

The Rentier State in Oman translates 'rent' and rent distribution into the means for its own reproduction, survival and legitimacy through its own neo-patrimonial structures. The characteristics of neo-patrimonialism were established as being:

1- Concentration of power: Power is concentrated and dependent on informal personal relationships.
2- Clientelism: Rational formal structures and processes for the distribution of resources are disrupted by systematic clientelist relationships and networks.
3- Particularistic use of state revenues: State revenues are utilised for the purposes of maintaining the social contract between political elites and society rather than being distributed by formal institutions according to a market economic rationale.
4- Hollow State institutions 'imposed' on patrimonial social structures: Formal institutions, being overlaid upon informal, personalist patrimonial behaviours, are hollow and lack transparency and accountability.

In order to determine if Vision2020, both in principle and in practice, has adjusted the role and status of the private sector to enable it to serve as the primary engine for economic growth, the thesis needs to establish whether these features of the State have diminished or altered in any substantive way. Put another way, only if the State is seen to have relinquished space and autonomy to the market, can the private sector be able to thrive, diversify and expand. To relinquish such space, it needs to have reduced its own rentier and neo-patrimonial characteristics. To understand the private sector, is therefore to first understand the State.

3.2 ORGANISATIONAL APPROACH

This section lays out the structure of the thesis. In order to assess whether Vision2020 represents such an adjustment, Chapter Four examines the Vision2020 strategy itself. The discussion includes the origins, evolution and content of the Vision2020 strategy, in order that we can fully understand the nature and function of the Vision, as well as the politics behind its limitations. The chapter assesses the extent to which the strategy constituted a 'late-rentier' move to adjust the national development strategy to overcome the negative impacts of the 'flows' of the rentier economy, and the degree to which neo-patrimonialism was able to shape its evolution and objectives.

Chapter Five offers a survey of the macroeconomic performance of the private sector as was (or was not) implemented by the Vision2020 strategy and the associated FYDPs. In particular, the chapter seeks to establish the extent to which the private sector has been able to 'push back' against State ownership of, and control over, production, exchange finance and trade. Indicators such as the relative size of the private sector compared to the public sector, its relative share of output, trade and investment, and the degree to which it has been able to enjoy a diminution of the State's regulatory oversight and intervention, all indicate whether or not Vision2020 has had a significant impact on the role of the private sector in economic development.

Chapter Six adds a further layer to the analysis explaining the performance of the private sector by investigating the responses to Vision2020 from the private sector itself and its own conclusions regarding the impact of the Rentier State and neo-patrimonial structure.

Chapter Seven summarises the findings of the study and offers the conclusions to the thesis and assesses what the study adds to the literature.

3.3 PHILOSOPHICAL FOUNDATION OF THE RESEARCH

This section looks at the philosophical underpinnings of the research. The importance of what philosophy has influenced the research is emphasised by Avison and Fitzgerald (2003) and Myers (1997). According to Myers (1997), there is a huge difference in the categories and language which researchers use to describe their research approach. In this context, Guba and

Lincoln (1994) highlight four essential paradigms for qualitative research: positivism, post positivism, critical theory and constructivism, which are discussed in the following sections.

3.3.1 Positivism

Positivism is an approach to the creation of knowledge through research which emphasises the model of natural science: the scientist adopts the position of objective researcher, who collects facts about social world and then builds up an explanation of social life by arranging such facts in a chain of causality (Finch, 1986, pp.6-10). According to Myers (1997) positivist research generally assumes that reality is objectively given and can be described by measurable properties that are independent of the researcher.

3.3.2 Post-positivism

Post-positivism argues that one can make rational inferences about a phenomenon by combining empirical observation with logical reasoning. Post-positivists view science as not positive but as possibilities (i.e., based on many contingencies), and often obtain data to discover these possibilities in order to recognise social reality better. The post-positivist camp has further fragmented into subjectivists, who view the world as a subjective construction of our subjective minds rather than as an objective reality, and critical realists, who believe that there is an external reality that is independent of a person's thinking, but we can never know such reality with any degree of certainty (Bhattacherjee, 2012, p.18).

3.3.3 Critical Theory

Lee (1999) suggests that critical perspectives have a strong vision but that as yet there is limited guidance on how to implement them. The philosophical foundations of critical research tend to be of an interpretive nature, but with a participative focus. According to Myers (1997) critical research aims not just to understand and explain but also to critique unjust and inequitable conditions from which people require emancipation.

3.3.4 Constructivism

Constructivism views knowledge as socially constructed and which may change depending on the circumstances. Crotty defines constructivism from the social perspective as “the view that all knowledge, and therefore all meaningful reality as such, is contingent upon human practices, being constructed in and out of an interaction between human beings and their world, and developed and transmitted within an essentially social context” (1998, p.42).

The constructivist notion, that reality is changing, whether the observer wishes it or not (Hipps, 1993), indicates that there are diverse constructions of reality. Constructivist research values the multiple views of different participants. Therefore, various methods of gathering data are used in order to acquire valid and reliable different realities. Therefore, in the constructivist paradigm the use of investigators, process and data triangulations is appropriate to establish the construction of realities (Johnson, 1997). An open-ended perspective in constructivism adheres to the notion of data triangulation by allowing research participants to assist the researcher in answering the research question, as well as with the data collection. According to constructivists, engaging multiple methods, such as observation, interviews and recordings results in more valid, reliable and diverse construction of realities. To improve the analysis and understanding of the construction of others, triangulation is a step taken by researchers to involve several investigators or peer researchers’ interpretation of the data at a different time or location. Relatedly, a qualitative researcher can “use investigator triangulation and consider the ideas and explanations generated by additional researchers studying the research participants” (ibid., p.284). Triangulation may include multiple methods of data collection and data analysis but does not suggest a fixing method for all research. The methods chosen in triangulation to test the validity and reliability of a study depend on the criterion of the research.

This thesis uses the interpretation of interview data in order to answer the research questions. Furthermore, the material itself is socially-constructed. Thus, the research can be defined by the philosophy of the constructivist approach.

3.4 RESEARCH DESIGN

The research design is vitally important for establishing the capacity of the study to answer the research questions. As stipulated by Bryman (2015), research design offers the overall framework for data collection and analysis correlated to the phenomenon being examined. In terms of the research design, this is influenced by the type of research approach. Research approaches can be categorised into inductive and deductive approaches. The inductive approach is a process which takes the findings from data analyses to develop or formulate a theory, whereas the deductive approach (adopted in this research) using a developed or formulated theory or concept and then tests its impacts, causal relationships and identifies measurements for statistical analyses (Neuman, 2006). Each approach can use quantitative techniques that use mathematical or statistical models associated with the research questions in order to gauge correlations between different variables. However, qualitative methods are concerned with deciphering meaning, and are thus related to inductive research.

Researchers have a number of research designs from which to choose, and these are influenced by the research objectives and problems. According to Bryman (2015), there are five fundamental research designs: comparative, experimental, longitudinal, survey, and case study. Comparative research designs are often used to study more than one case study for a comparative purpose. The cases can be countries, cultures and policies. The research looks into the similarities and differences between the two or more cases in terms of their history, customs, institutions, cultures and policies (Crowther & Lancaster, 2012, p.131). In terms of the experimental design, the researcher is able to examine the effect of an independent variable on a dependent one, provided additional variables capable of affecting the association between the two variables are regulated for. This design is founded on a specific theoretical framework and normally centres on a few variables. In contrast, in longitudinal designs the researcher is able to examine the establishment of recognised phenomenon within a given duration. This design is normally associated with specific divisions of social science, such as social policy and sociology. Meanwhile, in survey designs, data is gathered from numerous sources mainly through the use of structured interviews or questionnaires, typically with the intent of generalising about a given population. According to Fowler (2009), total survey entails guaranteeing the quality of the various survey elements that can impact its precision, in particular deciding on the sample, the characteristics of the respondents, the design of the questions, and the data gathering procedures.

This thesis adopts a case study approach in so far as Oman becomes a case study of a neo-patrimonial, Rentier State attempting (through Vision2020) to transition to a post-Rentier State. More specifically, it attempts to assess the role and performance of the private sector during this transition. It examines the totality of private sector relations vis-à-vis the State through the design, implementation and outcomes of the strategy. The case study involves investigating a single case, Oman, comprehensively. In accordance with Yin (1994), case studies come in the form of exploratory, descriptive or explanatory forms. However, researchers offer contradictory perceptions of what constitutes a 'case'. Nevertheless, this thesis follows Johansson, who argues:

> The common denominator that case study researchers (Yin, 1994; Merriam & Fluellen, 1992; Stake, 1995; Miles & Huberman, 1994; Gillham, 2000) might agree on would be something along the following lines: The case study should have a "case" which is the object of study. The "case" should be a complex functioning unit, be investigated in its natural context with a multitude of methods and be contemporary (2003, p.2).

In order to answer the research questions, a mixed-methods approach was deemed most suitable since quantitative data alone (establishing measurable outcomes) cannot capture the complexity behind the intent, experience, informality and interpretation that form the perspective of the subjects concerned (especially those in the private sector). Indeed, studies on the private sector and the State in Oman are rare, old and lack accurate and reliable statistics with regards to economic development. Moreover, there are difficulties associated with dealing with such topics in terms of the 'sensitivity' of questioning the political structure in a Rentier State and neo-patrimonial system and its impact on the private sector and the economic development of Oman. Thus, publicly available statistical data is used to assess macroeconomic performance, and a small-scale survey was used to establish the initial concerns and responses of the private sector (more of which later), the principal methods used were qualitative.

Because of these difficulties, as stated it was important to use more than one method of research, i.e. a mixed-methods approach based on qualitative and quantitative methods. According to Borg and Gall (1996), qualitative and quantitative methods enable the researcher to come up with significant discoveries and overcome the weaknesses of each approach. The mixed-method approach, also referred to as methodological triangulation, can be defined as "comprising the use of both quantitative and qualitative approaches and data to examine identical occurrences within the identical study" (Tashakkori & Teddlie, 1998, p.18). Generally, in accordance with Tashakkori and Teddlie, the mixed-method approach is normally an outcome of the "pragmatist paradigm ... combining the qualitative and quantitative approaches within different phases of the research process" (ibid., p.19). The benefit of deploying both quantitative and qualitative approaches is the ability to comprehensively cover the field, not simply granting statistical data to researcher-based interactivity and quantitative approaches to qualitative techniques (Miles & Huberman, 1994). Following Creswell, who argues that the mixed-approach can be defined as a "dominant-less dominant study" where there is "a single dominant [research] paradigm with a small component of the overall study derived from an alternative design" (1998, p.177), this study is primarily qualitative but informed through a quantitative assessment. In this context, the researcher combines textual analysis, semi-structured interviews, focus group discussion and questionnaires in a complementary manner. In order to integrate methodologies "to construct dense, well-built, assimilated, and comprehensive theory" (Strauss & Corbin, 1998, p.33), the researcher ensured there was a significant level of generative interplay between the methods.

3.5 RESEARCH METHODS

3.5.1 Data Collection

3.5.1.1 Quantitative Data Collection

Quantitative data was obtained through a survey questionnaire, and the collection of secondary data.

3.5.1.1.1 Primary Data Collection: Survey Questionnaire

The survey questionnaire was used as a means of identifying the main issues around which the private sector had developed a response to Vision2020 (see Appendix 5). The survey was in effect a piloting of questions which were then revised and reformulated for the purposes of the in-depth interviews and focus groups. The survey copied the format of attitudinal surveys, allowing the researcher to access the of the participants on where the main areas of concern lay in relation to State-private sector relations, and the business environment, while at the same time capturing a larger sample than could be achieved by interviews alone.

In addition, the use of a questionnaire was deemed to be appropriate for this research on the basis that it is a scientific tool used for gathering and analysing a particular data set. According to Brown, “any written instruments that present respondents with a series of questions or statements to which they are to react either by writing out their answers or selecting from among existing answers” (2001, p.6). A number of benefits are associated with the use of a questionnaire as a research tool. According to Oppenheim (1966), Gall et al. (1996), and Cohen et al. (2000), these benefits include:

1. The capacity to offer adequate time to enable the respondents to contemplate the research questions so as to offer as accurate a response as possible.
2. The lack of contact with the researcher enables the respondent to have a feeling of freedom, while giving responses to the research questions, more so where the responses are expected to be anonymous.
3. Being characterised by definite responses and feedback concerning project information results and research objectives, which enables the researcher to answer the research questions and validate the research hypotheses.
4. The ability to compare and contrast the data so as to meet the study objectives.
5. A consistent approach to data collection, thereby enhancing statistical analysis and comparability.
6. An increased capacity of the researcher to collect data from several respondents concurrently with minimal time and cost, compared to individual interviews, for instance.
7. The ability to cover a huge sample at one time through e-mail, the postal service, fax, or face-to-face. A relatively low-cost method for estimating the qualities and beliefs of the overall population.

In contrast, there are a number of problems associated with the use of questionnaires (Oppenheim, 1966; Gall et al., 1996; and Cohen et al., 2000), including:

1. If the respondents’ feedback shows the wrong questions were asked, or were badly phrased, then difficulties over the clarity of the data obtained exist. This is exacerbated where the respondents are anonymous. In the current study, the researcher ensured the questionnaire’s validity, engaged a pilot study and ensured the questionnaire’s reliability in order to ascertain the comprehensibility of the questions.
2. Questionnaires delivered through postal services generally have a low rate of response. For this reason, the researcher asked for assistance from the Oman Chamber of Commerce and Industry and the Public Authority for Small and Medium Enterprises Development. The two bodies have the data base of a significant number of active

private sector companies in different economic sectors who have emails. Thus, the questionnaire was administrated and distributed online with Qualtrics software.

3. The lack of personal interaction with the respondents complicates the reliability of the feedback and responses received. In addition, the respondents' understanding and construal of the questions might prejudice the feedback and the quality of the answers. Thus, the researcher triangulated the survey data with interview data and secondary data to improve the data validity and reliability.
4. Questionnaires cannot explore in-depth the respondents' judgments, but this may be mitigated by employing other tools, such as interviews. To overcome this problem, the investigator employed the interview and focus group techniques in combination with the questionnaire process.

It can be seen that the question of distance between the researcher and the respondents is a double-edged sword. The distance can boost the logic of objectivity, but it implies that the investigator is incapable of fine-tuning the data collection while it is continuing.

"Good design of a questionnaire assumes the outline of a process instead of an incident. It flows out of an episode of hypothetical reflection and idea operationalisation" (Lampard & Pole, 2015, p.102). In this context, the design of the questionnaire was derived from political and economic research (Al Abduwani, 2015; Cherif & Hasanov, 2014; Hvidt, 2012; Karl, 2007; Looney, 2009) and previous relevant studies (Al-Yousef, 1997; Hertog, 2010, 2013; Hvidt, 2013; Saif, 2009). The themes of the questionnaire were based on the general research objectives. Furthermore, it was important that the wordings were not indicative and did not 'guide' respondents.

Closed questions were employed to obtain particular information relating to the subject, which provided an excellent chance to contrast answers. This kind of question was used in line with Oppenheim, who recommended these questions are: "simpler and faster to respond to; they need no writing, and quantification is clear-cut, this frequently implies that additional questions can be put forth within a specified duration of time and that extra can be achieved using a specified amount of money" (2000, p.114). However, because of the investigative nature of the research, closed questions were backed up by a series of open questions in order to capture views and experiences not captured by the closed questions.

The survey was piloted in order to improve the quality of the questionnaire. Many scholars emphasise the importance of using pilot testing, including Hayman (1968), Lin et al. (1976), Cohen and Manion (2000) and Ary et al. (1972). According to Brog and Gall, “every questionnaire must be tested and refined under real world conditions. Even after years of experience no expert can write a perfect questionnaire” (1983, pp.30-31). Thus, the questionnaire was distributed to a small group of companies who are familiar with the subject. Many of them felt that the questionnaire was too long, some technical errors when choosing the answers were found, while some questions were considered to be ambiguous. Others did not answer the open questions at all. The comments received from the pilot were very useful for improving the questionnaire. Accordingly, the researcher reduced the number of questions, rewrote unclear questions, replaced the open questions with multiple-choice questions and fixed the technical errors.

Data was collected through a survey of private sector companies in different economic sectors and locations in Oman. The purpose of the survey data was to establish the concerns and responses of the private sector (more of which later) in relation to the business environment in Oman, its performance and what inhibits the private sector from being the main engine in the economic development. One hundred and fifty questionnaires were initially sent to firms operating in Oman. There firms were identified with the help of the relevant official bodies including the Ministry of Commerce and Industry, Oman Chamber of Commerce and industry and Public Authority for SME Development. Eighty-five useable questionnaires were returned, making a response rate of 56.6%. The unusable surveys were either partially complete or blank.

The questionnaire consisted of four sections in order to answer the question: What are other obstacles that have hindered the private sector from being main agent in the economy?

Section A: aimed to collect general demographic information about the participants representing the private sector companies, such as age, vocation, years of experience, place of work, economic sector and location.

Section B: investigated the relationship between the State and the private sector and to some degree the quality of the government intervention in the economy and how it affects economic structure of the private sector. The relationship between the State and the private sector is central to the process of political and economic development as it affects the policies implemented by the State and the ability of the State to carry out its plans including any liberalisation policies that push the economy towards a market-oriented and private sector-led rather than a State-dominated and State-led development. Specifically, the aim of Section B is to answer the research questions:

- What are the obstacles that have hindered the private sector from becoming the main agent in the economy?
- What is the impact of the involvement of the State in Oman on private sector-led development?

Section C: addressed two issues. First, it ascertains the factors that are important in the business environment for encouraging private sector-led development. Second, it assesses to what degree the business environment in Oman is suitable for private sector-led development. Some of the factors have been taken from annual indicators put forward by international institutions, such as the Heritage Foundation's *Economic Freedom Index*, the World Economic Forum's *Global Competitiveness Index*, and the World Bank's *Ease of Doing Business Index*, which assess the business environment in most countries in the world. The aim of the section is to help answer the following question:

- Is the business environment in Oman suitable for private sector led development?

Section D: addressed factors that potentially affect the role of the private sector in the economy such as the role of family businesses, FDI, monopoly control in certain sectors, tax policy, market size, and government support. The factors are drawn up from those suggested by the IMF and World Bank in their various liberalisation programmes and by various interviewees.

3.5.1.1.2 Secondary Data Collection

According to Punch (1998), secondary data is a rich source of data for social research, both historical and contemporary data. It provides additional knowledge that serves to answer the research questions. Allum and Arber (2008) summarise the benefits of using secondary data. These benefits include offering a method for triangulating data and complementing and balancing the weaknesses of other techniques (interviews and questionnaires).

However, obtaining secondary data for the research proved challenging. First, it was not possible to find all the relevant data, due to its 'sensitive' nature and the State's lack of transparency. Second, there was an inconsistent approach from year-to-year in publishing the data. In addition, different sources quoted different figures for apparently the same phenomenon. These aspects are characteristic of late rentier states.

Nevertheless, different sources of secondary data were used to obtain information about economic development in Oman and how the State and the private sector have shaped economic growth in the country. Descriptive and statistical secondary data from various sources also were used to assess the performance of the private sector in economic development including its role in economic growth, diversification, human development and job creation. The secondary data used in the research were obtained from:

1- **Academic sources**
    - The Durham University Library Database.
2- **Books and articles relevant to the research topic**.
3- **Official publications of the government of Oman**
    - Ministry of Finance.
    - Supreme Council for Planning.
    - Ministry of Manpower.
    - Ministry of Civil Services.
    - The National Centre of Statistics and Information.
    - Public Authority of Manpower Registry.
    - Public Authority for SME Development.
    - Oman Chamber of Commerce and Industry.
    - General Federation of Oman Trade Unions.
    - Central Bank of Oman.
    - The State Council.
    - Omani Economic Association.
    - Public Authority for Investment Promotion & Export Development, Oman.
    - State General Reserve Fund, Oman.
4- **Multilateral organisations**
    - International Monetary Fund (IMF).
    - World Bank.
    - Arab Monetary Fund.
    - United Nations (UN).
    - International Labour Organisation (ILO).
    - World Trade Organisation (WTO).
    - Other economic magazines and organisations such as MEED, The Economist, UNCTAD, ESCWA, and OECD.

3.5.1.2 Qualitative Data Collection

The main method used for the research was qualitative using both semi-structured interviews and focus groups. According to Myers, “Qualitative research is best if you want to study a particular subject in depth and when the particular topic is new and there is not much previously published research on that topic” (2013, p.9).

It is important to note the context in which I conducted the interviews and focus groups was that Oman was suffering a particular economic crisis because global oil prices had fallen, impacting negatively on the economy. This downturn also saw a rise in socio-political tensions across the country, reflecting to a degree the region-wide outbreak of the Arab Spring, which resulted in the overthrow of several autocratic regimes. As these issues were very topical and closely related to my research, the interviewees wanted to discuss them, which was reflected in their answers. However, with some government officials, there was a certain reluctance to discuss sensitive topics. For example, two of the government officials asked me to go off record while discussing sensitive points, while one current government official asked me not to use a recording device and asked me to only take notes. I did so and promised that their identity would be anonymised.

3.5.1.2.1 Semi-structured Interviews

There are several types of interviews including structured, semi-structured and unstructured interviews. The latter two types can “explore topics unanticipated by the interviewer, facilitate the development of a subtle understanding of what happened in the case and why” (Mabry 2008, p.218). In this context, semi-structured qualitative interviews were used by the researcher, as unstructured interviews were deemed to lack the degree of focus given by the former.

In order to ascertain the strength of the questions in the interviews, a series of ten pilot interviews were conducted to obtain feedback about the research topic and to help design the questionnaire. The pilot interviewees were academics at Durham University who specialise in the political economy of the Gulf states. In addition, several pilot interviews were conducted with academics at Sultan Qaboos University in Oman, while other pilot interviews were conducted with economists at the non-governmental organisation, Omani Economic Association.

The pilot interviews helped to create an initial map of Oman's economic development policy, and the role of both State and the private sector in the rentier and neo-patrimonial political, economic and social structure of Oman. The pilot interviews also resulted in suggestions for additional questions, the removal of questions that should be avoided because their 'political' nature could cause the interviewee discomfort, and the shortening of other questions.

In order to analyse to what extent Vision2020 has been achieved the objectives of making the private sector the engine of development in a Rentier State based on a neo-patrimonial political and social structure, it was necessary to conduct semi-structured interviews with relevant stakeholders including government officials (GO), private sector representatives (PSR), state-owned enterprise executives (SOEE), former government officials (FGO), academics (AC), members of parliament (the Shura Council) (MP), members of the State Council (MS), economists (ECO) and journalists (JR). The anonymised list of the interviewees is detailed in Tables 3.1 to 3.6.

Table 3.1: List of Economists and Academics

Code	Function	Institution	Interview Date
AC1	Academic in College of Economics and Political Science	Sultan Qaboos University	25-09-2017
AC2	Assistant Professor in College of Economics and Political Science	Sultan Qaboos University	03-08-2017
AC3	Economist	The Omani Economic Association	04-10-2016
AC4	Academic	Sultan Qaboos University	07-10-2016
AC5	Former Dean of Economics and Political Science	Sultan Qaboos University	04-10-2016
ECO1	Human Development Advisor/Economist	Supreme Council for Planning	24-07-2017
ECO2	Economist	The Omani Economic Association	06-10-2016
ECO3	Economist	The Omani Economic Association	30-04-2016
ECO4	Economist-Director, Office Vision2040	Supreme Council for Planning	19-08-2017

Table 3.2: List of Former Government Officials

Code	Function	Institution	Interview Date
FGO1	Former Minister	Ministry of National Economy	26-07-2017
FGO2	Former Minister	Ministry of Development	24-09-2017
FGO3	Former Minister	Ministry of Commerce and Industry	25-09-2017

Table 3.3: List of State-Owned Enterprises Executives

Code	Function	Institution	Interview Date
SOEE1	Director	Oman Tourism Development Company (Omran)	07-08-2017
SOEE2	CEO	Oman Oil Refineries and Petroleum Industries Company (ORPIC)	27-09-2018
SOEE3	CEO	Oman LNG	26-09-2017
SOEE4	CEO	Oman Food Investment Holding	04-10-2017
SOEE5	Chairman	Oman Flour Mills Co.	26-09-2017
SOEE6	CEO	Oman Development Bank	16-07-2017

Table 3.4: List of Government Officials

Code	Function	Institution	Interview Date
GO1	Advisor of Ministry of Finance	Ministry of Finance	16-07-2017
GO2	Deputy Secretary General	The Supreme Council for Planning	20-07-2017
GO3	CEO	Public Authority for Small and Medium Enterprises Development	27-07-2017
GO4	GM	General Authority for Investment Promotion and Export Development	21-08-2017
GO5	Undersecretary	Ministry of Commerce and Industry	31-07-2017
GO6	Expert	The Supreme Council for Planning	24-07-2017
GO7	Undersecretary	Ministry of Civil Service	20-08-2017
GO8	Executive President	State General Reserve Fund	08-08-2017
GO9	Advisor to His Majesty Sultan Qaboos bin Said	For Economic Planning Affairs	01-10-2017
GO10	Chairman	State Council	10-09-2017
GO11	GM	The Supreme Council for Planning	24-07-2017
GO12	Minister	Ministry of Commerce and Industry	23-10-2017
GO13	Minister Responsible for Financial Affairs	Ministry of Finance	14-11-2017
MP1	MP	Shura Council	16-07-2017
MP2	Vice President, MP	Shura Council	02-08-2017

Table 3.5: List of Journalists

Code	Function	Institution	Interview Date
JR1	Head of Economic Affairs	Oman Newspaper	05-10-2017
JR2	Executive Economic News	Alshabiba Newspaper	10-10-2017

Table 3.6: List of Private Sector Representatives

Code	Function	Institution	Interview Date
PSR1	Businessman	Large private company	25-07-2017
PSR2	Expert	Capital Market Authority	25-07-2017
PSR3	Entrepreneur	SME	23-09-2017
PSR4	CEO	Investment company	06-08-2017
PSR5	Chairman	Large private company	19-09-2017
PSR6	GM	Capital Market Authority	13-07-2017
PSR7	Chairman	Large private company	02-08-2017
PSR8	CEO	Investment company	02-07-2017
PSR9	Chairman	Oman Chamber of Commerce and Industry	31-07-2017
PSR10	Chairman	Large private company	21-09-2017
PSR11	GM	Foreign company	08-09-2017
PSR12	Expert	Capital Market Authority	19-07-2017
PSR13	Chairman	Large private company	05-10-2016
PSR14	Entrepreneur	SME	19-09-2017

The interviews were conducted in the city of Muscat, the capital of Oman, for a number of reasons. It is the centre of government, while the private sector, including its representative organisations, also has a strong presence in Muscat in its most recent stage of development. Furthermore, I have very good relationship with a number of stakeholders including officials and private sector representatives in Muscat. This helped me to access them effectively. In addition, I was able to access other government officials and private sector representatives through friends and personal connections. My network of contacts allowed me to gain access to those who would not have been willing to discuss such issues with a Western researcher. It is also important to note that I was able to conduct interviews with key current and former government officials who are or were involved directly or indirectly in preparation of Oman's Vision2020 and, therefore, played a key role in the development of Oman's economy.

In addition, several interviews were conducted with private sector representatives from economic sectors such as manufacturing, oil and gas, tourism, services and construction. The selection of private sector representatives was carefully chosen in order to serve the purposes of the research. Thus, I conducted interviews with private sector representatives who have been in the market for many years and have witnessed any changes and/or continuity in Oman's economic development. I also conducted interviews with representatives from small and medium enterprises who had five to 20 years' experience in the market.

In this context, I was able to conduct face-to face interviews, as well as hold focus groups. Before the interviews, I supplied the interviewees with a on the purpose of the research, what was expected of the interview, the time needed and a copy of the main questions to be addressed. The interviews took place in two phases; the second set was conducted with different stakeholders from different institutions.

The interviews usually lasted between 60 and 90 minutes but in certain cases were less than 60 minutes because of time constraints; for example, two government officials offered only 30 and 40 minutes respectively. Thus, the researcher was unable to ask all the required questions. Most interviews were held in the participants' offices, while several with academics, economists and private sector representatives were conducted in a café. One interview with a former government official was held in his home. All the interviewees were briefed about the purpose of the interviews and promised confidentiality and that the data would only be used for the research purpose. Interviewees were given a consent form to sign.

3.5.1.2.2 Focus Groups

Focus groups were used as a qualitative research method as they provide an open-ended but controlled discussion environment in which participants express their views about the research topic based on their experience. As with other research methods, the use of focus groups has strengths and weaknesses that are important to note. During focus group interactions, participants can share their perspectives differently from an individual interview, allowing new points to be raised, clarification of issues and discussion on contested ideas (Bryman, 2015). However, according to Thomas (2008), a focus group dynamic can create a sort of 'groupthink' rather than individual opinion, which could be considered as a limitation. The researcher considered this point when analysing the data.

According to Morgan (1993), the key advantage of using a focus group is that it provides perceptions into the source of complex behaviours and motivations. The behaviour and motivation to which Morgen and Krueger are referring is the direct outcomes of the interactions happening in focus groups called 'the group effect' (Carey, 1994; Carey & Smith, 1994). This interaction produces a combined effect greater than the sum of their separate effects and can overcome any vague perceptions. Also, the interaction in focus groups provides important data in its diversity and consensus between the participants (Morgan, 1993, p.272). It also provides the researcher with the ability to observe where there is agreement or disagreement on specific issues. The focus group also provides the researcher with the opportunity to ask the participants about their experiences and views in a comparative way, instead of relying on an isolated experience; thus, understanding differences in views between interviewees.

However, the use of focus groups also has several weaknesses, including how the role of the moderator impacts on the generated data and the process of building the focused interactions (Morgan, 1993, p.272). In this context, Agar and MacDonald (1995) used discourse analysis to compare the data collected from individual interviews and focus groups. They found that in an individual interview, the interviewee was able to express himself/herself without interruption, but in the focus group, the moderator had to interrupt the participants in order to control the discussion without losing the interaction of the focus group. Similarly, Saferstein (1995) found that the role of the moderator was crucial in directing the discussion agenda and not allowing the group to determine the agenda. Furthermore, Morgan (1996) points out that the moderator can interrupt the interaction between participants, thus limiting the nature of qualitative data.

In terms of group impact on the data, Sussman et al. (1991) investigated participants' attitudes after being involved in a focus group. The researchers used an administrated questionnaire before and after conducting the focus group to ascertain if the conversations changed the participants' attitudes. They found that attitudes became more extreme after being involved in the focus group. However, the effect was small and had no significant effect on the results. Nevertheless, the findings show how group members can affect each other's attitudes. A further issue of particular relevance to the research topic is that participants might not be comfortable speaking about particularly sensitive topics. The researcher was aware of the potential weaknesses and controlled the discussion in a way to avoid these issues and give equal opportunity for all the participants to speak.

Before scheduling the meetings, the researcher identified the key themes to be covered and set the guiding questions for the focus group. The key themes were based on the researcher's review of the relevant literature. Thus, the themes were based on the concept of development, the role of the private sector relative to the State, and how the Rentier State and neo-patrimonial system impacted on development in Oman and, in particular, Vision2020's objectives of making the private sector the engine of development. Thus, the key themes were:

- Vision2020.
- The roles of the State and the private sector and how they interact in the economic development of Oman.
- How the State regulates the private sector with regards to empowering its role in economic development according to Vision2020's objectives.
- The private sector's performance in responding to its objectives in Vision2020.
- The business environment in Oman and the main challenges facing the private sector in the economy.

Accordingly, using his personal contacts, the researcher invited relevant people by phone to participate in the focus group; something a Western researcher would have been unable to do. A brief of the topic and the key themes to be discussed were given to the participants. However, for Focus Group One (FG1), it was difficult to attract stakeholders from each research group. The aim was to bring people from different sectors but because the focus group was conducted in the summer many were on holiday and declined to be involved. Nevertheless, the researcher was able to bring key people together for FG1 on 6 August 2017 as follows:

- One private sector representative, who is a well-known business man in Oman (PSR-FG1).
- One state-owned enterprise executive, who was a former government official and participated in preparing Vision2020 (SOEE-FG1).
- Two journalists in key newspapers in Oman in responsible for economic affairs in the newspapers (JR1-FC1 and JR2-FG1).

Focus Group Two (FG2) was better organised in terms of the date and the number of participants. The researcher asked for assistance from a close associate who had important contacts with many people in Oman at different levels. FG2 was conducted on 19 August 2017 when most people had returned from their summer holidays. Accordingly, more participants from different background were able to attend.

- Three government officials (GO1-FG2, GO2-FG2 and GO3-FG2
- One state-owned enterprise executive (SOEE-FG2).
- One economist (ECO-FG2).
- Eight private sector representatives (PSR1-FG2, PSR2-FG2, PSR3-FG2, PSR4-FG2, PSR5-FG2, PSR6-FG2, PSR7-FG2, and PSR8-FG2).

For a full list of the focus group participants see Table 3.7.

Table 3.7: Focus Group Participants

Code	Function	Institution	Focus Group Date
PSR-FG1	Private sector representative	Business Group	06-08-2017
SOEE-FG1	State-owned-enterprise executive	Oman Drydock Company	06-08-2017
JR1-FG1	Journalist	Alroya newspaper	06-08-2017
JR2-FG1	Journalist	Omani Journalists Association	06-08-2017
PSR1-FG2	Private sector representative	Alkhonji group	19-08-2017
PSR2-FG2	Private sector representative	OHI Group	19-08-2017
PSR3-FG2	Private sector representative	Business Group	19-08-2017
PSR4-FG2	Private sector representative	Local Company	19-08-2017
PSR5-FG2	Private sector representative	Local Company	19-08-2017
PSR6-FG2	Private sector representative	Business Group	19-08-2017
PSR7-FG2	Private sector representative	Local Company	19-08-2017
PSR8-FG2	Private sector representative	Business Group	19-08-2017
SOEE-FG2	State-owned enterprise executive	Oman Investment Fund	19-08-2017
GO1-FG2	Government official	Ministry of Civil Service	19-08-2017
GO2-FG2	Government official	ROP	19-08-2017
GO3-FG2	Government official	Ministry of Foreign Affairs	19-08-2017

At the beginning of each focus group meeting, I gave a brief on the research topic and explained the aims and objectives of the meetings. The discussion was semi-structured in order to allow the researcher to control the discussion and move the discussion to other themes, while still permitting free discussion. The discussions took place in Arabic to help the participants to express their views clearly. The researcher asked the interviewees whether or not they want to be anonymous. All acknowledged they had no problem revealing their identity. The researcher also asked the participants if he could record the discussion. They agreed to the recording as long as it was only used for the research purpose. The researcher also took notes during the meeting to ensure that the findings and results could be analysed accurately and as a back-up in case the recording equipment failed.

In both groups, the discussions were guided with the themes generated by the researcher prior to the meeting. Both focus group meetings lasted between one and two hours. The meetings took place in a friendly-environment, a so called '*majlis*'. The term '*majlis*' is used to refer to a private place in the house where guests, friends and family members are received and welcomed. Also, in Oman, '*majlis*' is historically a place where scholars and townspeople gathered on a weekly basis to exchange views about important issues about their town. It also served as a place for the younger generation to learn from the scholars. Refreshments were served in the focus group meetings and the environment was positive in order to help the participants to feel at home and be comfortable to talk. In addition, the discussion took place in Arabic, to ensure that meanings were clearly expressed. The researcher was surprised at how people were open with their answers. In particular, in FG2, one of the participants from the government side was far more open than in his interview, and accepted criticisms of government policies related to his responsibilities.

As I stated earlier, the context in which I conducted the focus group was one of economic crisis and rising socio-political tensions. I felt people wanted to discuss and explain the challenges facing the country in a very open way in the hope of seeing change.

3.5.2 Methods of Data Analysis

3.5.2.1 Textual Analysis

The research uses textual analysis as a method by which to analyse the government's Vision2020 document in order to identify how it represented change or continuity within Oman's rentier and neo-patrimonial form of development, with its objective of encouraging a greater role for the private sector in economic development (see Chapter Four). The researcher analysed both the official Arabic and English versions of Vision2020 to ascertain if there are any differences. However, the English version was a translated version of the Arabic one with no significant differences that altered the meaning. Thus, the researcher mainly used the English version for the analysis.

As the research is concerned with assessing the extent to which Vision2020 has achieved the objectives of making the private sector the engine of economic development within the rentier and neo-patrimonial structures of the State, the textual analysis focused on the following elements within the document:

1. Evidence of the objectives set for the private sector, including its role in the economy vis-à-vis the State, economic diversification and human resource development.

2. Evidence of the new role of State; to what extent was it rolling back its involvement in the economy.
3. Evidence of the new relationship between the State and private sector.
4. Evidence of changes in rentierism and the Rentier State.
5. Evidence of the impact of the neo-patrimonial structures in the document.

3.5.2.2 Interview Data Analysis

After completion of the interviews, I prepared the transcripts of the recordings and the notes taken during the interviews for data analysis purposes. The process started with transcribing the recordings of interviews into English. The researcher's knowledge of English helped him to transcribe the recordings from Arabic to English. Then, listening again to the recordings ensured that the relevant data was captured, and no important data was missed. Next, the researcher edited the transcriptions to make them clear for coding. The researcher was aware of coding software, such as Nvivo and Weft, but decided to do the coding manually in order to become familiar with the data and to build on his understanding of the topic.

Coffey and Atkinson (1996, p.45) argue that coding provides the researcher with the opportunity to be objective and identify new perceptions. The coding process started by rearranging the data into categories and themes to help create the outlines for critical analysis. According to Kolb: "Once the researchers have finished coding for concepts, they may find some need for further breaking down in categories" (2015, p.237). Next, the data was analysed using thematic content analysis (Wilkinson & Silverman, 2004). According to Grbich, a thematic analysis is "a process of segmentation, categorisation and relinking of aspects of the data prior to final interpretation" (2012, p.16).

The textual analysis of the Vision2020 document along with the conceptual and theoretical framework provided the foundations for the researcher to identify the main themes within the transcripts in relation to determining the relevant factors for answering the research questions. The researcher was able to identify the initial group of themes for analysis. Thus, the interview transcripts were organised into the following themes:

- Vision2020.
- The role of the State and the private sector in economic development.

- The business environment in Oman in relation to private sector-led development.
- How the State and the private sector interact.

The themes allowed the researcher to organise the interview transcript data and identify potential sub-themes that emerged. All the phrases linked with the initial themes and the sub-themes that emerged were colour-coded and located in the correct theme. This process continued until the data reached saturation point when no more themes could be extracted.

The second phase was the interpretation process. The researcher read the data and then noted down his interpretation in order to identify theme categories associated with the research questions. Once this was achieved, further themes and sub-themes were identified. In each theme and sub-theme, factors in relation to the role of the State, the role of the private sector and challenges for the private sector were identified. Some of the factors were mentioned in the literature and theoretical framework and were used to the researcher's arguments. However, other factors were identified. For example, in the business environment theme, one of the new factors affecting the performance of the private sector was 'Informal business practises in Oman'. There was a high degree of agreement between the participants about the role of informal business practises in hindering the development of the private sector. The final themes are discussed in detail in Chapter Six.

3.5.2.3 Focus Group Data Analysis

The data generated from the focus group was analysed using thematic content analysis (Wilkinson & Silverman, 2004). The researcher analysed the data manually. Although the researcher was aware of qualitative data analysis software, such as Nvivo and Weft, the manual analysis allowed the researcher to become more familiar with the data and to start organising the findings. First, the researcher transcribed the recording verbatim through repeated careful listening. Each transcription took between three to four hours. Thereafter, as with the interviews, the transcriptions were translated into English by the researcher.

Once the translation was completed, the participants' quotes became the units of analysis which ultimately provided the basis for the coding system (Wilkinson & Silverman, 2004). The important words and phrases linked with the original themes or newly generated ones were identified and organised in a colour-coded manual process. This process was applied to all transcripts. The researcher continued with the coding process until the data reached the saturation point at which time no further themes could be identified from the transcripts. The findings from the focus group data are discussed in Chapter Six.

3.6 ETHICAL ISSUES

Before conducting the field work, ethical approval was arranged from the University of Durham for the semi-structured interviews, focus group interviews and the survey questionnaire. The researcher addressed ethical concerns according to the University Ethical Form requirements. The researcher's identity, the research aims and objectives, the research questions and the background of the research were submitted along with the ethical form. In addition, the interview questions, survey questionnaire and the participants' list were submitted.

The researcher was provided with a support/identification letter from the School of Government and International Affairs, the University of Durham to support his field work. The researcher assured all participants of the confidentiality of the data and that it would only be used for research purposes.

3.7 RESEARCH LIMITATIONS

As with all research there a number of limitations that had to be mitigated. First, there was difficulty in accessing the Oman government resources due to the sensitivity of the topic and, therefore, the research relied to a greater extent than desirable on secondary sources. Second, accurate economic data was difficult to obtain as certain government data lacked transparency. Third, certain interviewees were on occasions more interested in attempting to provide a 'political' view rather than an accurate assessment of the situation. Fourth, time constraints played a part, as potential interviewees were busy. Finally, it is recognised that the private sector is not monolithic and large companies may have different requirements from small companies, while different sectors want different and potentially conflicting policies from the government. For example, domestic industries may want barriers on imports to reduce competition, while retailers may want all import barriers lifted. These limitations were overcome to a large extent by the use of different sources and different interviewees and by cross-correlating qualitative and quantitative data.

Having established the methods and their limitations for the thesis, the next chapter begins the empirical dimensions of the research by examining the Vision2020 plan itself.

CHAPTER FOUR:
OMAN'S NEW DEVELOPMENT STRATEGY: VISION2020

4. INTRODUCTION

By the mid-1990s it was apparent that Oman's State-led rent-based development strategy was failing to deliver. The World Bank report discussed in Chapter Two highlighted a range of obstructions to sustainable growth and prosperity for Omani citizens. The report prompted the Omani government to review its strategies, not least as the world around it was changing and becoming more connected and economically integrated. This chapter examines Oman's strategic responses to the challenges it was facing, specifically the production of a new development strategy, the Oman Vision2020. The first section of the chapter examines the content of the Vision2020 strategy itself, specifically the role which it envisaged for the private sector and the policies which it set out to support the private sector in achieving this role. The primary resource for this task is the text of the document itself. This section concludes that the Vision2020 document is an example of a late rentier effort to adjust to a changing economic development environment.

However, the second section interrogates the consistency of the Vision in terms of how it understands the role of the private sector relative to the market and the State. It demonstrates that the document lacks a coherent and consistent understanding of the rightful and relative roles of the private sector and the State in a liberal capitalist economy. By demonstrating how the neo-patrimonial and rentier characteristics of the State are actually retained within the Vision, the section argues that late rentier tactics remain at odds with structural requirements of private-sector-led development and growth and are thus unlikely to resolve Oman's developmental challenges.

4.1 SUMMARY OF VISION2020

A set of policies and mechanisms taking into account the extant challenges and the expected domestic and global changes over the next 25 years were compiled that were submitted to Sultan Qaboos, who then met the concerned ministers in two successive sessions to discuss the proposals. Finally, the Vision, which included the Fifth FYDP 1996-2000, was approved by His Majesty.

Vision2020 was approved by Royal Decree No. 1/96 issued on 1 January 1996, and thus became a legal framework through which all government and private entities were to adopt their plans and strategies. It also become the road map for implementing further FYDPs starting with the Fifth FYDP (1996-2000) and finishing with the Ninth FYDP (2016-2020) (Ministry of Development, 1996, pp.537-538).

This section assesses Vision2020 in three sections,

1. A brief summary of Vision2020's contents.
2. The anticipated role of the private sector.
3. The anticipated role of the State and public ownership in the economy; from SOEs to privatisation.

Each section looks at the associated challenges, objectives and policies.

4.1.1 The Objectives of Vision2020

By using economic models, the long-term economic indicators were calculated in line with economic expectations and the feasibility of the proposed policies (see Table 4.1). The outcome was to be checked regularly against the plan in order to prepare the relevant FYDPs. The planned outcomes were estimated at the macro-level until 2020 according to the following elements:

1. Policies and mechanisms approved to achieve the objectives of Vision2020.
2. Social and economic data, indicators and variables of the previous years were estimated.
3. Oman's macroeconomic aspects (see Table 4.2).
4. Sectoral Share of GDP in Vision2020 (%) (see Table 4.1).

The main planned outcomes of Vision2020 were:

1- **Structure of Public Finance:** As indicated in Table 4.2, the government revenues as a percentage of GDP were set to fall by less than total expenditure. Thus, it was expected that by 2020, there would be a budget surplus of 2% of GDP. Hence, there would be no need to withdraw from the SGRF (Ministry of Development, 1996, p.184).

2- **State General Reserve Fund:** It was planned that the fund's balance would grow from USD3bn in 1995 to about USD25bn in 2020; if the oil price increased above USD15/b surpluses were to transferred to the SGRF (ibid.).

3- **Gross Domestic Saving:** Gross domestic saving was expected to increase from 21.2% in 1995 to 32% in 2020 as a result of the approved policies ibid.).
4- **Investment Structure:** Private sector investment was expected to increase from 4.4% of GDP in 1995 to 31% in 2020 against a decrease in public investment from 10.1% of GDP in 1995 to 3% in 2020 (ibid., p.185).
5- **Economic Diversification:** GDP growth was expected to increase from 5.8% in 1995, to 7.4% in 2020. This achievement depended on the performance of the non-oil sector, which would be helped by the development of the real exchange rate as exports from the non-oil sector grew (ibid.).
6- **Per capita income:** Per capita income was planned at least to maintain the current level[10] of per capita income in real terms but would hope to double it by 2020 (ibid, pp.5-6).

Table 4.1: Sectoral Share of GDP in Vision2020 (%)

Activity	1995	2000	2020
Oil	33.5	25.9	9.0
Gas	1.5	5.0	10.0
Agriculture	3.0	3.5	3.1
Fishing	1.1	1.0	2.0
Mining & Quarrying	0.6	0.6	2.0
Manufacturing	5.4	6.8	15.0
Electricity & Water	1.7	4.3	2.0
Building, Construction & Real Estate	3.2	6.9	10.0
Trade & Tourism	14.1	17.8	18.0
Transportation & Communication	7.0	8.6	8.0
Banks, Insurance & Financial Services	7.9	4.3	8.0
Other Private Services	8.3	3.2	5.0
Public Services	13.9	12.6	10.0
Other Services	-1.2	-5.0	-2.1
Gross Domestic Product	**100.0**	**100.0**	**100.0**

Source: Ministry of Development, Oman, 1996, p.240

[10] Oman's nominal GDP had increased from OMR104m in 1970 to OMR5,288m in 1995, while per capita income increased in nominal terms from OMR158 to OMR2,477 in the same period (Oman, 1996, pp.5-6).

Table 4.2: Various Economic Forecasts in Vision2020

	% of GDP	**1995**	**2000**	**2020**
1	Total Revenue	38.8%	34.6%	16%
2	Total Expenditure	48.8%	34.6%	14%
3	(Deficit)/Surplus	(10.0%)	0.0%	2%
4	Total Final Consumption	78.8%	72.4%	68%
5	Domestic Saving	21.2%	27.6%	32%
6	Total Investment	14.5%	16.9%	34%
7	Public Investment	10.1%	8.3%	3%
8	Private Investment	4.4%	8,6%	31%
9	Total Imports	31.5%	29.9%	20%
10	Total Exports	41.1%	40.5%	23%
11	Non-Oil Export	9.4%	14.4%	13%
12	Oil Exports	31.7%	26.1%	10%
13	Current Account (Deficit)/Surplus	(7.2%)	(8.0%)	4%
14	Public External Debt	20.9%	16.3%	9%
15	SGRF Balance	17.4%	2.9%	24%
Annual Average Growth Rate (%)				
16	Gross Domestic Product	5.8%	5.1%	7.4%
17	Non-Oil GDP	6.8%	5.7%	8.8%
18	GDP Per Capita	0.02%	1.0%	3.8%

Source: Ministry of Development, Oman, 1996, p.186

In order to achieve the targets, the primary dimensions of Vision2020 were set out as:

1. Improving human resource development by upgrading the skills and competencies of Omanis in order to make them ready to face ever-changing local and world conditions.
2. The creation of a stable macroeconomic environment by developing the private sector's capabilities, using both natural and human resources of the country in an efficient, sound way.
3. Encouraging a private sector that was effective and competitive, and consolidating the mechanisms and institutions to assist in enhancing the relationship between the private sector and the State.
4. The creation of a suitable business environment for the realization of economic diversification and using the natural resources and the geo-strategic location of Oman optimally.
5. Further improving the standard of living of Omani citizens; minimising the inequality between the country's regions and between the income levels of different groups and ensuring that the positive outcomes of development were shared equally among all Omanis.
6. Preserving the achievements accomplished in the previous 25 years and improving the provision of the necessary basic services (ibid., p.168).

These dimensions were grouped into one general strategy—'The Strategy for Achieving Economic Balance and Sustainable Growth'—and three sub-strategies:

- The Strategy for Human Resources Development.
- The Strategy for Economic Diversification.
- The Strategy for Private Sector Development (ibid., p.167).

4.1.2 The Strategies of Vision2020

In the following sections, the general strategy is discussed in terms of its dimensions, objectives and policies as they are related to the macroeconomic situation. In relation to the three partial strategies, the first two are discussed briefly but the Strategy of Private Sector Development is discussed in greater detail as it is the core pillar of the thesis.

4.1.2.1 The General Strategy for Achieving Economic Balance and Sustainable Growth

This strategy was based on the following dimensions:

- First dimension: Provision of a stable macroeconomic framework.
- Second dimension: Reforming the State's role by reducing its role in the services and productive sectors and improving its role in its traditional basic fields.
- Third Dimension: Development of human resources.
- Fourth Dimension: The provision of a suitable business environment for economic diversification.
- Fifth Dimension: Development of the private sector.
- Sixth Dimension: Raising standards of living for Omanis.
- Seventh Dimension: The integration of the Omani economy into the global economy (ibid., p.171).

It is clear that the government of Oman was taking a different approach from their first development strategy (1975-1995), which primarily focused on upgrading the country's overall capacity in terms of roads, ports, hospitals, schools and institutions fuelled by oil rents and managed by State-led development. However, this economic development model proved unsustainable and, thus, the new development strategy included dimensions not previously acknowledged sufficiently, such as the development of the private sector, economic diversification, human resources development, a new role for the State and integrating into the global economy. All these moved the country from a classical Rentier State to a Late Rentier State (Gray, 2011) characterised by being more open to globalisation, promoting economic diversification, thinking long-term and responding to changing internal and external conditions.

The new development strategy stressed the importance of macroeconomic stability for promoting private sector development, privatisation, diversification and human resource development. According to Vision2020, macroeconomic stability required financial equilibrium in the general budget, control of inflation and a stable nominal exchange rate while maintaining its convertibility (Ministry of Development, 1996, p.172).

The aim was to achieve a balanced budget by the beginning of the Fifth FYDP (1996-2000), and then to generate an annual surplus in the general budget of not less than 3% of GDP and to review the annual general budget plan if the oil revenues fell below expectations. In order to achieve these targets, the measures that should be taken included: a) adjusting fiscal discipline in line with revenues when preparing the general budget during the FYDPs; b) public expenditure increases should be funded from the budget rather than public borrowing or using the State General Reserve Fund; c) upgrading government efficiency and giving greater authority to regional administration in order to reduce the bureaucracy in terms of supervision and centralisation (ibid., p.173); d) rolling back the State's role in several sectors such as the productive and services sectors, including water, electricity, sewage, post, telecommunications and roads (ibid., p.172-174); and e) running these sectors by the private sector, where possible. In addition, the Vision planned to increase non-oil revenues to contribute not less than 60% of gross government revenues by 2020. This would be achieved by imposing taxes on individuals or Omani companies, increasing the current tax rates, imposing new fees and designing a suitable mechanism for effective tax collection. In terms of increasing government saving and investment and building financial reserves the policies approved in this regard included a transfer of the surplus made from the oil price between USD15/b and USD17/b and all the revenues obtained from the sale of State assets in the privatisation process to the SGRF. In addition, ensuring internal and external public debt[11] did not exceeded OMR1.5bn (ibid., pp.172-176).

4.1.2.2 The Sub-strategy of Human Resource Development

Vision2020 defines the objective of human resource development:

> To develop human resources and the capabilities of the Omani people to generate and manage technological changes efficiently, in addition to facing the continuously

[11] Public debt stood at this level in 1995.

> changing local and international conditions in a way that maintains the Omani traditions and customs (ibid., p.193).

However, the objective faced several challenges, which included "the low level of productivity of labour resources" (ibid., p.195). Furthermore, the reluctance of Omanis to work in certain occupations had reduced their capacity to face future challenges, affected their integration with world economy, and, at the same time, hindered the substitution of expatriate labour. In addition, the Report highlighted the poor quality of basic education in the country which was not in the line with scientific and technological developments globally (ibid., p.195).

With regards to labour market distortions, the report identified several issues, including the differences in job characteristics between the public and private sector which encouraged Omanis to work in the former (ibid., p.195), while the number of expatriates working in the private sector increased unemployment amongst Omanis (ibid., p.195). Also, it was expected that 25 million Omanis would join the labour market in the next century. Hence the challenge was to create a mechanism for creating suitable employment opportunities for them.

Before discussing the policies and mechanisms approved for human development resource development, it is important to highlight the main components involved in the human resource development strategy. These include population, health, education and employment. In terms of population, the target was to, at least, maintain the current real per capita income but preferably to double it by 2020. In order to achieve this objective, a clear population policy was to be formulated that sought to achieve a balance between the population growth rate and economic growth (ibid., p.197). Thus, information programmes and campaigns were to be organised in order to reduce the extant rapid annual rate of population growth from 3.7% per annum to less than 3% (ibid., p.197).

In terms of health, there were three objectives; one was to improve the health services by upgrading the facilities, the second was to increase the number of Omanis working in the sector and the third was enhance the role of the private sector in the economy (ibid., pp.198-199). Policies to achieve these objectives included the Ministry of Health increasing the number of training institutes, and the government providing long-term loans to improve private health care centres (ibid., p.199). In addition, the private sector was to take over some of the services related to health care that were currently provided by the government (ibid., p.199). These policies were to be adopted whenever it was economically feasible.

In order for the government to improve and promote the best policies and mechanisms related to the education sector, three categories were established: general education; secondary education; and university education (ibid., pp.199-200) (see Figure 4.1). The objectives of the education policy were to: 1) improve the current education system in terms of its infrastructure, quality, teaching skills and promote new education areas to international standards; and 2) to encourage the private sector to invest in education sector, especially in vocational training and higher education (ibid., pp.200-203). The government was to continue to provide free education to all Omanis for 10 years at the general stage, and two-to-three years at the secondary stage (ibid., p.201).

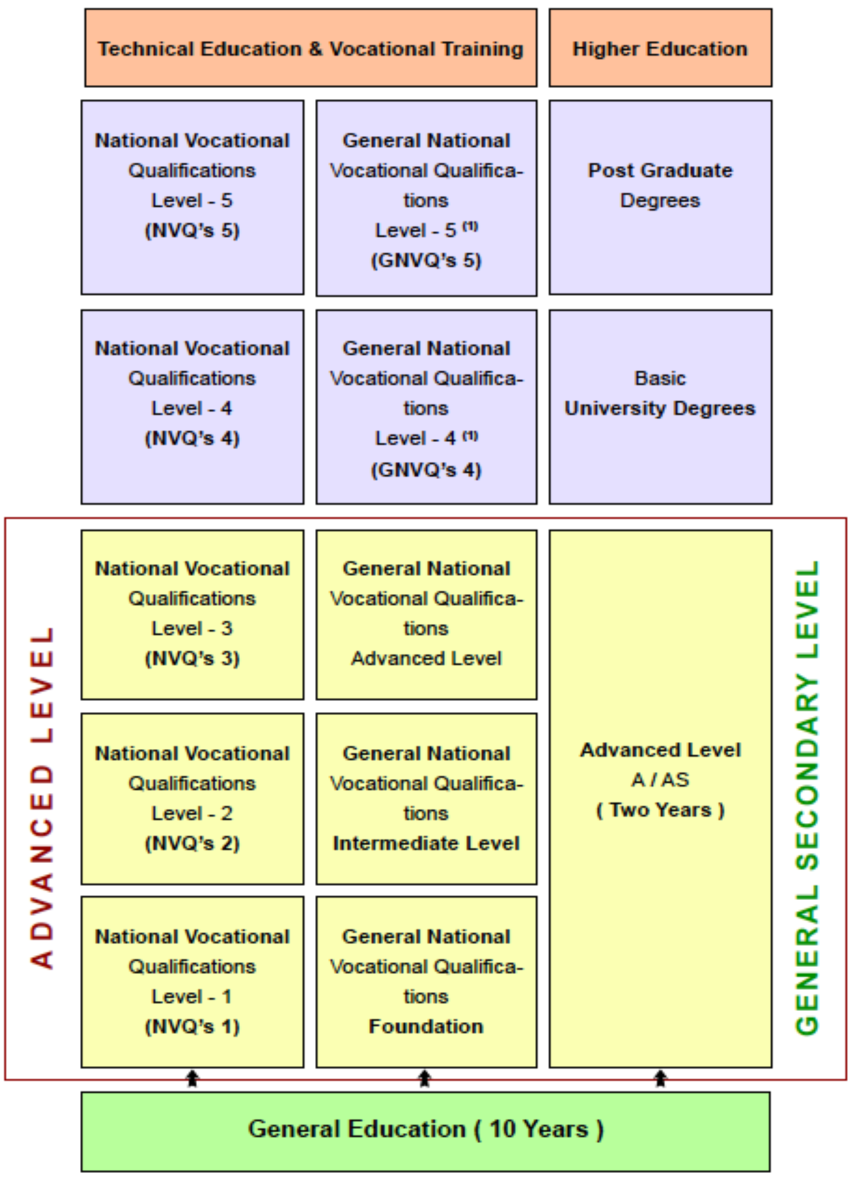

Figure 4.1: The Education System under Vision2020
Sources: Ministry of Development, Fifth FYDP (1996-2000, p.202), Oman, (1996, p.204).

Equally, vocational training opportunities were to be made available to all those interested in working in the private sector with no concern as to their educational level (ibid., p.208). Two main systems were approved: 1) General National Vocational Qualifications (GNVQs) which would provide technicians and skilled labour for the market; and 2) Omani National Vocational Qualifications (ONVQ) (ibid.) or British National Vocational Qualifications (NVQs), to provide a skilled and semi-skilled workforce. Finally, teacher training colleges were to be established. The aim was for Omanis to staff both public and private education institutions. Part of the cost was to be paid by the students with the exception of low-income members of society (ibid., p.209).

In terms of employment, Vision2020 proclaimed that one of the fundamental development policies in any country is to provide suitable employment opportunities to the population based on qualifications and capabilities as this would increase their income and raise their living standards. In this context, the government was to work in cooperation with the private sector to educate and train the labour force. Furthermore, the policy of 'Omanisation', which is defined as a policy to increase the number of Omanis working in both the public and the private sectors at the expense of foreign workers, was to continue (ibid., pp.210-211).

Table 4.3: Distribution of Omanis in the Public and Private Sectors

Item	1993	2020
National Labour in the Public Sector	175,000 (73%)	270,000 (30%)
National Labour in the Private Sector	65,000 (27%)	662,000 (70%)
Total	**240,000 (100%)**	**892,000 (100%)**

Source: Ministry of Development, Fifth FYDP (1996-2000), p.202, Oman, 1996, p.213.

As shown in Table 4.3, it was expected that by 2020 Omanis in the private sector would comprise 70% of total Omanis employed; this would have increased from 27% in 1993. As a consequence, although employment in the public sector was forecast to increase, it would only account for 30% of the total of employed Omanis; down from 73% in 1993. These objectives would be supported by the State in different ways such as providing loans to the private sector, reforming the labour rules and regulations and upgrading the education infrastructure. Moreover, the government was to set targets for different areas of the private sector to employ Omanis (ibid., p.218). In addition, the State was to encourage companies to submit a training programme to the government about its commitment in this regard. The assessment of the private sector performance in relation to its role in human resource development is discussed in detail in Chapter Five.

4.1.2.3 The Sub-strategy of Economic Diversification

One objective of Vision2020 was to overcome the reliance of the economy on the depleting resource of oil. The plan clearly emphasised the role of economic diversification policies to achieve a significant transformation in the structure of Oman's economy by increasing the contribution of the non-oil sector to GDP. It aimed to promote the growth of sectors such as agriculture, tourism and manufacturing (see Table 4.4). Thus, the contribution of the oil sector to GDP was planned to decrease from 35% in 1995 to only 9% in 2020, while the contribution to GDP of the gas sector was planned to increase from 1.5% in 1995 to 10% in 2020. Overall, the contribution of production and services sectors was planned to rise from 65% in 1995 to 81% in 2020 (ibid., p.227).

Table 4.4: Sectoral Distribution of GDP (%), 1995, 2000, 2020

Activity	1995	2000	2020
Oil	33.5	25.9	9.0
Gas	1.5	5.0	10.0
Agriculture	3.0	3.5	3.1
Fishing	1.1	1.0	2.0
Mining & Quarrying	0.6	0.6	2.0
Manufacturing	5.4	6.8	15.0
Electricity & Water	1.7	4.3	2.0
Building, Construction & Real Estate	3.2	6.9	10.0
Trade & Tourism	14.1	17.8	18.0
Transportation & Communication	7.0	8.6	8.0
Banks, Insurance & Financial Services	7.9	4.3	8.0
Other Private Services	8.3	3.2	5.0
Public Services	13.9	12.6	10.0
Other Services	-1.2	-5.0	-2.1
Gross Domestic Product	**100.0**	**100.0**	**100.0**

Source: Oman, Fifth FYDP (1996-2000), (1996, p.240)

Vision2020 highlighted several challenges that needed to be addressed in order to achieve economic diversification because Oman's oil reserves were set to gradually decline over the next 25 years (ibid., p.228), making it important to achieve diversification. First, the impact of the 'Dutch Disease' on the non-oil sectors was identified as negative. There were weak interconnections between the contribution of the oil sector and the growth of other sectors. Second, the productive and service sectors in Oman's economy lacked efficiency and quality and were unable to compete globally. Third, the on-going deficit in the budget led to the depletion of the SGRF. Fourth, monopolies and rentier mentality existed in the economy along with price imbalances between the productive and service sectors. Fifth, the contribution of the private sector in the national economy was limited due to the dominance of the State. Sixth, there was an increasing gap in the saving-investment ratio with private saving declining. Seventh, there was a shortage of skilled local domestic labour and a mismatch between education and training output and the demands of the labour market, especially in the area of technology (ibid., p.229).

In order to overcome the challenges, the government formulated an extensive set of interrelated strategies to accelerate the pace of structural transformation of the national economy. These included a high value-added strategy, an export-led diversification strategy, a strategy for small- and medium-scale enterprises (SMEs), an intensification of the national economy's integration with the world economy, a strategy for the transfer of technology, creating a suitable macroeconomic climate for the development of tradeable production sectors, development of an efficient and competitive private sector and developing and qualifying human resources. In addition, periodic evaluation studies in the form of competitiveness were planned to be conducted on the performance of the national economy (ibid., pp.229-231). The various strategies are discussed in the following paragraphs.

The high value-added strategy focused on capital intensive industries that rely on advanced technology and scientific research and development (R&D). This would require investment in human resource development in engineering, technical and administration. According to Vision2020, a set of policies were approved to support the strategy including developing the private sector's role, re-structuring the role of the State in the economy towards strategic, control and supervisory roles, and developing human resource capabilities to ensure an increase in the national labour force in the market (ibid.). However, as with other areas in the document, these policies were vague and confused with objectives.

Furthermore, the strategy sought to develop other sectors in the economy including:

> industries that aim at the manufacture and export of natural resources; industries that depend on the products of other industries from local resources, such as agriculture, fisheries and mining; import substitution industries (whenever feasible); industries that depend on the utilization of traditional techniques; export industries that benefit from the Sultanate's strategic location; the establishment of mineral industries, building materials industries and assembly line production (ibid., p.231).

Overall, Vision2020 sought to increase the capacity of the productive sector through an 'ISI policy' in order to reduce imports (ibid., p.186).

In addition, it promoted an export-led diversification strategy focused on building exports through objectives such as: integrating the national economy with the global economy to create the economies of scale, to enhance technology and technical knowhow flows, and to improve cooperation with multi-national corporations; working to make Oman a regional and international hub for exportable services; developing the financial sector by reviewing and enhancing its policies and incentives; and creating a system of granting export guarantees and financing. In addition, the role of the private sector, particularly SMEs, was to be encouraged in the export sector (ibid., p.231).

The evaluation studies emphasised the importance of developing SMEs in order for the private sector to play the main role in economic development. In this context, the government approved several policies including re-directing and utilising the subsidies and taxes to specific entities and specific sectors; creating a business centre to provide services to SMEs; streamlining access to finance by providing capital and soft government loans to SMEs through a government fund 'The Venture Capital Fund'; and enabling procedures and information systems related to foreign markets (ibid., p.231).

The strategy of intensifying the economy's integration into the world economy was to be achieved through benefiting from economies of scale, technology and coordination processes, known as 'The Growth Triangle' in order to achieve a comparative advantage for a high value-added productive sector in the national economy (ibid., p.232). In this context, several policies were adopted including: enhancing regional economic and commercial relations between Oman, the GCC and other countries by promoting bilateral and multilateral commercial and economic relations; promoting Oman as a transport and transit hub by building a new port; joining the WTO; and encouraging joint investment projects and exchanging expertise with companies that export modern technologies (ibid., p.233).

In order to diversify the productive base in the national economy, the Vision emphasised the importance of having a clear strategy for the telecommunication and information technology sector. This was to focus on the software industry leading to an increase in spending on R&D. In order to achieve these objectives, several policies were adopted including: allowing the private sector to provide telecommunication services which was expected to expand the size and efficiency of these services; and promoting technological awareness in the country in order to raise knowledge and understanding of modern technologies by providing computer and information technology courses in the education curriculum and developing the internet network which was to be connected to the global networks (ibid., pp.233-234).

To achieve the objective of creating a suitable macroeconomic climate for the development of the tradable productive sector, the government adopted several policies including: reforming fiscal policy by increasing the rates of saving, developing foreign exchange reserves, adjusting State spending and reducing the State's role in providing public services; working towards achieving macroeconomic stabilisation by reducing the budget deficit and the balance of payments deficit; and encouraging private savings and foreign investment by improving the investment climate in the country in terms of rules and regulations; developing the necessary infrastructure for trade and industry; and formulating legislative, institutional and administrative procedures (ibid., p.234).

In terms of developing an efficient and competitive private sector, the government was to work to achieve "macroeconomic stabilization; developing and maintaining the legislative and regulatory framework; upgrading the quality of the incentives system; improving and upgrading of the financial sector; and completing the infrastructure and human resource development" (ibid., p.235).

In terms of developing and qualifying human resources, the following were the most important policies with regards to the economic diversification dimension: improving the education system; continuing providing training and qualifications for the national labour force; increasing women's participation in the labour market; increasing the number of institutions providing education services based on labour market requirements; increasing the national workforce by improving labour market policies; tying wages to productivity; and reducing the rate of expatriates in the labour market by increasing the cost of hiring foreign workers (ibid., pp.235-236).

According to Vision2020, there was to be an expanded role for the private sector in expanding the other economic sectors and providing employment opportunities for nationals to achieve the various objectives of the diversification policy. The private sector was to be responsible for most economic activities; hence it was expected that the role of the private sector would change significantly. For example, it was anticipated by 2020, at least 60% of total public revenues would come from non-oil revenues, while the ratio of public expenditure to GDP would decline gradually as private sector activity increased. Furthermore, it was expected the ratio of private investment to GDP would increase to 31% by 2020, while public sector investment would decline to 3% of GDP (ibid., p.186). These targets are discussed in detail in Chapter 5.

4.1.3 The Anticipated Role of the Private Sector under Vision2020

The development of the private sector's role was one of the most important pillars of Oman's new development strategy. Hence, in order to enhance its role, the strategy first considered the main obstacles and constraints that the private sector faced. Second, it set out the aims and objectives that the private sector should achieve. Finally, policies and mechanisms were formulated to empower private sector development. These three aspects are discussed in the following sections.

4.1.3.1 Challenges Facing the Development of the Private Sector

The various studies conducted in 1994 and 1995 identified a number of challenges facing private sector's development. These challenges included the increasing role of the State in the economy, the failure of the legal and regulatory framework to provide a suitable environment for growth, the inability of the financial or material incentives to create a self-sustaining private sector, the inability of the financial and banking sector to meet the needs of the private sector, infrastructural inefficiency, the inability to react to the rapid changes in modern technology and the failure of education and training outputs to meet the labour market requirements (ibid., pp.257-262). These challenges are discussed in the following paragraphs.

The dominant role of the State came about in part because of the dependency of the budget on oil revenues. As a result, a private sector evolved that was highly dependent on government spending, and therefore had little incentive to change; an example of rentier mentality. Moreover, the local private sector investment environment was being directed towards nontradeable services and production because of the impact of the high real exchange rate as explained in Dutch disease theory (ibid, p.258). This situation led to most private sector activities being concentrated in the service sector with a low concentration in the productive sectors. Hence, it created a distorted structure in the private sector. Moreover, the dominant role of the State crowded out local investment opportunities for the private sector . With regards to the labour market, the differentials in wages and benefits between the private and public sector in favour of the latter created an obstacle to the local labour force working in the private sector, reinforcing the rentier mentality among the workforce (ibid.).

Although improvements had been made in the legal and regulatory framework to 1995, there were still a number of weaknesses that hindered the creation of a suitable environment for private sector development. The weaknesses highlighted by the Vision included the absence of clear procedures in government departments, as well as a lack of coordination between departments in obtaining approval and licenses for business activities, permits such as for construction and building transactions and civil defence approval and utility services, which had resulted in delays lasting up to six months (ibid.). Furthermore, the fees system imposed on the private sector was deemed to be unclear because of the multiplicity and unnecessary number of government bodies involved (ibid., p.259).

With regards to the legal aspects, there were limits to freedom of contract under the Commercial Agencies Law, weaknesses in the law protecting intellectual property rights and deficiencies in the law related to the settlement of commercial disputes (ibid, p.259). Furthermore, the commercial sponsorship system that resulted from the rentier tendencies in the economy impacted negatively on foreign companies operating in Oman. Finally, the role of the Oman Chamber of Commerce and Industry as the private sector representative was weak as the leaders were appointed by the State based on personal relationships; an example of the neo-patrimonial networks in the country (ibid., pp.258-259).

A private sector requires access to a dynamic and competitive financial sector in order to contribute effectively to economic growth and to reduce its dependence on loans granted directly by State banks, on which Vision2020 believed the private sector was still reliant. At this time, there were still restrictions on foreign bank activities and discrimination against foreign capital attributable to the tax system which limited the size of the banking sector in Oman (ibid., p.259). This resulted in local banks only investing in the local market and providing short-term rather than long-term loans that only benefitted the commercial and services sectors, curtailing private sector involvement in the productive sector. Thus, the financial instruments were limited in type and duration. Moreover, there were restrictions and constraints with regards to the credit capacity of the banks and the percentage of loans that could be granted against property (ibid., p.260).

In addition, stock market liquidity was constrained, further curtailing the ability of the private sector to grow. With regards to market capitalisation, the Muscat Securities Market (MSM, the Omani stock market) lacked depth. As a result, there was weak institutional investment from pension funds, banks and nationals and an absence of real-estate companies. Moreover, there were restrictions on foreign ownership in joint stock companies and discrimination in tax laws which resulted in a weak level of foreign portfolio investment (ibid, p.259).

Although there was huge investment in infrastructural projects between 1970 and 1995, there were still shortages in many aspects that the private sector required in order to flourish. For example, there were shortages in electric power and basic utilities, particularly at certain periods due to seasonal demand. The utilities also need to be completed in certain industrial areas. Furthermore, there were technical factors hindering maximum utilisation of the existing ports. For example, the main port in Muscat (Sultan Qaboos port) had limited capacity for future expansion. In addition, there was operational inefficiency in the ports, along with high services charges. Moreover, other ports were relatively small and concentrated on the traditional fishing sector. Finally, there was no competition in the telecommunication sector, which was State owned, and in which services charges were high (ibid. p.261).

The State-led economic development in Oman also resulted in distortions in the labour market. The State's distribution of rent in a neo-patrimonial society saw the creation of public sector jobs that offered better opportunities and benefits in comparison to those in the private sector. Thus, following a rentier mentality, nationals preferred to work in the public sector, while the private sector recruited expatriate workers. Over time, this created unfair competition in the labour market between the expatriate and the local workforces. Furthermore, there was a mismatch between educational and training outputs and labour market needs. The education system concentrated on academic education and the arts rather than on vocational training and technical specialisation leaving a skills shortage (ibid., p.262).

4.1.3.2 Vision2020 Objectives for the Private Sector

Vision2020 set out its objectives for the private sector. According to Vision2020, the following were seen as essential for the achievement of the progress envisaged:

- To be a leading and highly competitive private sector by being efficient, self-reliant and integrated into the global economy.
- To be the main engine of growth in the national economy.
- To be the main source of job creation.
- To contribute in social and environment responsibility of the country (ibid.).

4.1.3.3 Policies and Mechanisms under Vision2020 for the Private Sector

The government adopted a set of policies and mechanisms to support the implementation of the private sector development strategy. These were grouped into seven dimensions, which are discussed in detail in the following sections:

- To provide a stable macroeconomic framework.
- To gradually reduce the government's role in economic activities. According to the strategy, the government's role was to be strengthened in the fields of strategic guidance, supervision, and control. It was felt necessary to promote co-ordination and consultation among government bodies and the private sector in order to best serve the interests of Oman's economy. This could then lead to the formation of a partnership between the government, the private sector and the *Majlis Ash'Shura* in the form of Oman Incorporated.
- Upgrading the legal and regulatory framework.
- Providing a suitable system of incentives in order to increase private sector investment.
- Upgrading the financial sector.
- Upgrading the country's infrastructure.
- Developing the country's human resources (ibid., p.263).

In terms of providing a stable macroeconomic framework, this was not a new policy. It had been included in each of the FYDPs, particularly with reference to achieving a balance between government revenues and expenditure in order to create a surplus for the state budget and control public debt and inflation. Other previously featured policies included increasing non-oil revenues and the rationalisation of expenditure, building financial reserves and promoting government savings. Again, these 'policies' are objectives, rather than, for example, clearly stating that the State was considering introducing a sales tax to raise revenue. However, one new policy adopted was related to structuring market mechanisms, supporting institutions and government systems to ensure free competition and eliminating monopolies and the rentier mentality in order to encourage greater efficiency in the allocation of resources (ibid.). This policy falls in line with the neo-liberal economic agenda promoted by the international financial institutions.

In relation to the gradual reduction of the State's role in the services and production sectors, Royal Decree No. 42/96, issued on 8 June 1996, stated that privatisation was to be part of the economic policy. All aspects of the sectors involved in terms of financing, implementation and management were to be transferred to the private sector but remain under the State's strategic direction. The privatisation policy had two components: a) selling off SOEs and assets; and b) the privatisation of existing sectors in terms of building, operating and financing of projects and the promotion of gradual privatisation of new sectors (ibid., pp.263-265).

In terms of the sales of government assets, the Development Council issued Resolution No. 38/95 of 14 May 1995, which outlined the principles and measures to be adopted. Those principles and measures were: a) The Council of Financial Affairs was to be responsible for establishing the principles for a suitable schedule for selling off the government assets taking into account the private sector's financial ability to purchase these assets. This was expected to have a positive impact on the MSM; b) expand the ownership base of these assets to include the largest number of Omanis possible (ibid., pp.264-265). A suggestion was to be studied about granting these shares through coupons to every Omani family or student who had completed their basic education. It was suggested that the value of these coupons would be around OMR10,000 and would help the youth develop themselves (ibid, p.265). This suggestion highlights how deeply embedded the neo-patrimonial system (through buying the support of the population) and rentier mentality (distribution of rewards on the basis of citizenship rather than encouraging a work-reward causation) were in Oman at the time of preparing Vision2020. The coupon holders would be granted a 25% discount against the market price when purchasing government shares and they would receive priority. In addition, the coupon holders could use the shares as collateral to obtain credit from banks; c) the MSM was the organisation tasked with selling off the assets of public stock companies with the aim of securing the maximum return for the State; and d) the revenue gained from selling the assets should be deposited in the SGRF (ibid.). The privatisation policies are discussed in greater detail in Section 5.5.

In order to upgrade the legal and regulatory framework to enhance private sector development, the government adopted a group of policies and mechanisms including: creating the 'One Stop Shop' concept in order to grant approvals and licenses for commercial and investment registration procedures; replacing the Authority for the Settlement of Commercial Disputes with a Commercial Court; reforming the laws, procedures and policies relating to commercial agencies to remove the extant difficulties; and cancelling the sponsorship system. Furthermore, a new Foreign Investment Law was to be promulgated, with existing companies given a grace period of three years to restructure their companies according to the new law. Other reforms included changes to the Land Ownership Law and an extension in the lease period to be granted for Omani companies. Royal Decree No. 24/95 was issued on 28 May 1995 in this regard (ibid., p.268).

In terms of enhancing the role of the Oman Chamber of Commerce and Industry in providing services to its members, reforms were to be made to the Oman Chamber of Commerce and Industry Law and Regulations. The legislation also sought to improve the competitiveness of SMEs by creating an information bank of economic activities and restructuring the fees imposed by the Chamber to ensure value for money. At the time, the charges were higher than the value of the services provided, especially for grade 3 and 4 companies (ibid.).

Other legal and regulatory policies included promoting exports, developing trade and encouraging the establishment of an investment centre. In addition, the Committee for Commercial and Industrial Coordination was to be activated. In this regard, Royal Decree No. 59/96 was issued on 26 June 1996 to establish The Omani Centre for Investment Promotion an Export Development. Finally, in terms of financial laws, the review of economic and financial laws and regulations needed to comply with the new economic policies including improving their internal consistency and integration was to be completed (ibid., p.269).

In relation to State incentives to the private sector Vision2020 declared that previous policies and mechanisms would be reviewed immediately to ensure their efficient contribution to the economic diversification objectives. The priority under the Vision would now be focused on industry, agriculture and fisheries, education and crafts, and health. Other reforms to the incentive system would include all types of customs exemptions on production inputs, and tax exemptions were to be granted. The aim of these changes was to encourage the domestic and foreign private sector investment and increase non-oil revenues for the State (ibid., p.270).

The policies and mechanisms to develop the capital market and banking sector rested on two pillars. The first pillar was the development of the banking sector, and, the second was increasing participation in the MSM. In relation to the banking sector, the Plan sought to: expand the scope of mortgages to include real estate; improve reserves and accrual rights; provide long-term loans; encourage the issuing of securities; develop inter-bank markets; ensure that all State bodies authorised at that time to provide short and subsided loans adopt a unified approach; establish a specialised bank to encourage the formation of savings and lending systems in the real estate field; and encourage the banks to increase their own resources and develop sound, modern techniques to be able to achieve competitive potential and expand the services provided in the local and global market (ibid., pp.271-272).

In terms of the capital market, pension funds, adhering to a resolution of the Development Council, were to invest 10% of their funds in the MSM and ensure that these funds had the freedom to select the companies in which to invest. Other policies included: increasing banks' involvement in the market and granting them licences to operate mediation activities in the MSM; encouraging Omanis to invest in the market; and integrating the local securities market with global security markets. Furthermore, reforms were to be made in certain laws including the Muscat Securities Market Law to make the MSM more efficient (ibid., p.270). Other policies proposed included encouraging private companies to become joint stock companies and promoting Oman as a financial centre. As a part of this aim, financial journalism was to be encouraged to facilitate financial transparency, promote the financial services available in Oman and encourage communication with global financial journalism (ibid., p.271).

Although Oman had previously invested heavily in infrastructure projects the new policy was to invest in projects that were directly linked to encouraging the growth of the private sector. Thus, new ports were to be established to fill the requirements of the export and import sector. Importantly, the new port services were to be run by the private sector in line with the privatisation plan in order to attract global shipping companies. Fishing harbours were to be completed according to the already designated plan. In addition, integrated areas for heavy industry, such as petrochemical industries, were to be established and supplied with electricity and other basic utilities (ibid., p.273). These projects were to be given to the private sector to build and operate.

In relation to the telecommunication sector, the plan was to privatise 15% of the State company (Public Authority for Telecommunication) into a public stock company, and restructure the State's role in the sector to that of an organiser and supervisor. Further telecommunication infrastructure was to be run by the private sector (ibid.).

The final dimension in assisting with the development of the private sector was human resource development. It was planned that the private sector should contribute to human resource development by: improving and developing the national workforce in terms of administrative, technical and financial capabilities and skills to meet and cope with technological change and the increasing interaction with the global economy; raising awareness among the population through promoting discussion about development issues, policies and programmes; promoting an 'entrepreneurship mentality' among Omanis; and encouraging the establishment of institutes providing qualifications for entrepreneurs (ibid., pp.273-274).

4.1.4 The Anticipated Role of the State and Public Ownership in the Economy: From SOEs to Privatisation

This section assesses what would be the new role of the State under Vision2020? According to the World Bank, the new role of Oman's government should be reduced through:

> actions to narrow the Government's focus and strengthen its ability to discharge traditional public responsibilities [these] could include: Refocusing development planning, away from physical and financial planning and monitoring and toward priority setting, reformulating development policies, and monitoring the impact of the implementation of those policies on the economy. In setting national priorities, now that the basic economic and social infrastructure is in place, more reliance on economic criteria in the selection of public investment programs would lead to more efficient use of Oman's resources; Substantially reducing or eliminating government involvement in commercial activities; Reducing the Government's role in directing private sector development and review current policies and instruments for promoting industrial diversification with an aim of using more efficient means; Rationalizing Omanization policies and instruments of Omanization by considering not only the benefits but also the cost of Omanization; and Scaling down public expenditures on buildings and other low-return infrastructure (1994, p.63).

Overall, the World Bank recommended that the State return to its traditional public function, which is proving public goods, promoting efficient resources allocation, stabilising the economy, and promoting an equitable distribution of income.

The Vision2020 document agreed with the World Bank with regards to the role of the State:

> The role of government, in the coming stage should be concentrated in the [following] fields; providing and upgrading the basic services (defence; security; justice; and judiciary; public administration; other services like education; health; infrastructure, and the provision of social security to vulnerable groups); promoting a free market system; improving the standard and quality of basic health services and primary education (ibid., p.174).

Thus, the objectives were to:

- Change the role of the State from its previous strategic role to that of an enabler for the private sector.
- Reduce government expenditure.
- Reconsider the government's role in the non-traditional fields.

With regards to the privatisation policies, according to Vision2020, the State was to be given the responsibility for managing the privatisation process and establishing a system of monitoring the privatisation programmes. It was also to have a role that ensured efficiency and competition (Al-Yousef, 1997, p.389). The evaluation of the privatisation process and performance under the State's management is discussed in greater detail in Chapter Five.

Using the financial resources generated from the hydrocarbon sector, the government planned to promote a sustainable economic diversification process, while at the same time taking the primary role and full responsibility for meeting the basic needs of Omani citizens in terms of health, education and training opportunities in order to enhance their work skills (Ministry of Development, 1996, p.168).

4.2 CRITIQUING VISION2020

This section analyses Vision2020 from four perspectives, which are discussed in the following sections:

1. State-led development in Vision2020 and the contradictions for private sector development.
2. Rent-led development in Vision2020 and the failure to erode the remit of the Rentier State.
3. Neo-patrimonialism in Vision2020 and the failure to erode the neo-patrimonial socio-political structure.
4. Contradictions and flaws of Vision2020 as a late rentier strategy.

4.2.1 State-led Development in Vision2020 and the Contradictions for Private Sector Development

The foundations of Vision2020 rested on reports issued by the international financial organisations, such as The World Bank and the IMF, which promote a private sector-led development approach. Thus, their assessment and recommendations for Oman's long-term development strategy rested on their understanding that the role of the private sector should be promoted under the neo-liberal orthodoxy. Vision2020 clearly emphasised the importance of rolling back the State's role in the economy (see Section 4.2.4). However, the Vision's policies included promoting ISI, export-oriented industrialisation, a distorted proposing privatisation policy, subsidies, tax policy and government loans; all of which guaranteed an inflated role for the State. This section discusses these contradictions.

In the diversification dimension, the Vision sought to expand the role of the private sector by increasing the contribution of major economic sectors to total GDP, such as the agriculture, tourism and manufacturing sectors. Under neo-liberalism, the State should promote policies that encourage the basic principle of the free market, including rolling back the State to encourage domestic and foreign private sector investment and letting the private sector drive down the prices of goods and services. However, the Vision promoted ISI and export-oriented industrialisation:

> Developing industries which depend on domestic resources, with special priority to be given to gas, and focusing on the following industries: - Industries that aim at the manufacture and export of natural resources. - Industries that depend on the products of other industries from local resources, such as agriculture, fisheries and mining. - Import substitution industries (whenever feasible). – Industries that depend on the utilisation of traditional techniques. - Export industries that benefit from the Sultanate's strategic location. - Establishment of mineral industries, building materials industries and the encouragement of assembly line production (ibid., p.123).

As discussed in Chapter One, ISI strategies require policies that protect domestic industry from foreign competition through tariffs, licencing, and an overvalued exchange rate. These policies have been found to result in increased State involvement in the economy, as well as introduce distortions and undermine the efficiency of the economy through price distortions, rent-seeking behaviour, corruption, and barriers to trade (Balassa, 1971; Little, Scitovsky, and Scott, 1970). Equally, export-oriented industrialisation strategies also require State involvement in the economy. Although the strategy aims to gain a higher share of the global market for their exports, as well as to meet domestic demand, it also involves government incentives, subsides and a State-supported entry to the local markets, for the export-focused industrial sector (Goldstein & Pevehouse, 2013). Therefore, Vision2020 lacked a consistent understanding of the role of the private sector relative to the market and the State in a liberal capitalist economy.

Furthermore, there were in-built contradictions in the privatisation law issued by Royal Decree No. 42/96, on 8 June 1996. Thus, the State recognised the objectives of privatisation as:

> privatisation shall represent a part of the government programme aimed at achieving sustainable development, increasing growth rates and distributing the benefits of development among all regions and segments of the society (Ministry of Development, 1996, p.266).

However, it sought to ensure that privatisation did not upset the existing social order:

> In order to ensure that any changes in the economic and social order are made in a measured and gradual manner, privatisation to existing governmental production and services enterprises will be applied gradually (ibid.).

Furthermore, the State was to decide the responsibilities of the government and establish a system of monitoring the process:

> Explicit criteria shall be determined for the selection and evaluation of privatisation proposals. In addition, clear identification of the responsibilities of the government authorities concerned and the system of monitoring privatising programmes will be established (ibid.)..

In addition, the State would continue to intervene in the market:

> The government shall determine the unified maximum tariff to be paid by all consumers in the sultanate, regardless whether the project is operated by the government or by the private sector. The tariff shall not be amended without government approval (ibid.).

And set regulations that impacted on the operations of the company:

> After the privatisation of certain sectors, the government shall set the regulations and standards for protecting the environment from any negative impact that may arise as a result of the efforts of the privatised enterprises to reduce costs (ibid.).
>
> The government shall set the appropriate level of standards and specifications for all privatised projects; and all companies should be committed to apply such standards and specifications when implementing, managing and operating these projects (ibid., p.267).
>
> To the greatest extent possible, employees currently working in production and services projects to be privatised shall be transferred to the project company (ibid., p.268).

Moreover, foreign participation was to be capped:

> The selected company shall take the form of a joint stock company with Omani

> participation being not less than 51%. At least 40% of the equity shall be floated for public subscription (ibid., p.267).

Other aspects of the privatisation policy that acted against the free market included: only a few economic sectors; a gradual application of the policy; preference was to be given to local companies; initial profits were to be shared with the government; there was a possibility of the provision of soft loans or interest-free loans. How the private sector responded to this policy is discussed in Chapter Five.

A further contradiction was that Vision2020 was to address the budget deficit in part by reducing subsidies and soft loans. However, the Vision in other areas indicated that the State would continue to provide subsidies, capital and soft loans through a State fund in order to enhance the development of SMEs:

> utilizing financial instruments, such as taxes and subsidies directed towards certain sectors or specific entities… facilitating the access to necessary finance, both capital and soft loans, through the establishment of a special fund for this purpose, 'The venture Capital Fund' (ibid., p.232).

Although government financial support can encourage the growth of the private sector, it creates a moral hazard, in that if the borrower has nothing to lose then they might use the funds recklessly, which results in wasting government's money and the money goes to the wrong SMEs.

4.2.1.1. Perceptions of State-led Development in Vision2020 and the Contradictions for Private Sector Development

The interviewees also highlighted the contradictions for private sector development when the State still played a significant role in development. For example, interviewees raised the point that the Vision was closely linked to two people His Excellency Dr. Mohammed Alyosif and His Excellency Qais AlZawawi who were in the government but when they left just one year after the policy was launched, it lost its momentum and policy reverted to type. The example is further proof of the personalism of policy-making under the neo-patrimonial structure. Thus, the private sector was unable to take advantage of the opening (albeit still limited) afforded to it under Vision2020. In this context, private sector representatives stated:

> Unfortunately, Vision2020 was strongly linked with two people and was not a national long-term vision. When the two government officials left their job, the vision had no driver to take it forward (PSR1).

> The Vision was adopted by two ministers. Both of whom were very close to the Sultan. They promoted the Vision to the Sultan who liked it. However, by 1996, both ministers were no longer in the government, therefore the policy lost its momentum (PSR5).

> The two people who were behind the Vision were no longer in their posts one year after it was launched. The absence of two important officials meant the Vision lost its momentum (PSR10).

> Vision2020 copied the Malaysian vision. It required political support but that did not happen, especially after the two drivers left the government. One minister died, and the other was removed from government. Some government officials felt this minister was a threat to them with his new Vision, so he was replaced and the Vision died. ... So, it was lived in name only after that (PSR13).

Government officials and ex-officials also put forward the same point:

> Vision2020 was specifically linked with certain persons in the government. When they left, no one believed in or drove the Vision. The people who succeeded them believed in statism (GO7).

> The Vision was linked with two government ministers but those who succeeded them did not follow the same route (GO9).

> But the two leaders of Vision2020 left and then the psychology of humans was in evidence. Their successors did not agree on everything in the Vision (FGO3).

Similarly, a member of parliament said:

> The vision was suggested by Qais AlZawawi, the deputy prime minister and Mohammed Alyosif who was Minister of Development. When both left the government, the vision died (MP1).

Furthermore, the impact of the rentier economy, was highlighted as the contradictions caused by the reliance on oil revenues were also raised by the interviewees:

> The other reason is that the Vision was based on oil revenues. You can’t depend on an unpredictable revenue stream such as oil (GO8).

> Vision2020 was planned with the oil price at around USD18/b (FGO3).

Another point put forward was the conflicting ideologies within the plan, which led to contradictions for the private sector.

> However, the issue was with the people who prepared the plan. Each came from different schools of economics. That’s why we saw a set of conflicting policies within the Vision. For example, the economic diversification dimension in the vision. The vision promoted import substitution industrialisation while at the same time promoted export promotion. Both policies are different (GO4).

4.2.2 Rent-led Development in Vision2020 and the Failure to Erode the Remit of the Rentier State

The Vision clearly stated its aim to reduce its dependence on a single depletable source, oil, and its price fluctuations. However, throughout the document there were examples of policies that were based on using the oil revenues to drive development. Thus, the Vision failed to move away from rent-led development. For example, in one of its dimensions, Vision2020 clearly states:

> The Vision also aims at providing suitable conditions for economic take off. The Government will strive to use the proceeds of oil and gas for sustainable economic diversification and it will accept full responsibility for promoting basic health, education and training for Omani citizens, in addition to adopting policies which promote their standard of living (Ministry of Development, 1996, p.168).

This view was supported by an interviewee who argued:

> The finance to implement the vision objectives was from oil revenues. (GO11).

Furthermore, a number of interviewees highlighted the effects of this contradiction. For instance, a government official pointed out that there was no policy in the Vision to adjust to the impact of changing oil prices:

> The issue was that the Vision was not linked to oil prices. For example, we planned for the contribution of the manufacturing sector to reach 15% of GDP based on an oil price of USD100/b. However, there was no plan B for when oil prices changed (GO5).

In addition, another official highlighted that increased oil prices actually reduced the commitment of the State to Vision2020 and adopted policies, such as increased public-sector employment, that went against the neo-liberal agenda under which the plan was formulated:

> The increase in oil prices after 1995, resulted in the government becoming more relaxed about implementing the Vision. There was a plan that we put all the surplus from oil revenues into a reserve fund, which was to reach OMR24bn by 2020. The plan was that the fund would finance the government's general budget without using oil revenues. This did not happen. Instead, the oil price increased so the government increase its intervention in the economy. The government had money at that time and felt they can do everything. We had issues with unemployment. The government absorbed most of them, with the number of state employees increasing from 50,000 to 280,000 now. The government also invested heavily in infrastructure projects throughout Oman, in order to bring development across the country (GO9).

Similarly, an academic argued that:

> After the Vision was implemented, we had an economic crisis in 1997 and 1998 as the oil price fell. As the Vision depended on oil revenues it was not able to

> implement its objectives. … Whenever the oil price goes up, the government forgets about Vision2020 (AC2).

Thus, the rentier characteristics of the State are actually retained within the Vision and remain at odds with the structural requirements of private sector-led development and growth and are thus unlikely to resolve Oman's developmental challenges. Furthermore, the Rentier State was further consolidated through the promulgation of Oman's first ever constitution following Royal Decree No. 101/96 on 6 November 1996. It has since been amended in 2011 by Royal Decree No. 99/2011. The constitution, called 'The Basic Law of the Sultanate of Oman', provides the legal framework for the development and implementation of all legislation and government policy. In terms of the economic principles guiding the policy of the State after the formulation of Vision2020, it was expected that the economy would be based to a greater degree on free market policies. Although, the Basic Law clearly states that the national economy is based on justice and the principles of free economy.

> The national economy is based on justice and the principles of the free economy. Its essence is the constructive and fruitful cooperation between public and private activity. Its objective is the achievement of economic and social development in order to increase production and raise the standard of living of the Citizens according to the general plan of the State and within the limits of the Law (Article 11, Basic Law).

However, it also emphasised all natural wealth and resources are the property of the State.

> All natural wealth and resources thereof are the property of the State, which shall preserve and utilise them in the best manner taking into consideration the requirements of the security of the state and the interests of the national economy. No concession or investment of any public resource of the Country shall be granted except by virtue of a law, for a limited period of time, and in a manner that preserves national interests (ibid.).

Thus, although the rentier characteristics have evolved, rent-led development still predominates.

4.2.3 Neo-patrimonialism in Vision2020

Furthermore, the Vision2020 document shows that the neo-patrimonial socio-political structure is still retained. For example, government officials are members of the Development Council, the remit of which is meant to be a planning institution, and also members of the Ministers' Council which is responsible for implementing and monitoring the government's plans. Thus, there is a lack of checks and balances in terms of the government's role in the development process. Furthermore, there was weak participation from the private sector (outside the patrimonial elite represented in the Oman Chamber of Commerce and Industry), a lengthy decision-making process and an increased bureaucracy as the number of State institutions expanded in the preparation of Vision2020. According to the Vision:

> Working groups consisting of officials from the relevant ministries, formed as per the above-mentioned resolution, prepared a set of detailed sectoral reports with the aim of formulating a vision for Oman's economy (Ministry of Development, 1996, p.142).
>
> During the period Feb-May 1995, the seven ministerial committees, formed as per the Development Council Resolution 79/94, reviewed and evaluated the sectoral reports prepared by the working parties and produced these reports in their final form… each committee is chaired by the Minister concerned with the sector. The representatives of other ministers are at the Under-Secretary level. The committees also include members from the *Majlis Ash'Shura* and the Oman Chamber of Commerce and Industry (ibid., p.145).

Furthermore, there is evidence in the Vision of the presence of the top-down neo-patrimonial structure operating in the membership of the various committees:

> The Main Committee (the Committee for the formulation of the Vision for Oman's Economy: Oman 2020) was chaired by His Excellency, the deputy Prime Minister for Financial and Economic Affairs and Deputy Chairman of the Development Council. The committee included 14 Ministers as members (ibid., p.146).
>
> While presiding over the Honourable Council of Ministers Session No. 19/94 on 12th July 1994, His Majesty the Sultan issued royal directives for a Ministerial Committee for Planning Affairs. This was to be chaired by the Advisor to His Majesty the Sultan. The objectives of the Committee were the study of government expenditure, and the recommendation of measures that should be adopted by the civil units in order to conform with the allocations available for civil current expenditure in the Fifth Five-Year plan (ibid., pp.147-148).

Further details on the huge number of government committees can be seen in Appendices 1 and 2.

In addition, the private sector's contribution to the process was limited to the neo-patrimonial institution of the Oman Chamber of Commerce and Industry and private sector representatives who were also government officials (i.e. part of the neo-patrimonial structure). This view is supported by a number of the interviewees:

> The private sector representatives who participated at that time were the policy makers. This conflict of interest has been in place for a long time and still continues, albeit to a lesser degree (GO9).

> The government involved the traditional private sector. What I mean by the traditional private sector is the family business groups who are close to the government (GO3).

Indeed, the lack of independent private sector participation was raised by a number of interviewees:

> As a part of the private sector, I did not see any real contribution from the private sector in this Vision. Yes, the private sector was involved but it was only peripheral (PSR10).
>
> There was no effective participation by the private sector in preparing Vision2020 (ECO1).
>
> There was no major participation by all stakeholders including the private sector, society and the youth (AC1).

Although, four government officials and a private sector representative disagreed with the lack of private sector input:

> The private sector was involved in the preparation of Vision2020 but not effectively. This is similar to what is happening now with Vision 2040 and the ninth five-year development plan (GO11).
>
> The private sector was very much involved in the preparation of Vision2020 (PSR13).

Many of the participants highlighted how the development of Vision2020 itself and the changes implemented after its adoption merely reinforced the neo-patrimonial power structures within Oman. Amongst other aspects they cited were the failure to include private sector representatives outside the business elite represented in the Oman Chamber of Commerce and Industry and traditional business families. In addition, the participants highlighted that the main committee responsible for formulation of Vision2020 was composed only of government ministers. Indeed, the neo-patrimonial power structure based around Sultan Qaboos as head of the State, the head of government, supreme commander of the armed forces, prime minister, and minister of defence, foreign affairs, finance and chair of the central bank, remained firmly in place.

4.2.4 Contradictions and Flaws of Vision2020 as a Late Rentier Strategy

The Vision2020 document shows evidence that the Vision attempts to transition Oman from a classical rentier model into a ‘late rentier’ model, where the State is more responsive, opening up to globalisation but with some protectionism remaining, has an active economic and development policy, has an energy-driven not energy-centric economy, has an "entrepreneurial state capitalist" structure, is long-term in its thinking and maintains an active and innovative foreign policy.

As already highlighted, the Vision clearly acknowledged that Oman was facing challenges including high population growth, employment pressures, financial pressures and an economy based on a depleting resource. Therefore, the State acknowledged the need to change its policies to comply with the neo-liberal agenda. According to the Vision:

> Oman's economy will be able to shift from an economy that depends on government initiative and spending, oil resources and expatriate labour as the main engines of economic activity, to an economy that depends on private initiatives, national labour, and renewable resources that lead to achievement of sustainable development, and an improvement in the living standard of the Omani citizen (Ministry of Development, 1996, p.134).

Thus, the State was attempting to develop an economic policy that was oriented towards development. In this context, Vision2020 clearly emphasised the importance of promoting market mechanisms, economic liberalisation, enhancing the role of the private sector and becoming more open to globalisation:

> The need to develop and upgrade the efficiency of the current policies has increased due to the global changes witnessed at the end of the 1980s, and the emergence of a new international order. The latter is centred around economic, commercial and technological competition and is based on market mechanisms, economic liberalization and the promotion of the private sector's role (ibid., p.169).

However, the Vision included policies that maintained a degree of protectionism as befitted a Late Rentier State. This can be seen in the diversification policy pillar in which the government was to promote ISI and export-led growth supported by protectionism policies including tariffs protection, subsidies and government loans. Therefore, it is apparent that the Vision lacks consistency in terms of how it understands the role of the private sector relative to the market and the state in liberal capitalist economy.

The second characteristic of the Late Rentier State evidenced in Vision2020 was the change from 'energy-centric' economic management. Gray (2011 p.31) defines this approach when, as with Oman from the 1970s, the State is dependent on a depletable source for its main source of income. Thus, Vision2020 highlighted the risk of this dependency and attempted policies to promote economic diversification in order to shift the economy from "energy-centric" to "energy-driven or energy-underwritten" (ibid.). The energy driven aspect is that the policy would still depend on oil revenues to support the State's subsidies and promotion of the private sector. According to the Vision:

> The vision for economic diversification focuses on creating a diversified national economy, mainly based on renewable resources, which highly efficient and integrated with the world economy. The vision also includes the following; raising the relative share of non-oil sectors, including natural gas, to 91% of GDP by 2020; increasing the value added of exported natural resources; replacing oil exports with non-oil exports in such a way that their share will increase from 9.4% of GDP in 1995, to about 13% in 2020 (Ministry of Development, 1996, p.228).
>
> This strategy is characterised by concentrating on capital intensive industries that depend on highly advanced technology and scientific research and development which is based on trained national human resources in the engineering, technical and administrative field and who have the capability of implementing this strategy efficiently (ibid., p.230).

This reasons behind the shift in policy were pointed out by a number of the interviewees:

> However, by beginning of 1990s, when almost all the basic needs and infrastructure were in place, oil prices, which was the main source of income for the government to fuel the development projects, were falling. This coincided with other challenges such as the growing unemployment issue. Thus, the government felt that it is the time to implement a long-term vision that could reduce the country's dependence on oil revenues, which lead to the idea of Vision2020 (GO1).
>
> We had several major crises in the lead up to 1995, including the devaluation of the currency in 1986, and the drop of oil prices in 1992, 1993 and 1994. In this context, the government realised they could not depend on the oil sector to be the main source of government revenues. So, the idea of Vision2020 evolved. In addition, the region was destabilised because of the Second Gulf War (MP1).
>
> The main objectives of the Vision2020 were economic diversification and reducing the dependency on the oil sector (JR1).

The third characteristic of a Late Rentier State evidenced in Vision2020 is that of an "entrepreneurial state capitalist" structure. From 1970, the State's role included ownership of the means of production, dominating the planning process, and promoting import substitution policies and heavy industrial development. However, Vision2020 formalised a change in this role to that of "entrepreneurial" and "new" state capitalism, meaning that the State was planning to engage more deeply with the global economy (Bremmer, 2010, p.250). Thus, in the diversification pillar, the Vision clearly stated this direction:

> The strategy focuses on industries that are oriented toward external markets. The most important policies adopted in relation to this strategy can be summarized as follows; increasing integration into the world economy so as to benefit from economies of scale, technology flow and technical expertise, and the outlets and markets created by multinational corporations; paying special attention to exportable

> services and working towards making Oman a regional and international services centre (Ministry of Development, 1996, p.231).

Several interviewees commented on this change, which they felt was not clearly enunciated and which created contradictions for the private sector:

> The state in Oman has to be involved in economic development because the law states that the state is the owner of the natural resources and other resources. In addition, Oman is still a developing country and the economy requires government intervention. But the question is: what should be the extent of the intervention? (ECO1).
>
> The problem is the government is planning, regulating and executing. The government since 1970 played a major role in economic development. At that time, it made sense that the government did everything because the country lacked the basic infrastructure and there was only a very weak private sector. ... But, in the 1980s and 1990s the role of the state became central to the economy creating a rentier state in which the private sector adopted a rent-seeking rather than profit maximising approach (AC4).
>
> Unfortunately, when the government decided to attempt to allow the private sector the dominant role in the economy, certain people in the government felt that the new policy would threaten their own interests. Yes, our constitution says that the Omani economy is a free market economy, but, in reality, it is not. It is a confused economy. ... The bad thing is that some of those in the government monopolize specific economic sectors. Each family controls a different sector. It is purely monopoly and the abuse of the public position with no accountability (PSR1).

The fourth characteristic of the Late Rentier State is that the Vision shows that the State was starting to think long-term, i.e. beyond the hitherto five-year horizons of its development plans. One example of this long-term strategy was the aim to strengthen the SGRF for the next generation. This can be illustrated in the following:

> In order to raise the level of public savings the following policies have been approved; to refrain completely from withdrawing any amounts from the SGRF as of the start of the Fifth Five Year Plan unless a Royal Decree is issued based on a recommendation by the Council of Ministers approving the withdrawal, to transfer all surplus, i.e. those resulting from an oil price above US/$15 and up to US/$17 a barrel, to the SGRF, to transfer to the SGRF all government revenues resulting from the sale of government assets to the private sector or privatisation of the projects related to service and production sectors (Ministry of Development, 1996, p.176).

Thus, the State was seeking to preserve the wealth coming from a depleting resource for future generations and to face any potential financial crises that might occur in the future, thereby mitigating social, economic and political pressures.

The final characteristic of the Late Rentier State proposed by Gray (2011) is that of adopting an innovative foreign policy in which States build strategic relationships with different regional and global powers. In this regard, the Vision is less clear, although it does stress the importance of opening up business relationships with the outside world, including with the regional GCC and the wider Indian Ocean rim. According to the Vision:

> Several policies have been adopted in order to enhance integration with the world economy, the most important of which are as follows, strengthening and enhancing economic relations with the GCC states; promoting bilateral and multilateral economic and commercial relations between the Sultanate and the various countries of the world; Utilizing the comparative advantages that can be derived from the Indian Ocean Rim (as an economic and trade block), in terms of exporting goods and financial services to this block; making the Sultanate a transport and transit station by establishing a new port and joining the World Trade Organization (WTO) as soon as possible (Ministry of Development, 1996, p.233).

Thus, these relationships might not be purely driven by commercial interests that would benefit the private sector, because the rentier nature of the State, meant that trade agreements and contracts could be driven by political rather than economic interests.

Thus, fundamentally, although the Vision nominally sets out to promote a neo-liberal agenda, this was subverted by the rentier nature of the economy and the neo-patrimonial socio-political underpinnings of the State. Thus, Vision2020 adopted policies that continued its evolution towards a Late Rentier State creating contradictions for the private sector and its supposed role of leading development in the period to 2020.

4.3 CONCLUSION

This chapter examines Oman's strategic responses to the various challenges it was facing, through the production of a new development strategy, Vision2020. The first section focuses on the roles allocated to the private sector and State in Vision2020. The headlines of the Vision set out that there would be a shift in the role of the State from its allocative and productive one to more of a regulator and planner, while it was expected that the role of the private sector would increase substantially. The private sector was to play the lead role in the economic diversification process by investing and expanding in other sectors and contributing to human resource development regarding educating/training and providing employment opportunities for the local workforce. The private sector also was expected to take over SOEs such as in the electricity, water and telecommunications sectors through a privatisation policy.

However, the second section highlights how Vision2020 failed to promote the neo-liberal agenda. Instead, the analysis in the section highlights four areas in which this agenda was subverted. First, the document showed that development was still to be State-led, creating contradictions for the way in which the private sector was able to respond to its supposed new role. Second, the development envisaged in Vision2020 was still rent-led (i.e. dependent on oil revenues). Thus, the Vision was unable to overcome the rentier nature of the State. Third, the Section highlighted the subverting presence of neo-patrimonialism within the document and also the promulgation of the Basic Law (i.e. the constitution), which formalised the power structures of neo-patrimonialism, with personal power resting very firmly in the hands of the Sultan. Finally, the evolution of Oman into a Late Rentier State was traced in the Vision2020. The Late Rentier State is at odds with the structural requirements of private-sector-led development and growth and thus is unlikely to resolve Oman's developmental challenges.

The next chapter provides an assessment of the performance of the private sector vis-a-vis the State using macroeconomic indicators, statistical data and indices from various sources. Also, it aims to examine to what extent the private sector achieved the objectives assigned to it in the Vision2020 in the three pillars, economic diversification, human resource development and privatisation.

CHAPTER FIVE:
DEVELOPMENT OF THE PRIVATE SECTOR IN RELATION TO VISION2020's OBJECTIVES

5 INTRODUCTION

The previous chapter set out the aspiration of the Vision2020 strategy, including, in particular, its objectives for the private sector. It demonstrated that the strategy document was critically flawed, its stated objectives and policy proposals being deeply impacted by contradictions arising from the sustained rentier characteristics of the policy elites who drafted it, and from a failure to expunge the impact of neo-patrimonialism on the formulation and implementation of the associated policies.

This chapter seeks to provide a macro-economic overview of the impact of Vision2020, to interrogate the actual performance of the private sector against the stated objectives, and to locate this within a larger discussion of the economy as a whole. Section one begins by assessing the institutional change undertaken to support the implementation of Vision2020. Section two then examines overall performance of the Omani economy against the projected key performance indicators set out by Vision2020. These are discussed in the context of subsequent FYDPs and local and regional developments.

Section three then shifts the spotlight on to the outcomes for the private sector. It conducts a 'size and shape' analysis to determine whether and to what extent it has taken on the role assigned to it in the Vision2020 namely a) to assume the role of the engine of development from the public sector; and b) to enable the diversification of production and revenue generations away from the prevailing over-reliance/dependency on oil revenues. Section four considers how the State, in turn, has responded to both developments in the local and regional political economy and to what extent, if any, it has proved willing and able to surrender 'space' in the market to the private sector as envisaged by the World Bank before the launch of Vision2020.

The fifth section focuses on one key aspect of the Vision2020 strategy, privatisation. This is a principal means of shifting the responsibilities for production and distribution of revenue from the public to private ownership. The section examines the progress or its lack of since 1996 in facilitating and implementing privatisation. The discussion highlights the obstacles and reversals in the process, and the implications for the economy as a whole. Finally, the chapter concludes by evaluating the overall performance of Oman's economy against the development objectives set out in Vision 2020, arguing that the private sector was fatally flawed/inhibited from fulfilling or succeeding in the objectives assigned to it in Vision2020 because the State reproduced the same neo-patrimonial rent-led state development model.

5.1 INSTITUTIONAL CHANGE UNDER VISION2020

In order to support the implementation of Vision2020 it was necessary to change the institutional structure of the State and amend a number of laws and regulations. As a result, this section discusses these reforms. If the objectives of Vision2020 were to be achieved these should ensure there was a government structure that could execute the plan in terms of the harmony between regulatory, planning and executing government bodies, as well as ensure that the business environment supported the development of the private sector, in order that it could lead the development process. If it followed a neo-liberal agenda this would reduce the role of the State in the development process, reduce the rent-fuelled development process, and undermine the neo-patrimonial socio-political structures.

Since the launch of Vision2020, several important structural reforms to the State have been taken in order to support the Vision's objectives. These include issuing new laws and regulations, restructuring State bodies and implementing reforms to the functions of ministers.

Following the launch of Vision2020, Oman promulgated its first constitution, 'The Basic Law', which was issued by Royal Decree No. 101/96. It outlined the role of the State, the system of governance and the general principles guiding the policy of the State. Other reforms introduced included:

- The creation of Oman's Council by Royal Decree No. 86/97;
- The abrogation of the Development Council and the transfer of its responsibilities to the Cabinet by Royal Decree No. 7/96 issued on 10 January 1996;
- The creation of the Ministry of the National Economy;
- The integration of the Financial Affairs Council and the Natural Gas Council into one body, the Financial and Energy Resource Council by Royal Decree No. 60/96;

- Creation of the State Financial Audit, an independent body, by Royal Decree No. 95/99;
- The creation of Economic Coordination Council by Royal Decree No. 94/99.

During the fifth, sixth, seventh and Eighth FYDPs, further institutional reforms were made including:

- Creation of the Omani Centre for Investment Promotion and Export Development by Royal Decree No. 59/96;
- Creation of the Manpower Registry by Royal Decree No. 88/2001; and
- Creation of the Ministry of Manpower and Ministry of Social Development by Royal Decree No. 108/2001;
- Creation of the Public Authority for Craft Industries by Royal Decree No. 24/2002;
- Creation of the Ministry of Tourism by Royal Decree No. 61/2004; and
- Creation of the Ministry of Fishery by Royal Decree No. 81/2007.

In addition, several laws and regulations were issued including:

- Privatisation Law by Royal Decree No. 42/96 (see Appendix 3), which was reformed by another Royal Decree No. 77/2004;
- Financial support in the form of subsided government loans from OMR250,000 for the private sector in the agricultural and fisheries, manufacturing, tourism, education, health and traditional crafts sectors by Royal Decree No. 17/97;
- New Financial Law by Royal Decree No. 47/98;
- Law on Trademarks, Data and Trade Secrets and Protection against Illicit Competition by Royal Decree No. 55/2000;
- Privatisation Law for the Water and Electricity Sector by Royal Decree No. 78/2004;
- Oman Chamber of Commerce and Industry Law by Royal Decree No. 19/2007;
- Tender Law by Royal Decree No. 36/2008; and
- Industrial Property Rights Law by Royal Decree No. 67/2008.

As mentioned, The Basic Law (see Appendix 4) was supposed to determine a new role for the State and align the responsibilities of the various government bodies with Vision2020's objectives. Thus, The Basic Law determined the responsibilities of the cabinet, ministries, and the Oman Council comprising the State Council and the *Shura* Council. Each of these institutions' responsibilities as set out by the Basic Law are discussed below.

The Council of Ministers: Article 44 of the Basic Law sets out the responsibilities of the Council of Ministers (equivalent to the Cabinet) as: "Determining the objectives and the policies for economic, social, and administrative development and proposing the necessary means and measures for their implementation which ensure the best utilisation of the financial, economic and human resources" (Administration, 2016, p.58). However, these policies and objectives have to be submitted to His Majesty the Sultan for approval. The Council of Ministers also discusses the development plans that are prepared by competent authorities before presenting the plans to the Oman Council for its recommendations and then submitting them to His Majesty the Sultan for approval. The Council of Ministers is also responsible for following up the plan's implementation.

The Supreme Committee for the Five-Year Development Plans: This Committee's role is to receive and discuss what His Majesty the Sultan considers the priorities on which to base the FYDP. The Committee is chaired by the Deputy Prime Minister for Cabinet Affairs.

Ministry of National Economy: The role of the Ministry of National Economy is to: develop proposals for the development strategy and future plans for the national economy; determine the development objectives and sectoral and regional priorities and submit it to the Council of Ministers for approval; and receive other ministries' individual plans. It is also responsible for preparing the general development plans and the State's investment programmes according to the approved development plans and submitting them to the Council of Ministers for approval.

The Other Ministries: Ministers with responsibilities in relation to the economy are supposed to propose plans and investment programmes in relation to their specific area and submit them to the Ministry of National Economy. These plans should contribute to the development of the national economy. The most important ministries in this context are (see Appendix 6 for a full list of ministries):

- Ministry of Commerce and Industry;
- Ministry of Oil and Gas;
- Ministry of Agriculture and Fisheries;
- Ministry of Transport and Communications;
- Ministry of Housing, which is also responsible for granting residential, commercial and industrial land;

- Ministry of Manpower;
- Ministry of Tourism; and
- Ministry of Regional Municipal and Water Resources.

The Oman Council (*Majlis* Oman): The Oman Council was proposed by Royal Decree No. 101/96 (The Basic Law), and officially established by Royal Decree No. 86/97 in 1997. It consists of two councils: The State Council (*Majlis Aldawla*) and parliament (*Majlis Al Shura*).

The State Council: The *Majlis Aldawla* is responsible for presenting proposals for encouraging investment in the different goods and services sectors and the development of economic resources. It is also responsible for presenting studies and policy proposals related to public plans and programmes with the aim of making administrative reforms and improving public sector efficiency. According the Basic Law, the number of State Council members should not exceed the number of Shura Council members. The members, including its head, are appointed by the Sultan from experienced Omanis from the government sector including former ministers, undersecretaries, ambassadors, judges, and retired officers, as well as experts in specific fields such as science, literature, culture, arts, academia and business. In addition, others who are deemed by the Sultan to have given important service to the country can be appointed.

Parliament: One of the roles of *Majlis Al Shura* is to participate in the preparation of development plans and propose recommendations to Council of Ministers. Its role is more advisory than regulatory. The members are elected every four years and each member represents his/her own *wilayat* (region).

5.1.1 Analysis of the Institutional Reforms

Although the institutional reforms made following the launch of Vision2020 were nominally about devolving power, in reality the reform process can be characterised as slow and incomplete. In this regard, several authors, such as Power (2013, p.41), Funsch (2015, p.110), Katz (2004, pp.4-5) and Al-Farsi (2013, p.66) argue that the powers of *Majlis Aldawla* and *Majlis Al Shura* are limited to economic matters and their role is limited to only reviewing, discussing and making recommendations of development projects. Neither body has the power to initiate legislation and has limited power to hold to account the government for its performance in terms of its political, economic and social plans and achievements.

Authors provided various explanations for the limited powers given to the councils, such as the control of rent distribution by the State (Valeri 2009, p.72), the absence of political parties (Power, 2013, p.42) and avoiding 'cultural shocks' (Al-Farsi , 2013, p.67). According to Valeri:

> In the Omani case, it was necessary for Qaboos to de-legitimise, to discredit the other 'asabiyyat by raising himself to be the only authority able to conduct the oil rent redistribution. The primary goal was to replace the asabiyyat, traditional sources of legitimacy that were dwarfed by the new state's economic and social achievements so that they could no longer provide what was their raison d'etre, the protection and socio-economic well-being of their tribesmen. This trend has gone with a symbolic process of national unification, through the reinvention of the frames of identity references around the person of the Sultan, assimilated in new historiography to the state and subsequently to modern Oman as a whole. To sum up, Sultan Qaboos has been able to set up the legitimacy of his authority by building both an Omani state and an Omani nation (2009:72).

Thus, Valeri argues that the Sultan wants to secure his legitimacy by controlling his power and authority, so he can continue with the oil rent distribution among the populace while blocking potential rivalry.

With political parties banned in Oman, Power (2013, p.42) argues that the elections of the *Majlis Al Shura* are meaningless as there is no competing vision of government, leaving the citizens to choose local dignitaries to represent them. However, Al-Farsi (2013, p.70) believes that Omanis are suspicious of the idea of political parties because of the record of the Ba'ath Party in Iraq and Syria. Instead, Al-Farsi argues that the concentration of power in the hands of the Sultan is to avoid 'cultural shocks'.

> Considering the recent political changes in Oman, the reforms process may seem to be slow in comparison with that of some other Gulf states. In fact, it is proactive, but the intimacy of Oman's people with its cultural and historical tradition serves to share the nature of the change and often inhibits the process. Oman is implementing the Shura process step by step in order to avoid 'cultural shocks' and to allow sufficient time for people to adopt themselves to the emerging forms of participation (ibid., p.67) .

By cultural shocks, the author is arguing that in his view the population was not ready for wholesale rapid political liberalisation. If this did happen then there could be problems because the rentier nature of Oman would be undermined. Arguably, because of the renter mentality the population is more concerned with maintaining the informal social contract, which allows them access to the cycle of rent, than gaining democracy. Cecil agrees with Al Farsi's argument and concludes that:

> The pace with which Oman's political institutions have evolved gradually over a generation – may well be a lesson for those who would have it take place faster… the Omani example may serve to demonstrate that a policy of gradualism, firmly rooted in local tradition, can be implemented in a way that offers citizens an expanding role in managing the affairs of their country without opening the doors to uncontrollable political and social pressures (2006, p.65).

However, in 2011, during the 'Arab Spring', there was a need to increase the scope of political participation. According to Peterson:

> There is increasing disquiet with regard to the domination of Oman's decision-making machinery by a small political-economic elite whose members often act in their personal interests as much as those of the country. Demands for expansion of the narrow scope of political participation are bound to grow as Omani society changes in a globalizing environment (2011, p.101).

In this context, The Basic Law was amended, with the Oman Council granted more legislative and regulatory powers, such as the right to amend and approve all laws proposed by the Council of Ministers before they submit them to the Sultan for his approval (Funsch, 2015, p.110). However, political power was still exercised by the Sultan (Ramady, 2014, p.167).

Peterson (2011:110) put forward the consequences of the existing neo-patrimonial structure on the possibility of making effective changes to the political institutions and structure in Oman. Thus, according to Peterson

> The creation of and expansion of this formal apparatus for political participation should not be allowed to obscure basic facts about politics in the sultanate. It cannot be emphasised too strongly that Oman remains a patriarchal and hierarchical state. That is, the sultan plays a dominant, control role. All significant decisions are referred to him and all policies emerge from the Royal Office, often without advance warning, generally without explanation, and out of an almost totally opaque process. Cabinet meetings are largely pro forma photo opportunities and are not always chaired by the sultan. The appointment of ministers and other senior officials can sometimes be described as whimsical; no public review or explanation is ever given for the sultan's choice (ibid., p.10).

In addition, appointment to a ministerial portfolio can be a nearly life time sinecure. Some ministers have remained in the hands of the same person for decades (ibid., pp.110-111).

> The drawbacks of such a system are manifold. First, a ministry becomes inextricably identified with the personality of its minister. Its policies, organisation, strength, and dynamism reflect his character and personality. Ministries with long-serving ministers often acquire undersecretaries and directors-general from the same tribe or region as the minister. As time goes on, they become more secretive because public

> scrutiny could expose errors, incompetence, or, in some cases, corruption (ibid., p.111).

Meanwhile, the State acknowledged there are weaknesses in the government's institutions. According to the Supreme Council for Planning in the Eighth FYDP document (2015, pp.15-16), the government institutions could be characterised by: low productivity and inefficacy; a lack of coordination between the ministries; being too big; employing too many people; and inflexibility in laws, regulations and measures.

In conclusion, the absence of genuine institutional reforms that would serve a free market economy, indicates the ability of the extant neo-patrimonial and rentier characteristics to resist fundamental change. These characteristics remained, albeit in a slightly different form, after the establishment of Vision2020, which in turn hindered the achievement of the Vision's objectives with regards to promoting private sector-led growth. The institutional changes were still influenced by the State-led, rent-fuelled development process and the neo-patrimonial structure. While the World Bank report (1994) in its assessment of Oman's challenges suggested a set of comprehensive reforms to move forward with an economic development policy in line with the neo-liberal orthodoxy of economic growth such as narrowing the scope of government and focusing on the more effective discharge of traditional public functions, the structure of the government following the launch of Vision2020 witnessed a large expansion of its institutions and overlap in terms of responsibilities. For example, while previously only a few government institutions, such as the Development Council and Ministry of Development, were responsible for the nation's economic affairs, by 2011, other institutions such as the Ministry of National Economy, the Ministry of Finance, The Financial and Energy Resources Council, the Economic Coordination Council, the Omani Centre for Investment Promotion and Export Development, and the Ministry of Commerce and Industry, had gained responsibilities. In terms of rent-fuelled development process, the government continued to provide cheap government loans which worked against the principles of the neo-liberal approach of reducing State subsidies. For example, in 2013, the government created a government fund (Alraffd Fund) to provide cheap loans to SMEs as a means of support, encouragement and promotion of entrepreneurial growth. Furthermore, evidence of the neo-patrimonial political structure could still be found after the institutional reforms. For example, the creation of Oman's Council that combined the State Council and Shura Council without granting either body any power to hold to account the government for its performance in terms of its political, economic and social plans and achievements. This meant that these Councils were only further machines in the rent distribution process.

5.2 THE HIGH-LEVEL OUTCOMES OF THE FYDPs

The role of this section is to elaborate on the successive FYDPs that followed in the wake of Vision2020. The FYDPs were meant to be the action plans for achieving the objectives set out in Vision2020, in particular those linked to the private sector. Thus, the role of this section is to ascertain if the high-level objectives have been met and to analyse if the State was committed to the Vision. This section enables the research to look more specifically at the outcomes for the private sector and the State in the following two sections and also to discuss the accountability of the State's performance in terms of its management of the whole economic process throughout the rest of the chapter.

The FYDP starting from the Fifth (1996-2000) and ending with the Ninth (2016-2020) were considered to be the successive action plans for achieving the objectives of the Vision2020. Thus, in this section, each plan's objectives and policies taken in support of the implementation of Vision2020 with regards to the role of the private sector are discussed. In addition, the targets and outcomes of relevant economic metrics are highlighted. These metrics include:

- Annual average GDP growth in each plan.
- Annual average growth of the oil sector.
- Annual average growth on the non-oil sector.
- Private sector investment in OMR.
- Private sector share of investment.
- New private sector employment.
- New private sector employment as share of new employment.
- Total private sector employment.
- Of which Omanis.
- Non-oil exports share of total exports.

However, it has to be acknowledged that there are methodological problems with the data which make it difficult to ascertain the exact level of the oil-sector's contribution compared with the non-oil sector's. It appears that the Plans sometimes consider the oil sector as merely the upstream sector, that is crude oil production, but on other occasions it can also include the downstream sector, including refining and petrochemicals and also the gas sector. Similarly, the private sector is not clearly defined, with companies that have joint private and public ownership being included in the private sector. Furthermore, using non-oil exports as a proxy for the private sector is not fully accurate as there is private sector investment in the oil sector, and public-sector investment in the non-oil sector.

5.2.1 The Fifth Five Year Development Plan: 1996-2000

Based on Vision2020's objectives and dimensions, the overall objectives set for the Fifth FYDP were:

- Achieving a balance between the government revenues and spending during the plan period;
- Increasing oil production to reach an average of 880,000 b/d;
- Achieving an average annual GDP growth rate of 4.6%;
- Diversifying national financial resources by increasing the contribution of the non-oil sector to 68.8% of GDP by the end of the Plan;
- Encouraging national and foreign private investment and increasing its contribution to 53.3% of total investment, so as to support the achievement of the private sector objectives within the Vision2020;
- Developing industrial projects linked with natural gas;
- Implementing privatisation plans in service projects according to its regulations and policies;
- Controlling inflation so as not to exceed an annual average of 1.0%; and
- Supporting human resources development by providing it with the required resources and increasing the contribution of national workforce in the labour market by adopting a group of policies and programmes with regards to this aim (Ministry of Development, 1996, pp.286-287).

Unsurprisingly given that both were launched around the same time, these high-level objectives were closely aligned to those of Vision2020. Specifically, for the first of three dimensions, economic diversification, the aim of the plan was to increase the non-oil sector's contribution to 68.6% of GDP in 2000, compared with the starting point of 64.4% of GDP in 1995, with annual average growth of 6.3%. In contrast, oil sector growth was only to be an average 1.1% during the plan (ibid., p.289). These targets were to be achieved by taking several measures, including the utilisation of gas reserves, significantly expanding the petrochemical sector, and raising the productivity of non-oil sectors including agriculture, fisheries and manufacturing and by enhancing the capabilities of the services sectors, such as banks, investment companies and telecommunications (ibid., p.289). The Fifth FYDP also expected to make reforms to investment, taxation and laws and regulations to encourage more foreign investment, especially in the gas and petrochemical sectors and in privatisation projects (ibid., p.289).

In terms of human resource development, a total budget of OMR272m was allocated to support its development. The relevant targets in this dimension included increasing the contribution of the national workforce to 38.9% of the total work force by 2000, up from 35.2% in 1995. It was expected that the investment projects implemented would provide around 149,000 employment opportunities during the plan. Several laws, regulations and initiatives were to be taken to achieve the targets, including controlling the inflow of foreign labour, encouraging Omanis to work in the private sector by reducing the differences in wages between the public and the private sectors, qualifying and training Omanis in line with labour market requirements and developing SMEs as a job provider (ibid., p.294).

The third vital dimension of Vision2020 was enhancing the role of the private sector in order to overcome the problems associated with State-led development fuelled by oil rents. In this context, the Fifth FYDP introduced the policies and measures that were to be taken to support the role of the private sector over the next 25 years. According to the Fifth FYDP, the private sector's share of total investment was to increase to 53.3% over the Plan, compared with 35% in the previous Plan. Thus, total private sector investment was expected to reach OMR3.9bn during the period compared with OMR1.344bn in the Fourth FYDP; an increase of 165.3% (ibid., p.290). As a result, the share of public sector investment was expected to decline to 47% from 65% in the previous Plan.

It was expected that total capital formation (government and private) in the Fifth FYDP would be OMR7.321bn, compared with OMR3.857bn achieved in the Fourth FYDP; an increase of 89.8%. The majority (56.2%) of the planned investment was to go to the hydrocarbon sector. However, it appears that the plan contradicts the aim of economic diversification as the majority of the investment was to go into the new gas sector, which, in turn, would bring in additional income to support economic diversification and sustainable development. Importantly, the private sector was to be involved in the privatisation programme, and for the first time it was to invest in the gas, electricity and water sectors that were previously run by the State.

Turning to the outcomes of the Plan (see Table 5.1), the planned annual average GDP growth in the Fifth FYDP was 4.6% whereas the outcome was 7.5% (Ministry of National Economy, 2001, p.36). The high level of GDP growth was mainly due to the rise of oil prices, especially in the last two years of the plan as average annual oil prices increased to USD17.4/b in 1999 and USD26.7/b in 2000, well above the plan's forecast of USD15/b. This had a positive impact on the performance of the national economy during the plan (ibid., 2001, p.32). For example, the annual average growth of the oil sector growth was only to average 1.1% during the plan (Ministry of Development, 1996, p.289). However, it achieved an annual average growth of 13.0% (Ministry of National Economy, 2001, p.36). In contrast, the non-oil sector was planned to achieve an annual average growth of 6.3%, but only achieved 3.9% (ibid., p.36). The weak performance of non-oil sectors was because of the delay on implementing manufacturing projects related to gas as well the delay on implementing privatisation plans (ibid., p.36). This meant that the economy was still one that lent itself to rent-fuelled development.

Table 5.1: Targets and Outcomes of the Key Metrics in the Fifth FYDP

Measure	Target	Outcome
Annual average GDP growth (%)	4.6%	7.5%
Annual average growth of the oil sector (%)	1.1%	13.0%
Annual average growth on the non-oil sector (%)	6.3%	3.9%
Private sector investment (OMRm)	3,900	1,885
Private sector hydrocarbon investment as % of total investment	44.6%	52.8%
Private sector non-oil investment as % of total investment	29.5%	47.1%
Private sector share of investment (%)	53.3%	38.8%
New private sector employment	161,000	74,000
New private sector Employment for Omanis	93,000	21,700
New private sector employment as share of new employment (%)	n.a.	n.a.
Total private sector employment	628,900	703,400
…of which Omanis	76,500	98,200
Non-oil exports share of total exports (%)	17.6%	18.6%

Source: Ministry of National Economy, The Sixth FYDP, pp.37, 42, 55, 60.

In terms of investment, the slow implementation of the privatisation programme had a negative impact on the flow of private sector investment. The actual private sector investment in the Fifth FYDP was OMR1.885bn, only 51.7% of the planned target of OMR3.9bn (ibid., p.54) and accounted for 38.8% of total investment against the target of 53.3% (ibid., p.55).

Furthermore, much of the private sector investment went into the hydrocarbon sector. According Table 5.2, private sector investment in hydrocarbon sector was OMR665.2m from total private sector investment of OMR1,884.6m, equivalent to 35.3%. Furthermore, the oil sector was still dominating investment activities and diverting investment from the non-oil sector; thereby hindering attempts to diversify the economy.

Table 5.2: Private Sector Investment by Activity During the Fifth FYDP

	1996	1997	1998	1999	2000	Total
Crude oil	123.1	117.3	144.7	128.6	151.5	**665.2**
Natural gas	23.0	86.0	133.5	71.8	17.0	**331.3**
Privatisation program	0.0	0.0	0.0	0.0	0.0	**0.0**
Non-oil activities	186.2	177.9	254.2	99.5	170.3	**888.1**
Total	**332.3**	**381.2**	**532.4**	**299.9**	**338.8**	**1884.6**

Source: Adapted from The Sixth FYDP, Ministry of National Economy, 2001, p.55.

In terms of sectors, the manufacturing sector is used as a proxy for the outcomes of the Fifth FYDP. The share of manufacturing industry also failed to reach its target with an annual average growth rate of 5.4% compared with the planned 6.5% (ibid., p.40). This was despite the increase in loans to the manufacturing sector increasing from OMR65m in 1995 to OMR242.2m in 2000 (ibid., p.40). In addition, although there was an increase in manufacturing non-oil exports from OMR136.5m in 1995 to OMR211.5m in 2000, the annual average growth rate was 9.2% compared with 14.6% planned growth (ibid., p.40). Furthermore, despite the growth of the sector it was very dependent on the State. According to the Ministry of National Economy, State support included:

- Establishing a State-funded project development fund to encourage SMEs to invest in the industrial sector.
- Providing infrastructure for the industry in terms of water, electricity, gas roads in the industrial areas.
- Providing financial support. Total government loans during the plan were OMR134.7m, while total subsides for the loans to industry and tourism were OMR31.0m (ibid., p.42).

Furthermore, constraints faced by the manufacturing sector that were originally identified during the Vision2020 process remained according to the Ministry of National Economy (2001). These included a lack of finance available from the banking sector, inefficient regulation, difficulties in accessing land, a lack of relevant skills amongst Omanis, tensions between diversification and Omanisation policies and weak participation of the private sector in decision-making.

The Fifth FYDP targeted that the private sector would generate 161,000 new job opportunities during the plan (Ministry of Development 1996, p.62). However, 74,500 jobs were generated, of which only 21,700 went to Omanis. Furthermore, by 2000, the expatriate workforce still dominated the total workforce in the private sector, at 83.4%. In this context, according to the Sixth FYDP, the weak contribution of local force in the labour market during the Fifth FYDP was due to:

> The average annual growth rate of total employment for the plan period was only 2.3%, against the target of 3.6% and that is because, most of the investment was capital rather than labour intensive, the implementation of the privatisation program and natural gas-based industries were slow and there was weak performance among non-oil activities in general (Ministry of National Economy, 2001, p.59).

Nevertheless, the numbers of Omani employed in the private sector did increase to 98,200 in 2000 from 76,500 in 1995; an increase of 22.0%.

5.2.2 The Sixth Five Year Development Plan: 2001-2005

Similar to the Fifth FYDP and still in line with Vision2020, the Sixth FYDP included a number of high-level objectives:

- Achieving an annual average rate of growth of GDP of not less than 3%;
- Rationalising government spending;
- Working towards increasing government revenues, especially non-oil revenues and enhancing the State's financial reserves;
- Maintaining the low current inflation rate;
- Increasing economic diversification activities and increasing the non-oil sector's contribution to GDP;
- Developing non-oil exports in goods and services through increasing the size of the sector, improving the quality of their output and developing their structure;
- Developing industries reliant on natural gas; and
- Developing the tourism sector (ibid., p.70).

In terms of economic diversification, the Sixth FYDP planned that the non-oil productive activities would grow at an average annual rate of 5.4%, while oil production activities would contract at an average annual rate of 7.0%. As a result, the non-oil sector would increase its contribution to GDP to 65.3% in 2005 compared with 51% in 2000. In contrast to the oil sector, gas sector growth was expected to grow at an average annual rate of 17.7%, while the manufacturing sector's average annual growth rate was expected to increase from 7.6% in 2000 to 10.3%. In addition, the agricultural and fisheries average annual growth rates were planned to be 2.6% and 3.9% respectively, while tourism services were targeted to increase at an average annual rate of 6.1%.

In relation to human resource objectives, the Plan targeted that non-oil activities would provide around 109,200 new employment opportunities, of which the private sector would contribute 93,200, equivalent to 85.3% of new jobs. The public sector's contribution of 16,000 new jobs would mostly be in the health and education sectors. Supported by investment in qualification and training programmes for Omanis, it was expected that the local workforce would gain around 73% of the total employment opportunities; 68.6% in the new private-sector jobs and 100% in new public-sector jobs (ibid., pp.100-101).

In terms of private sector development, the Plan aimed to: continue implementing privatisation plans; encourage private sector investment; provide a competitive business environment; increase the contribution of the private sector in the GDP through its contribution in the new industrialisation programme that was reliant on natural gas, increasing its activities in the traditional sector and improving its efficiency; increase private savings; and encourage private and foreign investment by providing the best investment environment (ibid., pp.70-71).

The plan aimed to increase the private sector investment to 46.4% of total investment compared with its contribution in the previous plan 37.8% (ibid., p.79). Total planned private sector investment was expected to reach OMR3,105.9m, compared with OMR1,884.6m actual investment in the Fifth FYDP; an increase of 64.8% (ibid., p.160).The share of new private sector investment in the oil sector would decline to 26.6% compared with 35% in the previous Plan. In contrast, the share of new private sector investment in the non-oil sectors and mega-industrial projects would increase to 18.1% and 55.3% respectively, compared with 17.8% and 46.9% respectively from the actual investment during the Fifth FYDP (ibid., p.162).

In terms of the outcomes (see Table 5.3), strong growth of non-oil activities during the Plan resulted in annual average GDP growth of 9.2% exceeding the targeted rate of not less than 3%. The non-oil activities achieved an actual average annual growth rate of 8.9% compared to the planned 5.4%. On the other hand, it was expected that the oil activities would contract by an average annual 6% because of cuts in oil production but the sector recorded a high average annual growth rate of 9.2% as oil prices increased to an annual average of USD50.3/b in 2005 from USD23.0/b in 2001 (Ministry of National Economy, 2006, p.21). The unexpected increase according to the Ministry of National Economy was due to:

- The unexpected quick growth of international demand for oil, which was a result of the improved performance of the international economy especially in the USA, China and the developing market economies.
- The unclear vision about the future development path for oil market, and the speculation based on expectations of pressures in the oil market due to expected growth in demand without an increase in supply adequacy as result of the unavailability of excess capacities due to the weak world-wide investment in the oil sector during the last twenty years, in addition to certain geopolitical factors (ibid., p.23).

Table 5.3: Targets and Outcomes of the Key Metrics in the Sixth FYDP

Measure	Target	Outcome
Annual average GDP growth (%)	3%	9.2%
Annual average growth (contraction) of the oil sector (%)	(6.0%)	9.2%
Annual average growth on the non-oil sector (%)	5.4%	8.9%
Private sector investment (OMRm)	3,105.9	2,445.4
Private sector share of investment (%)	46.4%	25.9%
New private sector employment	109,235	208,400
New private sector employment as share of new employment (%)	84.3%	87.6%
Total private sector employment	685,200	779,500
…of which Omanis	172,500	175,000
Non-oil exports share of total exports (%)	9.6%	8.08%

Source: Ministry of National Economy, the Seventh FYDP, pp.21, 26, 30, 185.

With regards to private sector investment, it was planned to be OMR3,105.9m during the plan; however, again this was not achieved with investment only totalling OMR2,445.4m (ibid., p.26), in part because of the negative impact of 11 September 2001 events on the global business environment (ibid., p.27). Total investment was OMR8,270.4m; thus, the private sector's share of total investment was 25.9%. Nevertheless, private sector investment in non-oil activities increased during the plan, especially in the manufacturing and tourism sectors (ibid., p.28).

Taking the industrial sector as a microcosm of the Sixth FYDP, it achieved higher growth rates than planned. This was largely attributed to the high growth of the LNG industry which achieved an average annual growth rate of 32.8% compared with the planned 15.2%. However, other manufacturing industries failed to achieve their targeted growth rates due to "the main maintenance operations at Oman Oil refinery (Oman Refinery), the slowdown in the implementation of the petrochemical projects and the retreat of the textile industry and its products due to the abolition of the American Quota system" (ibid., p.68). Borrowing from the commercial banks by the manufacturing sector increased from OMR242m in 2000 to OMR309m in 2005. However, sector's share of total credit was still only 8.7% (ibid., p.71).

During the Plan, the State continued to be involved in the market, either through direct involvement in the economic activities or by providing loans for industry. In addition, the State partnered with foreign investors in developing natural gas-based projects, while greater-than-planned State spending was incurred on infrastructure projects such as Sohar Port Industrial Estate. According to the Ministry of National Economy :

> the government investment program for the ongoing and new industrial projects for the plan period increased to about R.O. 38 million compared with the original approved approbation estimated at R.O. 8.5 million. About R.O. 29.6 million were used by the end of the plan (ibid., p.73).

Thus, similar to the previous plan, State support and involvement were the main reasons for the high growth rate of the industrial sector. Thus, the sector was increasing its dependency on the State rather than becoming independent of the State.

In the Sixth FYDP the number of Omanis employed in the private sector jumped from 98,200 in 2000 to 175,000 in 2005. This was largely due to the massive government expenditure on education and training during the Plan compared with the previous one. Furthermore, a number of policies and mechanisms were implemented during the Plan that had a positive impact in increasing the national workforce in the labour market including

- The Department for Planning and Studies was established at the Ministry of Manpower to conduct studies and research concerning different aspects of the labour market.
- The Ministry of Manpower upgraded the role of recruitment offices in the governorates and regions.
- Work on the national labour force record to include both private and public sectors was progressing. This involved coordination between the Ministry of Manpower and other institutions such as the Ministry of Civil Service and the General Authority for Social Insurance to execute the approved policy regarding the establishing of an integrated database for the Omani labour market.
- Concerned institutions were executing the recommendations of the Third Seminar for National Labour Employment which comprised defined proposals to realise the approved Omanisation rates and the minimum limit for wages in the targeted sectors.

- A unified regulation was formulated for the recruitment of the national labour force in electrical power generation and desalination stations within the framework of the policy for adjusting the status of the Omani labour force affected by privatisation.
- The Ministry of Manpower in collaboration with the International Labour Office (ILO) conducted a study on the social insurance system to broaden its umbrella to include self-employed in the private sector, unregulated sectors and expatriate labour force. The registered number of Omanis in the Public Authority for Social Insurance increased to 43,000, recording a high average annual growth rate of 12.1% (ibid., pp.188-189).

These factors helped to open opportunities for the national work force to work in the private sector. Moreover, in an example of the continuing rentier mentality, the State-funded self-employment programme, Sanad, added 17,200 employment opportunities for the national labour force during the plan period (ibid., 2006, p.187).

However, over the Sixth Plan there was also an increase in the foreign workforce in the private sector to 604,500 in 2005 from 494,700 in 2000. This was due to an increase in the growth in non-oil activities due to strong domestic and foreign demand (ibid., p.187). Nevertheless, the Omani share of total private sector employment was 22.5% by 2005, having been 16.6% in 2000; although this was slightly below the FYDP target of 25.0%.

5.2.3 The Seventh Five Year Development Plan: 2006-2010

The overall objectives of the Seventh FYDP were similar to the previous FYDPs and aim:

> to achieve prosperity for the Omani people, raise their life quality, and the advancement of the country by expanding development prospects in all its dimensions; and in accordance with the long-term development strategy (1996-2020) and its dimensions, together with the continuance of the efforts exerted during the Fifth (1996-2000) and Sixth (2001-2005) Plans to achieve its objectives (ibid., p.279).

The main objective of the plan was to achieve annual growth rates of 5.5% but not less than 3%, with particular attention to economic diversification plans by developing the tourism, fisheries and manufacturing sectors. It also aimed to encourage domestic and foreign investment to support the role of the private sector and implement the privatisation programmes (ibid., p.279). Similar to the previous plans, the Seventh FYDP set a number of targets to be achieved including the contribution of the non-oil sectors to GDP, the contribution of the private sector investment to GDP and privatisation programmes and provide employment opportunities for the national workforce.

In terms of economic diversification, the aim was to increase the contribution of the non-oil sectors to GDP and consequently decrease the oil sector's share of GDP. Accordingly, it was expected that the oil sector would decrease to 34.0% of GDP by the end of the Plan, compared with its contribution of 48.8% in 2005. In contrast, non-oil activities were expected to contribute 68% of GDP by 2010, compared with 51.2% in 2005 (ibid., p.293).

In terms of human resource development, the State was to continue to invest in education with the aim of building human capital and development. The plan aimed to provide total new work opportunities of 214,500. This was largely to be achieved through its "investment programme, activation of Omanisation and replacement programmes, upgrading education services, conformity between the education system outputs and labour market needs, and intensifying the qualification and training processes" (ibid., p.282). Moreover, the expansion of private sector economic activities was expected to generate further jobs in the economy for Omanis.

In accordance with the Vision2020 strategy on promoting the private sector as the main engine of economic growth, the Seventh FYDP aimed "to develop the private sector and furthering its role in the national economy by encouraging local and foreign private investments" (ibid., p.287). This was to be achieved through increasing domestic savings, developing the financial institutions, furthering the capital market's role in mobilising savings and the funding of investment, amending financial and commercial regulations and legislation to attract domestic and foreign private investments, and promoting more privatisation projects. The plan also aimed to enhance the role of SMEs through the provision of funding, technical and managerial support (ibid., p.288).

It was expected that the total private sector investment would reach OMR6bn during the Plan, compared with OMR3.1bn planned and OMR2.1bn actual investment in the previous Plan. The private sector was expected to contribute 42.4% of total investment, of which foreign investment's share was to be 64.5% (ibid., p.288). In contrast, the total public-sector investment was expected to fall to 57.6% on average compared with 71.4% in the Sixth FYDP (ibid., p.299). Significantly, although there was planned to be an increase in private sector investment, public-sector investment was still expected to be the lion's share of total investment.

With regards to the sectoral distribution of private sector investment programme in the Plan, it was expected that the commodity sector would receive the majority of private sector investment (69.7% of total investment). The service sector was planned to receive 29.5% of the total investment. Therefore, it is clear that commodity production, which includes crude oil, and mega-industrial projects were to attract most private sector investment.

In terms of the outcomes, unlike the previous FYDPs, the government did not publish an evaluation document of the outcomes of the seventh FYDP. Evaluations appeared in a speech presented by the Minister of National Economy in January 2011 for ratification of the Eighth FYDP and general budget for 2011 (Ministry of National Economy, 2011). This was set against the background of the outbreak of the 'Arab Spring' and youth demonstrations in Oman demanding employment opportunities, and that economic and political reforms be made. Accordingly, Sultan Qaboos took several measures including reshuffling of the cabinet and the replacement of the Ministry of National Economy by the Supreme Council for Planning, which took on the role of economic planning. In addition, in 2012, an independent National Centre for Statistics and Information (NCSI) was established, which was previously a department under the Ministry of National Economy. These changes hindered the evaluation of the national economic performance. Thus, this evaluation of the performance of the Seventh FYDP is mainly extracted from the Minister of National Economy speech.

As highlighted in Table 5.4, an average annual growth rate of 6.3% at constant prices was achieved against the target of 5.5% but not less than 3% annual growth of GDP (ibid., p.15). According Ministry of National Economy (ibid., p17), the non-oil sectors recorded average annual growth of 14.6% compared to the planned 7.8%. Similarly, oil activities witnessed an average annual growth rate of 11.2% compared to a planned contraction of 4.8% (ibid., p.15). This was driven by the increase in oil prices, which reached an annual average of USD72/b against the planned USD30/b, and the resulting expansionary fiscal policies which drove the expansion in production capacities of the non-oil activities (ibid., p.16).

In terms of private sector growth, the sector's value-added at current prices grew by an annual average of 14.9% compared with the planned 8.8% (ibid., p.19). The growth was largely the result of an increase in FDI. FDI recorded a steady increase during the Plan period from OMR2,199m in 2006 to OMR5,029m in 2009; it was only OMR929m in 2003 (ibid., p.19).

Table 5.4: Targets and Outcomes of the Key Metrics in the Seventh FYDP

Measure	Target	Outcome
Annual average GDP growth (%)	5.5%	6.3%
Annual average growth (contraction) of the oil sector (%)	(4.8%)	11.2%
Annual average growth on the non-oil sector (%)	7.8%	14.6%
Private sector investment (OMRm)	5960.1	n.a.
Private sector share of investment (%)	42.4%	n.a.
New private sector employment	189,000	354,500
New private sector employment as share of new employment (%)	n.a.	91.9%
Total private sector employment	779500	1,134000
…of which Omanis	175000	177716
Non-oil exports share of total exports (%)	n.a.	17.3%

Sources: Ministry of National Economy, The Seventh FYDP, pp.185, 290, 298, 299; National Centre for Statistics & Information, Statistical Year Book, Oman: p.93.

Again, the industrial sector is used as a proxy for the private sector during the Seventh FYDP. The mining and quarrying (i.e. oil) sector achieved average an annual growth rate of 26.6% in 2010, compared with planned growth of 8.4%. Similarly, the manufacturing of refined oil products and petrochemicals grew on average 18.4% per year and 23.2% per year respectively (ibid., p.18). However, while the ministry's report above indicates growth of 18.4% in 2010 compared with the 11.0% planned, this figure is misleading. This is because the electricity and water sector and construction sector were included in the report in the industrial sector, whereas in the Plan they were included in the service sector, as these sectors recorded actual average annual growth of 26.3%, this distorted the figures. Moreover, both sectors benefited from massive State spending as the government continued to invest in infrastructure projects such as water, electricity, roads and ports, which does not reflect an increase in industrial performance.

In terms of private sector investment, there is a lack of data. However, according to the Ministry of National Economy "The foreign direct investment registered a steady increase during the Plan Period. It increased from R.O 929 million in 2003 to R.O 2199 million in 2006 and then to R.O 5029 million in 2009" (ibid., p.19).

During the Seventh FYDP, there was a huge surge in the total number of jobs generated in the private sector; 354,200 jobs compared with 186,600 created in the Sixth FYDP, an increase of

90%. However, most jobs went to the foreign workforce, which accounted for 351,500 jobs compared with only 2,716 jobs for Omanis. This low share for the local workforce could be because of the characteristics of a Rentier State which provides public-sector jobs to the national workforce and at the same time the rentier mentality of Omanis which meant they sought work in the public sector. In this context, according to the NCSI, the State provided 30,970 jobs for locals in the public sector, mainly in the civil sector, during the plan (2016, pp.93-94). However, this excludes public sector jobs in the military sector, the numbers of which are not published publicly but are significant. Thus, although there were significant opportunities in the private sector, Omanis preferred to work in the public sector. Thus, despite the Omanisation policy, the labour market was still dominated by the expatriates who accounted for 87.3% of the total workforce in the private sector.

5.2.4 The Eighth Five Year Development Plan: 2011-2015

Similar to previous plans, the Eighth FYDP emphasised promoting economic growth by:

> striving to realize annual growth rates of not less than 3% at constant prices for the Plan period. This is through stimulating domestic demand, development of exports, encouragement of investment, formulation of a strategy to increase productivity, optimal exploitation of the natural wealth, production capacities and the established infrastructure (Supreme Council for Planning, 2011, p.7).

It also aimed to provide new employment opportunities for the national workforce and continue to develop non-oil sectors such as tourism, agriculture and fisheries. Industrial strategy was to be implemented in sectors related to the "development of IT, software, e-business of intensive knowledge, petrochemicals, free-zones trade, assembly and re-export industry and tourist industries" (ibid., p.7). Thus, the promotion of economic diversification changed direction by promoting sectors related to hi-tech products. With regards to promoting the role of the private sector in the national economy, the Plan emphasised stimulating domestic private sector investment and furthering the national economy's competitiveness to attract foreign investment, at a time when FDI was declining globally. Efforts were also to be taken to support the role of SMEs by increasing the demand for their products and services from mega-companies (ibid., pp.9-10). The following paragraphs highlight the Plan's intention for the three pillars of economic diversification, human resource development and private sector development.

In accordance with the aim of enhancing economic diversification during the plan, it was expected that the non-oil sector would increase its contribution from 70.2% of GDP at fixed prices in 2010 to 74.5% in 2015 (ibid., p.27). Nevertheless, the highest contribution to GDP from a non-oil sector would still be the services sector, contributing 43.1% to GDP compared up from 37.1% in 2010 (ibid., p.29). In contrast, contributions from crude oil and natural gas were expected to fall, reducing the hydrocarbon sector's share of GDP from 47.6% in 2010 to 40.4% in 2015. In order to accelerate the speed of economic diversification, it was expected that the total investment would be OMR30,131.9m during the Plan compared with OMR27,027.1m during the previous FYDP; an increase of 11.5% (ibid., p.32).

The Plan expected to provide 237,500 new work opportunities, which was largely to be achieved by the expansion of opportunities in the private sector. Furthermore, it was expected that the total private sector investment would be OMR10.3bn during the Plan, compared with OMR6.0bn in the previous plan; an increase of 72.1% (ibid., p.106). However, this still only accounted for 34.1% of total investment. Private sector investment in the crude oil sector was expected to account for 33.6% of its investment. In terms of sectors, the commodity sector was expected to account for the majority of the investment, with 60.2% of total investment, while the service sector was expected to account for 38.3% of total investment (ibid., p.107).

Table 5.5: Targets and Outcomes of the Key Metrics in the Eighth FYDP

Measure	Target	Outcome
Annual average GDP growth (%)	3%	3.3%
Annual average growth of the oil sector (%)	1.4%	2.3%
Annual average growth on the non-oil sector (%)	5.9%	5.8%
Private sector investment (OMRm)	10257.4	n.a.
Private sector share of investment (%)	34.14%	46%*
Private sector hydrocarbon investment as % of total investment	33.6%	n.a.
Private sector non-oil investment as % of total investment	66.4%	n.a.
New private sector employment	227,500	712,000
Total private sector employment	1,134,000	1,846,000
…of which Omanis	15.7%	11.4%
Non-oil exports share of total exports (%)	20.3%	18.1%

Note: * Private sector share of investment is in macro investments only
Source: Supreme Council for Planning, The Eighth FYDP, pp.22, 33; The Ninth Five-Year FYDP, p.40; National Centre for Statistics & Information, Statistical Year Book 2017, pp.217-218.

Towards the latter part of the Eighth FYDP there was sharp drop in oil prices, which fell from an annual average of USD109.6/b in 2012 to USD56.45/b in 2015. This reflected negatively on the performance of the national economy (ibid., p.24), as well as the ability of the State to fund its expenditure plans from oil revenues. In the first four years of the plan, oil revenues accounted for over 80% of State expenditure, but in 2015 this figure fell to 52.1% as the State failed to cutback significantly on its spending plans; in 2014 government expenditure was OMR15.2bn, where as in 2015 it only fell to OMR13.7bn. This affected the outcomes of the Plan (see Table 5.5).

Overall, the economy recorded average annual real GDP growth during the plan of 3.3%, compared with the planned 3%. In terms of the performance of the oil and non-oil sectors, non-oil activities outperformed oil activities, growing at an average annual 5.8% in real terms compared with 2.3% for oil (Supreme Council for Planning, 2016, pp.24-25). According to the Ninth FYDP:

> Regarding the private sector, it did not witness significant growth and development, especially in establishing productive projects in the areas of economic diversification. Its activity continued to rely on government expenditure in the oil sector and on infrastructure. Therefore, the activity of the private sector focused in service areas and not in producing tradeable commodities and did not provide real work opportunities for citizens; rather, it depended on the expatriate workforce, particularly in the areas of construction, and wholesale and retail trade. Overall, there has been an increase in the sector share in GDP to more than 50% from the total share of non-oil sectors in GDP.
>
> In the areas of economic diversification, many manufacturing activities relied on the oil and gas sector. Therefore, much of what it achieved in terms of added value is limited to depletable resources that did not contribute to diversify the production base, and which were supposed to be independent of the oil sector. In addition, the sector's role in employment of citizens remained limited due to its technical nature. Thus, it is clear that the 8th Plan did not achieve many of its objectives in economic diversification. Oil revenues continue to constitute about 80% of total revenues of the State general budget, and proceeds from oil exports formed about 70% of commodity export returns. Economic diversification activities were dependent on government expenditure and in non-tradable sectors such as construction, transport, communication and trade. They did not target production sectors that can contribute to increasing exports, and instead focused on low-productivity operations. Therefore, dependence was primarily on the low-paid expatriate workforce. Further, the economic diversification activities did not contribute to provision of suitable work opportunities for citizens.
>
> The labour market is considered the most far removed from the targeted path among the main sectors. The employment structure is imbalanced to a large extent. Expatriates comprise about 75% of the total employed in the civil sectors, where their number, in mid-2015, reached around 1.6 million. This comes at the time of

> increased numbers of citizens entering the labour market annually with the number of those searching for employment reaching 140,000 in mid 2015 (ibid., pp. 27-28)

As the Eighth FYDP started against the background of peaceful protests by young Omanis primarily demanding better employment opportunities (Ennis, 2014, p.12;Worrall, 2012, p.1), the State responded with a range of policies including offering 50,000 new public-sector jobs, a monthly allowance of OMR150 (USD390) to job seekers and increasing pensions and social security for government employees (Ennis, 2014, p.12). This, in turn, created further distortions in the labour market and undermined the Vision2020 objectives of creating jobs for Omanis in the private sector (ibid., p.13).

It was expected that 236,500 new work opportunities would be created during the Plan, largely in the private sector. However, according to The National Centre for Statistics and Information private sector employment actually increased by 712,000, compared with 354,500 jobs in previous plan; an increase of 101% (2016, pp.93-94). However, again these new jobs went primarily to foreign workers, as a result total Omani employment in the private sector increased to 209,620 compared with 177,716 in 2010, failing to reach the targeted 15.7% of total private sector jobs.

5.2.5 Summary of the Outcomes of the FYDPs to 2015

The outcomes of the FYDPs to 2015 compared with the targets set show that the broad objectives of Vision2020 were in general not being met by the end of the Eighth FYDP. The dependency of Oman's economy on oil revenues continued after the establishment of Vision2020 as the State failed to achieve its objective of diversifying its economy away from oil rent. In the Vision2020 objectives, it was planned that by 2020, the share of the hydrocarbon sector in total GDP would be 19%, down from 35% in 1995. However, by 2015, the hydrocarbon sector had increased its share to 52% of GDP. Moreover, in terms of oil revenues relative to total government revenues, these accounted for more than 78.7% by 2015. Further evidence of rent-fuelled development was that government spending was still rising sharply before oil prices collapsed in 2014; in 2014 total expenditure reached OMR15,171.8bn compared with OMR13,990.2bn in 2013. In addition, evidence of the continuing Rentier State behaviour was apparent through employment in the public sector. The ratio of Omanis working in the public sector at the end of the Fifth FYDP had increased from 73% in 1993 to 74% in

2000, while there was a decrease in the Omani share of private-sector employment to 16.6% in the same period. The share of the national labour force in the public sector continued to increase in the following FYPDs, reaching 84.7% in 2015, compared with only an 11.3% share in the private sector. Moreover, in 2011 in a response to youth anger, the government provided 50,000 unplanned jobs in the public sector, which added pressure to an already strained government budget and signalled a further drift from the original Vision2020 objectives.

Furthermore, as was seen in Section 5.1, the institutional reforms that took place after the launch of Vision2020 were not sufficient to hold the government to account. They were characterised by personalism, informality and lack of efficiency; thus, the actual institutions of the State became 'hollow'. Moreover, despite the government's failure to achieve its Vision2020 objectives, limited ministerial change occurred between 1995 and 2011. For example, many of the ministers responsible for national economic affairs remained in the cabinet despite the shortfall in the FYDPs outcomes. This, in turn, affected the outcomes for the private sector as is discussed more fully in the next section.

5.3 OUTCOMES FOR THE PRIVATE SECTOR UNDER VISION2020 AND THE FYDPs

This section deals with the impact of the successive FYDPs on the performance of the private sector overall as defined in the Omani context in Section 2.5.1 in Chapter Two, in relation to the targets set for it in the Vision2020. To do so, the analysis focuses on the growth of private sector companies in the period, private sector investment, the banking sector, exports and private sector employment.

5.3.1 The Growth of Companies in the Private Sector

According to NCSI's *Statistical Year Book 2017*, the total number of registered commercial firms in the country was 344,043 at the end of 2016. This was an increase of 464.1% from the total registered companies in 1995 at the launch of Vision2020 (see Table 5.6).

Table 5.6: Total No. of Registered Enterprises by Capital, 1995 and 2016

Capital (OMR '000)	Number of Registered Enterprises		% Increase
	1995	2016	
Less than 10	39,493	135,326	242.7
10-20	21,932	67,867	209.4
20-50	5,075	83,080	1537.0
50-100	4,630	16,907	265.2
100-250	2,226	26,051	1070.3
250-500	534	12,661	2271.0
500-1000	n.a.	1,149	2271.0
1000-2000	76	372	389.5
2000-3000	30	169	463.3
3000-4000	26	75	188.5
4000-5000	11	44	300.0
Over 5000	94	342	263.8
Total	**74127**	**344,043**	**464.1**

Sources: Adapted from Source: Ministry of National Economy, Statistical Year Book 1995, p.210; The National Centre for Statistics & Information, Statistical Year Book 2017, p.207

Table 5.7: Number of Commercial and Industrial Firms by Governorate, 2014

Governorate	Total Commercial Firms	Total Industrial Firms
Muscat	88,243	771
Dhofar	41,449	231
Musandam	14,864	17
Al Buraymi	10,619	166
Ad Dakhiliya	12,649	184
Al Batinah North	44,071	676
Al Batinah South	20,859	166
Ash Sharqiyah South	19,505	145
Ash Sharqiya North	18,818	93
Adh Dhahira	11,067	54
Al Wusta	4,425	15
Total	**286,569**	**2,518**

Source: The National Centre for Statistics & Information, Statistical Year Book 2015, p.227.

However, industrial firms accounted for only a small number of registered companies; in 2014 there were 2,518, less than 1% of total registered companies in that year (see Table 5.7). The highest number of commercial firms (30.8%) were located in the governorate of Muscat (which houses the capital of Oman). The second highest number of commercial firms were located in Dhofar, accounting for 14.5%. In addition, Muscat had the highest number of industrial firms accounting for 30.6% of industrial firms, while Al Batinah North had the second highest number of industrial firms (26.8%). In terms of activities, most of the industrial companies are concentrated in other manufacturing which also has attracted the highest investments. The second largest number of industrial companies are in the food, beverage and tobacco sector. However, in terms of average size of company, those in the non-metallic mineral product sector (i.e. the hydrocarbon sector) were the highest capitalised, followed by firms in the base metals sector (see Table 5.8).

Table 5.8: Registered Industrial Companies by Investment and Sector, 2014

Industrial Activity	Total Investment (OMR '000)	No. of Companies	Average Investment per Company (OMR '000)
Food, Beverages & Tobacco	441,478	454	972
Spinning, Weaving Fishing Textiles & Leather	182,716	82	2,228
Wood & Wood Products including Furniture	105,712	164	644
Paper & Paper Products, Printing & Publishing	119,419	121	987
Chemicals & Chemical Products, Products of Petroleum & Coal	5,977,436	330	18,113
Non-Metallic Mineral Products	2,110,351	65	32,466
Basic Metal Industries	2,110,351	71	29,723
Fabricated Metal Products	2,905,357	321	9,051
Other Manufacturing Industries	10,471,423	910	11,507
Total	**24,424,243**	**2,518**	**9,303**

Source: The National Centre for Statistics & Information, Statistical Year Book 2015, p.226.

The data in Table 5.7 reveals how skewed the private sector is towards trading companies, which account for over 99% of registered companies. This highlights how the private sector is oriented towards exchange and not production; a classic sign of a rentier economy. Furthermore, as highlighted during the interviews, Omanis often just rent their trading licences to foreigners, instead of managing the companies themselves, providing further proof of the continuing and deeply embedded rentier mentality which Vision2020 was supposed to reduce. Furthermore, as illustrated in Table 5.8, at the end of 2014, much of the private sector investment was in sectors that are linked with hydrocarbon products. This provides further evidence of how the economy as a whole is still dependent on the hydrocarbon sector, which highlights the failure of Vision2020 to diversify the economy.

5.3.2 The Growth of Private Sector Investment

According to Vision2020, private-sector investment was expected to increase from 4.4% of GDP in 1995 to 31% in 2020, while public-sector investment was to fall from 10.1% of GDP to 3% in the same period (Oman, 1996, p.185). In each of the successive FYDPs targets were set for private and public investment. The assessment of the outcome for the private sector is based on official data in relation to the private sector's share of gross fixed capital formation. Investment (i.e. gross fixed capital formation) adds to the productive capacity of a society measured by GDP. On the demand side, investment creates demand for goods and services required for projects, and on the supply side it adds to the capital accumulation and hence increases supply. Table 5.9 shows Oman's gross capital formation between 1995 and 2015.

Table 5.9: Gross Capital Formation at Current Prices, 1995-2015 (OMRm)

Items	1995	2000	2005	2010	2015
Building and Construction	312.3	457.1	1,222.2	3,341.7	5,265.3
Machinery and Equipment	278.2	540.5	1,112.4	2,083.3	1,240.9
Intangible Fixed Assets	200.9	161.3	296.6	666.6	1,057.4
Total Gross Fixed Capital Formation	**791.4**	**1,158.9**	**2,631.1**	**6,091.6**	**7,563.6**
GDP	5288.2	12,314.6	20,951.1	41,782.5	56,887.9
Gross Fixed Capital Formation as % of GDP	**14.9**	**9.4**	**12.6**	**14.6**	**13.3**

Sources: Adapted from The National Centre for Statistics & Information, Statistical Year Book 2013, p.330; The National Centre for Statistics & Information, Statistical Year Book 2017, p.310; Ministry of National Economy, Statistical Year Book, 1998; Central Bank Of Oman, Annual Report, p.11.

Oman's gross fixed capital formation increased strongly through the successive FYDPs from OMR791.0m in 1995 to OMR7,563.6m in 2015. Despite, the importance of the hydrocarbon sector, non-oil sector investment was consistently over 65% of total investment in each of the plans (see Table 5.10). However, drilling deeper into the data, outside of the oil sector, the largest investor was public administration and defence (i.e. part of State expenditure).

Table 5.10: Breakdown of Gross Fixed Capital Formation, 2000-2015 (OMRm)

	2000	2005	2010	2015
By Sector				
Oil Activities of which	374.4	775.5	1,789.1	2,589.9
Crude Petroleum	344.7	604.3	1,501.8	1,919.2
Natural Gas	29.7	171.2	287.3	670.7
Non-Oil Activities	784.5	1,855.6	4,302.5	4,973.8
Total Gross Capital Formation	**1,158.9**	**2,631.1**	**6,091.6**	**7,563.6**
By Economic Activity				
Agriculture and Fisheries	12.6	9.1	10.1	10.5
Mining and quarrying	378.0	780.1	1,803.4	2,610.7
Manufacturing	70.0	551.5	1,035.8	1,112.0
Electricity, and water supply	94.2	121.9	351.0	605.7
Construction	10.4	69.2	116.0	182.8
Wholesale and retail trade	42.3	42.4	137.4	225.2
Hotels and restaurants	6.3	22.6	32.9	35.8
Transport, storage and communications	64.8	151.4	443.2	298.5
Financial intermediation	17.5	19.3	100.4	83.2
Real estate, renting and business activities	212.4	314.7	424.2	527.7
Public administration and defence	185.5	346.1	1,090.8	1,168.1
Education	25.5	61.3	122.7	295.5
Health	12.6	47.4	61.3	54.6
Other community, social and personal service	26.2	94.3	362.3	343.6
Total Gross Capital Formation	**1,158.9**	**2,631.1**	**6,091.6**	**7,563.6**

Sources: The National Centre for Statistics & Information, Statistical Year Book 2013, pp.344-345; The National Centre for Statistics & Information, Statistical Year Book 2017, p.317.

In terms of private-sector investment, this was OMR409m in 1995, accounting for 46.0% of total investment. In the Fifth and Sixth plans, private sector investment as a share of total investment grew to reach 64.8%, highlighting that these two plans did follow the objectives of Vision2020 in increasing private sector activity. However, during the final two FYDPs, private sector investment, although increasing in absolute terms fell as a share of total investment to 56.2%; albeit this figure was still above the 1995 starting point (see Table 5.11).

Table 5.11: Private Investment 1995-2015

	1995	2000	2005	2010	2015
Private Investment	409	420	1,784	3,495	4,248
Private Investment as % of Total Investment	46.0	46.1	64.8	57.4	56.2

Sources: Adapted from The National Centre for Statistics & Information, Statistical Year Book 2013, p.330; The National Centre for Statistics & Information, Statistical Year Book 2017, p.310; Ministry of Development, Basic Components and Main Indicators of the Fifth FYDP p.29.

5.3.3 The Banking Sector in Oman

This section looks at two aspects of the banking sector in Oman. First, the structure of the sector in terms of local and foreign banks; and private and public shareholdings. The second part assesses the role of lending to the private sector since the launch of Vision2020.

Table 5.12: Financial Institution Indicators, 1995-2015

Item	1995	2000	2005	2010	2015
No. of Licenced Banks	21	20	16	19	20
No. of Branches	299	358	364	466	508
Bank Lending (OMRm)	1,407	2,981	3,896	10,724	18,316
Increase in banking from previous FYDP	n.a.	118.9%	30.7%	175.3%	70.8%
Loans Approved by Housing Bank (OMRm)	20.2	21.0	20.0	42.0	79.0
Increase (Decrease) in Housing Bank Loans from previous FYDP	n.a.	3.8%	(4.6%)	110.0%	88.1%
Loans Approved by Oman Development Bank (OMRm)*	19.9	8.3	3.2	36.9	46.2
Increase (Decrease) in Oman Development Bank Loans from previous FYDP	n.a.	(58.3%)	(61.4%)	1053%	25.2%

Note: * The Oman Bank for Agriculture & Fisheries and The Oman Development Bank were merged in April 1997.
Sources: The National Centre for Statistics & Information, Statistical Year Book 2013, pp.370-371; The National Centre for Statistics & Information, Statistical Year Book 2017, p.344.

The banking sector in Oman has modernised considerably over the last 20 years. Their main activities include traditional banking, bond dealing, insurance, leasing and money lending. However, the number of licenced banks operating in the country has been relatively stable since 1995 at around 20, despite there being six new entrants, but the number of branches has increased significantly from 299 in 1995 to 508 in 2015 (see Table 5.12). At the end of 2015, there were two wholly State-owned banks (Oman Development Bank and Housing Bank), nine foreign banks and the rest are local banks that are divided into seven commercial and two Islamic banks (see Table 5.13).

Table 5.13: Banks Operating in Oman as at end of 2015

	Year of Establishment	Offices Authorised	Offices Operating
Local Commercial Banks			
National Bank of Oman	1973	62	62
Oman Arab Bank	1973	59	59
HSBC Bank Oman	1975	71	71
Bank Muscat	1981	133	133
Bank Dhofar	1990	63	63
Bank Sohar	2007	27	26
Ahlibank	1997	13	13
Foreign Commercial Banks			
Standard Chartered Bank	1968	3	3
Habib Bank Ltd	1972	7	7
Bank Melli Iran	1974	1	1
National Bank of Abu Dhabi	1976	9	9
Bank Saderat Iran	1976	2	2
Bank of Baroda	1976	4	4
State Bank of India	2004	1	1
Bank of Beirut	2006	5	5
Bank Qatar National	2007	6	6
Specialised State Banks			
Oman Housing Bank	1977	9	9
Oman Development Bank	1977	14	14
Local Islamic Banks:			
Bank Nizwa	2012	11	11
Al Izz Islamic Bank	2013	8	6
Total		**508**	**505**

Source: The National Centre for Statistics & Information, Statistical Year Book 2016, p.355.

The banking sector is a classic example of the deep Rentier State structure and the neo-patrimonial state-business relationship in Oman. Most local commercial and Islamic banks are owned either by groups associated with the main business families (the merchant elite) or State-owned entities such as pension funds (see Table 5.14). For example, the State holds almost 40% of the shares in Bank Muscat, 10.4% in Bank Dhofar and 14.57% in Bank Sohar. In terms of leading businesses, Oman International Development & Investment Company owns 51.0% of the shares in Oman Arab Bank. In the case of Dhofar Bank, Dhofar International Development and Investment Company holds 28.0% of the total shares.

Table 5.14: Ownership Structure of Omani Banks

Bank	Major Shareholders	% Share Omani and non-Omani
National Bank of Oman	Commercial Bank of Qatar (34.90%) Suhail Bahwan Group (Holdings) LLC (14.74%) Civil Service Employee Pension Fund (11.36%)	Omani (63.09%) Non-Omani (36.91%)
Oman Arab Bank	Oman International Development & Investment Co. (owned by leading business group) (51.0%) Arab Bank PLC (49.0%)	Omani (51.0%) Non-Omani (49.0%)
Bank Muscat	Royal Court Affairs (State institution) (23.63%) Dubai Financial Group LLC (12.37%) Ministry of Defence Pension Fund (6.49%) Civil Services Pension Fund (5.20%). Public Authority for Social Insurance (4.27%) Muscat Overseas Group (A leading business group) (3.88%)	Omani (71.34%) Non-Omani (28.66%)
Bank Dhofar	Dhofar International Development and& Investment Company Co. SAOG (A leading business group) (28.0%) Eng. Abdul Hafidh Salim Ragab Al Aujaili and his related companies (ex-minister) (21.0%) Civil Service Employees' Pension Fund (10.40%)	Omani (98.75%) Non-Omani (1.25%%)
Bank Sohar	Oman Investment & Finance Co. SAOG (15.13%) Royal Court Affairs (State institution) (14.57%)	Omani (98.03%) Non-Omani (1.97%)
Ahli Bank	Ahli United Bank BSC (AUB) (35%)	Omani (50.98%) Non-Omani (49.02%)
HSBC Oman	HSBC Middle East Holdings BV (51.1%) Omar Bin Abdul Muneim Al-Zawawi (Minister and Businessperson) (1.02%) Parametric Portfolio Associates LLC (0.19%) Black Rock Fund Advisors (0.16%) Bank Muscat SAOG (0.057%) Bank Muscat SAOG (Investment Management) (0.057%)	Omani (47.03%) Non-Omani (51.0%)
Bank Nizwa	Al Ghadeer Investment (8%) Civil Pension Fund (6.847%) Diwan of Royal Court Pension Fund (5.0%)	Omani (97.48%) Non-Omani (2.25%)
AlAzz Bank	Abar Investment Company (20.0%) First Energy Oman (15%) Tasameem Real Estate Company LLC (15%). Huriah Company LLC (Owned by a member of the Royal Family) (10%) Al Khonji Holding LLC (leading group business) (6.77%) Civil Service Employees Pension Fund (5.52%)	Omani (48.92%) Non-Omani (51.08%)

Source: Muscat Securities Market, 2016.

This has created an oligopolistic banking sector that creates at least three problems for the business operating environment. First, it is difficult for new players to enter the market. For example, most foreign banks have been operating in the country since the 1970s; only three foreign banks have been allowed to operate in Oman since then. Second, small and medium private sector enterprises find it difficult to obtain access to finance. Third, when the State owns a significant portion of a bank's shares, then lending decisions tend to become politically driven and not motivated by the market. In the case of Oman with its neo-patrimonial socio-political structure in which personal contacts are highly important, bank officials tend to lend to people with whom they have close ties.

Bank lending by the commercial banks increased significantly from OMR1.4bn in 1995 when Vision2020 was launched to OMR18.3bn at the end of Eighth FYDP in 2015 (see Table 5.15). The largest increases came in the Fifth FYDP (118.9%) and the Seventh FYDP (173.3%). Even in the Sixth FYDP, during which oil prices fell sharply, overall bank lending increased by 30.7% across the period of the plan. Lending by the two specialised State banks contracted between the launch of Vision2020 to the end of the Sixth FYDP, indicating that the neo-liberal agenda of allowing market forces to prevail in the economy appeared to be being followed at that time. However, in the Seventh and Eighth FYDPs lending by the two institutions grew rapidly, with lending by the Oman Development Bank growing faster than total bank lending in the Seventh FYDP and lending by the Housing Bank outperforming total bank lending in the Eighth FYDP. Nevertheless, total lending by the two specialised banks was small in comparison to bank lending by the commercial banks.

As illustrated in Tables 5.15 and 5.16, the construction sector was amongst the fastest growing in terms of lending, particularly between 2005 and 2015 when it grew by 716%. The construction sector was targeted to be the largest sector by lending in each of the FYDPs because of the huge volume of government spending on infrastructure projects. Mining and quarrying and manufacturing were also fast-growing sectors in terms of lending, growing by 3,749.5% and 2,143.2% respectively between 1995 and 2015. While it is not clear what type of projects were linked with the mining and quarrying and manufacturing sectors, both sectors were highly dependent on the hydrocarbon sector. Thus, indirectly, the hydrocarbon sector continued to play a key role in the growth of bank lending.

Table 5.15: Commercial Bank Lending by Economic Activity, 1995-2015 (OMRm)

Economic Activities	**1995**	**2000**	**2005**	**2010**	**2015**
Agriculture & Allied Activities	10.0	30.0	40.2	40.6	57.6
Mining & Quarrying	21.0	74.0	109.0	579.1	808.4
Manufacturing	65.0	242.0	309.0	853.1	1,458.1
Electricity, Gas & Water	9.0	15.0	160.6	340.0	758.4
Construction	126.0	205.0	256.0	1,078.1	2,089.4
Trade of which	n.a.	n.a.	597.9	1,248.2	1,724.3
Imports	375.0	381.0	394.6	637.9	1,078.6
Exports	n.a.	10.0	10.0	11.5	13.8
Wholesale & Retail Trade	n.a.	168	193.5	598.8	631.9
Transport & Communication	19.0	42.0	44.9	264.5	999.9
Financial Institutions	54.0	241.0	201.9	456.9	920.7
Government	26.0	79.0	126.0	47.9	12.1
Services	68.0	170.0	237.0	959.0	1,500.8
Personal Loans	442.0	978.0	1,482.7	4,284.7	7,333.8
Non-Resident Lending	n.a.	109.0	43.0	197.3	192.5
Others	191.0	237.0	331.2	374.9	459.6
Total	**1,406.0**	**2,981.0**	**3,896.4**	**10,724.3**	**18,315.7**

Sources: Ministry of National Economy, Statistical Year Book 2008, p.317; The National Centre for Statistics & Information, Statistical Year Book 2013, p.375; The National Centre for Statistics & Information, Statistical Year Book 2017, p.347

Table 5.16: Growth in Commercial Bank Lending by Selected Economic Activity (%)

Economic Activities	**1995-2005**	**2005-2015**	**1995-2015**
Mining & Quarrying	419.0	641.6	3,749.5
Manufacturing	375.4	371.9	2,143.2
Construction	103.2	716.0	1,558.3
Personal Loans	235.5	394.6	1,559.2

Sources: Adapted from Ministry of National Economy, Statistical Year Book 2008, p.317; The National Centre for Statistics & Information, Statistical Year Book 2013, p.375; The National Centre for Statistics & Information, Statistical Year Book 2017, p.347

Significantly, personal lending accounted for a large proportion of bank lending and grew as sharply as construction over the 1995 to 2015 period (see Tables 5.15 and 5.16). The sharp increase in personal lending was part of the banks' attempt to access the rent cycle. With the majority of Omanis employed in the public sector, income was guaranteed and, therefore, banks were less likely to face non-repayment of personal loans. The result was that personal lending effectively crowded out lending to those private sectors that were not part of the rent circuit, particularly the SMEs.

5.3.4 The External Trade Performance of The Private Sector

Omani exports expanded massively between 1995 and 2015. However, it is hard to separate between the role of the State and the private sector in the growth of the export sector because the data does not make the distinction clear. For example, the oil sector, which dominates Oman's export performance at over 51% of total exports, is mainly owned by the State but does have private sector involvement. Although oil exports still dominate, the share has fallen from 78.4% in 1995 to just over 50% in 2015. This is partly a result of the sharp growth in non-oil exports since 1995; an increase of 596%, from OMR504.0m to OMR3,004m in 2015. In 2000, the non-oil sector contributed 5.6% of total exports, while the oil sector accounted for 78.7%. Although both oil exports and non-oil exports have increased, imports have increased more sharply. Thus, by 2015, the current account was in deficit. The increase in imports was driven by the high consumption patterns based on the recycling of oil rents (see Table 5.17).

Table 5.17: Oil and Non-Oil Exports, 1995-2015 (OMRm)

	1995	2000	2005	2010	2015
Oil Exports	1828	3,426	5,160	8,527	6,865
Non-oil Exports	504	248	555	2,448	3,004
Total Exports*	**2,332**	**4,352**	**7,187**	**14,073**	**13,720**
Total Imports	**1,684.0**	**1,766**	**3,0876**	**6,873**	**10,214**
Current Account Balance	**648.0**	**1,255**	**1,991**	**1,936**	**(4,121)**

Note: * Oil exports and non-oil exports do not add to total exports because of re-exports.
Sources: The National Centre for Statistics & Information, Statistical Year Book 2013, pp.226-227; The National Centre for Statistics & Information, Statistical Year Book 2017, p.293; Ministry of National Economy, Oman, Statistical Year Book, 2008, pp.204-205; Central Bank of Oman Annual Report, 2003, p.81.

Furthermore, the composition of non-oil exports has changed over the past 20 years. Table 5.18 highlights that in 2000, traditional agricultural output, base metals and textiles were the leading products, accounting for 46.1% of total non-oil exports. However, by 2015, the structure had changed with the chemical sector, base metals and minerals accounting for 64.0% of non-oil exports. Although this reflects the change in the non-oil economy away from the traditional sectors to modern industrial output, sectors such as mineral products, chemicals and allied industries and rubber are heavily dependent on hydrocarbons for their inputs. Thus, nearly one-third of total exports are still aligned with hydrocarbons.

Table 5.18: Value of Non-Oil Omani Exports, 1995-2015 (OMRm)

Classification	1995	2000	2005	2010	2015
Live animals and animal products	52.4	41.6	90.6	160.2	211.5
Vegetable products	n.a.	19.8	16.0	35.2	58.5
Animal or vegetable fats & oil	8.3	9.6	28.5	55.8	82.2
Foodstuffs, beverages, tobacco & related products	2.0	10.2	35.4	65.6	120.1
Mineral products	16.5	30.3	50.4	612.6	572.8
Products of chemicals & allied industries	4.9	19.2	89.1	708.9	700.2
Plastic, rubber, & articles thereof	n.a.	11.5	33.0	254.8	277.7
Textiles & articles thereof	n.a.	36.1	14.1	5.3	8.1
Base metals & articles thereof	41.0	36.7	95.8	335.9	650.5
Others	56.9	32.6	102.4	213.9	322.3
Total	**182.0**	**247.8**	**555.3**	**2,448.2**	**3,004.9**

Sources: The National Centre for Statistics & Information, Statistical Year Book 2013, pp.226-227; The National Centre for Statistics & Information, Statistical Year Book 2017, p.293; Ministry of National Economy, Oman, Statistical Year Book, 2008, pp.204-205; Central Bank of Oman Annual Report, 2003, p.81.

Similar to exports, re-exports increased sharply between 1995 and 2015 from OMR321.9m to OMR2,571.6m (see Table 5.19). In 2015, vehicles, aircraft, vessels and associated transport equipment was the largest component with OMR1,615.5m, contributing 62.9% of total re-exports. The growth in re-exports was due to the creation of several free zones in Oman including Sohar Free Zone, Salalah Free Zone and Duqm Free Zone. These zones were given special regulations to encourage foreign private sector investment.

Table 5.19: Composition of Re-exports, 1995-2015 (OMRm)

Classification	1995	2000	2005	2010	2015
Live animals and animal products	12.6	19.0	4.3	5.2	24.5
Vegetable products	n.a.	0.5	2.8	15.4	13.2
Animal or vegetable fats & oil	0.2	0.5	0.07	0.8	1.3
Foodstuffs, beverages, tobacco & related products	41.4	51.6	15.3	40.5	75.9
Mineral products	n.a.	1.1	1.4	78.6	565.4
Products of chemicals & allied industries	3.5	9.1	6.8	14.3	72.7
Plastic, rubber, & articles thereof	n.a.	n.a.	3.8	5.8	13.2
Textiles & articles thereof	n.a.	n.a.	17.5	40.3	6.6
Base metals & articles thereof	17.6	n.a.	10.6	27.9	31.7
Vehicles, aircraft, vessels & associated transport equipment	213.3	334.2	437.3	1,455.1	1,615.5
Others	33.3	82.6	83.8	237.7	151.6
Total	**321.9**	**498.6**	**583.7**	**1,921.6**	**2,571.6**

Sources: The National Centre for Statistics & Information, Statistical Year Book 2013, pp.226-227; The National Centre for Statistics & Information, Statistical Year Book 2017, p.293; Ministry of National Economy, Oman, Statistical Year Book, 2008, pp.204-205;Central Bank of Oman Annual Report, 2003, p.81;Central Bank of Oman Annual Report,1996, p.86.

5.3.5 The Performance of The Private Sector in The Job Market

According to Vision2020, it was expected that by 2020 the local workforce in the private sector would be 70%. In 1995, Omanis comprised only 14.8% of those employed in the private sector. The total workforce increased by almost 230% from 628,900 in 1995 to 2,075,000 in 2015, with those employed in the private sector increasing even more sharply (by over 256%) from 518,400 in 1995 to 1,846,000 in 2015. However, the increase has largely been met by expatriate workers, which means the private sector is unlikely to achieve its target of 70% of its workers to be Omanis by 2020, given that local workers accounted for only 11.4% of the workforce in the private sector in 2015; this despite the years of Omanisation policies (see Table 5.20).

Table 5.20: Labour Market Indicators, 1995-2015

	1995a	2000a	2005a	2010a	2015a	2020f
Omanis employed in the private sector	76,500	98,200	175,000	177,716	209,620	662,000
Expatriates employed in the private sector	441,900	494,700	604,500	956,000	1,636,038	n.a.
Total private sector workforce	518,400	592,900	779,500	1,134,000	1,846,000	n.a.
% Omanis employed in the private sector	14.8%	19.9%	22.5%	15.7%	11.4%	70.0%
Total workforce	628,900	703,400	991,800	1,298,000	2,075,000	n.a.
Private sector workforce against total workforce	82.4%	84.2%	78.5%	87.3%	88.9%	n.a.

Source: Ministry of Development, Fifth FYDP (1996-2000), p.202; Ministry of National Economy, Seventh FYDP, p.185; National Centre for Statistics & Information, Statistical Year book 2016, pp.93-9.

Table 5.21: Distribution of Workforce by Industry, 2015

	2015	
Industry	**Omani**	**Expatriate**
Agriculture, hunting and forestry	0.6%	6.2%
Fishing	0.0%	0.4%
Mining and quarrying	11.9%	1.2%
Manufacturing	11.1%	13.3%
Electricity, gas and water supply	1.2%	0.1%
Construction	24.5%	44.0%
Wholesale and retail trade; repair of motor vehicles, motorcycles and personal and household goods	16.4%	14.2%
Hotels and restaurants	3.5%	6.9%
Transport, storage and communications	7.6%	3.5%
Financial intermediation	7.5%	0.2%
Real estate, renting and business activities	11.8%	5.3%
Public administration and defence; compulsory social security	0.0%	0.0%
Education	2.4%	0.9%
Health and social work	0.8%	0.6%
Other community, social and personal service activities	0.7%	3.2%
Total	**100%**	**100%**

Sources: Oman Census, 2010, pp.133-134; Ministry of Manpower, Annual report, 2015, pp.18-59.

5.3.6 Analysis of the Private Sector Outcomes

The data highlights that the private sector has grown in terms of number and size of companies, levels of investment and bank borrowing and employment between 1995 and 2015. However, this growth has not followed that of normal market economy size but has been shaped by the rentier economy and neo-patrimonialism despite 20 years of Vision2020. This distortion has resulted in the private sector focusing on areas such as construction (fed by State expenditure) and the services sector (accessing the rent cycle), rather than in high value-added productive activities. Furthermore, the State's control of the economy through, for example, its ownership of bank capital means that lending decisions are based on personal relationships rather than market considerations, curtailing the ability of those companies not linked to the business elite, in particular SMEs (the drivers of growth in market economies) from entering the market or growing their market share. Thus, the private sector has remained captive to a system in which the State controls the economy as is illustrated in the next section.

5.4 MEASURES OF THE OUTCOMES FOR THE STATE

As discussed in Chapter Two, by 1994, the State-led development model had come to be associated with a number of issues such as the economy's over-reliance on hydrocarbon rents, the predominance of the State in economic sectors through the creation of SOEs, the rise of rent seeking and rentier mentality behaviour among the business elite and the population, and the over-reliance on foreign workers in the labour market. This in turn, created a private sector captive to government spending, and a local workforce seeking public sector jobs as a way to access the cycle of rent.

In this context, this section assesses the extent to which one of the original objectives of Vision2020 to return the role of the State to its traditional public function of providing public goods, promoting efficient resource allocation, stabilising the economy, and promoting an equitable distribution of income (World Bank, 1994, p.63). The section also assesses if the attainment of this objective was subverted by the continued presence of oil rent, the Rentier State and the neo-patrimonial political structures. Hence, this section measures the role of the State in the national economy in terms of changes: in the numbers of SOEs; in investment levels; and in numbers of public sector employees.

5.4.1 State-Owned Enterprises

While one of the aims of Vision2020 was to reduce the government's role in the economic activities through a privatisation programme, the number of SOEs has increased massively since 1995, the establishment of Vision2020. According to data supplied by the Ministry of Finance, the total number of SOEs in 1995 was 25, some of were joint enterprises with the private sector (See Table 5.22). Their activities were across a wide range of sectors including manufacturing, banking, food, aviation, tourism, media, agriculture, postal services and petroleum. In Vision2020, most of these companies were slated to be a part of the privatisation process.

Table 5.22: State-Owned Enterprises in Oman at 1995

Enterprise	Year of Establishment	State Shareholding (%)
Companies listed on MSM		
Oman Cement Company SAOG	1977	63.5
Oman Flour Mills Co. SAOG	1975	59.9
Oman Development Bank SAOG	1977	54.2
Port Services Corporation SAOG	1975	35.5
Oman Aviation Services CO. SAOG	1981	33.9
Oman Fisheries Co. SAOG	1989	24.0
Non-listed companies		
Salalah Hotels Co. SAOG	1978	100
Oman Bank for Agriculture & Fisheries SAOC	1981	100
Oman National Transport SAOC	1978	99.9
Oman Mining Co. LLC.	1976	99.8
Oman Refinery Co. LLC	1983	98.3
Oman Housing Bank SAOC	1976	60.9
Petroleum Development Oman[12]	1974	60
Public Enterprises with specified capital		
General Telecommunication Organisation	1975	100
Public Authority for Marketing of Agriculture Produce	1985	100
Public Authority for Storage & Food Reserves	1980	100
Oman Advertising House	1986	100
Oman Newspaper House	1980	100
Central Bank of Oman	1975	100
Public Enterprises with unspecified capital		
AL Bustan Palace Hotel	1985	100

[12] Petroleum Development of Oman operates as a non-trading oil producing company. All costs of its operations are funded by its shareholders in proportion to their shareholdings, while all oil produced by it is sold directly by its shareholders, in proportion to their shareholdings, and thus all sale proceeds accrue to them.

Muscat Intercontinental Hotel	1987	100
Seeb Novotel Hotel	1982	100
Oman International Exhibition Centre	n.a.	100
Al-Inshirah Restaurant	1987	100
Khasab Hotel	n.a.	100

Source: Ministry of Finance, 2015.

Table 5.23: State-Owned Enterprises as at 2015

Company	**Year of State Investment**	**State Share of Capital**	**No. of Workers**	**Omanisation**	**No. of Board Members**
Oil & Gas					
Oman Liquefied Natural Gas	1994	51%	608	89%	13
Oman Oil	1996	100%	127	69%	5
Qalhat LNG	2004	47%	616	n.a.	12
Oman Oil Refineries and Petroleum Industries Company	2011	79%	2,315	76%	8
Oman Liquefied Natural Gas	1994	51%	608	89%	13
Banks & Investment Companies					
Oman Housing Bank	1977	61%	260	96%	7
Oman & Emirates Investment Holding Company SAOG	1993	4%	21	52%	6
Oman Development Bank	1997	100%	238	97%	7
Export Credit Guarantee Agency of Oman	1991	100%	23	91%	5
Al-Hosn Investment Company S.A.O.C	2006	50%	21	67%	8
Oman National Investments Development Company	2010	50%	4	75%	5
Investment Stabilisation Fund	2006	60%	n.a.	n.a.	5
Ibtikar Development Oman	2014	100%	n.a.	n.a.	n.a.
Transportation, Aviation & Seaports					
Port Services Corporation (S.A.O.G)	1976	35%	125	67%	7
Oman Air	1981	100%	6,778	60%	8
Salalah Port Services	1997	20%	2,137	48%	6
Oman Airports Management Company	2001	100%	1,138	93%	8
Sohar Industrial Port	2002	50%	125	78%	8
Oman Shipping Company	2003	80%	228	86%	6
Oman’s National Transportation Co.	1975	100%	765	95%	5
Salalah Free Zone	2004	100%	80	84%	7
Oman International Container	2005	22%	743	62%	7

Oman Drydock	2006	100%	1,901	25%	5
National Ferries Company	2006	100%	324	75%	6
Oman Charter Company	2003	n.a.	n.a.	n.a.	8
Oman Ship Management Company	2008	n.a.	144	85%	7
Sohar International for Development	2010	50%	n.a.	n.a.	4
Duqum Port	2010	50%	117	89	6
Oman Rail	2014	100%	101	86	5
Oman National Developing DSEZ	n.a.	n.a.	n.a.	n.a.	n.a.
Industrials					
Oman Cement	1978	51%	678	71%	7
Oman Flour Mills	1976	51%	260	90%	5
Oman Fisheries Co. S.A.O.G.	1987	24%	314	24%	8
Oman Chromite	1991	15%	62	68%	6
Oman Food International	1996	8%	53	64%	6
Majan Glass	1995	75%	225	28%	7
Oman Mining company	1981	100%	313	24%	6
Omani National Livestock Development	1998	59%	101	40%	7
Oman Food Investment Holding	2012	100%	10	70%	5
Alshumookh Plastic Products	2009	1%	38	39%	6
Tourism					
Albatinah Hotels	1997	26%	94	44%	8
Salalah Hotels	1977	100%	247	28%	5
Salalah Beach Resort	2000	16%	182	8%	7
Omran	2005	100%	138	75%	6
Marina Bandar Al Rowdha	1994	98%	128	52%	6
Oman Sail	2008	100%	208	83%	7
Oman Tourism College	2001	100%	124	56%	6
Oman’s Waterfront Investments (Almouj)	n.a.	n.a.	n.a.	n.a.	n.a.
Energy					
Electricity Holding Company	2002	100%	94	85%	7
Oman Power and Water Procurement	2005	100%	63	84%	7
Oman Electricity Transmission	2005	100%	351	92%	7
Muscat Electricity Distribution	2005	100%	518	93%	7
Mazoon Electricity	2005	100%	526	98%	7
Majan Electricity	2005	100%	410	95%	7
Rural Areas Electricity	2005	100%	482	94%	7
Wadi Al Jizzi Power	2005	100%	68	85%	7

Al Ghubrah Power and Desalination	2005	100%	224	77%	7
Services					
Omantel	2000	51%	2,689	91%	9
Salalah Sanitary Drainage Services	1998	100%	278	83%	6
Oman Wastewater	2002	100%	760	82%	5
Oman Post	2005	100%	524	99%	6
Majis Industrial Services	2005	100%	31	90%	5
Oman Broadband	2006	100%	n.a.	n.a.	6
Oman Environmental Services Holding Company (Beah)	2013	100%	125	n.a.	n.a.
Oman Logistic	2007	100%	n.a.	85%	n.a.
Others					
Public Establishment for Industrial Estates	1993	100%	285	98%	8
Oman International Exhibition Centre	2001	100%	46	83%	5
International Maritime College Oman	2003	70%	166	54%	5

Source: Ministry of Finance, 2015.

Table 5.24: Public Finance Indicators, 1995-2015 (OMRm)

	1995	**2000**	**2005**	**2010**	**2015**
Oil Revenues	1549	1,794.4	3,555.5	6,400.0	7,140.6
Net Oil Revenues	1275.8	1,721.0	3,161.9	5,470.1	5,656.2
Natural Gas Revenues	63.1	73.4	393.6	929.9	1,484.4
Non-Oil Revenues	341.3	495.5	955	1,516.5	1,926.9
Other Current Revenues	315.6	455.3	888.3	1,464.2	1,865.1
Capital Revenues	6.5	7.6	35	29.9	13.9
Capital Repayment	19.2	32.6	31.7	22.4	47.8
Total Revenues	**1723.9**	**2,289.9**	**4,510.5**	**7,916.5**	**9,067.5**
Current Expenditure	1738.3	2,091.9	3,179.4	4,791.3	9,164.1
Investment Expenditure	471.1	491.7	966.5	2,596.8	3,315.1
Development Expenditure	290.7	476	940.5	2,548.3	3,267.4
Capital Expenditure	29.7	15.7	26	48.5	47.7
Participation & Support	49.3	72.6	61.7	577.2	1,219.7
Total Expenditure	**2258.7**	**2,656.2**	**4,207.6**	**7,965.3**	**13,698.8**
Surplus or (Deficit)	**(578.5)**	**(361.8)**	**(198.2)**	**(48.8)**	**(4,631.4)**

Sources: The National Centre for Statistics & Information, Statistical Year Book 2013, pp.350-351; The National Centre for Statistics & Information, Statistical Year Book 2017, p.324; Central Bank of Oman, Annual report 1996, p.34.

However, after 1995, and contrary to what was planned in Vision2020, the number and range of SOEs increased massively. According to Ministry of Finance (2015), the total number of SOEs was 64 in 2015 (see Table 5.23). Therefore, in terms of SOEs, the State expanded its role in the national economy with the establishment of 51 new companies across different economic sectors. This contravenes the neo-liberal agenda promoted by the World Bank at the time of launching Vision2020. It also undermines the aim of the private sector being the engine of growth for the economy as the SOEs crowd out private sector company investment in the sectors in which they are established.

Most of the new SOEs were established during the 2000s when there was an increase in oil prices which, in turn, increased the oil revenues accruing to the State (see Tables 5.24 and 5.25). This increased the State's appetite for spending, a signal of Rentier State behaviour. For example, between 2000 and 2015, 41 SOEs were created in different economic sectors (see Table 5.23). The situation was exacerbated by the relatively small size of the private sector, its concentration in the service sector, such as exports and imports, and dependence on government contracts in the likes of the construction sector. Thus, sectors such as tourism, industry and energy that required huge investment were left to the State because of its financial resources.

Table 5.25: Oil Sector's Contribution in the National Economy

Year	Annual Average Oil Price (USD/b)	Oil revenues (OMRm)	Total Revenues (OMRm)	Oil Revenues Relative to Total Revenues	Total Expenditure (OMRm)	Oil Revenues Relative to Total Expenditure
2010	76.64	6,400.0	7,916.5	81%	7,965.3	80.3%
2011	102.95	8,971.3	10,624.7	84.4%	10,737.9	83.5%
2012	109.61	11,415.0	13,474.5	84.7%	13,555.1	84.2%
2013	105.51	11,924.8	13,907.6	85.7%	13,990.2	85.2%
2014	103.23	11,892.7	14,107.5	84.2%	15,171.8	78.3%
2015	56.45	7140.6	9,067.5	78.7%	13,698.8	52.1%[13]

Sources: The National Centre for Statistics & Information, Statistical Year Book 2013, p.185; The National Centre for Statistics & Information, Statistical Year Book 2014, p.189; The National Centre for Statistics & Information, Statistical Year Book 2016, pp.333 & 334.

[13] The sharp decrease in oil revenues relative to total expenditure in 2015 was due to the significant decline in oil revenues because of the severe drop in oil prices witnessed in 2015, as oil revenues remained the primary source of finance for government spending.

The SOEs were also a source of jobs for Omanis. Thus, the total number of SOE employees in 2015 was 29,754, of which Omanis accounted for 70%. This contrasts sharply with the private sector in which the Omanis accounted for only 12.3% at the end of 2015. This demonstrates further evidence that the rentier mentality remained high in Oman in 2015, after 20 years of the launch of Vision2020.

5.4.2 State Investment

In line with the aim of the Vision2020 of reducing state involvement in the economy, the Vision aimed to promote private investment at the expense of State investment. Thus, according to the Vision, public investment was expected to decrease from 10.1% of GDP in 1995 to 3% in 2020, against an increase of private sector investment from 4.4% of GDP in 1995 to 31% in 2020 (Oman, 1996, p.185).

However, the State continued to invest heavily, making itself a competitor to the private sector and crowding out private investment. The public investments have been increasing significantly following the years of the establishment of Vision2020. Thus, total public investment in 2015 was OMR3,315m up from OMR480m in 1995. Furthermore, although the public sector's share of total investment fell sharply in the Fifth and Sixth FYDPs from 53.9% to 35.2% in line with the neo-liberal agenda, its share increased in the Seventh and Eighth FYDPs as the Rentier State and neo-patrimonial structures re-emerged, so that in 2015 accounted for 43.8% of total investment (see Table 5.26). Thus, it is clear that the target of reducing the State's role in the economy through curtailing investment has not been met.

Table 5.26: Public Investment, 1995-2015 (OMRm)

	1995	**2000**	**2005**	**2010**	**2015**
Public Investment	480	492	1585.3	2,597	3,315
Public Investment as % of Total Investment	53.9%	53.9%	35.2%	42.6%	43.8%

Source: Adapted from The National Centre for Statistics & Information, Statistical Year Book 2013, p.330; The National Centre for Statistics & Information, Statistical Year Book 2017, p.310; Ministry of National Economy, The Seventh FYDP, p.26; Ministry of Development, Basic Components and Main Indicators of the Fifth FYDP p.29.

With regards to the distribution of the public-sector investment, this has varied across the plans. For example, in the Fifth FYDP, most State investment went into infrastructure projects such as the roads, ports, water and electricity sectors (Oman, 2001, p.46-47). This was to enhance the country's infrastructure in order to attract future private sector investment. The most important projects were building a new international port in Sohar and new industrial areas in Nizwa (ibid., p.51). However, in the Sixth FYDP, the majority of investment went to the oil producing and exploration companies (Oman, 2006, p.53), in order to boost oil production. Similarly, large investment was also put in the gas sector. According to the Ministry of National Economy (2006, p.63), total investment in the natural gas sector in the Sixth FYDP was OMR432m. The main major projects were in drilling new gas wells, gas exploration programmes and gas pipelines projects (Oman, 2006, p.64).

In terms of the manufacturing sector, several important projects were implemented through State investment in the Sixth FYDP. Among these projects, were polyethylene and polypropylene factories and the Sohar refinery (ibid., p.73). In addition, several tourism projects benefitted from State investment, including the Albustan Palace Hotel Development, the building of a hotel in Khasab, renovations to Muscat International Hotel and sites such as Al Huta Cave development and a local theatre in Salalah (ibid., p.85).

Although these projects did add value to the national economy, they were against the neo-liberal objectives of Vision2020. Thus, the State-led development model fuelled by oil rent continued at the expense of the development of the private sector.

5.4.3 Public Sector Employment

The level of public-sector employment is a prime example of how rent distribution reaches the population. According to Vision2020, it was expected that by 2020 Omanis employed in the private sector would comprise 70% of the total Omanis employed, up from 27% in 1993 (see Table 5.27). As a consequence, although employment in the public sector was forecast to increase, it would only account for 30% of the total of employed Omanis; down from 73% in 1993.

Table 5.27: Distribution of Omanis in the Public and Private Sectors

Item	1993		2020	
	No.	**%**	**No.**	**%**
National Labour in the Public Sector	175,000	73	270,000	30
National Labour in the Private Sector	65,000	27	662,000	70
Total	**240,000**	**100**	**892,000**	**100**

Source: Ministry of Development, Fifth FYDP (1996-2000), p.202, Oman, 1996, p.213.

However, from 1995, the number of Omanis employed in the public sector has trended upwards (see Table 5.28). The ratio of Omanis working in the public sector at the end of the Fifth FYDP had increased from 73% in 1993 to 74% in 2000 compared with a decrease in private sector national employment to 16.6% in the same period. The ratio of the national labour force in the public sector against the ratio in the private sector continued to increase in the following FYDPs, reaching 84.7% of public sector employment against 11.3% of private-sector employment by 2015. This is way below the targeted ratio planned in Vision2020. Hence the objective of increasing the national workforce in the private sector has not been met.

Table 5.28: Labour Market Indicators, 1995-2015 ('000)

Item	**1995**	**2000**	**2005**	**2010**	**2015**
Private Sector	**644.0**	**592.9**	**779.5**	**1,134**	**1,846**
Omani	24.6	98.2	175.0	177.7	209.6
Expatriate	619.0	494.7	604.5	956	1,636
Government Sector	**111.0**	**110.5**	**132.3**	**164**	**229**
Omani	86.2	81.8	109.4	140.4	194
Expatriate	26.4	28.7	22.9	23.6	35.5
Total	**628.9**	**703.4**	**911.8**	**1,298**	**2,075**
Omani	152.3	180.0	284.4	318.1	403.6
Expatriate	476.6	523.4	627.4	979.6	1,671.
Omanisation Ratio (%)	**24.2%**	**25.6%**	**31.2%**	**24.5%**	**19.4%**
Private Sector	4.0%	16.6%	22.5%	15.7%	11.3%
Public Sector	68.6%	74.0%	82.7%	85.6%	84.7%

Note: * Excludes National Security and Ministry of Defence.
Sources: Ministry of National Economy, Seventh FYDP, p.18; National Centre for Statistics & Information, Statistical Year Book 2016, Oman, p.93; National Centre for Statistics & Information, Statistical Year Book 2016, Oman, p.94; Ministry of National Economy, Statistical Year Book 2008, p.94.

5.4.4 Analysis of the State's Involvement in the Economy

The data in this section shows that in terms of SOEs, State investment and public-sector employment, the reduction of the State's involvement was not happening. In consequence, this blocked the space in which the private sector could grow and then lead economic development. Two important elements in the failure of the State to reduce its role in the economy were the closure of the Ministry of Development and replacement of the two officials who prepared and promoted Vision2020 from the Cabinet. Thus, the government lost the institutional support behind Vision2020, as well as the team of technocrats who were supposed to manage the implementation of the neo-liberal policies.

5.5 PRIVATISATION

Table 5.29: Projects for Privatisation according to Vision2020

Projects
Oil and gas companies
Water and electricity sectors
Communication and telecommunication sectors
Postal services
Part of police service (driving tests, surveillance of the private sector)
Tourism sector and museums
Roads
Animal care centre
Agricultural research centres
Coastal fishing services
Airport services (except security and customs)
Coastal services (except security and customs)
Municipality services (street cleaning, sanitary utilities, street lighting and street planting)
Part of agriculture services (plantations)
Hotel services and catering
The Development Bank of Oman
Oman Vision Company
Oman Housing Bank

Source: Ministry of Development, The Fifth FYDP, 1998.

Vision2020 envisaged privatisation policy as a means by which to expand the role of the private sector into areas of the economy that were previously dominated by the State. The policy envisaged within Vision2020 had two distinct components: 1) the selling of SOEs and shares owned by the State to the private sector; and 2) allowing the private sector to participate in establishing, operating and financing services that were previously the responsibility of the State. Following the launch of Vision2020, Sultan Qaboos issued Royal Decree No.42/96 on 8 June 1996 in relation to privatisation policies and regulations (Ministry of National Economy, 1996, pp.266-268). However, as highlighted in Chapter Four, there were in-built contradictions in the privatisation law such as the continuation of State intervention in the market in which the privatised companies would operate, setting prices, the State being the sole purchaser of the output, regulations that impacted on how privatisation would take place and limits on foreign participation. Nevertheless, Vision2020 identified 18 economic projects in which private sector involvement would increase through privatisation (see Table 5.29).

In this context, the Fifth, Sixth and Seventh FYDPs all included privatisation plans (see Table 5.30). Table 5.30 highlights that the private sector was only expected to contribute 33.4% of the total investment in the privatisation plans in the seventh Plan. Thus, the State was paradoxically expected to provide the majority of investment in the privatisation programme. This was the first overt sign of the weakening of the State's commitment, which is discussed in further detail in the following sections. Against this background, throughout the plans the performance of the private sector in relation to privatisation was below expectations. The following sections illustrate the performance of the private sector towards privatisation in two ways: 1) projects proposed for privatisation, and 2) projects sold to the private sector during the FYDPs.

Table 5.30: Planned Privatisation Investment: 1996-2010

Detail	Fifth FYDP	Sixth FYDP	Seventh FYDP
Total investment in the privatisation program (OMRm)	1008	378	732
Private sector investment (OMRm)	1008	378	244.3
Share by private sector (%)	100	100	33.4
Total planned private sector investment in FYDP (OMRm)	3900	3105.9	5960.1
Private sector privatisation investment as % of total planned private sector investment	25.8%	12.2%	4.0%

Sources: The Fifth FYDP (Oman, 1996, pp.416 & 463), The Sixth FYDP (Oman, 2001, pp.134 & 161), The Seventh FYDP, (Oman, 2005, pp.346 & 369).

5.5.1 The Experience of Privatisation

According to the Fifth FYDP, it was planned that the total investment of the private sector in the privatisation programmes would be OMR1,008bn (Oman, 1996, p.463). This investment would be distributed across several projects including the water, electricity, roads, desalination and sewage sectors (see Table 5.31).

Table 5.31: Planned Privatisation Projects during the Fifth FYDP (OMRm)

Project	Planned Private Sector Investment
Muscat sewage project	45
Salalah sewage project	18
Salalah electricity (200 megawatt + current assets)	64
Barka Power and Desalination Station	410
AlAshkhara desalination project (phase one)	34
Water sector	35
Sur/Quriyat road	20
Bousher/Alamerat road	16
Bait Albaraka roundabout/ AlQurum roundabout	26
Polyethaline project	275
Alsharqiya & Aldhakhiliya electricity project	65
Total Privatisation Investment	**1008**

Source: Ministry of National Economy, The Fifth FYDP, p.466.

However, none of the projects were implemented during the Fifth FYDP. According to the Ministry of National Economy (2001, p.50), most projects were still under evaluation, study and consultation on funding by the end of the Fifth FYDP. However, another government official admitted that the private companies that had signed the agreements, had asked for a reformulation of the agreements in order to suit their interests. Thus, according to the Ministry of National Economy:

> The performance of the plan in relation to the implementation of the privatisation program was weak. The executive position of the privatisation program indicates that the implementation of the projects is still in the initial stages of feasibility studies, the choice of the appropriate allocation method and the submission of tenders. Some projects have not yet proved feasible. Other projects which have been agreed have not been initiated because the private sector institutions that have won the tenders have asked to reformulate the terms of the agreements in a way that serves their interests (ibid., p.54).

Thus, as illustrated in Chapter Four, there were contradictions in the privatisation law because the State still wanted to play a role after privatisation. The State justified this position by arguing that any changes brought about by privatisation to the economic and social order should be made in a measured and gradual manner. Thus, the privatisation process would be applied gradually; for example, in the energy sector the State would determine a unified maximum tariff to be paid by all consumers in the Sultanate, regardless of whether the project was operated by the State or the private sector (ibid., p.266). These terms went against the principles of privatisation that was associated with the Washington Consensus. In response, the private sector was pushing the State for better terms. However, the State preferred not to proceed with the privatisation projects during the plan period. This was in part due to another issue which was an apparent shift in the State's objectives on privatisation. While it was clearly agreed in the Vision2020 document that there would be a gradual reduction of the State's role in the services and productive sectors by promoting privatisation projects, according to Ministry of National Economy:

> It is important to note that the privatisation policy is not intended to eliminate some of the financial support that the government gives for the provision of these services. Rather the aim is to expand the scope of these services as soon as possible to connect them to areas that have not yet been reached, and to enhance the level and efficiency of these services and to create suitable investment opportunities for the private sector as well as to develop and participate in the national economy (ibid., p.264).

This shift in the objectives of privatisation, allowed the State the space in which it could manage the privatisation policy according to its interest, contrary to those stipulated in Vision2020.

Nevertheless, one energy project was successfully privatised during the Fifth FYDP. In 1996, the Manah power project was the first experience of privatisation policy in the electricity sector (Oman, 2003, p.36). It was a build, own, operate, transfer (BOOT) project and was awarded to the United Energy Company for 20 years. The company was formed and registered as a joint stock company, with a 95% local and 5% foreign shareholding. The energy distributed by the Manah Power Station was to be sold to the SOE, Oman Power and Water Procurement Company (OPWP), which was responsible for all power purchase in Oman. Thus, despite the nominal privatisation of the company, the State was still involved through subsidising the output from 1999 when the station started operations, and dictating to which State company the output would be sold. Furthermore, the State still partially owned the company.

Further evidence of the State's reinterpretation of privatisation occurred in the telecommunication sector. During the Fifth FYDP, the government converted the General Authority for Telecommunication to an SOE under Royal Decree No.99/46 issued on 18 July 1999. Thus, it was not a genuine privatisation, but a transfer from one part of the State to another.

Between 1996 and 1997, the Government of Oman with the Sealand division of the Maersk Line, and a few other private institutions, agreed to invest in the development of Raysut Port, which was named the Port of Salalah Container Terminal. The objective was to turn it into a world-class container terminal. Maersk Line, through its subsidiary APM Terminals, owned 30% of the shares, the government of Oman 20%, 23% were held by the State pension fund, 19% by institutional investors and the remaining 8% by other investors. Thus, it was the first port to be opened for private investment; however, the State still had a significant shareholding (43%).

In the Sixth FYDP, there was a complete shift in the privatisation process with regards to the power sector, as the State established a number of SOEs in the electricity sector. In addition, the State restructured the water and the electricity sector. Previously, the sector was managed by the Ministry of Housing, Electricity and Water. In 2004, a law for regulating and privatising the electricity and water sectors was promulgated by Royal Decree No. 78/2004, 'The Law for the Regulation and Privatisation of the Electricity and Related Water Sector'. In line with the Law, the Authority for Electricity Regulation was established in 2004 with responsibility for regulating the electricity sector and some aspects of the water sector. The Authority is fully financed by the government and reports directly to the Cabinet. In addition, the Law also approved the establishment of an SOE, Electricity Holding Company,[14] which is engaged in the generation, procurement, transmission and distribution of electricity and related water services. It holds the shares on behalf of the State in nine SOEs:

- Al Ghubrah Power and Desalination Company;
- Wadi Al Jizzi Power Company;
- Oman Power & Water Procurement Company (OPWP)
- Oman Electricity Transmission Company;

[14] This has recently changed its name to Nama Holding.

- Dhofar Power Company;
- Majan Electricity Company;
- Mazoon Electricity Company;
- Muscat Electricity Distribution Company; and
- Rural Areas Electricity Company.

Each of these companies has been given the responsibility to generate, procure, transmit and distribute electricity and related water services in different regions in Oman. According to the Law, the companies have to buy their electricity from fellow member OPWP. The OPWP is the single buyer of the output for all projects related to the water and power sectors and then resells these to the distributing companies. Furthermore, the government created another institution The Public Authority for Electricity and Water in 2007 by Royal Decree No. 92/2007 to regulate the water sector and review policy in the electricity sector. Thus, it is evident that the State reversed its plans to privatise this sector. Furthermore, the Law still defines the establishment of these companies as privatisation which is contrary to the accepted definition of privatisation.

Similar to the Fifth FYDP, the Sixth FYDP also witnessed domestic and foreign private sector investment in the energy sector (see Table 5.32). The Salalah Power project, which was signed on 17 March 2001, was to build a gas station size of 250 megawatts. This project was also through a 20-year BOOT scheme and was the first project in the Middle East to be sold fully to the private sector to generate, transfer, distribute, and collect services to one company. It came into operation on 1 May 2003 and at the end of March 2005, the Dhofar Energy Company sold 35% of its shareholding on the MSM. Second, the AlKamil Power project was privatised through a build, operate, and own (BOO) scheme. This project involves the establishment, operation and acquisition of a central power station at Al Kamil, in the eastern region. The AlKamil Power Plant uses natural gas to produce approximately 270 megawatts of electricity power. The government has guaranteed to buy the electricity from the company for a period of 15 years from 2003 when the project started to operate. On 27 November 2004, 35% of the company's shares were offered to the public. Third, the Barka Power and Desalination Station Project was slightly different as it included a desalination plant. On 26 November 2000, agreements for the first stage of this BOO project were signed between the State and AES Barka'a Company. The project includes power generation and water desalination using natural gas to produce around 427 megawatts of electricity and 20 million gallons of water daily. thirty-five percent of the company's shares were offered for public subscription through an initial public offering (IPO) that opened on 21 November 2004 and was approved on 29 December 2004. The shares were listed on the MSM on 12 January 2005.

In 2003, Royal Decree No. 30/2003 was issued which set out the conditions for regulating the telecommunication sector, to enable licenses to be issued to companies in order to encourage competition and to monitor the quality of the service. Thus, on 19 February 2005, the Telecommunication Regulatory Authority took the important step of awarding a license to a joint venture company between the Omani and Qatari governments; previously known as Nawras the company has recently changed its name to Ooreedoo. Thus, although the State opened the sector to a foreign investor for the first time, the investor was a foreign government and the State in Oman still had a share in the company. Therefore, it could not be considered as being owned by the private sector. Then, on 6 July 2005, 30% of the SOE, Omantel, which was formed in 2000, was floated on the MSM (see Table 5.33).

Table 5.32: Energy Projects Implemented by the Private Sector during the Sixth FYDP

Project	Production Capacity	Date of Agreement	Date of Commercial Operation	Capital Structure as at 07/01/2009	Sector
Salalah power project	240 megawatts, supply and distribution (BOOT)	17/3/2001	May 2003	3.39% foreign investment, 96.61% local investment	Energy sector
AlKamil electricity	270 megawatts (BOO)	17/7/2000	July 2003	65.47% foreign investment, 34.52% local investment	Energy sector
Barka Power and Desalination Station (Phase One)	427 megawatts & 20 million gallons of water daily from desalinated water (BOO)	26/11/2000	11/6/2003	60.81% foreign investment, 39.19% local investment	Energy & water sectors

Source: Ministry of National Economy, Oman, The Seventh FYDP.

Table 5.33: Companies Sold to the Private Sector during the Sixth FYDP

Company	State Share at Outset (%)	State Share Sold (%)	Remaining State Share (%)	Sale Date	Return on Sale (OMRm)	Sector
Oman Cement Company	63.5%	13.5%	51%	31/7/2003	7,971.3	Industrial
Oman Flour Mills Co.	59.95%	8.9%	51%	31/7/2003	2,080.4	Food
Almaha Petroleum	65%	65%	0%	7/4/2004	9,072.0	Petroleum
Oman Telecom Co (Omantel)	100%	30%	70%	10/7/2005	288,000.0	Telecom

Source: Ministry of Finance, Oman, 2015

During the Sixth FYDP, the State also sold some of its shares in SOEs to the private sector including Oman Cement Company, Oman Flour Mills Co. and Almaha Petroleum (see Table 5.33). Another important step in the privatisation process during the Sixth FYDP was the establishment of Sohar Port and Free Zone. On 23 July 2003, a 50:50 joint venture company was established between the Port of Rotterdam and the Omani government to manage Sohar Port and Free Zone and the Sohar Industrial Area adjacent to the port. The same joint venture company still runs the port.

Furthermore, two SOEs were established to run the sewage sector in Muscat and Salalah. On 6 October 2002, the Oman Company for Sewage Services was established as a closed public share holding company which was supposed to be run on a commercial basis with the aim of privatising it in the future. On 13 July 2005, Royal Decree No. 96/2005 was issued to confirm that the sewage sector in Muscat was awarded to the company. Meanwhile, on 10 February 2004, similar to the Muscat Sewage Service Project, Royal Decree No. 16/2004 was issued to grant the SOE, Salalah Company for Sewage Services, permission to run the sewage service in Salalah in the north of the country, with the aim to study the privatisation of the company in the Seventh FYDP. Similarly, on 5 June 2005, a Royal Decree No. 48/2005 was issued to establish Oman Post as a closed SOE; the company has yet to be privatised. Thus, despite limited progress on privatisation during the Sixth FYDP, the privatisation process largely kept control in the hands of the State, ensuring economic development could not be driven by the private sector.

In addition, the Seventh FYDP saw a further limited expansion of the private sector investment through the privatisation process (see Tables 5.30 and 5.34). In 2006, the Ministry of National Economy issued a tender for the development of desalination facilities at Sur in the Sharqiya region on a BOO basis. The project was awarded to a joint consortium comprising National Power and Water LCC (owned by Suhail Bahwan group, an Omani group) and a foreign French company (Veolia Eau-Compagnie General des Eaux). Part of the deal was that the company purchased the old plant and Rusail Power Company, both of which were SOEs (see Table 5.35). Similar to the Barka Power and Desalination Station project that was implemented during the Sixth FYDP, the Sohar Power and Desalination plant was executed on a BOO basis. It was established by Sohar Power Company S.A.O.C, which comprised the Swiss company Tractipal (50%), National Trading Company (10%), Sojex-Oman (10%), Ministry of Defence Pension Fund (10%), WJ Towell (10%) and Zubair Enterprises (10%). Thus, the government still has a share. The project's agreement provided for the sale of 35% of the shares through public subscription within four years of the date of establishment of the company, which happened in July 2008.

Table 5.34: Joint Projects Implemented in the Seventh FYDP

Project	**Production Capacity**	**Date of Agreement**	**Date of Commercial Operation**	**Capital Structure as at 07/01/2009**	**Sector**
Sur Water Desalination Plant (Sharqiya Desalination Company S.A.O.G)	200,000m^3/day	07/01/2006	October 2009	Foreign 35.75%, Domestic 29.25%, Pension Fund 14.47%, Public 20.53%	Water Sector
Sohar Power and Desalination Station	585 megawatt & 23 million gallons of water daily from desalinated water (BOO)	20/7/2004	2007	Foreign 48.57%, Domestic 51.43%	Energy & water sectors

Source: Ministry of Finance, Oman, 2015

Table 5.35: Companies Sold to the Private Sector during the Seventh FYDP

Company	State Share at Outset (%)	State Share Sold (%)	Remaining State Share (%)	Sale Date	Return on Sale (OMRm)	Sector
Rusail Power Company	100%	100%	0%	2/5/2007	48,512.5	Energy
Sur Desalination Station Project	100%	100%	0%	1/4/2007	2,127.2	Water

Source: Ministry of Finance, Oman, 2015.

Table 5.36: Joint Project Implemented in the Seventh FYDP

Project	Production Capacity	Date of Agreement	Date of Commercial Operation	Capital Structure as at 07/01/2009	Sector
Salalah Independent Water and Power Plant	445MW	November 2009	May 2012	Foreign 40%, Domestic 60%	Electricity generation and seawater desalination

Source: http://www.sembcorpsalalah.com.om.

However, in the Eighth FYDP, only one project was sold to the private sector (see Table 5.36). The project is 40% owned by foreign investors including Sembcorp Utilities (Singapore), along with Oman Investment Corporation (13%) and other shareholders (47%). The Salalah Independent Water and Power Plant supplies power and potable water under a 15-year power and water purchase agreement to the SOE OPWP. The water plant is also the exclusive commercialised large-scale potable water production facility in this region. Also, during the Plan, the government sold a further 19% of its shares in Oman Telecom Co (Omantel). This occurred in 2014 during the financial crisis that Oman experienced because of the sharp drop of oil prices (see Table 5.37).

Table 5.37: Companies Sold to the Private Sector during the Seventh FYDP

Company	State Share at Outset (%)	State Share Sold (%)	Remaining State Share (%)	Sale Date	Return on Sale (OMRm)	Sector
Oman Telecom Co (Omantel)	70%	19%	51%	13/4/2014	203,558.6	Telecom

Source: Ministry of Finance, Oman, 2015.

5.5.2 Analysis of the Privatisation Process

In conclusion, the privatisation plan in Oman have not met its targets with regards to enhancing the role of the private sector in the economy. Although there were successful experiences, the State continued to be involved in the privatisation process through a number of avenues. It continues to manage the slowing process, has created more SOEs, holds shares in joint venture companies with the private sector, sets subsidized prices for energy in the power sector projects, buys the output at a guaranteed price in the electricity sector and has not included or has postponed privatisation plans in other economic sectors. Thus, State-led development fuelled by oil rent still drives the economy which undermines the attempts to create a private sector independent of the State that is able to drive development.

5.6 CONCLUSION

In conclusion, Vision2020 contained fundamental contradictions for the State and the private sector, which were not able to be addressed by the series of FYDPs issued covering the period 1995 to 2015. The FYDPs could not resolve the development problems associated with rentierism and neo-patrimonialism. The implementation of the Vision2020 objectives have been through FYDPs, which simply set targets but there was never any follow up, either in terms of policy implementation or accountability where these were no met. As a result, the development strategy is fundamentally the same State-led rent-fuelled approach, despite the setting of targets for the private sector, as at the outset of Vision2020. The outcome of the FYDPs shows weak performance by the private sector against the objectives set for it in Vision2020. This was evident in private sector activities since the launch of the Fifth FYDP to the end of the Eighth FYDP, such as in the construction sector which is based on the State's recycling of oil rent; thereby, exacerbating the private sector's rentier mentality. The State itself became bloated, dominating the economy at the expense of the private sector; when oil prices rose, the State has used oil revenues to become more entrepreneurial. Thus, the number of SOEs has increased to 64 in 2015 compared with 24 in 1995. Moreover, control by the merchant elite increased in most economic sectors and in relation to mega projects, creating an oligopolistic market. SMEs remain marginalised but pacified by rent circulation. The original Vision2020 objectives have been undermined by the continuing, albeit evolving, rentier economy and neo-patrimonial socio-political structures.

The next chapter investigates the observations of the private sector on what enables or inhibits private sector-led development in Oman.

CHAPTER SIX:
QUANTITATIVE RESEARCH AND QUALITATIVE INTERVIEW DATA: ANALYSIS AND FINDINGS

6 INTRODUCTION

The purpose of this chapter is to identify the factors that the interviewees and focus group participants believe enable or inhibit the private sector from leading development in Oman. The data is based on 45 interviews and the two focus groups with key stakeholders including private sector representatives (PSR), state-owned enterprise executives (SOEE), government officials (GO), former government officials (FGO), academics (AC), members of parliament (the *Shura* Council) (MP), journalists (JR) and economists (ECO). The core question of the interviews was: 'To what extent has the private sector fulfilled the role assigned to it by the Omani Vision2020 development strategy?'. This was followed up with further questions divided into five categories as follows:

- The first set of questions aimed to understand the interviewees' perceptions of Oman Vision2020.
- The second set of questions aimed to understand the interviewees' perceptions of the role of the State and the private sector in the economic development of Oman.
- The third set of questions focused on the interviewees' perceptions of the business environment in Oman and the main challenges facing the private sector.
- The fourth set of questions sought to understand the interviewees' perceptions of the State's motivation for and support provided to the private sector.
- The fifth set of questions aimed to examine the interviewees' perceptions of the relationship between the State and the private sector.

The sample of the interviewees was selected purposely rather than randomly because the research questions required people who were well-informed about the research topic. The participants' positions and organisations are listed in Tables 3.1 to 3.7. It shows the different range of organisations that were interviewed. The results and findings discussed in this chapter are based on the second to fifth sections of the interview questions as the first section focuses on the interviewees' perceptions of Oman Vision2020, which is discussed in Chapter Four. In addition, findings from the questionnaire and focus groups are used to support the argument posited in Chapter Five that Vision2020 has not been successful at promoting the private sector to become the driver of economic development.

The next section assesses the interviewees' perceptions about the roles of the State and the private sector in the economic development of Oman following the State's decision to enhance the role of the private sector in Oman Vision 2020. The theoretical chapter discusses the differing roles of the State and the private sector when an economy is being liberalised. It is important to understand these roles in the context of Oman. This is followed by an analysis of the interviewees' perceptions of the private sectors' 'readiness' to take on the mantle of driver of economic development, something which the neo-liberal literature advocates. Third, the perceptions of the business environment in Oman and the challenges it brings for the private sector are discussed. The theoretical chapter also illustrated the importance of having a suitable business environment in which the private sector can grow. The fourth section discusses the interviewees' perceptions of the State's financial support for the private sector. As noted in previous chapters, Oman is a Rentier State economy but according to Vision2020 should be changing from State-led development to private-sector led development. As this requires a huge transformation in the country's economic structure, it is important to understand the various participants' perceptions on what type of support the private sector should receive in order to make this shift. The last section analyses interviewees' perceptions of the relationship between the State and the private sector and how the two interact at the institutional level.

It is important to note that some interviewees preferred to answer the questions in a discussion so that the questions were answered randomly; this helped them to be more comfortable when answering the questions. It is also important to note that not all of the interviewees answered all the questions in the questionnaire. They answered the questions about which they had knowledge. This helped to obtain accurate answers. Time was also an issue which in some cases prevented interviewees answering all the questions.

6.1 PERCEPTIONS OF THE ROLES OF THE STATE AND THE PRIVATE SECTOR

The objectives of this set of questions was to develop a better understanding about how the respondents understand the appropriate or optimum roles of the State and the private sector according to Vision2020, and how each responded. Chapter Four highlights that the State was expected to 'roll back' from playing the major role in terms of economic development and instead become a regulator and enabler. This, in theory, would give the private sector the space to play the leading role through economic diversification, privatisation and human resource development. The questions asked were: what roles have the State and the private sector played following the implementation of Vision2020?; what role should the government and the private sector play in economic development?; and how can the government regulate the private sector?

6.1.1 Perceptions on the Role of the State

In Section One of the questionnaire respondents were asked about their perceptions of the roles of the private sector and the State in the Omani economy. Overall, a high percentage of respondents (68.3%) agreed or strongly agreed that the State was intervening in the economic activities, with only 13.4% arguing the State was not involved in the economy. In this regard, 45.1% of the participants agreed, and 23.2% agreed strongly, as compared with 18.3% who gave a neutral response, while 12.2% disagreed and only 1.2% who disagreed strongly. These findings support the argument of the thesis that despite over 20 years of Vision2020 participants strongly believe the State is still heavily involved in the economy.

Meanwhile, interviewees' perceptions on the roles of the State and the private sector were mixed. Some respondents tended towards a more 'liberal' economic view and wanted to see greater freedom for the private sector relative to the State in the economy. However, others tended towards a more positive view of State-led development and strong State intervention in the economy. Nevertheless, the majority of the interviewees including government officials were against the State taking a major role in economic development. In this context, Interviewees PSR10, PSR13, PSR14, AC3, JR1 and JR2 mentioned that the State has to be a regulator, be responsible for streamlining procedure, granting incentives and enabling the private sector in order to attract investment into the economy. In addition, Interviewee AC3 believed that the State should be a regulator, observer and ensure there is no abuse in the market, while Interviewee AC1 argued that State investment crowded out private sector investment. He stated:

> Some government investment is crowding out the private sector investment. For example, if you want to buy seeds now, you have to do so through a government entity. If you need agriculture materials, you have to go to a government company.

Five participants from the focus groups also raised the issue of crowding out, including:

> The government has money to invest in economic sectors on their own. This has crowded out the private sector investment (PSR1-FG2).
>
> The government continued playing a role in economic activities through SOEs which is hindering the growth of the private sector. (SOEE1-FG2).

Interviewee JR1 felt that the State should promote privatisation plans. However, he concluded by saying that maybe in certain strategic economic sectors, such as aviation, the State needs to be involved because it requires huge investment. Nevertheless, several government officials, including GO1, FGO1, GO4, GO9, GO6, GO8 and SOEE2, believed that the government should not be involved in any economic sector and it was planned that the State was only to adopt a regulatory role.

However, many interviewees put forward a number of reasons why this did not happen including that the private sector was too weak, the State did not have faith in the private sector, confusion about the most appropriate development policy, the political economic structure in Oman, conflicts of interest, the State's social principles, the State's ownership of the natural resources and security-related concerns. Interviewee GO1 felt that the country requires huge investment in infrastructure projects such as roads, hospitals, and ports. However, the private sector is small and does not have the capacity to invest. In addition, the returns are poor. Thus, the State has no option but to step in. Relatedly, FGO1, who was involved in the preparation of Vision2020, felt that the State did not have faith in the private sector as a partner when they established Vision2020. He stated:

> I think the government did not have faith in the private sector as a partner when we established the Vision2020. It viewed the private sector as too small to be an effective actor. ... That is why the government still played a major role in the economic activities (FG01).

Interviewee GO4 proposed a third reason. He thought that the State still does not know whether to adopt market policies or State-led development.

> Until now it is still not clear. That's why we see both options being pursed simultaneously. He gave an example of how the tourism sector was supposed to attract private sector investments but at the same time the government has created an SOE in the sector (GO4).

The fourth reason proposed for the failure of the private sector to be the driver of development was put forward by Interviewees AC2, AC3, AC4, FGO3, ECO2, PSR8, PSR1, PSR13 and JR1. They highlighted that the political economy of Oman, in which family businesses close to the State dominate the economy, encourages oligopolistic practices and conflicts of interest.

Furthermore, although regulations and laws exist to stop conflicts of interest, they are not implemented. In addition, Interviewee AC2 mentioned that the political system is designed in a such way that it creates closed markets and a commercial environment that is exclusive to families who have a close relationship with the State. He stated:

> These families are able to expand their businesses through agencies, contracts, and services; this is similar to other neighbouring countries that have oil resources. Thus, those who are close to the authorities are able to accumulate wealth but anyone who is not cannot access the market. For example, one businessman brought investors to invest in a particular sector, but when he went to obtain the licenses, they were refused. Later he found that the officials who worked in the ministry went indirectly to the investors and established the business. … There are many similar cases (AC2).

The structure of the political economy of Oman was also raised in the focus groups, where the issue specifically mentioned that the rentier nature of the State was an impediment. For example,

> We are a rentier economy. In order to make a transformation, it requires huge efforts and time. The government started in this direction by creating firstly the SOEs and then selling the SOEs to the private sector. Until now there is only slow movement (GO1-FG1).

Another focus group participant argued:

> We need to re-structure the rentier economic model right now (ECO-FG1).

Fifth, Interviewees AC2, AC3, FGO3, ECO2, PSR8, PSR13 and JR1 felt that there was a problem of conflicts of interest in terms of the relationship between the merchant elite and the State, as the decisionmaker is also a businessperson. Thus, they impose rules and regulations that work against the other private sector companies, such as SMEs, in their sector. Meanwhile, Interviewee AC3 stated:

> We can't deny that there is a conflict of interest here in Oman. The policymaker is also a businessman. ... It is very difficult to enter a market simply because the policymaker is a businessman. If you look at the big companies in Oman they are directly or indirectly related to people in the government. ... The law of anti-monopoly and the law of conflict of interest were promulgated in Oman in 1982 and reformed in 2012 but I'm sorry to say they are not effective. ... There are clauses in the law, specifically clause number 10, that clearly state that a government employee should not be in a business that has a relationship with their current job without the express permission of the cabinet (AC3).

Similarly, Interviewee GO9 admitted that there is a conflict of interest.

> Conflicts of interest have to end. We can't have a government that is in business and a regulator simultaneously. Whoever works in the government should not engage in any economic activities. The officials at present do not understand what is meant by a conflict of interest (GO9).

In the focus groups, a journalist agreed:

> There is a conflict of interest. You will find a person working in the government and at the same time he is a board member in some family business groups in the private sector and the same time he is a board member in SOEs (JR-FG2).

To which a state-owned enterprise official replied:

> This refers to our society. We are small society. You don't have high educated people. But we shouldn't take it as an excuse (SOEE-FG2).

Against this background, Interviewee PSR1 felt that certain people in the government felt that the liberalisation of the economy would threaten their own interests. He said:

> Our constitution says that the Omani economy is a free market economy, but in reality, it is not. It is a confused economy (PSR1).

In the focus groups, two journalists put forward a similar argument:

> One of the challenges is there are people in the government who are against Vision2020. Because they felt it will threaten their own interests (JR2-FG2).
>
> Some business people have their own connections to finish their job through personal connections. Some people in the government don't want to listen to the others to change. They don't accept to talk (JR1-FG2).

In response, one state-owned enterprise executive pointed out:

> The law of conflict of interest is there in 15 pages but it is not active (SOEE1-FG2)

Furthermore, PSR1 argued that the State's basic principles contradict free market principles. For example, the State's belief in the importance of social principles has resulted in a quota system operating in the labour market. He stated:

> A company cannot have more than 50% of its workforce as non-Omanis. This restriction curtails economic growth when there are insufficient skilled Omanis to fill vacancies (PSR1).

Another reason for the failure of the private sector to become the driver of the economy was put forward by Interviewees ECO1 and AC3 who felt that the law allows the State to intervene simply because it was the owner of the natural resources, the most important sector in the economy. Interviewee AC3 stated:

> The government is still the main driver of growth in the economy by simply owning the most important sector in the economy, which is the oil sector. What happens is that the government sells oil and redistributes the money it receives. Thus, funds are channelled from the state sector to the private sector. Thus, the private sector gets its money mainly from government expenditure (AC3).

Finally, several respondents pointed out that change was not forthcoming because of security concerns; although many did not understand why security was such an important issue for the state.

> We have security concerns that I don't understand (SOEE2).
>
> The government has concerns about safety and security. If you want to open up your country, then safety and security will become an issue (SOEE1).
>
> We have big fears about security (GO1).

However, other respondents tended towards a more positive view of State-led development and strong State intervention in the economy. Interviewees PSR5, PSR9, ECO1 and AC3 felt that government intervention was needed at the time; indeed, they believed that the State still has a role to play in economic development. For example, Interviewee PSR5 felt that the State intervention is good for the security of the country:

> I think the State must have a role in the economy in order to be a strong government. There is no security if the State is weak. One of the powerful tools is the economy. ... The government has other roles such as providing security, education, and health in order to maintain legitimacy. … Even in developed countries, the State intervenes in the economy; for example, during the 2008 crisis, and we can see how the State in Norway and Singapore intervened through their state investment funds (PSR5).

Interviewee PSR9, a well-known businessman in Oman, stated:

> I support the government's involvement in the economic activities. … I support the government's involvement but in strategic sectors in which the private sector is loath to invest (PSR9).

More specifically, Interviewee PSR4 believed that development projects needed State investment in the form of private-public partnerships (PPP). Relatedly, Interviewee SOEE1 felt that the investors would not be attracted unless the State invested first in order to create a critical mass.

Furthermore, Interviewee ECO1 argued because Oman is still a developing country the economy requires government intervention. However, he questioned the extent of the intervention. Similarly, Interviewee SOE4 also had a positive perception about State-led development. He stated:

> We still have an economy controlled by the government. We are a developing country. Look at China, Brazil, South Africa, Norway, and Turkey's leading sectors. It's all about corporate governance. I think the government should start a new sector but not invest for ever (ECO1).

In summary, perceptions were split over the role of the State; some respondents tended towards a neo-liberal view and wanted to see greater freedom for the private sector relative to the State in the economy. This perception was held mainly by interviewees from SMEs whose businesses are negatively affected by State intervention or those without direct or indirect business interests or without a business relationship with the State, such as government officials, academics, members of parliament and journalists. This approach is strongly supported by international financial institutions, such as The World Bank and IMF, which encourage a strong role for the private sector in the economy and the rolling back of the State. However, a greater number of participants supported State intervention in the economy and expressed resistance to any change. Those who put forward this view were mainly government officials, state-owned enterprise executives and some private sector representatives. Others were inclined to support a market economy, albeit with limited State involvement in, say, key economic sectors. The strength of the perception of, at least, a degree of State involvement in the economy highlights how strongly embedded the belief in State-led development fuelled by oil rents in a neo-patrimonial socio-political structure is in Oman, some two decades since the launch of Vision2020. Karshenas in '*Structural obstacles to economic adjustment in the MENA Region: The international trade aspects*' raised a similar conclusion, arguing that:

> the reasons for the slow pace of reforms in the MENA region may have more to do with the underlying structures of these economies—arising from their resource endowments and their past experience of development—as well as external economic constraints facing them, rather than the idiosyncrasies of their political systems (2001, p.1).

6.1.2 Perceptions on the Role of the Private Sector

Because the role of the private sector is essential in economic development according to both neo-liberal orthodoxy and the Vision2020 objectives, it was important to establish the interviewees' views concerning the role of the private sector in economic development in Oman. Most respondents (83.3%) agreed that the private sector could lead the national economy; 34.5% of respondents reported that they strongly agreed and 48.8% agreed. Only 4.8% disagreed and 1.2% strongly disagreed about this role for the private sector.

The interviews supported these findings. Almost all the interviewees believed that the private sector should and importantly COULD play the major role in the economic development of Oman. For example,

> The private sector can lead the economy and can compete regionally and globally if the government removes its influence from the economy (PSR10).

Meanwhile, Interviewee PSR3 felt that the local private sector companies in Oman and, in particular, his company could compete regionally and internationally. Furthermore, Interviewee AC4 gave an example of a successful local company Oman Cables Company which is competing internationally. He noted:

> We should learn from it (AC4).

However, other participants believed the opposite. For example, Interviewee PSR13 did not believe the private sector could compete regionally and globally at present because it was still weak.

A number of interviewees believed the private sector should lead development but felt that it was not happening for various reasons. Thus, Interviewee PSR10 believed that the private sector could lead the economy and can compete regionally and globally only if the State removed its influence from the economy. Similarly, Interviewee FGO2 also felt the private sector can lead economic development, but he felt that some officials do not support this idea:

> The policy of His Majesty was and still is to give the private sector a greater role in economic development, but some officials do not support this idea, so they give him false reports about the private sector. … The private sector can lead economic development (FGO2).

Although Interviewee AC1 supported the argument that the private sector could lead the economy, he qualified this belief heavily:

> I believe the private sector should take the main role in economic development, but not sectors that are related to security such as telecommunication and oil, along with sectors in which the private sector is not willing to invest such as infrastructure projects. Therefore, the government should invest in these projects (AC1).

Although there was considerable support for the private sector to lead development, much of this support was qualified. Participants cited various reasons why the State should still be involved in the economy. In addition, various reasons were proposed as to why the private sector could not drive economic development. Once again, the participants exhibited the twin influences of the deeply embedded rentier mentality and neo-patrimonial socio-political structures which distorted any attempts to introduce a neo-liberal market economy.

6.2 THE PRIVATE SECTOR'S READINESS TO BE THE ECONOMIC DRIVER

As indicated in the previous section, there is considerable debate in Oman about the private sector's 'readiness' to assume a more proactive role in the economy, which in itself indicates that this 'liberal' understanding is not fully formulated. In this context, in Section 1 of the Questionnaire respondents were asked about the private sector's dependency on government expenditure (see Table 6.1). A total of 63.1% of respondents expressed positive attitudes (agree or strongly agree) to the statement that the private sector is dependent on government expenditure. 40.5% of the participants agreed, and 22.6% strongly agreed, as compared with 21.4% who gave neutral responses, while only 13.1% disagreed and 2.4% disagreed strongly. Thus, participants acknowledged the importance of State expenditure on private sector activities. However, when asked if the private sector could grow without government expenditure, the results were less decisive (see Table 6.1). Twelve percent of respondents strongly agreed and 25.3% agreed that the private sector could grow without State expenditure. However, 37.3% of respondents did not believe that the private sector could grow without government expenditure; 31.1% of respondents disagreed and 7.2% strongly disagreed while 21.4% remained neutral. Thus, respondents' perceptions reflected the debate in Oman about the private sector's readiness to assume the lead in economic development, as there were mixed views on its ability to relinquish its dependency on State spending fuelled by rent.

Table 6.1: Perceptions of The Private Sector's Dependence on the State

(%)	Agree Strongly	Agree	Neutral	Disagree	Disagree Strongly
The private sector is dependent on State expenditure	22.6	40.5	21.4	13.1	2.4
The private sector can grow without State expenditure	12.0	25.3	25.3	30.1	7.2

The majority of interviewees supported the view that the private sector was still not ready to take the main role in economic development. Government officials, including GO10, GO5, GO11, GO9, GO3 and GO12, were of this view. For example,

> The private sector cannot compete regionally and globally. It lacks experience and competitiveness (GO3).
>
> I don't think we have a real private sector that can lead the economy (GO10).

The reasons posited for this lack of readiness included:

- The private sector has a rent-seeking rather than profit maximising approach;
- The private sector lacked the necessary level of investment or expertise;
- The private sector is not a risk taker but is highly dependent on State spending;
- The presence of family businesses;
- The lack of a diversified economy;
- The lack of comparative advantage;
- The small size of the Omani market; and
- The concentration of activities in the capital.

In the focus groups, the issue of rent-seeking was raised:

> The private sector is dependent on government expenditure as a form of rent seeking (SOEE-FG2).

Interviewee AC4 also felt that the government is responsible for rent-seeking behaviour by the private sector because of its role in the economy. He stated:

> The problem is the government is planning, regulating and executing. The government since 1970 played a major role in the economic development. At that time, it made sense that the government did everything because the country lacked the basic infrastructure and there was only a very weak private sector. ... But, in the 1980s and 1990s the role of the State became central to the economy creating a Rentier State in which the private sector adopted a rent-seeking rather than profit-maximising approach. … The big family-owned businesses started with agencies and therefore are service-based trading companies. … Thus, they are rent-seeking rather than profit-maximising. This is also the case with middle-size companies and SMEs. Until very recently, the rent-seeking of the private sector has not helped it to reduce its dependence on government spending. Now, manufacturing, real-estate and tourism have become independent but are still very small (AC4).

This rent-seeking behaviour means:

> The private sector itself does not have a vision of how to grow (GO12).

In terms of investment, Interviewees SOEE2, AC1, GO1 and GO5 felt that the private sector is not willing to invest in certain sectors because they do not have the money or expertise. Therefore, they believed that the State had to step in through the creation of SOEs to fill the gap. These SOEs had a number of objectives, in addition to filling the gap caused by the weak private sector, including encouraging FDI and creating companies that could be privatised.

> Some SOEs were successful because the private sector was not attracted to the sector, and because it lacked the necessary level of investment. Later, SOEs formed joint ventures with investors (SOEE2).

> If the private sector is not willing to invest in a particular sector because they don't have the money or expertise, yes, it is alright to create an SOE. However, I do not support SOEs if they crowd out private investment (AC1).

> SOEs were created because the private sector did not invest in these sectors (GO1).

> The SOEs' role was to attract FDI. This was the objectives of creating those companies (GO5).

However, some interviewees argued that the SOEs stopped the private sector from developing:

> Secondly, most of the mega projects such as petrochemicals, were undertaken by SOEs with full support from the government. So how can the private sector compete in this area? It is impossible (PSR10).

Several respondents felt that the private sector in Oman is not a risk taker. Interviewees SOEE2, PSR6, PSR10, FGO1, PSR13 and AC1 all felt that the private sector is not ready to take the lead in the economy because it is not a risk taker and is highly dependent on government spending. The following quotes highlight this issue:

> The private sector in Oman is not a risk taker (GO5 and GO11).

> The private sector only wants contracts directly from the government, rather than creating new activities. … The private sector is highly dependent on government projects, which it thinks will continue for ever. This is wrong. (GO9).

> The private sector is still very weak and is reliant on government spending and foreign labour. It couldn't understand the new role given to it by the government in Vision2020 (GO3).

> I think the private sector is not ready to take the role from the government in economic development. There is a strong link between the private sector and government spending. The private sector is strongly dependent on government spending and is not operating independently. … We have an issue with entrepreneurship. We don't have new ideas in the private sector (AC1).

> The private sector by nature is not a risk taker. The private sector was very much dependent on the government spending. Therefore, its activities were a response to the government spending (PSR10).

The dominance of the family businesses was also raised as an issue that undermined the readiness of the private sector to drive the economy:

> We have a family business private sector that is concentrated in the hands of a few families. … The private sector is not helping itself to improve. The private sector is not aware about developments happening around the world. The private sector still works with an out-dated investment mind-set (GO10).

> The family businesses groups are in the market because of the absence of other private sector companies (GO9).

In addition, the lack of a diversified economy was raised as an issue by Interviewee FGO1, who felt that the private sector in Oman cannot lead the national economy because it is concentrated in the service sector or agencies. Furthermore, several respondents including PSR8, AC4 and AC3 felt that the economy is energy driven rather than one driven by economic principles. As AC4 explains, this has undermined diversification plans, which means the private sector cannot expand. Similarly, Interviewee AC3 said:

> If you think about government expenditure it is focused on infrastructure projects that help the private sector, as well as providing the basic services. … Therefore, this is where the private sector is investing. The private sector is looking at where the government is spending in deploying the infrastructure. … You can argue that the private sector is behaving rationally by simply responding to government expenditure. Because that is where the money is, there is less risk and where the demand is (AC3).

Interviewee AC4 felt that the economy suffers from the resource curse to a degree that feeds through into a lack of comparative advantage. In turn, this means that the private sector cannot develop and therefore is not ready to take on the lead role in development. He stated

> We suffer from a resource curse although not completely. Because oil is so important, it overshadows other sectors in the economy. ... This harms the export sectors because of the high real exchange rate, so my exports become more expensive. Therefore, there is no competitive advantage (AC4).

The lack of comparative advantage and the small market size of the Omani market were also put forward by Interviewees PSR2, PSR5, AC4 and AC2 as obstacles to the ‘readiness’ of the private sector. For example, Interviewee PSR5 stated:

> The GCC in general and the Omani market in particular is a small market. ... The purchasing power is not strong enough to encourage the private sector to produce goods and services. ... We might have the capital, but we don’t have sufficient labour and we don’t have the technology. ... So, in terms of comparative advantage, we don’t have that advantage (PSR5).

The point of the small size of the Omani economy was also raised in the focus groups:

> Oman’s economy is small (PSR6-FG1).

Although the lack of size was disputed within the debates in the focus group by one economist who stated:

> There is huge potential in the market for FDI to invest in Oman. There are so many gaps in terms of investment in technology, education, industrial sectors. … Even if the country opens up, it’s not enough. We need to work in a comprehensive way with different diversification policies in order to achieve our objectives (ECO1-FG1).

The lack of market size was also reflected in the respondent's answers to the Questionnaire. A total of 72.8% of respondents (agree and strongly agree) believed that the size of the market in Oman affects the contribution of the private sector in the economy; 43.2% of respondents agreed and 29.6% strongly agreed with this statement, compared with 6.2% who disagreed and 21.0% gave a neutral answer.

Finally, Interviewee PSR2 felt that there is uneven geographical distribution of economic activities in the country. One of the challenges facing the private sector is its focus on the capital, Muscat. He argued that other cities lack many facilities for the private sector.

In summary, the majority of the interviewees and focus group members believed the private sector was not ready to assume the mantle of economic driver for various reasons. These reasons supported the findings of Chapters Two and Five which clearly show State-led development fuelled by rent created a rentier mentality in the public and private sectors, as well as among the population in general. The result was an economy in which the private sector was captured by the State. This meant that it could not flourish independent of State expenditure and was therefore not ready to take the lead in economic development. In addition, the privatisation programme envisaged under Vision2020 became distorted by the Rentier State and neo-patrimonial structures, through the creation of SOEs. These were supposed to be a preliminary step towards full-scale privatisation. However, the next steps did not occur, resulting in the private sector being crowded out of many sectors by the State, limiting it primarily to the services and construction sectors, where it relied on the rent distributed by the State, further embedding the rentier mentality. In addition, the merchant elite who were able to take advantage of the recycled oil rent, gradually gained control of most of the economic sectors and mega-projects in the country, creating an oligopolistic market. These factors further limited the 'readiness' of the private sector to drive the economy.

6.3 THE BUSINESS ENVIRONMENT

This section investigates the interviewees' perceptions of the quality of the business environment in Oman and how it helps or hinders private sector development. The interviewees were asked about their perceptions of the business environment in Oman. Interviewees were also asked if there were any practices or political/economic factors in the business environment that hindered the growth of the private sector. In their evaluations of the business environment under Vision2020, the private sector is conflicted between 'liberal' preferences for a more substantive 'opening' of markets on the one hand, and their own continued rent-seeking behaviour on the other. Overall, the majority of the interviewees felt that the business environment in Oman still lacked many elements that are important for encouraging private sector growth. Nine specific themes emerged when analysing the interviewees' responses:

- Public Institutional Efficiency;
- Bureaucratic Impediments;
- The Renting of Licenses;
- Market Monopolies;
- Access to Finance;
- The Business and Investment Laws and Regulations;
- Labour Regulations and Omanisation; and
- Privatisation.

6.3.1 Public Institutional (In)Efficiency

There was a degree of consensus amongst interviewees, including SOE executives and government and former government officials, concerning the lack of efficiency in the public sector. In the questionnaire, the respondents were asked to rate their level of satisfaction with the quality of the public institutions efficiency, 39.3% of respondents expressed a low level of satisfaction (10.7% marked it as very low, while 28.6% expressed low satisfaction). Only 14.6% of respondents were satisfied. A variety of reasons, including weak regulations, the lack of KPIs, the lack of coordination between government bodies, a lack of transparency, a lack of accountability, and the lack of a clear consistent policy, were all posited for this low level of efficiency.

A number of reasons were put forward for the lack of coordination, including individualism, different ministries having overlapping responsibilities which leads to competition between ministries, too many bodies involved and no overarching coordinating body. Interviewees PSR6, PSR9, PSR13, PSR9, AC1, AC2 and ECO2 mentioned that there is a lack of coordination between ministries because there is no single body responsible for economic development in the country. This has resulted from government officials promoting policies according to their individual views. Thus, Interviewee PSR6 pointed out that each government institution works individually rather than in coordination with regards to granting approvals to the private sector. This creates extra time pressures for the private sector. Similarly, Interviewee AC1 stated:

> The government officials promote policies according to their individual views, rather than trying to create consensus over the direction and policies of economic development. Until now we don't have one body that is responsible for debt. For example, when to take a loan, in what to invest and how. ... That is why the government is spending a lot of its oil revenues. The government does not have a coordinated plan to use loans for investment where appropriate (AC1).

The individualism in government creates a lack of coordination between the ministries.

In addition, Interviewee FGO1 gave an example of the lack of coordination between ministries. He said you can get approval from the Ministry of Commerce and Industry but then not from the Ministry of Manpower for the same business activity. Interviewee PSR9 mentioned that there is no coordination between government institutions. He referred to the problem of pluralism in the responsibilities of government ministries:

> There is no one person responsible for a government body for economic development in the country. Each government body is interfering in other ministry's affairs (PSR9).

Interviewee AC2 mentioned a similar point when he referred to the fact that there is no coordination between different government bodies. In fact, he added that there is competition between the bodies which is not healthy. The lack of coordination was also raised in the focus groups.

> There is a lack of coordination between ministers. And time is not important to them (PSR1-FG2).
>
> There is a lack of coordination between the government bodies. … There is conflict of procedures as well. For example, whenever a ministry takes a decision, there is no coordination with other ministries if this decision will affect the business environment or not (SOEE1-FG2).
>
> We don't have a complete solution for our problems. We deal with our problems individually. That's why we fail (PSR3-FG1)
>
> There is no institutional work, there is individual work in the government (SOEE1-FG2).

The focus group participants pointed out that coordination is difficult because:

> There are 98 governmental bodies in the country. Its huge (GO1-FG1)
>
> Twelve government bodies responsible for attracting investment. If one body says no. The investor cannot move forward (ECO1-FG1).

Although another participant argued the number was actually higher:

> I think it is 24 bodies (PSR8-FG1).

Interviewee FGO1 believed the issue of inefficiency comes from the lack of accountability and transparency.

> There is no accountability. The government officials are frightened to take decisions. The officials don't want to take any responsibility (FGO1).

This was supported by GO10:

> We have an issue of accountability. No one is responsible for assessing whether or not we are achieving our targets (GO10).

In this context, Interviewee PSR13 mentioned that cabinet ministers have no power to make structural changes. Furthermore, the focus groups and interviewees linked the lack of accountability to having no monitoring mechanism, such as KPIs.

> No KPIs for Vision2020 (PSR1-FG2).

> No follow up from the cabinet for the ministries' performances (PSR1-FG2).

> We don't learn from our mistakes. We don't have KPIs in the government sector. No one is accountable in the government (FGO2).

> In the Omani political system, the institutions are very weak and there is no coordinated economic policy. We don't even have an institution that evaluates the success or otherwise of policies and plans. ... All decisions have to be taken by His Majesty (PSR13).

The lack of transparency was also raised by participants:

> There is a lack of transparency. For example, a commercial port has been changed to a to tourism port. Why? I don't know. There was no consultation (GO9).

In addition, the lack of a clear, consistent policy was raised as an issue in the focus groups.

> There is no clear policy that everyone should follow. Whenever there is change in people, policy changes. This is wrong. For example, the government wanted to build the clusters for the economic sectors in line with the objectives of Vision2020, but that didn't happen. We have an issue with implementation (SOEE1-FG2).

> No clear priorities in the government's economic policy (PSR1-FG2).

> We must know what we want from FDI. Let us set the priorities in the economic sectors. Then we look for the right FDI for the right sector to invest (ECO1-FG1).

> The government does not know why they want FDI. There is no link between FDI and our national needs, such as creating jobs for locals or adding value to the national economy. One example is investment in real-estate. What is the contribution to the local economy? How many jobs is it creating? (GO1-FG1).

> For example, in the Vision2020 preparation, the question was what type of school of economic thought do we adopt? The answer was we don't adopt one school, we will take what suit us. This wasted our efforts and resources. You can't adopt more than one school in one vision (SOEE1-FG2).

6.3.2 Bureaucratic Impediments

According to almost all the interviewees and members of the focus groups, government bureaucratic hurdles, and in particular the difficulty and cost of obtaining licenses, were a major challenge facing the private sector in Oman. Interviewees AC2, AC3, AC4, PSR6, PSR9, FGO1 and FGO2 mentioned that the private sector suffered because of the amount of bureaucracy when opening a business in Oman in terms of number of approvals, regulations and number of licenses required. For example:

> Oman has created an impressive bureaucracy. It is good to have bureaucracy, but the thing is how you administrate it. A lean process is better. Our problem is that we have created a fantastic environment but, in itself, it is a process that is based on rentierism and corruption. We have a main government bureaucracy and we have bureaucracy within each government body. However, they do not work in tandem. They work individually without clear communication (AC4).

> Bureaucracy is a big challenge. Bureaucracy in the government in getting approvals to start business, labour market regulations, Education and training. For example, there is too much approval to invest in manufacturing sector (PSR1-FG2).

Interviewee FGO2 argued that the length of time it takes to get approvals acts as a barrier to private sector investment.

Interviewees PSR1, PSR3, PSR6, PSR9 and PSR5 provided examples of their own experiences of the difficulties in obtaining a license:

> I introduced a project to the government about a cooling system that was energy and money saving. I didn't require any financial support as I already had the money. All I wanted was the necessary licenses … Their response was "why should we save, we have cash, we don't have a problem" (PSR1).

> I had difficulties in obtaining approvals for my business when I started my business; these took 7 months. It should only take a few days. But bureaucratic hurdles and the involvement of so many governmental entities led to this delay (PSR3).

> Some licenses take too long to obtain which creates obstacles for the private sector to growth. For example, one small manufacturer took more than one year to receive the necessary approvals (PSR6).

> We have 15 places from where investors have to obtain approvals. This is too much. In other regional countries, approval is required only in three places. The fees that I paid to obtain my business licenses were too high, especially for a small company like my company. Our fees are very high (PSR9).

> We struggle with government approval. Some business licenses, unfortunately, are given to certain people but not others. Thus, there is a monopolistic practice in place (PSR5).

As did focus group participants:

> There is conflict of procedures as well. For example, whenever a ministry takes a decision, there is no coordination with other ministries if this decision will affect the business environment or not (SOEE1-FG2).

Furthermore, the focus group discussion raised the issue of the bureaucratic nature of ministries, citing an example of the Ministry of Manpower:

> One example of the bad measures is being taken by the Ministry of Manpower is the way they deal with foreign workers, who they consider to be threats to the country. They don't give you permits to bring workers from outside. And if there are foreign workers inside the country they will follow them, whether or not they are complying with the rules and regulations. I remember once, one investor lady came to Oman to invest, she doesn't know about the rules, her visa was temporary entry, she was late in leaving the country, the ministry went after her and took her passport and was in the process of putting her in jail. She is an investor. After this incident, she said I'm not going to invest in Oman again (GO1-FG1).

Journalists in the focus groups also raised the lack of coordination between departments when decisions are taken.

> There is no clear system of how the decision is taken. It's the issue with complications of too many decision makers (JR2-FG1).
>
> Lack of trust in the government itself. No clear decision-making process (JR1-FG1).

6.3.3 License Renting

The renting of a license necessary for the operation of a business is a practice that is widespread in Oman. An Omani will rent out the commercial license to a foreign investor who runs the business in return for paying a monthly fee. According to the interviewees, the issue associated with this practice is that the foreign investor is only concerned about how to make money out of the business without making any real contribution to the national economy by adding value or creating jobs for Omanis. This type of business activity is concentrated in the service sector because it is cheap to obtain a license in businesses such as coffee shops, restaurants, and grocery shops. In addition, there are no rules stipulating that Omanis must run the business themselves or from preventing public sector employees from obtaining a commercial license. However, one government official did argue that it was illegal.

This aspect was highlighted by Interviewees PSR1, PSR2 and AC3, who pointed out that the practice undermines the economic potential of the country as profits are sent abroad and Omani entrepreneurs cannot enter the market easily. Interviewee AC3 believed that it is a significant area of practice, while Interviewee PSR1 stated:

> Another issue with the private sector is the 'informal trading' or 'renting licences to expatriates'. Look at the service sector in Oman, you will find hundreds of retail outlets in a small area. ... Outlets, such as barbers, grocers, and hairdressers are run by expatriates. However, they don't add any value to the economy. All they think about is earning a quick buck. Unfortunately, this is the fault of Omanis, who rent the license to the expatriates in order to earn a monthly income without effort. The expatriates who run the business send their profits back home, which negatively affects the country's financial position (PSR1).

Interviewee PSR2 highlighted a gap in the law that allowed such practices:

> We have a complete monopoly of trading in foreign hands in terms of rent trading or informal trading. Unfortunately, those locals who rent the licenses are employees in the public sector. This impacts on Omani entrepreneur who wants to run his own business in this sector. ... Unfortunately, the current law cannot stop them, which harms the national economy. The blame is on the government on this point (PSR2).

6.3.4 Monopolistic Practices

In the Questionnaire, 69.2% of the respondents believed that there are monopolies in the economy compared with only 3.7% who disagreed, while 27.2% answered neither (see Table 6.2). Also, participants were asked about their level of satisfaction on the current Competition Protection and Monopoly Prevention Law; 24.1% of respondents claimed to have very low satisfaction and a further 34.9% reported a low satisfaction. Only 8.4% were satisfied with the law. In this context, 83.9% of the respondents (agree and strongly agree) agreed that reforms should be made in the current Competition Protection and Monopoly Prevention Law (see Table 6.2).

Table 6.2: Perceptions of Monopolies in the Economy

	Agree Strongly	Agree	Neither	Disagree	Disagree Strongly
To what extent do you believe there are monopolies in the private sector	34.6	34.6	27.2	3.7	0.0
Reforms should be made in the current Competition Protection and Monopoly Prevention Law	37.0	46.9	14.8	1.2	0.0

Several interviewees believed that monopolies in certain sectors hinder the growth of the private sector. This practice is heavily related to the large family businesses which have a close relationship with policy makers. Thus, the interviewees point out that there is a high degree of crony capitalism in Oman.

Interviewees PSR10, PSR3, AC4, FGO2 and ECO2 indicated that monopoly exists in Oman. A view also raised in the focus groups:

> There is monopoly in the market. Unfortunately, the Monopoly law is not active (SOEE1-FG2).
>
> The local private sector is managed by 10 top family owned business. There is a huge responsibility on this groups to expand the market (GO1-FG1).

In this context of the family-owned businesses, Interviewee PSR3 pointed out that one company tends to dominate one economic sector. He continued by saying:

> They are strong, they have the money, and they own banks, so no one can compete them (PSR3).

Furthermore, Interviewee FGO2 felt that the government favours certain private sector companies in winning government tenders in certain economic sectors. In this context, Interviewee ECO2 mentioned that certain people in the government benefit from the current situation. Thus, they are against adopting free market principles. He concluded by saying:

> We have an anti-monopoly law, but it is not used (ECO2).

A similar point was mentioned by interviewee AC4:

> The dominance of big family owned businesses of most of the economic sectors is not giving room for other private sector companies to develop. There is nothing stopping the big family companies creating monopoly situations. We don't have a competition law in Oman. We don't have a competition tribunal to protect other private sector companies such as anti-trust agencies. We don't have a legal framework that can prevent one company having 500 agencies. But Oman does not enforce the necessary legislation to address the problem (AC4).

Thus, as Interviewee AC4 noted, the issue mainly relies on the legal side. The current law is not effective enough in preventing such practices.

In the questionnaire, the participants were asked about their perception of the impact of family business groups on the economy. Surprisingly, 64% of the respondents agreed (agree and strongly agree) that the family business groups do compete with other local companies, compared with 13.3% who disagreed with this statement (see Table 6.3). The respondents were also asked if the family business should be converted to public joint stock companies. A mixed result emerged on this statement. While 38.7% of the respondents agreed and 2.0% strongly agreed, 26.7% gave a neutral response, 10.7% disagreed and 4.0% strongly disagreed (see Table 6.3).

Table 6.3: Perceptions of Family Business Groups in the Economy

	Agree Strongly	Agree	Neither	Disagree	Disagree Strongly
Family businesses groups do compete with local companies	18.7	45.3	22.7	8.0	5.3
Family businesses should be converted to joint stock companies	2.0	38.7	26.7	10.7	4.0

The participants also were asked about their level of satisfaction in relation to the family business groups' contribution to the national economy. The response was mixed,39.9% were dissatisfied but 29.2% were satisfied (see Table 6.4). In addition, participants also were asked about their satisfaction with family business groups' contribution in creating jobs for Omanis. A total of 44.7% of the participants expressed their dissatisfaction with this statement, while only 23.7% supported it (see Table 6.4). This result supports a perception of one of the private sector representatives who believed that there is favouritism displayed to family business groups in terms of Ministry of Manpower rules and regulations with regards to obtaining work permits for foreign workers when compared with SMEs.

Table 6.4: Perceptions of the Contribution of Family Business Groups to the Economy

1= very low; 5 = very high	1	2	3	4	5
Contribution of family businesses groups to the national economy	22.8	16.5	31.6	20.3	8.9
Contribution of family businesses groups in creating jobs for Omanis	17.1	27.6	31.6	15.8	7.9

6.3.5 Access to Finance

Finance is one of the main inputs that can help achieve growth in the private sector. Finance for the private sector in Oman is obtained from the local commercial banks or from the State. In the Questionnaire, the respondents were asked about their satisfaction with obtaining finance in Oman. The answers were negative, reflecting a low level of satisfaction concerning accessing finance. Only 2.4% of respondents claimed to be very highly satisfied and 7.2% reported being satisfied, compared with 27.7% who expressed a very low satisfaction and 30.1% a low satisfaction. Similarly, most of the respondents agreed that the private sector faced difficulty in obtaining financing from local banks; 33.8% of respondents strongly agreed and 25.7% agreed with the statement (see Table 6.5). In addition, 39.2% of respondents believed there is not sufficient information available on the sources of funding, while 25.7% thought there were sufficient channels of information (see Table 6.5).

Table 6.5: Perceptions of Accessing Finance for the Private Sector

	Agree Strongly	Agree	Neither	Disagree	Disagree Strongly
Private sector face difficulty in obtaining financing from local banks	33.8	25.7	36.5	2.7	1.4
There is sufficient information about sources of funding	2.7	23.0	35.1	27.0	12.2

The findings of the questionnaire were supported by the interviews and the discussions in the focus groups. Several interviewees believed that there is still difficulty in obtaining finance in Oman because of the requirements from the banks, while quotes from the focus groups included:

> The banks are not supporting the diversification policies (ECO1-FG1).
>
> There is an issue with finance for manufacturing. Banks do not give loans easily for the manufacturing sector (PSR1-FG2).
>
> The local banks must invest in the manufacturing sector (PSR10-FG1).

Interviewee PSR1 mentioned that, while there is no problem with the number of the banks, the issue is that financial products are not easily available for the private sector; for example, he noted that the interest rate is high for borrowing. Similarly, Interviewee AC2 noted that the problem is with investment finance not with the source of funds, while Interviewee PSR3 said he faces a problem of obtaining information about financial opportunities.

In contrast, Interviewees PSR3 and AC1 noted that financing is available from government sources, State banks and local commercial banks. Thus, Interviewee FGO1 stated there is no problem with finance or the number of banks:

> The private banks were always supportive when we need money. All the infrastructure projects and the current economic sectors are financed by the banks (FGO1).

Although a focus group participant argued:

> We must to look to the investment directions. Banks cannot risk investing in sectors with no guarantee of profits (SOEE1-FG1).

In addition, several interviewees mentioned structural issues, such as the reliance of the banking sector on government deposits, and the laws and regulations relating to finance, that impede access to finance. Interviewee PSR4 noted that most deposits in the banking system are by the government. In 2015, the government withdrew much of those deposits because of the drop-in oil prices, creating a liquidity crunch. In turn, this led to the banks increasing the interest rate on loans for the private sector.

The Central Bank of Oman's laws and regulations governing finance were believed by interviewees PSR6, ECO2, FGO2 and FGO3 to be restrictive and conservative. Thus, Interviewee FGO3 believed the big issue with finance in Oman is the rules and regulations of the Central Bank. In this context, Interviewee FGO2 stated:

> The banks are blocked by the Central Bank Laws. The Central Bank doesn't have any flexibility on their financial limits. The Central Bank is not a risk taker. There are no specialised investment banks or a financial centre as there are in other countries in the region. … The Central Bank should ease its lending requirements. Its current policies act against the interests of the private sector (FGO2).

Furthermore, Interviewee FGO1 believed that the banks were careful about lending to SMEs from a risk point of view. Another aspect was raised by Interviewee PSR6 who argued that the banking laws have been in place since the 1970s and are not suitable for the current stage of development:

> We have an issue with the Central Bank of Oman's rules with regards to granting licenses to new banks. In Oman, we don't have a specialised investment bank on which the private sector can depend. We tried to convince the officials in the Central Bank that we need to create investment banks, but unfortunately, they will not listen to us. The management is very much careful about changing their conservative thinking towards opening up the financial sector. The Central Bank CEO has been there for almost 22 years. The way he thinks does not serve the current needs of the economy. The commercial banks' outlook is too narrow. Most of the credit is provided for personal loans (PSR6).

Interviewee PSR2 took the argument a step further arguing that the preponderance of personal loans had created a shortage for private sector companies accessing finance. In addition, Interviewee FGO2 noted that when the Central Bank issued bonds, they take liquidity from the local banks, reducing the availability of finance for the private sector.

6.3.6 Business and Investment Laws and Regulations

With regards to the business environment, the laws and regulations in Oman is a further area that the majority of interviewees and members of the focus groups felt was hindering the growth of the private sector. Interviewees PSR1, ECO2, AC2 and FGO1 believed that the business environment in Oman is not business-friendly. In addition, a focus group member argued:

> The rules and regulations in terms of investment laws, business laws, labour market law did not move in the direction of Vision2020 of enhancing the role of the private sector. This is one of the big things that did not help the success of Vision2020 (SOEE1-FG2).

Meanwhile, Interviewee PSR1 believed there is a problem with the government regulating the private sector:

> We have an issue with regulations. The government doesn't know how to regulate the private sector, they don't know how to regulate the free market economy. The government interferes in our business. They interfere in every single small thing. This is not acceptable. The laws are in place, but no one complies with them (PSR1).

Interviewee FGO1 extended the argument when he stated that the current Agencies Law protects only one group of businesspeople and does not stop monopolies. He gave an example that there is one dealer for Mercedes cars that no one can compete with although the law allows you to import a Mercedes.

In terms of investment laws and incentives in relation to FDI, the interviewees believed the current laws are not suitable for attracting investment, especially FDI. In this context, Interviewee ECO2 stated:

> FDI inflows are weak because there is a lack of skilled labour, no incentives and no clear regulations. If we want local or foreign investment, there should be a legal framework that removes the barriers. There are laws that are not active or have not been updated, such as the FDI law, the finance law, the labour law, and the corporate law, which are not suitable for a modern economy. The legal framework needs to be updated (ECO2).

Indeed, Interviewees ECO2, FGO2 and FGO3 felt there is no clarity in the laws on how to attract FDI in terms of incentives and regulations. Thus, each believed that the barriers to FDI inflows should be removed. Interviewee PSR8 provided an example of how the laws had a small degree of flexibility in the 2000s but not anymore:

> In the 2000s, we were a little bit flexible in terms of visas for the tourism sector but when it comes to FDI we couldn't offer any incentives for foreign investors to invest 100% in tourist projects (PSR8).

Nevertheless, one respondent, PSR9, disagreed about the need for incentives, highlighting that the issue was about regulatory barriers, such as obtaining approvals, which should be eased.

With regards to the Questionnaire results on the impact of the FDI, participants were asked about the contribution of the FDI to the economy and whether it is competing with local companies. The results were mixed. While 55.2% of the respondents agreed (strongly agree and agree) that FDI can contribute significantly to the growth of the private sector, but 56.6% of the respondents believed that foreign companies competed (by implication, unfairly) with the local companies (see Table 6.6). In addition, the respondents were not convinced that FDI was a significant factor in contributing to the national economy, job creation for Omanis and in gaining technology transfer and knowhow; in each case less than 27% of respondents thought the benefits were high or very high (see Table 6.7). This result shows that the private sector respondents believe in the openness of the economy but, at the same time, rentier mentality still influences their perceptions as they believe the foreign companies are competitors, which might result in their companies losing market share. Thus, the 'readiness' of the private sector to accept openness is still questionable.

Table 6.6: Perceptions on FDI, Foreign Companies, the WTO and FTAs

	Agree Strongly	**Agree**	**Neither**	**Disagree**	**Disagree Strongly**
FDI can contribute significantly to private sector growth	19.7	35.5	40.8	1.3	2.6
The foreign companies do compete with local companies	14.5	42.1	27.6	11.8	3.9
Oman has benefitted from joining the World Trade Organisation	9.8	34.1	42.7	12.2	1.2
Oman has benefitted from signing Free Trade Agreements	24.4	37.8	30.5	7.3	0

Table 6.7: Perceptions on FDI

1 = very low; 5 = very high	**1**	**2**	**3**	**4**	**5**
Contribution of FDI to the national economy	12.0	30.7	32.0	17.3	8.0
Contribution of FDI in job creation for Omanis	13.3	30.7	29.3	18.7	8.0
Contribution of FDI to technology transfer and knowhow	16.5	24.1	34.2	16.5	8.9

The participants were also asked about whether or not Oman had benefitted from joining the WTO and signing Free Trade Agreements (FTAs). Although, 43.9% believed that Oman benefited from membership of the WTO and 62.2% saw a benefit in FTAs, a large number of respondents were not sure of either statement; 40.8% in the case of the WTO and 27.6% in terms of the FTAs (see Table 6.6). The result could reflect that the respondents were not aware of the neo-liberal arguments about the potential benefits of joining the WTO and the FTA. This could reflect the rentier nature of the private sector.

Respondents were also asked about their level of satisfaction in relation to several aspects of the business environment. Overall, the appropriate infrastructure (roads, transportation, communication, electricity) had the highest level of satisfaction with 33.7% of respondents being satisfied and 7.2% highly satisfied; however, this is less than one-half of the respondents. With regards to business regulations, ease of trading internationally, obtaining licenses to start a business, the judicial system, tax policy and availability of goods in the market, the level of satisfaction of the respondents was low and very low (see Table 6.8). The results show that perceptions of respondents are that the business environment acts as an obstacle to the growth of the private sector.

Table 6.8: Perceptions on the Business Environment

1 = very low, 5 = very high	**1**	**2**	**3**	**4**	**5**
Business regulations	23.4	24.7	40.3	9.1	2.6
Easy to trade internationally	15.5	29.8	31.0	17.9	6.0
Appropriate infrastructure (roads, transportation, communication, electricity)	4.8	14.5	39.8	33.7	7.2
Obtaining licenses to start a business	19.0	21.4	31.0	22.6	6.0
Judicial system	23.4	24.7	40.3	9.1	2.6
Ownership laws and property rights	14.5	24.1	39.8	18.1	3.6
Tax policy	19.3	28.9	28.9	13.3	9.6
Availability of goods in the market	14.5	33.7	33.7	16.9	1.2
Investors protection	15.7	25.3	41.0	14.5	3.6
Resolving trade disputes in the courts	16.9	24.1	44.6	10.8	3.6

6.3.7 Labour Regulations and Omanisation

In the questionnaire, the respondents were asked about their level of satisfaction with the quality of labour regulations and Omanisation policies. As shown in Table 6.9, the results were negative. 31% of respondents expressed a very low satisfaction and a further 21.4% a low satisfaction about labour regulations, while only 3.6% were very highly satisfied and 13.1% satisfied. In addition, the respondents also showed their dissatisfaction with Omanisation policies. A total of 52% were dissatisfied (very low and low) with Omanisation policies compared with only 1.2% who were very satisfied and 19.0% satisfied. Furthermore, 52% of the respondents agreed or strongly agreed that the current Omanisation policy is hindering the growth of the private sector and 65.8% agreed or strongly agreed that the government should have open labour market policies (see Table 6.10). In addition, 42.8% of respondents believed that education and training outcomes are below expectations, while 49.4% believed Omanis are not skilled or efficient manpower in the labour market. Respondents also showed their dissatisfaction with the work ethics of the national workforce. A total of 33.7% of the respondents believe there is an issue with work ethics among the national workforce, compared with 18.1% and 7.2% respondents who expressed a very high and high satisfaction, respectively, with the statement (see Table 6.9).

Table 6.9: Perceptions of the Labour Market

1: very low, 5: very high	**1**	**2**	**3**	**4**	**5**
Labour regulations	31.0	21.4	31.0	13.1	3.6
Education and training outcomes	22.6	20.2	39.3	15.5	2.4
Omanisation policies	22.6	22.6	34.5	19.0	1.2
Skilled, efficient manpower	21.7	27.7	39.8	8.4	2.4
Work ethics in the national workforce	9.6	24.1	41.0	18.1	7.2

Table 6.10: Perceptions of the Labour Market Policies

	Agree Strongly	**Agree**	**Neither**	**Disagree**	**Disagree Strongly**
The Omanisation policy is hindering the growth of the private sector	21.3	30.7	28.0	16.0	4.0
The government should have open labour market policies	34.1	31.7	15.9	13.4	4.9

There were various reasons put forward by the interviewees for Omanisation becoming one of the main obstacles to private sector growth in Oman. The interviewees felt the policy forced private sector companies to employ locals regardless of their suitability for the job. The Ministry of Manpower does not allow a company to employ foreign workers if they do not achieve a targeted percentage of Omanisation. The private sector companies feel this policy acts a barrier for employing the talent required. In addition, they feel it increases their costs while reducing productivity. Others pointed out issues such as a lack of skills of Omanis, and differentials with public sector jobs and Omani work ethics or mentality which hindered the private sector from recruiting locals. In contrast, a number of interviewees, mostly those that were in the State sector, pointed out that Omanisation was successfully introduced in a number of sectors and there is positive side of Omanisation.

The negative responses of the interviewees can be divided into several categories: those who felt it was an institutional issue; those who believe Omanisation is part of the Rentier State welfare system; and those who blamed the education system for failing to meet the demands of the private sector. In terms of those who felt it is an institutional issue, PSR3, AC1, FGO2, AC4, AC3, ECO2 and PSR4 argued that the Ministry of Manpower lacked an understanding of the private sector's requirements and issues with recruiting foreigners. Furthermore, they argued that the Ministry favours big family businesses while labour market regulations act against the interests of the private sector. For example, Interviewees PSR4 and AC3 felt that the Ministry of Manpower acts as an HR department of private sector companies by deciding how many people a company can hire, who it can employ and with what skills. This, in turn, affects the freedom that the private sector should have over employment. Examples given included:

> One of the big obstacles in the country right now is the Omanisation policy. Unfortunately, this policy affects the performance of the private sector. It is not the role of the Ministry of Manpower to decide who I recruit and how many I recruit They are forcing me to recruit Omanis even when I don't require any workers (PSR10).
>
> I had an issue with the Ministry of Manpower. I requested a permit to acquire foreign labour at the start of my business because it would have been cheaper for me and then gradually I would recruit Omanis. But they refused to give me any permit. They said the nature of your business doesn't require foreign labour (PSR3).

In terms of favouring the big family businesses, Interviewee PSR3 added:

> Some big family businesses do not have confidence in employing Omanis. They have huge foreign workforces. The Ministry of Manpower could do something about this issue. ... They don't allow me to recruit foreigners, but at the same time the big companies are able to employ whoever they want (PSR3).

However, Interviewee FGO3 disagreed stating that the issue lies with smaller companies:

> Omanisation focuses on the big companies. But the smaller companies are not recruiting Omanis. It should be focused on sectors not companies (FGO3).

Meanwhile, Interviewee AC4 raised a different point in connection with the institutional aspects, arguing labour market regulations mean the private sector cannot hire and fire Omanis very easily. The power lies with the employee not the employer, hindering private sector employment of Omanis. This issue was also raised in the focus groups:

> There is an issue of hiring and firing for the locals in the private sector. The rules are against the business owner (PSR1-FG2).
>
> There is no hiring and firing in either the private or public sectors for the local employees (JR1-FG1).

Interviewees PSR10, PSR1, PSR6, PSR2, PSR2, AC4 and AC2 felt that the use of public sector employment by the State acts as a sort of welfare system. In addition, the better conditions in the public sector has resulted in Omanis preferring to work in the public sector. This is summed by PSR1:

> The objective of Vision2020 was to cap public sector employment at 85,000 to 100,000, with the private sector absorbing most of the job seekers and gradually replacing the expatriates in the private sector. But what happened was that the government received significant revenues from oil, therefore, they opened up recruitment in the public sector. Consequently, the locals preferred to work in the public sector, and the private sector was left for expatriates. In 2011, when the demonstrations happened because of the high rate of unemployment, the government established 50,000 new jobs in the public sector. ... This distorted the labour market as many locals resigned from the private sector and looked for jobs in the public sector (PSR1).

The effects of the rentier mentality of the State was illustrated by a number of interviewees:

> The government had at some stage huge financial resources, therefore, they felt that they can do everything in the economy … including employing Omanis regardless if they were required or not. This is why locals do not wish to work in the private sector (PSR6).
>
> Historically, Omanis worked in almost any job. Now, this is no longer the case; the government offers better jobs in the public sector funded from oil revenues. The government cannot stop recruiting people in the public sector because it has other objectives than purely economic ones (PSR2).
>
> When the government took on the role of the welfare state, it, accidently or intentionally, distorted the labour market by offering public sector jobs as a vehicle for income distribution. It became attractive for people to work in the public sector for many reasons such as better incentives, and better retirement provision. However, in the private sector we have roles where you need to be productive unlike in the public sector (AC4).
>
> The issue is that the government is still providing public sector jobs with incentives that are better than in the private sector. For example, a new graduate will receive 1,000 rials per month in the public sector but no more than 700 rials in the private sector. So, the government has distorted the labour market. The public-sector salary is high (AC2).

In addition, the rentier mentality has also encouraged Omanis to display poor work ethics and have low productivity. This point has been raised by Interviewees PSR4 and FGO2, along with Interviewee PSR3, who provided an example from his own experience:

> I was forced to recruit Omanis. And within ten months, I changed five Omanis working in my company. The issue with the locals is they do not take the job seriously. They still have the mind set of working in the government. They take a job in the private sector temporarily until they obtain a job in the government. … Most of the Omanis that I recruited refused to sign any contract, because it would prevent them from getting employment in the public sector (PSR3).

Others, such as PSR1, PSR6 and AC3, pointed out that government policies in relation to workforce training had failed to produce a workforce suited to the needs of the private sector. For example, Interviewee PSR1 stated:

> I do not support the current Omanisation policy. … The government is forcing us to employ Omanis without understanding our needs with regards to the workforce. ... I don't have a problem recruiting Omanis, but they have to be trained before I can use them. Unfortunately, most Omanis are not prepared for the job market. … Part of the role of the government is to develop the country's human resources, which requires significant training and follow up. In the end, they need to know why they want to train them, what are they expecting from those people. Unfortunately, these objectives are not clear. The government is just spending on human resource development with no clear objective or plan. The government spends so much money on training Omanis to increase their efficiency, but unfortunately, the private sector doesn't get any benefit (PSR1).

Interviewee PSR6 provided a specific example of the lack of skills, asking why there were 200,000 jobs in accounting in the private sector held by expatriates? He answered his own question by stating that it is because of the lack of training. In the focus group, the contradictory policies adopted by the government in relation to the labour market were discussed:

> The Omanisation policy was directed to low paid jobs. This was one of the main issues to recruit Omanis in the private sector. On the other hand, the government continues to provide higher education for the locals but there was no focus on vocational training. So, there are contradictions in policies (JR2-FG2).

Nevertheless, there were interviewees who believed that Omanisation had been successful in certain sectors for specific reasons. Interviewees PSR9, PSR4, AC3, AC2 and ECO2 mentioned that Omanisation as a goal is positive, but the policy itself is weak. Thus, Interviewee PSR9 mentioned that the goal to increase the number of Omanis in employment in the private sector does not take into account the quality of the employment. Furthermore, Interviewee ECO2 stated that Omanisation policy focuses on low skilled and low paid jobs and ignores more highly paid jobs. Meanwhile, Interviewees PSR4, PSR9, AC3 and AC2 pointed out that Omanisation had been successfully implemented in sectors such as banking, oil and gas and insurance and argued that the government should have learned from these successes. For example, Interviewee PSR4 stated:

> Omanisation succeeded in the banking sector because there was ownership [of the policy]. The Central Bank was responsible for implementing and monitoring the policy in the sector. There was a gradual increase in Omanisation in the banking sector. The Central Bank followed up twice a year and also established a finance college and college in Sultan Qaboos University. So, the tools and enablers were there. ... The government should have learned from this experience. For example. why has Omanisation not been successful in the tourism sector? It is because there is no ownership (PSR4).

However, Interviewee PSR9 argued that the success in these sectors was in part due to the nature of the business and its employment features which are attractive to Omanis compared with the construction sector, for example. Similarly, Interviewees AC2 and AC3 believed that in these sectors the incentives are high, pay is good and there is a clear policy of training Omanis, unlike in other economic sectors.

6.3.8 Education

The aspect of education was raised in the focus groups but not in the questionnaires and interviews. Almost all the participants in both groups believed that the education system in Oman is one of the obstacles stopping locals working in the private sector and for the private sector to access workers with the relevant skills. The obstacles highlighted included the mismatch between the education and training outcomes and labour market requirements, the lack of human resources and the lack of a work ethic amongst Omanis. For example:

> We have a lack of human resources that are capable of contributing to the national economy (GO2-FG1).

> For example, one of the issues with privatisation is we did not train the manpower to deal with privatisation. Take the electricity sector, the people in the government who are responsible for economy affairs are not capable. Some people of the government are not educated and not up-to-date with the current developments in the world (PSR1-FG2).

> We have an issue of do we need education for education or education for the market? … There is a mismatch between the education and labour market requirements. We don't have a long-term plan for the labour market requirements over the next 20 or 30 years. Also, we are still a small society. 64% of the population is still in the education stage. This is an issue (SOEE1-FG2).

However, a private sector representative disagreed about the focus of education. He stated:

> I believe in Education for Education. The educated person will know by default where to work (PSR1-FG2).

In order to overcome the problem, one private sector representative argued it is the role of the government to train the locals for the market.

> The government are responsible for training and education. The government didn't train them well. So first it starts with the government and then you should ask the private sector (PSR3-FG1).

6.3.9 Privatisation

It was planned in Vision2020 that the government would support and promote privatisation plans in order to enhance the role of the private sector in the economy and to help promote economic development. However, the interviewees believed that privatisation policy is not attracting private sector investment, as some thought the State was not serious about its privatisation plans. While it was planned that the State would sell its SOEs to the private sector as part of the privatisation process, the number of SOEs increased significantly after the establishment of Vision2020 (see Chapter 5).

In the questionnaire, the participants were asked about their perceptions about the role of SOEs in the economy. Overall, there was a negative perception; 67.8% of the respondents agreed (agree and strongly agree) that SOEs compete (by implication, unfairly) with private sector companies. Moreover, 60.3% of the respondents believed (agree and strongly agree) that the SOEs hinder the growth of the private sector company. Also, the majority of respondents (69.9%) agreed or strongly agreed that the private sector can manage SOEs more successfully and more efficiently than State officials once the companies are privatised. In addition, 72.3% agreed and strongly agreed that the SOEs have a greater chance of success when privatised. Finally, the majority of respondents (82.9%) believe the government should privatise specific economic sectors (see Table 6.11).

The interviewees provided differing opinions as to the role of SOEs. Some looked at SOEs as a barrier to privatisation, while others felt that SOEs should only be involved in strategic economic sectors. Against this background, several interviewees stressed the importance of privatisation. For instance, Interviewee AC3 stated:

> There were two objectives for privatisation. The first reason is to lessen the burden on government expenditure because the company will be more efficient. The other reason is to promote the private sector to give it a bigger role in the economy (AC3).

In addition, Interviewee AC4 felt efficiency gains were an important reason to promote privatisation. He argued greater privatisation is needed to reduce State intervention in the economy.

Table 6.11: Perceptions of SOEs

	Agree Strongly	Agree	Neutral	Disagree	Disagree Strongly
SOEs compete with private sector companies	23.8	44.0	20.2	9.5	2.4
SOEs hinder private sector companies' growth	18.1	42.2	22.9	13.3	3.6
The private sector can manage SOEs successfully and more efficiently once privatised	31.3	38.6	21.7	6.0	2.4
SOEs will have a greater chance of success once privatised	27.7	44.6	20.5	4.8	2.4
The government should privatise certain economic sectors	40.2	42.7	11.0	4.9	1.2

However, a number of interviewees, including PSR1, PSR9, AC3 and FGO3 argued that the role of SOEs were an obstacle to the privatisation plans. Interviewee PSR1 focused on the role of government ministers and State competition with the private sector:

> Unfortunately, most of the SOEs are run by government ministers. They should give these enterprises to the private sector. … Unfortunately, the government is competing with the private sector in all economic sectors, which is not good. … The private sector will never grow when the government dominates everything in the economy. The government has to get rid of all of these SOEs (PSR1).

Interviewee AC3 believed there should not be a huge number of SOEs as they crowd out private sector investment, arguing that the private sector could do the job:

> We have around 80 SOEs in the country in almost every economic sector, all of which are competing with the private sector. Some of them are not run directly by the government but indirectly through the government fund or pension funds and are crowding out private sector investment in the economy. The SOEs are run by the government, financed by the government and sometimes the government pays their losses, so there is less room for the rest to invest. ... SOEs by nature are not efficient, but some are doing well. For example, the PDO and ORBIC which are SOEs in the oil sector, are wholly owned by the government. We shouldn't have that number of SOEs; the private sector can do the job (AC3).

Likewise, Interviewee FGO3 believed that anything that the private sector can do should be given to it.

Furthermore, even those participants with close links to the State, such as government officials, GO10, GO9, GO8 and GO1, were against SOEs operating in the economy.

> I'm fully against the SOEs. Most of them do not make a profit. They should give them to the private sector (GO10).
>
> The SOEs, such as PDO and Sohar Aluminium Company, should not be managed by the government, especially ministers. Unfortunately, SOEs started well but this has not continued. The government still controls some sectors, which they claim are strategic (GO9).
>
> The biggest barrier against private sector growth is the SOEs. The government created companies in almost all the economic sectors (GO8).

However, Interviewees PSR14 and PSR9 still believe that SOEs are appropriate in certain sectors. Thus, Interviewee PSR14 argued that SOEs should only be involved in strategic sectors, while PSR9 strongly believed that the SOEs should be privatised but still supported State involvement in certain sectors:

> I am not aware about the details of the present privatisation policy, but I strongly believe that the SOEs must be privatised. There are sectors that the government cannot privatise such as education and health because they have social rather than economic objectives. The successful and profitable SOEs must be privatised. The big mistake is that the minister is the chairman of SOE, without any accountability. The SOEs must run be on a market basis not like a government entity (PSR9).

In the focus group, social justification was also raised:

> Some SOEs had social motivations (SOEE1-FG2).

Furthermore, there were proposals to limit the shareholding of the State in SOEs. For example, FGO3 argued that the State should not invest more than 30% in any company or project, while GO1 proposed:

> The State should only have shares in SOEs rather than owning the whole company, because it spoils the governance code in this company (GO1).

The respondents highlighted a number of reasons why privatisation was not being fully committed to by the State and the success of the programme has been limited. Interviewee PSR10 mentioned that the government started well in privatising the energy sector, but other privatisations were less successful because the State did not provide sufficient incentives to the investors. Similarly, FGO1 argued:

> When I was in the government privatisation started well in the electricity sector because the incentives were there. The private sector always looks for incentives. We provided the incentives. However, in the other economic sectors, privatisation was less successful because there were no incentives (FGO1).

However, Interviewee AC2 argued that the State takes a gradual approach to change, which is why the privatisation plans have been managed in a careful way. He, therefore, implied that the process has been slow rather than unsuccessful.

Other interviewees, such as FGO2, PSR6, AC2 and FGO1, linked the failure of privatisation to rent-fuelled development. For example, Interviewee FGO2 felt that the increase in oil revenues created conditions that led to a slowdown in the privatisation policy. Interviewee AC2 supported this argument but added a second consideration, that of international criticism of the process:

> Since 2004, the government has had a lot of money reducing the pressure to privatise any sector. There was a surplus of money, which is why the government created a number of state-owned enterprises, felt it didn't need the private sector and continued to invest in infrastructure projects. Secondly, the privatisation process was subject to international criticism on the basis that it was benefitting only a small group of people. That is why the government slowed down the privatisation process (AC2).

A further reason was proposed by Interviewee PSR6 who believed there are certain people in the government who do not want the private sector to take on the role because it threatens their interests:

> The government is not willing to give the private sector any role in privatisation because they think they can run the companies themselves regardless of whether the companies are making losses. … The second reason is there are some people in the SOEs who are happy with the current situation because it suits their own interests. The real definition of the privatisation is not known to them. The private sector has tried many times to convince the government of the need for privatisation, but they are not listening (PSR6).

Former government official FGO1 also believed that certain people did not want the privatisation process to continue but for a different reason; that of national security:

> The second reason why we didn't see any further steps in privatisation is because there were people in the government who were opposed to the idea. They saw the process as a national security threat. That's why the government did not go further with the privatisation plans (FGO1).

In contrast, Interviewee GO5 argued that the State did not pursue privatisation because it felt the private sector was not interested:

> The government is in a position to continue owning the companies that are making a good profit. On the other hand, companies that are making losses have not been privatised because it is felt the private sector will not be interested. Therefore, the government continues owning these companies regardless of whether or not they are making profits (GO5).

AC3 was critical of the private sector's contribution to privatisation. He argued that:

> Unfortunately, you can argue that privatisation has not really resulted in an efficient or better run business by the private sector. ... The private sector is not providing better services at a cheaper price. Another issue is the private companies were managed by government officials creating a conflict of interest. The officials formed the companies… People thought that having a government official on the board will see the company being profitable. That is why the privatisation process did not succeed (AC3).

6.3.10 Cultural Impediments

A further aspect raised in the focus groups but not in the questionnaires and interviews was that of how the culture in Oman undermined the business environment. A number of participants believed the cultural factor affects the private sector through the channels of societal type, investment decisions, and the work ethic of Omanis. Thus, one private sector representative argued:

> We need to believe in transforming our thinking as a culture (PSR6-FG1).

Furthermore, another pointed out:

> The blame lies with the private sector. It is a not risk taker. It is not investing in strategic sectors. They go for easy business such as real-estate. It is a cultural issue (PSR4-FG1).

In terms of work ethics among the locals, one private sector representative believed this arises from the culture:

> The work ethic among locals is very low. It goes back to education. It takes time. You need to build the culture of work ethics through education (PSR1-FG2).

The participants highlight two important aspects in terms of cultural impediments; the private sector is not a risk-taker and weak work ethic amongst Omanis. Both impediments are derived from the same source, the rentier mentality that has developed in Oman as a result of the State-led development model fuelled by oil rent under a patrimonial socio-political structure. The rentier mentality has resulted in the private sector looking to the government to support their business; for example, through contracts, subsidies and regulations to support their businesses. It also resulted in Omanis seeking public sector rather than private sector employment.

Therefore, Omanis, in general, resist Eurocentric policies that attempt to weaken the rentier mentality.

6.3.11 Discussion of the Business Environment

In order for Vision2020's objective of empowering the role of the private sector in the economy, the private sector requires a strong pro-business environment to be created by the State. However, the majority of participants believed that the business environment in Oman is still weak in terms of public institutional efficiency, business and investment laws and regulations, access to finance, labour regulations and weak privatisation implementation. According to a World Bank paper (1999, cited in Layachi, 2001, p.49), in order to have a competitive private sector, the four pillars should be considered including:

- Competitive markets with sound macro incentives;
- Efficient regulations with well-defined property rights, effective and clear enforcement of contractual obligations, and an efficient system in place for the resolution of disputes;
- Effective public administration focusing on mechanisms and processes for ensuring good governance, efficient institutions and processes for customs and taxation, and transparent and effective privatisation;
- Efficient and sustainable social infrastructure (health, education, pensions, etc.), physical infrastructure (transport, energy, telecommunication, etc), critical technological and informational base in tune with the globalisation phenomenon.

Although the participants believed some elements, such as the physical infrastructure, were present in Oman, most elements were deemed to be missing.

There was a degree of consensus amongst interviewees concerning the lack of efficiency in the public sector. Similarly, in the questionnaire, the respondents expressed a low level of satisfaction with the quality of the public sector institutional efficiency. According to World Bank's (2016) *Worldwide Governance Indicators*, Oman scored 61.54 out of a maximum 100 in government effectiveness measure. This ranks Oman at 80 out of 208 countries scored and below its regional neighbour Saudi Arabia. With regards to the business laws and regulations, the majority of the interviewees and members of the focus groups felt the current laws and regulations were an obstacle to the growth of the private sector. Similarly, the level of satisfaction of the questionnaire respondents was low and very low in terms of business regulations. According to recent World Bank's *Ease of Doing Business, 2018*, Oman was ranked 71 among 190 countries. In terms of the sub-indexes, Oman was ranked at 11 for ease of paying taxes, 31 for starting a business, 54 for registering property, 60 for dealing with construction permits, 61 for obtaining electricity, 67 for enforcing contracts, 72 for trading across borders, 98 for resolving insolvency, 124 for protection of minority investors, and 133 for accessing credit. The overall ranking is worse than two other GCC countries, the UAE ranked at 21 and Bahrain ranked at 66, but better than Qatar (83), Saudi Arabia (92) and Kuwait (96).

In terms of labour regulations, the majority of the interviewees and focus groups participants, as well as questionnaire respondents, noted that the labour regulations in Oman and the Omanisation policy in particular is hindering the growth of the private sector. The main reasons behind the dissatisfaction is they felt this policy increases private sector costs while reducing productivity, because of the failure to address the lack of skills of Omanis, the differentials with public sector employment and the weak Omani work ethic or mentality. In addition, bureaucratic failure was apparent as the Ministry of Manpower lacked an understanding of the private sector requirements and issues with recruiting foreigners. This, in turn, affects the freedom that the private sector should have over employment. These elements all highlight the impact of the nature of the Rentier State that is underpinned by neo-patrimonialism, creating a bloated, inefficient State that is more concerned with preserving its position than developing the conditions in which the private sector can grow.

The respondents' reaction to privatisation highlighted the difficulties of adopting a neo-liberal agenda in Oman against a background of oil rents, rentier mentality and neo-patrimonialism. Although there was general high-level belief in privatisation and a strong reaction against SOEs, there was confusion amongst respondents about the exact nature of privatisation. Many were against the principle of SOEs but still justified continued State involvement through a ceiling on State ownership, State ownership in strategic sectors or in the interests of national security and for social reasons. Thus, privatisation policy was being distorted by the continuing State-led development, fuelled by oil rents, and strengthened by the neo-patrimonial political structure. These factors were behind the sharp increase in the number and sectoral range of SOEs since the establishment of Vision2020. Thus, the neo-liberal agenda espoused by the World Bank prior to the writing of the Vision2020 had become subverted.

6.4 STATE SUPPORT FOR THE PRIVATE SECTOR TO DRIVE THE ECONOMY

The interviewees were asked for their perceptions of the degree of State support in helping the private sector to take the lead in economic development. A variety of views were expressed on this subject. Some believed that the State did not offer sufficient support, while others felt that the private sector did not take advantage of the support that was available. In addition, others believed that support should be limited, and the State's focus in this connection should be on improving the business environment. Meanwhile, the discussions in the focus groups supported the belief that the private sector was not getting the required support from the government to enhance its role in the economy.

> There is no support for the SMEs to support their businesses especially in exports (GO2-FG1).
>
> The main objectives of Vision2020 is economic diversification, human resource development and enhancing the role of the private sector. However, enhancing the role of the private sector until now has not been achieved (SOEE1-FG2).
>
> No one in the government speaks about enhancing the role of the private sector in the economy. The government asks too much of the private sector without standing with it (PSR1-FG2).
>
> The government is dealing with all private sector companies in the same way. They can't do that if they want to support the SMEs. The SMEs need some time to grow (PSR3-FG1).
>
> We don't have support from the government (PSR7-FG1).

Interviewees PSR1, PSR4, PSR5 and PSR6 believed there was not sufficient support for the private sector and what support there was went to the SOEs and the big family businesses. For example, Interviewee PSR1 stated:

> Any support is going to the SOEs. Since I started my business no one came to me and provided support to me. In fact, the cost from the government bureaucracy is high for me and the time I spend on obtaining licenses. … The support I want is for the government to ease bureaucratic impediments and minimise their costs (PSR1).

Interviewee PSR5 also thought the support only benefitted a few businesses:

> The support that the government has given the private sector in the past, only benefitted a few businesses that have close ties to the government. I'm not talking only about financial support, but also about obtaining licenses, for example, to open new businesses (PSR5).

Furthermore, one private sector representative gave an example of where the government supported foreign companies rather than Omani ones:

> For example, there is a big project in the plastic sector, it cost billions. We as local companies were looking to get a part of this company. Unfortunately, the main

> company gave the main contracts to foreign companies. Why? We were ready to do the job (PSR10-FG1).

However, SOE executive highlighted this argument merely indicated the confusion among Omanis about the most appropriate economic policy:

> Here we have a contradiction. On one side, we say we want FDI, but at the same time we want to make blocks for the FDI, so we can support local companies (SOEE1-FG2).

In addition, the interviewees also raised issues about the support itself. Several respondents believed it is an institutional issue within the ministries on how to support the private sector. Interviewee PSR6 mentioned that the State's perception of support needed for the SMEs is purely financial and in terms of jobs for Omanis. He argued that the officials do not understand what sort of return the financial support gives to the economy or the labour market. He mentioned an example of how an SME businessman took money from the State but after a few months closed the business down. Interviewee AC1 raised a different issue concerning the lack of monitoring in terms of the support given. He argued that State support was not linked to KPIs in terms of what the private sector should contribute. He also believed that there were no reviews of the impact of any support to the sector; in essence, there is no proper structure around this point.

In contrast, interviewees such as PSR9, AC3, ECO2 and FGO1 argued that the support for the private sector is available but that the private sector has not taken advantage of the support, because it is not a risk taker. This is illustrated in the following answers:

> Our government is one of the best countries in the region in supporting the SMEs and Omanis. The issue might be with the perceptions of the Omani people. We need to dig more deeply to understand exactly what the problem is (PSR9).

> There are lots of government initiatives to improve the business environment. For example, the idea of 'Sharaka-PPP' managed by the Royal Court which aims to give the private sector the leadership role in economic development and job creation for locals and to encourage FDI (AC3).

> We have an excellent infrastructure in the country in terms of roads, schools and airports, but it is not being utilised in an effective way by the private sector (ECO2).

> The government has supported the private sector in terms of building the appropriate infrastructure for the private sector to grow. ... Even financially, the government has supported the private sector, in some cases, they have also forgiven their loans. The Omani private sector is not taking the initiative to invest (FGO1).

Other interviewees thought that the private sector does not need much State support. For example, Interviewee AC4 argued that any support should be time contingent and with a specific outcome in mind, otherwise it creates dependency. Instead, they argued that the State should concentrate on improving the business environment through better regulation and a more efficient bureaucracy. Thus, Interviewee FGO2 believed the private sector does not need support, arguing that the most importing thing is not to impose policies and regulations that act as barriers to growth of the private sector as was happening. Interviewee PSR10 made similar points:

> To be honest, I'm against the government supporting the private sector. In a free-market economy, the private sector should not seek support from the government. What I would ask for is the easing of measures and regulations for the private sector. This kind of support we are looking for (PSR10).

In the questionnaire, respondents were asked about their perception of the State's financial support to the private sector. A total of 49.4% of the respondents were not satisfied (very low and low) about the level of government financial support, while 43.2% of the respondents believed the State's financial support to the private sector was satisfactory. However, 56.6% of the respondents were not satisfied about the State's support for national manufacturers to compete globally (see Table 6.12). The result reflects the belief in the strong dependence of the private sector on the State for financial support. This is further evidence of the impact of the rentier mentality in relation to the relationship between the State and the private sector.

Table 6.12: Perceptions of State's Financial Support for the Private Sector

1: very low to 5: very high	1	2	3	4	5
State's financial support	28.9	20.5	30.1	19.3	1.2
State support for national manufacturer to compete globally	20.5	36.1	30.1	10.8	2.4

In summary, there was confusion amongst the participants about how the State should support the private sector to become the driver of economic growth. However, the type of State support was not clearly understood by all the participants. In line with the neo-liberal agenda approach there was broad support for the State improving the business environment through, for example, better regulation. However, at the same time the legacy of the rentier mentality continued resulting in a widespread belief in financial support from the State for the private sector. Furthermore, although it was felt that the private sector operates best in a market economy, the respondents believed that the private sector, especially SMEs, required State support, highlighting the embedded nature of rentier mentality in Oman.

6.5 PERCEPTIONS ON HOW THE STATE AND PRIVATE SECTOR INTERACT

The purpose of this section is to gain a better understanding of how the various respondents perceived that the private sector and the State interact. Interviewees were asked about their perceptions of the role of the Oman Chamber of Commerce and Industry, the degree to which the State involves the private sector in economic decision-making, the institutional channels of communication between the private sector and the government such as the *Shura* and State Councils. Interestingly, most interviewees were not satisfied with the role of the Oman Chamber of Commerce and Industry. They also felt the roles of *Shura* and State Councils should be strengthened. Others expressed their frustration at the lack of communication between the private sector and the State and argued that the government did not involve the private sector in the economic policy-making.

Table 6.13: Perceptions on State-Private Sector Interactions

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The government involves the private sector in making economic policy	27.6	27.6	19.7	17.1	7.9
There is a clear government economic growth policy	4.0	25.3	33.3	28.0	9.3
Communication channels between the private sector and the government are satisfactory	8.5	15.9	18.3	42.7	14.6
The role of Oman Chamber of Commerce and Industry is satisfactory	2.7	20.2	32.0	25.3	20.0
The Oman Chamber of Commerce and Industry fully represents all types of industries and companies equally	2.4	19.5	32.9	28.0	17.1

In the questionnaire, the respondents were asked a number of questions about their perceptions about the relationship and communication between the State and the private sector. The results were mixed (see Table 6.13). First, a clear majority of respondents believed that the State involves the private sector in making economic policy; 27.6% of respondents strongly agreed and a further 27.6% agreed with the statement. However, more respondents disagreed (37.3% strongly disagreed or disagreed) than agreed (29.3% strongly agreed or agreed) that there is a clear government policy on economic growth. Furthermore, a total of 57.3% (strongly disagreed and disagreed) were not satisfied about the communication channels between the private sector and the State. Similarly, a significant proportion of the respondents (47.3%) were not satisfied with the role of the Oman Chamber of Commerce and Industry. Finally, more respondents disagreed (45.1% strongly disagreed or disagreed) than agreed (21.9% strongly agreed or agreed) that the Oman Chamber of Commerce and Industry represented all types of industries and companies equally.

6.5.1 The Role of the Oman Chamber of Commerce and Industry

Some respondents argued that the Chamber was ineffective in its role, including communicating with the government and assisting with setting economic policy. Interviewees PSR2, PSR5 and PSR10 felt the role of the Chamber is very weak, it is ineffective and does not represent all private sector companies. For example, PSR2 stated

> The Chamber, unfortunately, is not neutral. Both the government and the private sector should work together. For example, the Ministry of Commerce and Industry has to decide in which sector they want to invest. Then, they should talk to the Chamber to obtain their opinion and find out to what extent they can invest, but this is not happening. The Law governing the Chamber is very old and requires reform in order to have their voice heard by the government. ... Furthermore, the members do not have a clear plan of what they want to do. Finally, most of the members are related to the big businesses in the country (PSR2).

Furthermore, Interviewee PSR5 thought that the State does not take the Chamber's recommendations seriously. This view was supported by Interviewee PSR10:

> The role of the Oman Chamber of Commerce and Industry is very weak with regards to being the link between the private and the public sector. Why? Because there isn't a real recognition by the government of the private sector. The Chamber's role is consultative rather than taking part in decision-making (PSR10).

In contrast, interviewees, such as PSR3 and PSR9, felt that the Chamber of Commerce and Industry was effective, although not in aiding communication with the State. Interviewee PSR3 mentioned that he got the support that he was looking for. However, he believed the Chamber is not active when it comes to conveying obstacles facing the private sector to the State. Interviewee PSR9 believed the role of the Chamber is perfect:

> The actions of the Oman Chamber of Commerce and Industry are perfect. I'm involved in all meetings with regards to economic meetings. ... Furthermore, there is an appreciation by the State of the Chamber (PSR9).

One of the main roles of the Oman Chamber of Commerce and Industry is to aid communication between the private sector, which it nominally represents, and the State. However, many respondents argued the communications between the two sides are ineffective.

> The dialogue between the private and public sector must be strengthened (PSR9).
>
> The communication is not effective. The government listens to the private sector but then does something different (AC4).
>
> There is no public forum that allows all the stakeholders to meet on a regular basis to discuss everything related to the business environment (AC4).
>
> You cannot ask the private sector to invest without a real dialogue between the two parties (ECO1).

Similarly, in the focus group discussions, several participants raised the issue of a lack of communication between the two sectors. Indeed, participants in both groups felt it should be strengthened:

> There was a big dialogue between the private sector and the State about private sector obstacles. Unfortunately, nothing from that dialogue was implemented. Now we are in further discussions. The challenges are the same. We only need the government to listen to us (PSR2-FG1).
>
> The government doesn't share with the private sector its economic plans (PSR3-FG1).
>
> It goes back to a lack of communication (JR1-FG2).
>
> The role of the Chamber of Commerce and Industry was stronger before. This is because the Chamber is not representing all private sector companies (SOEE1-FG2).

However, a number of respondents highlighted that there was dialogue and that the situation was improving.

> In the past, the government did not involve the private sector in their economic plans, there was no real communication or dialogue between the two parties. However, recently, with the 'implementation initiative' we saw for the first time a real dialogue between both parties (PSR10).

A further role of the Chamber is to be involved in the economic decision-making process. The respondents highlighted that until recently the State did not involve the private sector in the decision-making process. However, this has started to change recently.

> The government should involve the private sector in their plans, but, in general, they do not, and if they do, who are the private sector representatives? Unfortunately, most of them are already in both the government and the SOEs. Thus, they have two positions, one in the government and one in the private sector. So how can you encourage any investor to invest in this situation? (PSR1).
>
> In the past, the government has not wanted the private sector as a partner in the economic development plans. They did everything themselves and the private sector were left captive to the decisions. However, just recently the government has started

> to involve the private sector in economic decision-making, through initiatives such as the 'Implementation Initiative' and the 'Partnering Initiative', which is helping to improve communication between the two sectors (PSR5).

Furthermore, one interviewee with links to the Oman Chamber of Commerce and Industry said:

> Our role is advisory, we do advise the government, but the government has the big picture. They do listen to us, and sometimes they take our advice (PSR9).

6.5.2 The Roles of the *Shura* and State Councils

The majority of the respondents perceived the *Shura* and State Councils to be ineffective in terms of aiding interactions between the State and the private sector.

> Our *Shura* and State Councils only have advisory roles. They can't hold the government to account and they can't plan (PSR1).

> We can't have an effective *Shura* Council because it doesn't have a clear agenda or clear authority. All 85 members have different agendas and different approaches. ... In developed countries, they have political parties; this is not allowed in our country. These parties have one agenda, one plan that they follow. This is missing in Oman (PSR1).

> Both the *Shura* and State Councils have gained more authority, but the government still considers them to be a consultative body. The government is not including them in the decision-making process. By default, the councils become frustrated with this situation (AC2).

6.5.3 Discussion of State and Private Sector Interactions

Strong communication between the State and the private sector is an important component for successfully implementing private sector-led development. However, in the case of Oman, according to the interviewees, focus group participants and questionnaire respondents, there is a general belief that the formal channels of communications between the two parties are still weak and must be strengthened. At the institutional level, the formal channels include the Shura and State Councils; however, most participants argued that the Councils lack the necessary power and authority to deliver the private sector's concerns to the government. Similarly, most respondents were not satisfied with the role of the Oman Chamber of Commerce and Industry. The Chamber is nominally the representative body for the private sector, but many participants believed it does not represent all private sector companies equally. Indeed, for many years, the Chamber had strong links with the State as its members were appointed by the government, and, therefore, it was generally considered to be another State body. However, members are now directly elected. Nevertheless, the respondents believed that the Chamber lacked the power to push back against government policies that were against the interests of the private sector. Indeed, as explained in Chapter Five, the formal institutions lack authority and their role is mainly advisory because their nature was shaped by the neo-patrimonial political structure.

6.6 RESPONDENTS' SUGGESTIONS ON HOW TO MAKE THE PRIVATE SECTOR THE ECONOMIC DRIVER

At the end of each interview, the interviewees were asked for their suggestions on how the State could overcome the challenges they mentioned in their answers to strengthen and improve the role of the private sector in economic growth. In addition, suggestions were also forthcoming in the focus groups. The areas that were felt to need improvement are highlighted in this section.

Suggestions in relation to State interactions with the private sector included:

> I think the government must stop competing in the private sector. They have to open up the market. They have to remove any obstacles for investors (PSR1).
>
> The government has to have a long-term vision for the private sector. They should distinguish between local and foreign investors. The competition has to be fair for all companies in the private sector (PSR1).
>
> The government has to give incentives to the private sector to contribute in other economic sectors (PSR2).
>
> More dialogue between the private sector and government is required (PRS3).
>
> We need to rethink the role of the State and the private sector in economic development (AC1).
>
> A rethink of the role of the State and the private sector in terms of economic development is needed and a rethink of the role of the State (AC1).
>
> The government cannot continue to invest as before, they should use PPPs (GO9).
>
> A continuous dialogue between the private sector and the government is a must, especially for things that are linked with the private sector (GO9).
>
> The government must sit with the private sector to understand its requirements. On the other hand, the private sector must tell the government their requirements (SOEE1-FG2).
>
> Reforms in corporate governance through revising all the rules and regulations that regulate the private sector (AC1).

> The government shouldn't ask the private sector to do more than they can do. I'm a businessman who is ready to invest. But the government interferes so much in my business (PSR2-FG1).

> We need reforms in almost everything. We need to develop the government's performance. The State-business relationship needs to be developed. The decision maker here is also businessmen. We need to make a balance between the size of the government and the private sector. if we want the private sector to grow, the private sector should say what they want. Not the government dictating what the private sector does. Oman has all the successful factors to prosper but we need to change the people running the economy in the country (ECO1-FG).

Suggestions for the government's approach to economic planning included:

> There is no owner for the economy, each minister works individually. This is wrong; they must act in coordination (PSR1).

> The culture of the government doing everything has to be changed (AC1).

> The economic structure has to change. The way we manage has to change. The mind-set has to change (AC2).

> We need to consider appointing a prime minister or deputy prime minister who have full authority and responsibility for several sectors (GO9).

> The government must step back from leading the economy in the market. The private sector has to drive. We need reforms from inside. However, I'm not for giving 100% ownership to FDI. We still need the government to be a partner (ECO-FG1).

Suggestions for the government in relation to Omanisation were mixed with some suggesting that Omanisation should be rescinded or at least reformed, while others sought to promote it further.

> The government has to stop the Omanisation policy and come up with new policies that open up the labour market (PSR1).

> I want reforms in the labour market (PRS3).

> Labour market policies have to be reformed (PSR5).

> The government has to address the distortion in the labour market (AC2).

> Employment policies in the private sector should focus on the middle and high-level roles for Omanis (GO9).

> The government must set strict rules for the private sector to recruit Omanis (SOE3).

> The government asks the foreign companies to commit with the Omanisation policy. They should ask them about the know how transfer, which will add value to the national economy and R&D. This is not a professional way to attract FDI (GO1-FG1).

> The minimum wage for locals is different than it is for foreign workers. It should be the same. For example, if I want a local painter, I should pay him 400 rials, but if I bring labour from outside the country, I will pay him 160 rials. I think the

government should change the Omanisation policy. Locals will not work in low paid jobs. (SOEE1-FG2).

Suggestions were made for changes in bureaucratic measures including:

> I want reforms to the government measures and approvals (PRS3).
>
> Reforms in laws and regulations. Open up the country for foreign investors. Create links between employment and training. Open up the investment in the manufacturing sector. Open up investment in the main economic sectors such as tourism and agriculture and fisheries. Also, the government should consider imposing more taxes (PSR4).
>
> There should be fewer approvals required to start a business (PSR5).
>
> First, the government has to believe that they have a problem. Problems such as no coordination between different government institutions with regards to obtaining licenses to the private sector (PSR6).
>
> The government should ease bureaucratic measures (PSR9).
>
> We need to streamline the procedures and measures (GO1-FG1).
>
> Until now we only use 20% of e-government in the government measures. We should use more of e-government. This will streamline the measures and procedures (SOEE1-FG2).

Suggestions also focused on the role of the Central Bank including:

> Central Bank policies should give the banks greater freedom (PSR5).
>
> The Central Bank should encourage the banks to grant more loans to the private sector. ... Specialised courts should be established to settle business disputes (PSR10).
>
> Monetary and fiscal policies should be aligned with the business cycle. … We need as a government to know when to take austerity measures and when to spend more (AC1).

Other suggestions related to government policies were also proposed:

> The number of SOEs is increasing and this has to stop (PSR1).
>
> The stock market should be enhanced by privatising economic sectors such as oil and some petro-chemical projects (PSR5).
>
> The government has to encourage foreign direct investment (PSR6).
>
> The government must work to attract FDI. They will not come if there are no incentives (ECO1-FG1).
>
> Now the government should reduce employment in the public sector and encourage them to work in the private sector and promote entrepreneurship (PSR9).

> Structural reforms should be made to the economy. We are talking about labour market policies, investment laws and the quality of education. FDI faces lots of obstacles (AC4).
>
> The government should give incentives like tax breaks in some sectors (GO9).
>
> I think we need to protect our local companies; first to let them grow and then gradually we allow foreign companies to come and undertake partnerships with the local companies (PSR9-FG1).
>
> We need to expand our economic sectors to achieve a sustainable economy and enhance the role of the private sector. The FDI will do something like injection for the local companies to upgrade them. The weakness in the private sector can be filled with the FDI. It will build their capacity (ECO1-FG1).
>
> We need to focus on the manufacturing sector, especially for SMEs (SOEE1-FG2).
>
> Some rules and regulations have to change to create a business-friendly environment (SOE2).
>
> Promote specialised colleges and universities (SOE2).
>
> We need something like a think tank to assess our measures and policies. Someone who is neutral (AC4).
>
> Corporate governance of SOEs and listed companies is important. The law is coming soon. It will help create greater efficiency (SOE4).
>
> We need to move to a more open economy and the government has to be the regulator not owner (SOE4).
>
> Reforms must be made to commercial laws, courts, and the judiciary in general (FGO1).
>
> The energy sector is attractive for the private sector because the government will buy the output. So, you have a guaranteed buyer (GO1).
>
> The most important challenge in any country is human development. We have neglected this in the past. We are trying now but not in the right way (FGO3).

A number of suggestions focused on the tourism sector including:

> Opportunities exist in the tourism, fisheries, and oil and gas sectors in terms of knowledge rather than products (SOE2).
>
> There is potential in the tourism sector. It can be given to the private sector to invest (SOE3).
>
> We need to make it easy for people to travel to Oman. It is still difficult for people to come to Oman. Ease security concerns (SOE1).
>
> Doing the right marketing and promotion for Oman. This is how we can attract tourists (SOE1).
>
> The tourism sector must play a big role in the economy (FGO3).

Suggestions as to changes required by the private sector included:

> The culture of the private sector and Omanis in general on the importance of the private sector in economic development has to change. Omanis have to want to work in the private sector, including in low-paid jobs (AC1).
>
> The private sector also should help itself to grow. They can't continue to depend on the government (ECO-FG1).
>
> We don't invest in R&D. If we do so this, it will open up opportunities for the private sector (PSR7-FG1).

Some respondents widened the issue to that of society as a whole.

> We as a society have to admit that we have a problem. We concentrate on consumption rather than production. If we admit that, then we can make plans and policies about how to improve ourselves (GO2).
>
> The mentality and the attitude and culture of the locals has to change if we want to liberalise the economy (FGO3).
>
> We need political reforms and social reforms (PSR1-FG1).

In summary, many of the interviewees were dissatisfied with how the State was managing the economy. The interviewees put forward a number of suggestions in areas where they felt improvement was required including in relation to State interaction with the private sector, the government's approach to economic planning and Omanisation, bureaucratic measures, the role of the Central Bank, specific government policies and changes required by the private sector. In terms of policies, the majority of the interviewees felt the government had to cancel Omanisation and come up with new labour market policies.

In relation to State interaction with the private sector, many of the interviewees were against State intervention in the economy, which resulted in crowding out of the private sector and distorting the market. Therefore, the interviewees recommended rethinking the roles of the State and the private sector in economic development. However, a few interviewees (influenced by rentier mentality) still believed the government should provide subsidies to the private sector and asked for more incentives. One recommended distinguishing between local and foreign investors but then argued that the competition has to be fair for all companies in the private sector. Furthermore, another suggested government protection for SMEs against foreign companies. Suggestions also included adopting a clear tong-term vision, through continuous dialogue between the private sector and the State. At the institutional level, suggestions were made to develop the State-business relationship and that decision makers should not also be business owners. Reforms in corporate governance were also suggested. The interviewees also felt the need to consider appointing a prime minister or deputy prime minister who have full authority and responsibility for several sectors. As mentioned in Chapter Five, there is still a centralisation of power and the decision-making process in the hands of the Ruler, which the interviewees felt should be devolved to other government institutions.

Furthermore, the respondents suggested developing a more business-friendly environment. The respondents wanted unnecessary approvals to open a business removed and suggested that the government should ease bureaucratic measures that were undermining the growth of the private sector. In terms of finance, the respondents' suggestions show they are aware of the importance of finance in business and that the current Central Bank laws and regulations need to be reformed as there are no specialised business banks in Oman on which the private sector can depend when seeking finance. Others put the ball in the court of the private sector suggesting that the private sector should change its mentality and its culture to be more independent from the State. Similarly, the respondents also asked for society to be more engaged with the private sector, especially when it comes to working in the private sector.

6.7 CONCLUSION

The chapter identifies the factors the respondents believed inhibited the private sector from leading development in Oman, in contrast to Vision2020, which wanted the private sector to be the main driver of economic growth. A set of targets were set for the private sector to achieve, such as its contribution to economic diversification, human resources development and the privatisation programme. However, the interviewees indicated their reservations about the Vision2020's plans and objectives. These included the inability to respond to oil price fluctuations (it was planned to use oil revenues to fund the plans), the lack of an execution plan or team to implement the Vision, no KPIs, no revision of outcomes or follow-up plans, a lack of clear objectives and, most importantly, the lack of participation by the private sector in preparing the Vision.

The Vision clearly emphasised the importance of enhancing the role of the private sector in economic growth by reducing the role of the State in line with free market economy policies. However, according to the interviewees, the State has continued to play the major role in the economy; for example, through the creation of dozens of SOEs. Furthermore, oil revenues remain the main source of government expenditure. There was disagreement among the interviewees about the role of the State in economic development; ranging from the State as the main driver, through State involvement as necessary, to the State should only provide its traditional functions as outlined by the World Bank. Nevertheless, the respondents, in line with neo-liberal thinking, identified issues brought about by State intervention such as the dominance of family businesses that were close to the State, which has encouraged oligopolistic practices and conflicts of interest. In addition, the participants argued that laws and regulations which exist to stop conflict of interest were not implemented Furthermore, the respondents raised the point that the political system, based on rent flows and neo-patrimonialism, mitigates against change, despite a recognition that it needs to be changed.

In contrast to the Vision's promise that there would be a clear privatisation programme, only limited progress has been made. As a result, the State continues to control the existing SOEs and, in fact, has increased their numbers by almost three times since 1995. According to some interviewees, the government did not push the privatisation process for social and security reasons. Other respondents believed that the SOEs do not benefit the economy and hinder the development of the private sector. In addition, some interviewees believed that the privatisation policy is not attracting private sector investment, as the State was not serious about its privatisation plans.

Notwithstanding these issues, almost all the respondents agreed that the private sector should play the major role in the economic development of Oman. They also believed that the private sector can lead economic development. However, some felt that the private sector was still not ready to take the main role in the economy, in part because the overall business environment in Oman is not suitable for private sector-led development.

The interviews highlighted the need for considerable improvement by the government in many areas of the business environment in Oman. According to the interviewees, the areas that are blocking the development of the private sector are:

- Institutional efficiency: the institutions do not meet the needs of the private sector. Issues associated with this point according to the interviewees include weak regulations, the lack of KPIs, the lack of coordination between government bodies, a lack of transparency, a lack of accountability and a lack of bureaucratic support for the private sector.
- Bureaucratic impediments in terms of obtaining licenses and their cost.

- The renting of business licenses to expatriates undermines the economic potential of the country as profits are sent abroad and the practice prevents Omani entrepreneurs cannot enter the market. The interviewees suggested this issue needs to be addressed immediately.
- Monopolies and oligopolies have been created, due to the control of a few large family businesses which has resulted in crony capitalism. The other private sector companies felt this negatively affected the ability to attract private investment.
- Obtaining finance was believed to be an issue in Oman. Although several interviewees believed there is no issue in accessing finance, several interviewees argued that there is still difficulty in obtaining finance because of the requirements from the banks. Others referred to a lack of information about finance opportunities.

In addition to these points, the respondents highlighted the need to make reforms in business regulations, investment laws and incentives in relation to investment and labour regulations, including the Omanisation policy. Many interviewees felt the current business regulations were not attractive for investors. Interviewees also believed the current investment laws were not suitable for attracting investment, especially FDI.

One of the main objectives of Vision2020 is to enhance the role of the private sector in terms of human resource development and become the main job creator for Omanis. However, the interviewees believed that the current labour regulations and Omanisation policy were among the main impediments to private sector growth. They highlighted that the Ministry of Manpower, which is responsible for granting work permits, does not allow a company to employ foreign workers if they do not achieve a targeted percentage of Omanisation. Others raised the issue of the difficulty of hiring and firing Omanis in the private sector resulting in a weak work ethic and productivity by Omanis. In terms of issues related with Omanisation policy, some interviewees pointed out that government policies in relation to training had failed to produce a workforce suited to the needs of the private sector, despite there being successful examples in certain sectors. Interviewees suggested that Omanisation policy should be reformed.

Other obstacles hindering private sector growth were highlighted during the interviews and focus groups:

- A lack of transparency in awarding projects.

- An uneven geographical distribution of economic activities.
- No economies of scale in the market because of its small size.
- The absence of a diversified economy in which the private sector could contribute.
- A shortage of gas for manufacturing industry.
- A lack of utilisation of the benefits of local currency being pegged to the US dollar.
- A lack of comparative advantage.

The majority of respondents also believed that there was a lack of communication between the private sector and the government. Furthermore, the State has not involved the private sector in economic policy making. Other interviewees were not satisfied with role of Chamber of Commerce and Industry. They also felt that the role of *Shura* and State Councils should be strengthened.

Overall, the majority of respondents believed that the private sector could lead economic development in Oman, but to do so it should be independent of the State. Furthermore, the State should adopt more free market policies such as in the labour market, roll back its role in the economy, revamp privatisation including stopping creating SOEs and make reforms in various areas at the political, economic and institutional level.

However, some respondents from both the government and private sectors indicated through their responses and suggestions that they still hold a rentier mentality and still rely on neo-patrimonial modes of behaviour. In relation to the government officials' answers, some still viewed the private sector as unready to take the lead role in economic development which they argued still depends on government initiatives. The considerable State intervention in the economy, as demonstrated in Chapter Five despite the objectives of Vision2020, indicates that key actors within State do not want to lose their power over the economy to the private sector. In addition, mixed and contradictory perceptions were put forward by the private sector representatives. Although some private sector representatives were dissatisfied with the State's intervention in the economy, other responses highlighted the influence of the rentier mentality, especially in relation to the SMEs. Representatives from the SMEs often called for support and protection from the State, either through specific privileges or through measures against competition from foreign companies and large domestic companies. This indicates that SME owners have been distorted in their thinking about how the private sector should operate according to free market principles. These contradictions also indicate how the private sector in Oman has remained a sector reliant on the State's distribution of rent. If the private sector is to become the engine of economic growth, it requires, as one respondent suggested, wholesale political, economic, social and institutional reforms.

CHAPTER SEVEN:
CONCLUSION

7 INTRODUCTION

This chapter contains four further sections. The first section briefly reviews the previous chapters' key findings and summarises the results of the empirical chapters, Chapter Four, Chapter Five and Chapter Six. The second section highlights the thesis' contribution to our knowledge in relation to the theory of "Late Rentierism" in the Arab Gulf states. The third section discusses the implications for policy-makers in Oman in the light of the next stage of the country's development story and the formulation and implementation of Vision2040. The final part recommends relevant areas for future research.

7.1 THESIS REVISITED

The objective of the research conducted in this thesis was to assess the extent to which Oman's economic development strategy, Oman Vision2020, launched in 1995, has achieved its stated objectives of making the private sector the engine of economic development in Oman at the expense of the State. The analysis is conducted within the neo-liberal paradigm for understating economic development, assuming that the private sector—acting in a 'free' market—is the best agency for allocating resources to stimulate economic growth. The State retains a role that is largely regulatory and aims to maximise the efficiency of markets, but also fills gaps where the market cannot provide appropriate common goods at affordable prices and protects the human development of the population. Furthermore, the analysis uses Rentier State Theory and its development to argue that Oman's particular development experiences have been that of Rentier State-led development, with the State itself exhibiting neo-patrimonial characteristics. Together, these provide a context for assessing if the private sector in Oman has been able to fulfil its role.

The second chapter provides the historical background of Oman's economic development in the modern era up until 1995. It demonstrates that prior to 1995, Omani economic development had progressed under a State-led development model. Economic development resulted from the evolution of significant oil-derived 'rents' that accrued to and were distributed by the State. These rents enabled the formation of a specifically Rentier State form, in which modern bureaucratic institutions were overlaid upon traditional patrimonial socio-political structures, resulting in a neo-patrimonial form of government. The chapter shows how rentierism and neo-patrimonialism were manifested through State-led development at the level of strategic policy and planning in terms of their impact on the development and the role of the private sector.

As diminishing oil resources, fluctuations in oil revenues and resulting vulnerabilities, all indicated the fragility of State-led development, Oman adjusted its development strategy to one that Gray (2011) termed 'Late Rentierism'. The revised approach was encapsulated in the Vision2020 development strategy, which is examined in Chapter Four. The development strategy aimed for a controlled liberalisation of the economy and the reassignment of the private sector to become the engine for that development. As such, Oman's Vision2020 represented an effort to move away from the State-led oil-dependent model of development. However, the Vision2020 document failed to promote the neo-liberal agenda. First, the analysis of the document highlights that the State was still to lead development, which created contradictions for how the private sector would be able to respond to its supposed new role. Second, the approach to development envisaged in Vision2020 was still dependent on oil revenues and, thus, rent based. Therefore, the Vision was unlikely to be able overcome the rentier nature of the State. Third, the analysis of the document highlights the continuing subverting presence of neo-patrimonialism. In this context, the new constitution (the Basic Law) represented a formalisation of the neo-patrimonial power structures, with personal power resting very firmly in the hands of the Sultan. Finally, the Vision2020 document highlights the evolution of Oman into a Late Rentier State, which contradicts the structural requirements of private sector-led development and growth and is, therefore, unlikely to resolve Oman's developmental challenges.

Against this background, Chapter Five offers a survey of the macroeconomic performance of the private sector since the implementation of Vision2020. The result of this process was a failure for the private sector to assume the role assigned to it in Vision2020, because the State reproduced a similar neo-patrimonial rent-led State development model. Thus, the development process continues to experience the vulnerabilities related to rentierism and neo-patrimonialism. Chapter Six adds a further layer to the analysis explaining the performance of the private sector by investigating the responses to Vision2020 from key stakeholders in the process, including representatives from the private sector and State, along with various experts from academia and journalism, regarding the planning and implementation of Vision2020 on its stated objectives. The chapter concludes that the private sector continues to be ‘captive’ and rent-seeking/rentier mentality continues, albeit in a Late Rentier form, which is not surprising given that Chapters Four and Five show that the development strategy pursued by the State since Vision2020 was launched is rentier itself. The favouring of large businesses, the appointing/election of Chamber of Commerce personnel and the formal political structure outlined in the Basic law show neo-patrimonial institutional structures continue to reproduce these behaviours.

7.2 THEORETICAL IMPLICATIONS, CONSIDERATIONS AND CONTRIBUTIONS

The understanding of the role of the private sector in economic development strategies, and its relationship with the State and the market in determining economic development strategies has evolved through various development theories. Described in Chapter One, these range from Rostow’s stages of growth theory and structural change theories of modernisation, through structuralist accounts of underdevelopment of LDCs and the State-led remedies of ISI and export-oriented industrialisation, onto the rise of neo-classical approaches to development (including a discussion of the concept of human development) and finally to post-development critiques of development theory as a whole.

The thesis contributes to economic development theories in relation to Rentier Theory and Late Rentierism Theory in the Middle East in general and the context of oil rentier states in the Arab states of the Gulf in particular, although the study was limited to the case of the Sultanate of Oman. The application of the theories to the case of the Sultanate of Oman to assess the private sector role in the economic development has contributed in two ways: it shows the major theoretical propositions of Rentier State Theory and highlights its usefulness for explaining patterns and problems of development in oil-dependent Gulf Arab States, including Oman. Importantly, it challenges the argument that ‘Late-Rentierism’ might be a sufficient response to the era of globalisation on the part of the oil-monarchies of the Gulf.

The thesis highlights the evolution of both the traditional patrimonial socio-political structures to a neo-patrimonial structure and the rentier economy to a late rentier economy in Oman (see Figure 7.1). It also adds significantly to the knowledge and understanding of the Oman development experience. The economic and political conditions in Oman before 1970 under Sultan Said’s rule was a traditional economy based around a patrimonial socio-political structure. The private sector was characterised as small and dominated by key families. Its main activities were concentrated in commerce and trade. When oil rents started to flow into the coffers of the State just before 1970 when Sultan Qaboos came to power, it provided significant sums of 'rent' to the Sultan and the State became primarily an instrument of distribution or allocation of this rent. This enabled the Omani economy to develop the classic features of a 'rentier economy' managed by a 'Rentier State'. The oil rent was a tool which the Sultan used to reinforce his 'traditional legitimacy' and the existing patrimonial patterns of patronage became formally embedded in the institutions of the State, which developed neo-patrimonial features. In this context of State-led development, political decision-making in the economy was formulated through the backbone of the informal social contract by the allocation of rents. State-led development policies allocated the major role in the economy to the State, curtailing the private sector's activities and dis-incentivising investment in sectors dominated by the State. Thus, the private sector became restricted to sectors, such as services and construction, that fed off the recycling of oil revenues by the State, exacerbating the private sector's rentier mentality. Thus, the economy developed rentier characteristics. Elements of the private sector (the traditional merchant elite) were able to benefit from new social contract networks of patronage in return for fulfilling the role designated to them by the State. However, the State's domination of economic activity distorted local markets, limited the space open to the private sector, and impeded the profit maximisation aims of firms. The consequence was a weak, parasitic, under-performing private sector and an economy that was over-reliant on oil rent as the generator of growth.

By 1995, against a background of oil rent instability, the Omani development model appeared increasingly unsustainable forcing the State to review its developmental approach as the country entered a period of 'Late Rentierism'. In consequence, the State developed Vision2020, nominally based on a neo-liberal approach of liberalising the economy. However, scrutiny of the process by which the Vision2020 plan, and the subsequent FYDPs which supported its implementation, indicates that the document itself was shaped as much (if not more) by those same neo-patrimonial interests of the State and its constituent agents. The consequence was that the Plan retained the rentier dynamic: the State retained ownership of the principal capital resource of the economy (the oil rent). In addition, the State continued to allocate the revenues from that resource and to prescribe the terms of activity in the market. Fluctuating oil revenues continued to dictate policy decisions within the economy; as revenues decreased the private sector was expected to fill the gap, but when they strengthened, policy-makers turned back to the old State-led preferences. Thus, as Gray's Late Rentier Theory predicts, the State became entrepreneurial, expanding yet further into the market, thereby crowding out the private sector, with the exception of the large family business already part of the rentier circuit. The result of this process was a failure for the private sector to assume the role assigned to it in Vision2020 (see Figure 7.2), but the failure did not lie only in the actions of policy-makers and their development strategy.

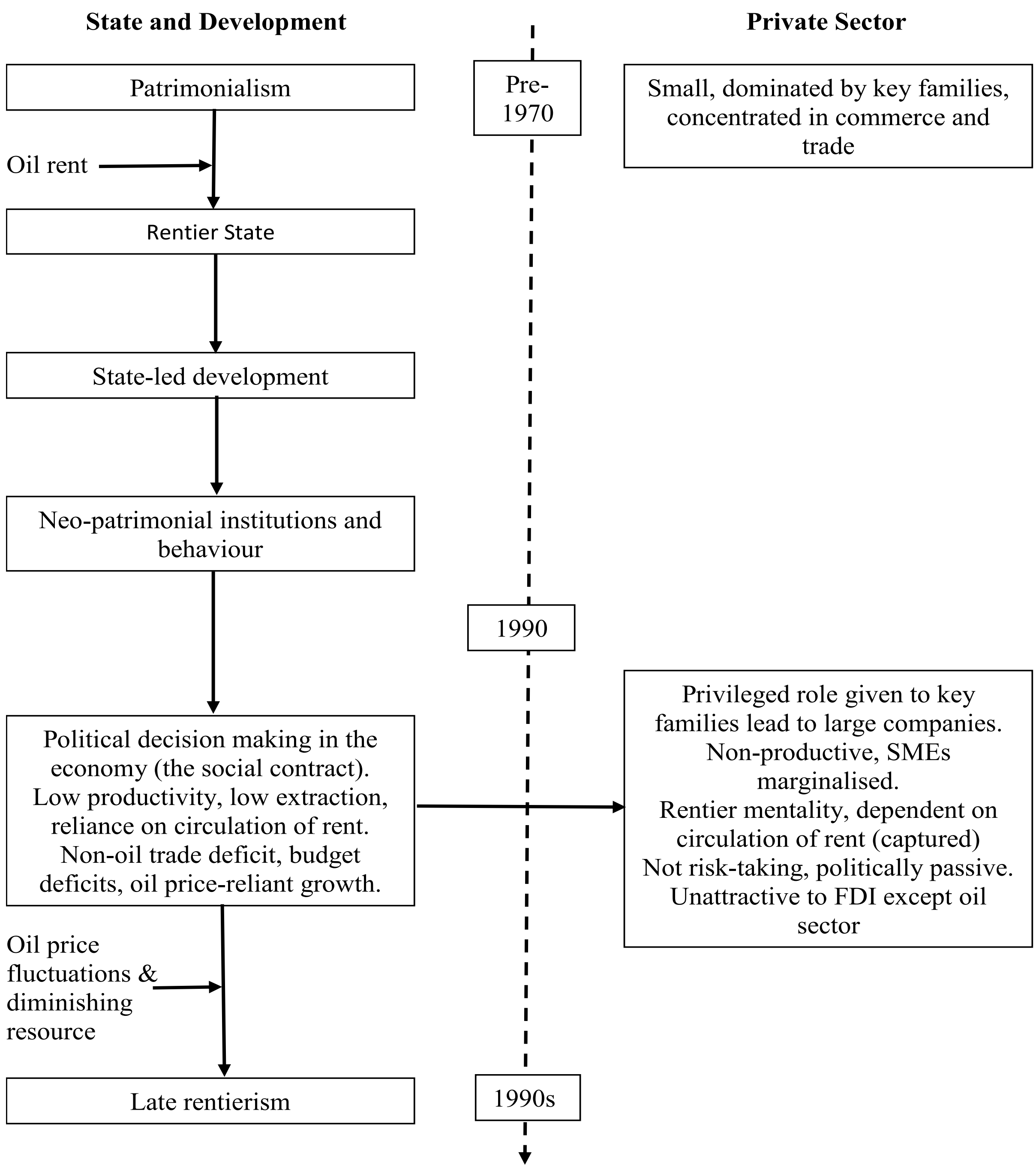

Figure 7.1: Evolution to Late Rentierism in Oman

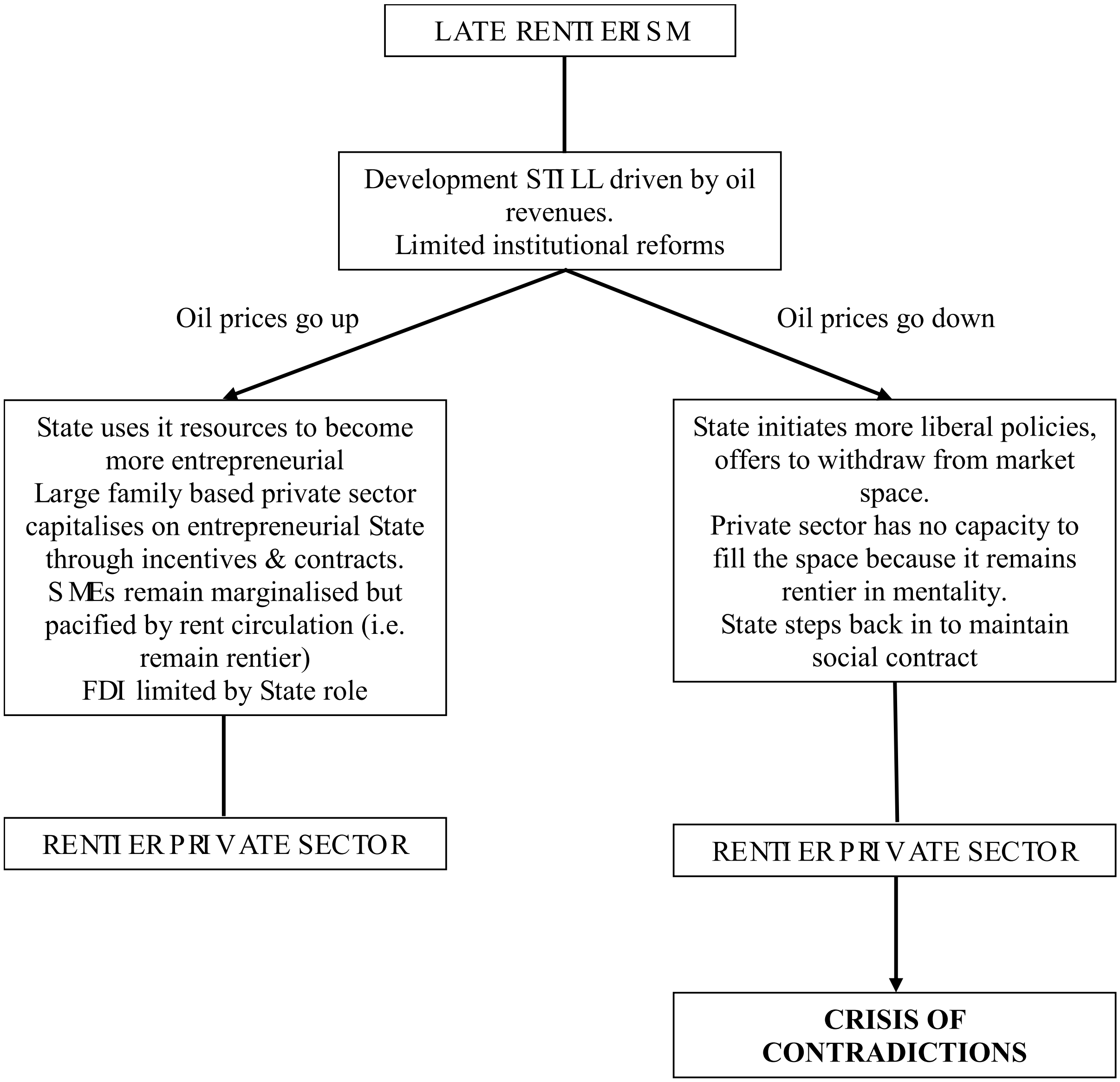

Figure 7.2: Late Rentierism and the Crisis of Contradictions

Because of this failure, the thesis examines the responses of the private sector itself to Vision2020. The analysis demonstrates that the private sector cannot be considered to be a single, homogenous entity. Although it remains to a large extent 'captive' and rent-seeking, certain elements are more closely affiliated to neo-patrimonial institutions (such as the Chamber of Commerce and Industry) and are thus able to gain direct access to the rent cycle. SMEs, without these neo-patrimonial links, still display a rentier mentality but attempt to react to the State's domination of the market. Nevertheless, in general, SMEs still look for State support, through, say, cheap finance and protection, such as against competition from foreign companies. This was also apparent in the debate around the 'readiness' of the private sector to assume the mantle of the engine for development. The private sector as a whole lacks the risk-taking mentality that would encourage it to genuinely push back on the State's controlling role in the market and to fill the space as neo-liberal orthodoxy would require.

The thesis argues that 'Late Rentier' strategies assume the private sector will fill the spaces that the State might vacate. However, the State fails to help the private sector overcome the rentier mentality and behaviours that it has evolved in response to previous State-led development strategies. Instead, Late Rentierism does not create a genuinely entrepreneurial private sector, it merely *reproduces* a rentier private sector. Thus, the study suggests that Late Rentierism remains a form of rentierism, in which the State remains IN the market, albeit in a different form. Furthermore, the deficiencies associated with rentierism are not addressed but merely deferred. This can be attributed to the continuing *political* dynamic of the State elites preserving neo-patrimonial social contracts, thereby subverting the liberalising components of the revised development strategies. For such State elites and regimes, the question remains how long can late rentier strategies be sustained given the finite nature of oil resources and revenues.

Overall, the thesis highlights that, in the context of rentierism, it is necessary to study both the State and private sector, thereby making an important contribution to Late Rentier theories. Thus, it is necessary not only to change State policy-making and institutional structures, but also change has to occur within the private sector itself, if it is to be able to overcome its rentier legacies and become the engine for growth.

This invites the question as to whether the private sector can ever assume the mantle of responsibility for economic development in Oman without there first being substantive political reform to the neo-patrimonial structures. This thesis, thus, challenges arguments that Late Rentierism might be a sufficient response to the era of globalisation on the part of the oil-monarchies and supports literature that argues for simultaneous or prioritised liberal political reform. This should open up further research on the private sector itself.

It also suggests that the organisations like the World Bank when they are working with reforming governments need to be encouraging the national government to look at the other side, the private sector.

7.3 IMPLICATIONS FOR OMAN'S FUTURE ECONOMIC DEVELOPMENT STRATEGY, 'VISION2040'.

The current Ninth FYDP (2016-2020) is the final plan under Vision2020. Perhaps, more importantly, it is also considered to be a preliminary step towards a new development strategy, called Vision2040, for Oman over the next two decades. According to the Supreme Council of Planning:

> The 9th Five-year Plan seeks to boost the Sultanate of Oman's competitive advantage while creating an investment attraction environment and avail the private sector to achieve the development goals and objectives as the private sector will solely or in association in partnership with the public sector have the opportunity for investment in many of the big projects to be solely awarded by the government in the Sultanate of Oman (www.scp.gov.om).

In the preparatory stage of Vision2040, three themes were adopted for the purpose of development: 'People and Society', 'Economy and Development', and 'Governance and Institutional Performance'. In the 'Economy and Development' theme under which the private sector is supposed to play a prominent role, the main goals according to the draft document are:

- Creating wealth through economic diversification and private sector partnership;
- Ensuring balanced governorates' development;
- Preserving environmental sustainability; and
- Building world-class infrastructure and liveable cities (ibid.).

In the 'Governance and Institutional Performance' theme, the aim is improving governance effectiveness and the rule of law:

> The aim of this pillar is to enhance the effectiveness of governance and the rule of law, improve the efficiency of government agencies, increase coordination among them, and enhance citizens' confidence by creating an institutional framework that enacts laws and practices for defining the links and interactions between the concerned parties and for helping the creation of an effective and transparent accountability system (ibid.).

The draft document, alongside the Ninth FYDP, indicates that the government is working to avoid the shortfalls of development under Vision2020 highlighted in this research. While it is yet not clear what type of institutional framework will be in place under the new Vision, the current State-led development model under a neo-patrimonial political structure proved to be one of the main challenges for private sector-led growth. If the private sector is going to be the engine of growth, the government might think about liberalising the political system, through measures such as increasing the political participation of the population, and increasing the power and the authority of State institutions, such as the *Shura* Council and State Council, vis-à-vis decision making. But, also, importantly bringing in more private sector representatives who are not linked to the State into the decision-making process. This can be done through enhancing the role of the Oman Chamber of Commerce and Industry in the decision-making process and more importantly, encouraging the participation of members who are not linked to the State. In addition, a Chamber that specifically represents the interests of SMEs could be created, given the different requirements of the large traditional companies and the new vibrant SMEs.

In relation to accelerating the process of diversification, the Ninth FYDP targets non-oil activities to grow during the plan period at an annual average of 4.3%. It is expected that oil's share of total GDP in current prices will decrease from 44% at the end of the Eighth Plan in 2015 to 30% by 2020. As highlighted in Chapter Five, the national economy is still dependent on oil rent. Thus, in order for diversification plans to succeed, the government should create a strategy that not only involves using oil rent to subsidise other economic sectors but also creates the conditions for the non-oil sectors to evolve. However, this would have to be done in a limited and time contingent manner. As discussed in Chapter Six, many participants believed that the current business environment in Oman is weak and, hence, hinders private investment. Constraints in terms of public institutional efficiency, bureaucratic impediments, business and investment laws and regulations and labour regulations were mentioned in the participants' responses. This is in line with World Bank governance and doing business indicators highlighted in Chapter Six which confirm that Oman's business environment is not the best amongst the regional countries for attracting private investments. Thus, the decision makers should work to upgrade Oman's ratings in such indicators to attract private investment.

For the private sector to flourish, decision makers need to acknowledge that rentier mentality exists and attempt to reduce its existence. This is evident in the levels of private sector investment in rent circulation sectors such as the services sector. As SMEs are the main driver of economic growth in developed countries, the government should encourage entrepreneurship. This could be included in the education system to encourage entrepreneurship awareness, set up conferences, and run training sessions for entrepreneurs. In terms of employment, the government should reduce the gap between the state and private sector by reducing the benefits of State employment, although this cannot be done overnight as it would cause social tensions.

A further area of change to enable the development of a free market economy is to reduce the role of the State in the economy. This can be done by phasing out subsidies, incentives and soft loans which have created 'moral hazard' and distorted the workings of the free market. In this context, the participants expressed the desire to promote more privatisation programme. Thus, the government should introduce proper privatisation policies that would attract both local and foreign investment, while not creating more SOEs.

7.4 FUTURE RESEARCH

This study opens the door to further research in a number of related areas. First, Further research is needed to assess the private sector performance in other GCC countries, other regional oil-rich states, such as Algeria, Libya, Iraq and Iran, and other non-MENA oil-rich emerging countries such as Angola and Gabon. This would help to expand the findings of this study to include other cases which have rentier characteristics similar to the Omani economy but may or may not have neo-patrimonial socio-political structures.

In addition, as this study is concerned with an economy that is dependent on a single commodity, oil, similar studies are also recommended on economies that also are reliant on a non-oil single commodity in order to ascertain if similar rentier structures have evolved and what this means for economic development.

The study covered twenty years of the performance of the private sector from the 1995 launch of Vision2020 to 2015. However, the last FYDP under Vision 2020 is not included. Therefore, future studies are needed when data on the Ninth FYDP becomes available in order that Vision2020's complete period can be fully assessed.

As the preparation of the new development strategy for Oman, Vision2040, has already started, studies should be conducted on its decision-making and implementation process. A comparison study of Vision2040 with Vision2020 in terms of the implementation of both Visions is recommended. Further, research based on the models developed in this study can be undertaken at regular intervals on the performance of Vision2040.

APPENDICES

Appendix 1

Resolutions of the Sixth meeting of the Development Council for the year 1994.
Held on 21.5.1415 A.H. (Corresponding to 26.10.94)

RESOLUTION NO. 79/94

The Council reviewed the submitted memorandum regarding the evaluation of the performance of production and services sectors during the past two decades, and the measures proposed for their development during the future stage up to 2020. The importance of conducting a comprehensive evaluation of constraints and difficulties that prevented the full achievement of all the determined objectives for diversification of national income source must be stressed. This will directly affect the setting of policies and mechanisms, which would contribute to achievement of sustainable development. In the light of this, the following has been decided:

1. Detailed reports should be prepared regarding the following production and service sectors:

   Agricultural and Fisheries, Commerce, Water Resources, Oil, Gas, and Minerals, Industry and Tourism, and Finance, Banking, Insurance and Securities.

These reports should address the following points:

   - Results achieved in each sector.
   - Basis and potentialities available, whether local or external.
   - Constraints that limit the development of the sector.
   - Policies and mechanisms need to be adopted in order to utilize the full capacities of the sector.

2. These reports should be prepared by the ministries concerned, in coordination with the Ministry of Development and with the assistance of World Bank experts or other according to requirements.
3. These reports should be prepared not later the end of the next month.
4. The Ministry of Development should prepare a detailed report on the main factors affecting and influenced by the macroeconomic performance. This should be done in coordination with ministries concerned and the assistance of World Bank experts. The factors affecting the macroeconomic performance are as follows:
   - Public and Private Savings.

- Future Investment in Material Assets.
- Investment in Human Resources.
- Consumption.

5. The report should discuss the issues concerning the above mentioned main factors in terms of:
   a. The evaluation of the size of current savings, the extent of their adequacy, and the appropriate mechanisms to raise the savings ratio relative to the domestic product.
   b. The approach of evaluating public investments and the comparison of available alternatives, whether local or external.
   c. The evaluation of the results of investing in human resources, and the determination of appropriate policies and mechanisms that need to be adopted for upgrading their efficiency and productivity.
   d. The size of current consumption and the proposed mechanisms for rationalisation of consumption and increasing savings.
6. The office of His Excellency the Advisor to His Majesty the Sultan for Economic Planning Affairs, in coordination with the Ministry of Development and with the help of a specialist if needed, should undertake preparation of a paper on the global changes. Such a paper should provide detailed analysis of the global changes that may affect, directly or indirectly, the competitiveness of the Sultanate, its position in the world trade system, and the policies that need to be adopted in order to deal with these changes.
7. To form ministerial committees, as shown below, in order to review and evaluate the reports stated in terms 1, 2 and 3, and the recommendation of appropriate policies and mechanisms for the development of the production and services sectors during the coming stage. These committees should complete their work not later than the end of March, 1995.

   The Ministerial committees are as follows:

   a. Agriculture and Fisheries Sector Committee:

   - His Excellency- the Minister of Agriculture and Fisheries (Chairman).
   - Two members from the *Majlis Ash'shura.*
   - A member from the Ministry of Interior.
   - A member from the Ministry of Water Resources.
   - A member from the Ministry of Development.
   - Two members form the Oman Chamber of Commerce and Industry.

b. Water Resources Committee:

- His Excellency the Minister of Water Resources (Chairman).
- Two members from the *Majlis Ash'shura.*
- A member from the Ministry of Interior.
- A member from the Ministry of Electricity and Water.
- A member from the Ministry of Agriculture and Fishers.
- A member from the Ministry of Local Municipalities and Environment.
- A member from the Ministry of Development.

c. Industry, Tourism and Commerce sector's committee:

- His Excellency the Minister of Commerce and Industry (Chairman).
- Two members from the *Majlis Ash'shura.*
- A member from the Ministry of National Heritage & culture.
- A member from the Ministry of Communications.
- A member from the Ministry of Finance and Economy.
- A member from the Ministry of Development.
- A member from the Royal Oman Police.
- A member from the Oman Chamber of Commerce and Industry.

d. Oil, Gas and Minerals committee:

- His Excellency the Minister of Petroleum and Minerals (chairman).
- A member from the *Majlis Ash'shura.*
- A member from the Ministry of Finance and Economy.
- A member from the Ministry of Commerce and Industry.
- A member from the Ministry of Development.
- A member from the Oman Chamber of Commerce and Industry.

e. Banks, Insurance and Securities Market Committee:

- His Excellency the Minister of Civil Services, Deputy Chairman of the Board of Governor for the Central Bank of Oman (Chairman).
- Two members from the *Majlis Ash'shura.*
- A member from the Ministry of Commerce and Industry.
- A member from the Ministry of Development.
- The Executive President of the Central Bank of Oman.
- The Executive President of the Muscat Securities Market.
- Two members from the Oman Chamber of Commerce and Industry.

f. **Human Resources and Macroeconomy Committee:**

- His Excellency the Minister of State for Development Affairs (Chairman).
- His Excellency the Economic Advisor at the Diwan of Royal Court.
- A member of the *Majlis Ash'shura.*
- A member from the Ministry of Higher Education.
- A member from the Ministry of Commerce and Industry.
- A member from the Ministry of Health.
- A member from the Ministry of Education.
- A member from the Ministry of Civil Service.
- A member from the Ministry of Social Affairs and Labour.
- The Executive President of the Central Bank of Oman.
- A member from the Vocational Training Authority.
- The Secretary of the Supreme Committee for Vocational Training and Labour.
- A member from the Oman Chamber of Commerce and Industry.

g. **The Committee of Global Changes:**

- His Excellency the Advisor to His Majesty the Sultan for Planning Affairs (Chairman).
- His Excellency the Economic Advisor at the Diwan of Royal Court.
- A member from the *Majlis Ash'shura.*
- A member from the Ministry of Finance and Economy.
- A member from the Ministry of Petroleum and Minerals.
- A member from the Ministry of Foreign Affairs.
- A member from the Ministry of Commerce and Industry.
- A member from the Ministry of Development.
- A member from the Oman Chamber of Commerce and Industry.

8. The members of *Majlis Ash'shura* and Oman Chamber of Commerce and Industry, should be form the members of the committees concerned with sector.
9. Representatives of the Ministries should be at under-secretary level.
10. The representative of the Ministry of Development should be the Director General of the concerned sector.
11. His Excellency the Minister of State for Development Affairs shall coordinate with ministers (chairman of sectoral committees) regarding the timings of the meetings and the administrative support that may be needed by these committees.

12. To form a main committee, which in addition to coordination between the various ministerial committees, shall undertake the task of revision and evaluation of recommendations proposed by these committees and to approve these recommendations in order to be incorporated in the Fifth Five-Year Plan and the next plans. The main committee shall be formed as follows:
    - His Excellency Deputy Prime Minister for Financial and Economic Affairs – Chairman.
    - His Excellency the President of *Majlis Ash'shura.*
    - His Excellency the Advisor to His Majesty the Sultan for Economic Planning Affairs.
    - His Excellency the Minister of Petroleum and Minerals.
    - His Excellency the Mister of Agriculture and Fisheries.
    - His Excellency the Minister of Civil Service and Deputy Chairman of the board of Governors for the Central Bank of Oman.
    - His Excellency the Secretary General of the Council of Ministers.
    - His Excellency the Minister of Commerce and Industry.
    - His Excellency the Minster of State for Development Affairs.
    - His Excellency the Economic Advisor at the Diwan of Royal Court.
13. The main committee shall undertake the preparation for organizing a symposium on the vision for the Omani economy: (Oman2020), as endorsed by His Majesty in May 1995, and supervise all its activities. In addition to the members of the already mentioned committees, the symposium will be attended by a group of international experts who will be selected from the industrial countries, and south east Asia. This is in order to evaluate the polices and mechanisms proposed with the aim of producing the draft of the economic development strategy.
14. The final proposal prepared by the aforementioned committees and those regarding the Vison symposium should be submitted to the Development Council prior to their submission to the Cabinet for approval, and then to His Majesty The Sultan for endorsement. The final proposal should therefore be an integral part of the programme of the Fifth Five Year Plan and would be endorsed within the Royal Decree endorsing the plan.

Appendix 2

Resolutions of the fifth meeting of the Development Council for the year 1994.
Held on 10.5.1415 A.H. (Corresponding to 15.10.94)

RESOLUTION NO. 71/94

The Council studied the memorandum submitted regarding the procedures taken for the trader, implementation, financing and operation of projects to the Private Sector (Privatization) and ruled the following:

1. These projects to be financed by the Private Sector without any government guarantee.
2. The operation, maintenance and administration of these projects should be according to technical specifications stipulated by the ministry concerned.
3. The Government should determine the unified maximum tariff to be paid by all consumers in the Sultanate on receipt of services or consumption.
4. The selection of a suitable company assigned for financing, implementation and operation of the project, should be determined through open tender for all qualified Omani companies.
5. The project company should take the form of a joint stock company and it should float not less than 40% of the equity for public subscription and the Development council has the right to increase the ratio of public subscription.
6. The encouragement of foreign participation in these projects to facilitate foreign capital, technical and administrative expertise in accordance with investment laws.
7. The companies established for these purposes should be treated, regarding Government taxes, as an Omani company even if their capital is shared by foreign investors or companies.
8. These companies should be given some incentives, for example, exemption from Profit tax and customs Duties stipulated in the National Industries Encouragement Law.
9. The government shall not give these projects any soft loans or interest free loans.
10. More than one company should be established to render a certain service. For example, there should be two companies for waste water treatment, one in Muscat and the other in Salalah. This is in order to increase competition and to enable the government to compare the standards of performance and efficiency.

Appendix 3:
The Privatisation Law

Royal Decree No. 42/96, issued on 21 Muharam 1417 AH, June 8, 1996

First: Policies:

1. Privatisation shall represent a part of the government programme aimed at achieving sustainable development, increasing growth rates and distributing the benefits of development among all regions and segments of the society.
2. Priority privatisation shall be given to services that operate on a commercial basis, such as wastewater, electricity, water, telecommunications, highways and postal services. When privatising these services, consideration shall be given to the financial and administrative capacities of the private sector.
3. In order to ensure that any changes in the economic and social order are made in a measured and gradual manner, privatisation to existing governmental production and services enterprises will be applied gradually,
4. Explicit criteria shall be determined for the selection and evaluation of privatisation proposals. In addition, clear identification of the responsibilities of the government authorities concerned and the system of monitoring privatising programmes will be established.
5. Where possible, more than one company shall be established to render individual services in order to increase competition and to enable the government to compare the performance and efficiency of service providers.
6. The government shall determine the unified maximum tariff to be paid by all consumers in the sultanate, regardless whether the project is operated by the government or by the private sector. The tariff shall not be amended without government approval.
7. To benefit from foreign capital and technical and administrative expertise, foreign participation in the privatisation projects shall be encouraged. This participation should be in accordance with the Foreign Investment Law.
8. After the privatisation of certain sectors, the government shall set the regulations and standards for protecting the environment from any negative impact that may arise as a result of the efforts of the privatised enterprises to reduce costs.

9. The government will utilise the power of the mass media to prepare society accept forthcoming changes in the economic and industrial structure of the country. This will be done by elaborating the advantages of privatisation to society at large, its importance to their prosperity, particularly for the fixed-income group and its contribution to the comprehensive development process.
10. The sale proceeds of government assets in the privatised production and service projects shall accrue to the State General Reserve Fund.

Second: Regulations:

1. The selection of the company best suited to finance, implement and operate the project, shall be determined through open tender. The maximum possible number of Omani companies will be invited to apply.
2. The selected company shall take the form of a joint stock company with Omani participation being not less than 51%. At least 40% of the equity shall be floated for public subscription.
3. Companies established for privatisation projects shall be treated as Omani companies for tax purposes.
4. Companies established for privatisation projects, where the government does not guarantee to purchase all or part of their output, shall be treated as industrial companies for the purpose of taxation and customs duties.
5. All profits exceeding on average 20% - over a period of three years – of the paid up capital of the company having a government concession shall be shared with the government.
6. No soft loans or interest-free loans shall generally be extended to privatisation projects by the government. Any exceptions shall be kept to a minimum.
7. The government shall set the appropriate level of standards and specifications for all privatised projects; and all companies should be committed to apply such standards and specifications when implementing, managing and operating these projects.
8. Implementation, operation and management of privatized projects shall be in accordance with the performance and efficiency criteria specified by the government.
9. To the greatest extent possible, employees currently working in production and services projects to be privatised shall be transferred to the project company.

10. In the case of the submission of equal bids by investment consortia, and in order to broaden the investors' base in privatised projects, preference may be given to the consortia that have been awarded any other privatisation projects.

Appendix 4:
The Basic Law

Royal Decree No. 101/96
Promulgating the Basic Status of the State

THE BASIC STATUTE OF THE STATE
CHAPTER ONE
The State and the System of Governance

Article (1)

The Sultanate of Oman is an Arab, Islamic, Independent State with full sovereignty and Muscat is its capital.

Article (2)

The religion of the State is Islam and Islamic Sharia is the basis for legislation.

Article (3)

The official language of the State is the Arabic language.

Article (4)

The Law determines the flag, emblem, Insignia and National anthem of the State.

Article (5)

The system of governance is Sultani[15] hereditary in the male descendants of Sayyid Turki bin Said bin Sultan, provided that whoever is to be chosen from amongst them as successor shall be a Muslim, mature, rational and the legitimate son of Omani Muslim parents.

Article (6)

The Royal Family council shall, within three days of the throne falling vacant, determine the successor to the throne.

If the Royal Family council does not agree on a choice of a Sultan for the Country, the Defence Council together with the Chairman of Majlis Al Dawla,[16] the Chairman of Majlis Al Shura,[17] and the Chairman of the Supreme Court along with two of his most senior deputies, shall instate the person designated by His Majesty the Sultan in his letter to the Royal Family Council.

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[15] i.e. Royal
[16] State Council
[17] Consultative Council

Article (7)

The Sultan, before exercising his powers, shall, in a joint session of Majlis Oman[18] and the defence council, take the following oath:

"I swear by Allah the almighty to honour the Basic Statute of the State and the Laws and to fully safeguard the interests of the Citizens and their freedom and to preserve the independence of the country and its territorial integrity".

Article (8)

The Government shall continue to perform its functions as usual until the Sultan is chosen and exercises his authority.

Article (9)

The Governance in the Sultanate shall be based upon justice, Shura and equality. The Citizens, pursuant to this Basic Statute and the condition and provisions prescribed by the Law, shall have the right to participate in public affairs.

CHAPTER TWO

The Principles guiding the Policy of the State

Article (10)

The Political Principles:

- Preserving the independence and sovereignty of the State and safeguarding its entity, security, stability and defending it against all aggression.
- Reinforcing ties of cooperation and reaffirming friendly relations with all states and nations on the basis of mutual respect, common interest, non-interference in the internal affairs and adherence to the international and regional charters and treaties and the generally recognised principles of international law conducive to the advancement of peace and security among states and nations.
- Laying suitable foundations of consolidating the pillars of genuine Shura emanating from the heritage of the Nation, its values and Islamic Sharia, taking pride in its history and adopting the useful contemporary means and instruments.

[18] Oman Council. The Council of Oman is bicameral parliament, made up of the members of the State Council and the Consultative Council, as stipulated in Article 58 of the Basic Law of the State. It is considered to be the parliament in Oman.

- Establishing a sound administrative system that guarantees justice, tranquillity and equality for the Citizens and ensures respect for the public order and the preservation of the supreme interests of the State.

Article (11)

The Economic Principles

- The national economic is based on justice and the principles of free economy. Its essence is the constructive and fruitful cooperation between public and private activity. Its objective is the achievement of economic and social development in order to increase production and raise the standard of living of the Citizens according to the general plan of the State and within the limits of the Law.
- Freedom of economic activity is guaranteed within the limits of the Law, the public interest, and in a manner that ensures the integrity of the national economy. The state encourages savings and supervises the regulation of credit.
- All natural wealth and resources thereof are the property of the State, which shall preserve and utilise them in the best manner taking into consideration the requirements of the security of the state and the interests of the national economy. No concession or investment of any public resource of the Country shall be granted except by virtue of a law, for a limited period of time, and in a manner that preserves national interests.
- Public property is inviolable, the State shall protect it, and Citizens and residents shall preserve it.
- Private ownership is safeguarded and no one shall be prevented from disposing of his property expect within the limits for the Law. No property shall be expropriated except for the public interest in cases stipulated by the Law and in the manner specified therein, provided that the person dispossessed shall be fairly compensated. Inheritance is a right governed by Islamic Sharia.
- General confiscation of property is prohibited. The penalty of specific confiscation shall only be imposed by virtue of a judicial decision and in such circumstances as prescribed in the Law.
- Taxes and general charges are based on justice and the development of the national economy.
- Imposition, amendment, and abolition of public taxes, shall only be by virtue of a law and no one is exempted from paying all taxes or part thereof except in the circumstances

prescribed in the Law. It is not permissible to introduce a new tax, fee or any right of any type whatsoever with retrospective effect.

CHAPTER THREE

The Public Rights and Duties

Article (15)

Nationality is regulated by the Law and it is not permissible to denaturalise or revoke it except within the limits of the Law.

Article (16)

It is not permissible to deport, exile, or prevent Citizens from returning to the Sultanate.

Article (17)

All Citizens are equal before the Law and share the same public rights and duties. There shall be no discrimination amongst them on the ground of gender, origin, colour, language, religion, sect, domicile, or social status.

Article (18)

Personal freedom is guaranteed according to the Law, and it is not permissible to arrest a person, search, detain, imprison, subject to residence detention, or restrict his freedom of residency or movement except in accordance with the provisions of the Law.

Article (19)

It is not permissible to detain or impression in places other than those designated for such purpose under the laws of prisons, where health and social care are provided.

Article (20)

No person shall be subjected to physical or psychological torture, inducement or demeaning treatment. The Law stipulates punishment of whomever commits such acts. Any statement or confession proven to have been obtained under torture, inducement, demeaning treatment, or the threat of any of these acts, shall be deemed void.

Article (21)

There shall be no crime except by virtue of a Law. There shall be no punishment, except for acts subsequent to the entry into force of the Law wherein such acts are stated. Punishment shall be personal.

Article (22)

The accused is innocent until proven guilts in a legal trial in which the essential guarantees to exercise his right of defence in accordance with the Law are guaranteed. It is not permissible to harm an accused either bodily or mentally.

Article (23)

The accused has the right to appoint a person capable of undertaking his defence during the trial. The Law shall define the circumstances where the presence of a lawyer on behalf of the accused is required, and shall ensure, for those who are financially unable, the means to seek judicial redress and defend their rights.

Article (24)

Any person who is arrested or detained shall immediately be informed of the reasons for his arrest or detention. He has the right to contact whomever he wants to inform his of what has taken place or to get his assistance in the manner regulated by the Law, and he shall be promptly informed of the charges against him. He or his representative shall have the right to petition the court against the action restricting his personal freedom. The Law shall regulate the right of petition in a manner which ensures that the disposal of the petition will be within a specified period, failing which he must be released.

Article (25)

Litigation is a protected right and it is guaranteed to all people. The Law shall prescribe the procedures and conditions necessary to exercise this right, and the State shall guarantee, as far as possible, the approximation of judicial authorities to litigants and the prompt settlement of cases.

Article (26)

It is not permissible to conduct any medical or scientific experiment on any human being without his free consent.

Article (27)

Residence are inviolable. It is not permissible to enter them without the permission of their residents, except in the cases specified by the Law and in the manner stipulated therein.

Article (28)

The freedom to practice religious rites according to recognised customs is protected, provided it does not violate the public order or contradict morals.

Article (29)

The freedom of opinion and expression thereof through speech, writing and other means of expression is guaranteed within the limits of the Law.

Article (30)

The freedom of correspondence by post, telegraph, telephone conversations, and other means of communication is protected and its confidentiality is guaranteed. It is not permissible to monitor, search, disclose the confidentiality of, delay, or confiscate the same, except in cases specified by the Law and in accordance with the procedures stated therein.

Article (31)

The freedom of the press, printing, and publishing is guaranteed according to the terms and conditions prescribed by the Law. Anything that leads to discord, affects the security of State, or prejudices human dignity or rights, is prohibited.

Article (32)

The Citizens have the right to assemble within the limits of the Law.

Article (33)

The freedom of forming societies on national bases, for legitimate objectives, by peaceful means, and in a manner that does not conflict with the provisions and objectives of this Basic Status, is guaranteed in accordance with the terms and conditions prescribed by the Law. It is prohibited to form societies the activity of which is adverse to the order of society, secretive or of a military nature. It is not permissible to force anyone to join any society.

Article (34)

The Citizens have the right to address public authorities on personal matters or matters in connection with public affairs, in the manner and conditions specified by the Law.

Article (35)

Every foreigner who is legally present in the Sultanate shall enjoy protection for himself and his property in accordance with the Law. He shall observe the values of the Society and respect the traditions and sentiments thereof.

Article (36)

The extradition of political refugees is prohibited. Laws and international treaties shall determine the rules for the extradition of criminals.

Article (37)

Defending the Nation is sacred duty, and coming forward to serve the armed forces is an honour for the Citizens regulated by the Law.

Article (38)

Preserving the national unity and safeguarding the secrets of the State is a duty incumbent upon every Citizen.

Article (39)

Paying takes and public dues is a duty according to the Law.

Article (40)

Respecting the Basic Statute of the State, the Laws and orders issued by the public authorities in their implementation thereof, observing public order, and respecting public morals is a duty incumbent upon all residents of the Sultanate.

CHAPTER FOUR

The Head of State

Article (41)

His Majesty the Sultan is the head of State and the Supreme Commander of the Armed Forces, his person is inviolable, respect of him is a duty, and his command is obeyed. He is the symbol of national unity and the guardian of the preservation and the protection thereof.

Article (42)

His Majesty the Sultan discharges the following functions:

- Preserving the independence of the Country and its territorial integrity, protecting its internal and external security, safeguarding the rights and freedoms of the Citizens, ensuring the rule of law, and directing the general policy of the State.
- Taking prompt measures to counter any danger threatening the safety of the Sultanate, its territorial integrity, or the security and the interests of its people, or hindering the institutions of the State from performing their functions.
- Representing the State internally and towards other states in all international relations.
- Presiding over the Council of Ministers or appointing a person to preside.
- Presiding over the Specialized Councils or appointing a person to preside.
- Establishing and regulating the units of the administrative apparatus of the State and the abolishment thereof.
- Appointing Deputies to the Prime Minister, Ministers, and their equivalents and relieving them of their office.
- Appointing Undersecretaries of ministries, Secretaries-General, and their equivalents and relieving them of their office.
- Declaring state of emergency, general mobilisations, war, and concluding peace. The Law specifies the rules thereof.

- Promulgating and ratifying Laws.
- Signing international conventions and treaties according to the provisions of the Law or authorising their signature and promulgating Decrees ratifying the same.
- Appointing political representatives to other states and international organisations and relieving them of their office according to the limits and conditions prescribed by the Law, as well as accepting the credentials of representatives of other states and international organisations.
- Pardoning or commuting any penalty.
- Conferring orders of honour and military ranks.

Article (43)

His Majesty the Sultan shall be assisted in formulating and implementing the general policy of the State by a council of ministers and specialised councils.

The Council of Ministers

Article (44)

The council of Ministers is the authority entrusted with implementation of the general policies of the State and in particular undertakes the following:

- Submitting recommendations to His Majesty to His Majesty the Sultan in economic, political, social, executive, and administrative matters of concern to the Government including proposing draft laws and decrees.
- Protecting the interests of the Citizens and ensuring the availability of the necessary services to them, and enhancing their economic, social, health, and cultural standards.
- Determining the objectives and the general policies for economic, social, and administrative development and proposing the necessary means and measures for their implementation which ensure the best utilisation of the financial, economic and human resources.
- Discussing development plans prepared by competent authorities after presenting them to Majlis Oman, submitting these plans to His Majesty the Sultan for approval, and following up their implementation.
- Discussing proposals of ministries relevant to the implementation of their respective competencies and taking appropriate recommendations and decisions in this regard.

- Supervising generally the implementation of the Laws, decrees, regulations, decisions, treaties, agreements and judgements of the courts in a manner that ensures adherence thereto.
- Discharging any other competence delegated by His Majesty the sultan or vested by the provisions of the Law.

Article (45)

The Prime Minister shall preside over the meetings of the council of Ministers and may entrust one of his Deputies to conduct the meetings which he does not attend. If the Prime Minister and his Deputies are absent His Majesty the Sultan shall authorise whom His Majesty sees appropriate to conduct the meetings.

Article (46)

The meetings of the council of Ministers shall be made valid by the presence of the majority of its members. Its deliberations shall be confidential and its decisions shall be taken by the majority of the members present.

Article (47)

The council of Ministers shall set its internal regulations, including the rules for performing the duties therein and shall have a Secretariat-General provided with a sufficient number of staff to assist it in performing its duties.

The Prime Minister, His Deputies, and the Ministers

Article (48)

If His Majesty the Sultan appoints a Prime Minister, his competences and powers shall be determined in the decree appointing him.

Article (49)

Any appointed Prime Minister, Deputy prime Minister, or minister shall be:

A. Of Omani nationality by origin in accordance with the Law.
B. Aged not less than thirty years of the Gregorian calendar.

Article (50)

Before assuming their powers, the Prime Minister, his Deputies, and the Ministers shall take the following oath His Majesty the Sultan:

“I swear by Allah the Almighty to be faithful to my Sultan and my country, to honour the Basic Statue of the State and the applicable Laws of the State, to fully protect its entity and territorial integrity, to fully safeguard its interests and those of its Citizens and to perform my duties faithfully and honestly"

Article (51)

The Deputies to the Prime Minister and the Ministers shall supervise the affairs of their units, implement the general policy of the government therein, draw the guidelines of the unit and follow up the implementation thereof.

Article (52)

Members of the Council of Ministers are politically collectively responsible before His Majesty the Sultan for the implementation of the general policy of the State. 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.

Article (53)

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.

Article (54)

Emoluments of the Deputies of the Prime Minister and the Ministers during their term of office and after their retirement shall be determined by the orders of His Majesty the Sultan.

Article (55)

The provisions of Articles (49), (50), (51), (52), (53), and (54) shall apply to all those of a rank of Minister.

<u>The Specialised Councils</u>

Article (56)

The Specialised councils shall be established, their powers specified, and their members appointed by virtue of Royal Decree. The said councils shall be associated with the Council of Ministers unless their establishing Decrees state otherwise.

The Financial Affairs

Article (57)

The law shall prescribe the provisions concerning the following matters and the authorities responsible thereof:

- Collecting taxes, fees, and other public monies and the procedures for their disbursement.
- Maintaining and managing the property of the State, the conditions for its disposal and the limits within which part of these properties can be assigned.
- The General Budget of the State and the Final Account.
- The autonomous and supplementary general budgets and their final accounts.
- The financial auditing of the State.
- Loans extended or obtained by the State.
- Currency, banks, standards, measures, and weights.
- Affairs of salaries, pensions, compensation, subsidies, and rewards charged to the treasury of the State.

CHAPTER FIVE

Majlis Oman

Article (58)

Majlis Oman shall consist of:

1. Majlis al Dawla.
2. Majlis Al Shura

Majlis Al Dawla

Article (58) (bis)

Majlis Al Dawla shall consist of a chairman and members whose number, inclusive of the Chairman, shall not exceed the total number of members of Majlis Al Shura, and whom shall be appointed by virtue of a Royal Decree.

Article (58) (bis 1)

Members of Majlis Al Dawla shall be selected from the following categories:

- Former Ministers, Undersecretaries of the ministries, 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 businessmen.
- Persons who had performed great services to the Nation.
- Whomever His Majesty the Sultan choose and who does not fall under the previous categories.

Article (58) (bis 2)

Without prejudice to Article 58 (bis 1), whomever is chosen as a member of Majlis Al Dawla shall be:

- An Omani national.
- Aged not less than forty years of the Gregorian calendar on the date of appointment.
- Never sentenced to a felony or crime involving moral turpitude or trust, even if he was rehabilitated.
- Not affiliated to a security or military authority.
- Not interdicted by a judicial judgment.
- Not suffering from a mental illness.

Article (58) (bis 3)

The term Majlis Al Dawla shall be four years of the Gregorian calendar commencing from the date of its first meeting, provided that in all cases it shall not be less than the term of Majlis Al Shura.

Article (58) (bis 4)

Majlis Al Dawla shall, at its first session, elect form amongst its members and for a duration identical to its term, two deputies for the Chairman. If the seat of either of them falls vacant, the Majlis shall elect another member to replace him until the end of its term. In all cases, the election shall be made by direct secret vote and the absolute majority of the members of the Majlis.

Article (58) (bis 5)

The membership to Majlis Al Dawla shall expire due to one of the following reasons:

- Expiry of the term of the Majlis.
- Relief from membership.
- Death or total disability.

Article (58) (bis 6)

A member of Majlis Al Dawla may request to be relieved form his membership to the Majlis through an appeal to the Chairman of the Majlis. The Chairman in turn shall raise this appeal to His Majesty the Sultan.

In all cases, a member of Majlis Al Dawla shall be relieved if he no longer fulfils any one of the conditions of membership upon which he was appointed, has lost confidence or esteem, or has violated the duties of membership.

Article (58) (bis 7)

It is not permissible, except for the two categories stipulated in the fifth and eighth Clauses of Article (58) (bis 1), to combine both the membership to Majlis Al Dawla and undertaking an employment in the public sector.

Majlis Al Shura

Article (58) (bis 8)

Majlis Al Shura shall consist of elected members representing all the Wilayat of the Sultanate. The number of members of Majlis Al Shura shall be determined so that each Wilayat shall be represented by one member if that Wilayat has a population not exceeding thirty thousand on the commencement date of candidature, or two members if the Wilayat population exceeds that limit on the same date.

Article (58) (bis 9)

The election of the members of Majlis Al Shura shall be conducted through a direct secret vote in accordance with the manner specified in the Election Law.

Article (58) (bis 10)

A candidate of Majlis Al Shura shall be:

- An Omani national by origin.
- Aged not less than thirty years of the Gregorian calendar on the commencement date of candidature.
- With a level of education that is not less than the General Education diploma.
- Never sentenced to a felony or crime involving moral turpitude or trust, even if he was rehabilitated.
- Enrolled in the election register.
- Not affiliated to a security or military authority.
- Not interdicted by a judicial judgment.

- Not suffering from a mental illness.

It is permissible for whoever complete his membership term to run again as a candidate to Majlis Al Shura.

Article (58) (bis 11)

The term of Majlis Al Shura shall be four years of the Gregorian calendar commencing from the date of its first meeting. The elections for the new Majlis shall take place during the last ninety days prior to the end of the current term. If the elections are not held at the end of the term of the Majlis of have been delayed for whatever reason, the Majlis shall continue until a new Majlis is elected. The term of the Majlis shall not be extended unless there is a necessity and pursuant to a royal Decree provided that the extension shall not exceed the period of one session.

Article (58) (bis 12)

Majlis al Shura shall convene upon an invitation by His Majesty the Sultan in an extraordinary meeting, prior to the first session, for the purpose of electing its Chairman and two Deputies to the Chairman for a duration identical to its term. The member oldest in age shall chair this meeting. If the seat of any of them falls vacant, the Majlis shall elect a replacement until the end of its term. In all cases, the election shall be by direct secret vote and the absolute majority of the members of the Majlis.

Article (58) (bis 13)

If the seat of any member of Majlis Al Shura falls vacant prior to the expiry of its term, the seat shall be occupied by one of the candidate form the same Wilayat in accordance with their sequence in the election results for the Majlis for that same term so that the candidate with the most votes acquired shall be put forward, and that is within a period of sixty days from the date of informing the Majlis of the vacancy of the seat. The term of the new member shall be in continuation of the term of his predecessor. This seat shall not be occupied if it falls vacant within the six months preceding the date of expiry of the term of the Majlis.

Article (58) (bis 14)

The supervision of the elections of Majlis Al Shura and the disposal of electoral challenges shall be undertaken by a supreme committee that enjoys independence and neutrality, and chaired by one of the deputy presidents of the Supreme Court. The Law shall prescribe the manner of its formation, its competences, and the regulations for its functions.

Article (58) (bis 15)

The membership to Majlis Al Shura shall expire for any one of the following reasons:

- Expiry of the term of the Majlis.
- Resignation.
- Death or total disability.
- Revocation of membership.
- Dissolution of the Majlis.

Article (58) (bis 16)

The resignation from the membership of Majlis al Shura shall be submitted in writing to the Chairman to present it to the Majlis to decide its acceptance or rejection. The internal regulations of the Majlis shall regulate the provisions relating to this matter.

Article (58) (bis 17)

The membership of a member to Majlis Al Shura shall not be revoked unless the member loses one of the conditions on which he had been elected, violates his membership duties, or loses confidence or esteem. The membership shall be revoked by a resolution from the Majlis by the majority of two thirds of its members.

Article (58) (bis 18)

It shall not be permissible to combine both the membership to the Majlis and employment in the public sector. In case a public employee is elected to the membership of the Majlis, his service shall be considered terminated from the date of the announcement of the results, and in case of a challenge to his membership he shall retain his employment without remuneration until a final decision is issued on the challenge. If the decision is made to invalidate his membership and annual the decision of his win, he shall return to his employment and his remuneration shall be paid to him from the date of his return to work. If the challenge is rejected, his service shall be terminated form the date of the announcement of the results, and he shall be granted an extraordinary pension specified by the Law on the condition that he has accumulated on that date a term of service for pension that is not less than ten years of the Gregorian calendar.

Article (58) (bis 19)

His Majesty the Sultan, in circumstances His Majesty determines may dissolve Majlis Al Shura and call for a new election within four months from the date of dissolution.

Common Provisions for both Majlis Al Dawla and Majlis Al Shura

Article (58) (bis 20)

The members of Majlis Al Dawla and Majlis Al Shura shall swear in a public meeting, each before his respective Majlis, and prior to assuming his duties in the Majlis, the following oath: "I swear by Allah the Almighty to be faithful to my Sultan and my Country, to honour the Basic Statute of the State and the applicable Laws, to preserve the safety of the State, the fundamental constituents of the Omani society and its inherent values, and to perform my duties in the Majlis and its committees faithfully and honestly."

The Chairman of Majlis Al Dawla shall swear, prior to assuming his duties in the Majlis, the oath specified in the previous paragraph before His Majesty the Sultan.

Article (58) (bis 21)

The Chairman of Majlis Al Dawla and the Chairman of Majlis Al Shura, their deputies, and every member of the two Majlis shall pursue n the performance of their duties the interest of the Nation in accordance with the Laws in force. They shall not exploit their membership in any manner for their own interest or for the interest of those related to them or with whom they have a special relationship. The Law shall determine the acts that they shall not undertake.

Article (58) (bis 23)

Except in the case of *flagrante delicto,* no punitive action shall be taken against a member of Majlis Al Dawla or Majlis Al Shura during the annual session except with the prior permission from the Majlis concerned. The permission shall be issued by the Chairman of the concerned Majlis when it is not in session.

Article (58) (bis 24)

It is not permissible to combine membership to both Majlis Al Dawla and Majlis Al Shura.

Article (58) (bis 25)

Majlis Al Dawla and Majlis Al Shura shall each issue its respective internal regulations.

These regulations shall prescribe the procedures for performing the duties of the Majlis and its Committees, maintenance of order, principles of discussion and voting, the method of questioning in relation to Majlis Al Shura, and other prerogatives stipulated for the members and the penalties that may be imposed on a member in violation of the procedures for performing the duties in the Majlis or Failure to attend the meetings of the Majlis or its committees without an acceptable excuse.

Terms of Session and Competences of Majlis Oman

Article (58) (bis 26)

Majlis Oman shall have an ordinary session of not less than eight months per year, to be convened upon a summoning from His Majesty the Sultan during the month of November every year. It is not permissible for the session to go on recess prior to the approval of the annual budget of the State.

Article (58) (bis 27)

As an exception to the previsions of Article (58) (bis 26) His Majesty the Sultan shall summon Majlis Oman for its first meeting following the general elections of Majlis Al Shura within a month from the date of the declaration of the results of that election.

Article (58) (bis 28)

His Majesty the Sultan may summon Majlis Oman, outside the regular session, to convene in circumstances which His majesty determines.

Article (58) (bis 29)

The summoning to Majlis Oman to convene in ordinary or extraordinary sessions and its adjournment shall be in accordance with an appropriate legal instrument.

Article (58) (bis 30)

Majlis Al Dawla and Majlis Al Shura shall convene their sessions at their seats in the city of Muscat and His Majesty the Sultan may summon either to convene at any other location.

Article (58) (bis 31)

The sessions of Majlis Al Dawla and Majlis Al Shura shall be public. Closed sessions may be convened in circumstances that so require by the agreement between the council of Ministers and either of the two Majlis.

Article (58) (bis 32)

The validity of a meeting of Majlis Al Dawla and Majlis Al Shura requires the presence of the majority of the members, including the Chairman or one of his Deputies. If the required number is not achieved, the meeting shall be postponed to the next meeting.

Article (58) (bis 33)

The decisions of Majlis Al Dawla and Majlis Al Shura shall be adopted by the absolute majority of the present members except in circumstances that require a special majority. In the case of a tie vote, the side that includes the Chairman shall prevail.

Article (58) (bis 34)

If Majlis Al Shura is dissolved, Majlis Al Dawla sessions shall be suspended.

Article (58) (bis 35)

Draft laws prepared by the Government shall be referred to Majlis Oman for approval or amendment, and then they shall be directly submitted to His Majesty the Sultan to be promulgated.

In case of any amendments by Majlis Oman on the draft law, His Majesty the Sultan may refer it back to the Majlis for reconsideration of the amendments and then resubmission to His Majesty the Sultan.

Article (58) (bis 36)

Majlis Oman may propose draft laws and refer them to the Government for review, and then the Government shall return the same to the Majlis. The procedures stipulated in Article (58) (bis 35) shall be followed in approving, amending or promulgating the said draft laws.

Article (58) (bis 37)

The draft laws shall be referred by the council of Ministers to Majlis Al Shura, which shall decide on the draft by approval or amendment within a maximum period of three months from the date of referral. The same shall then be referred to Majlis Al Dawla which shall decide on it by approval or amendment within a maximum period of forty five days from the date of referral. If the two Majlis disagree upon the draft law, they shall hold a joint meeting under the chairmanship of the Chairman of Majlis Al Dawla and by his invitation, to discuss the differences between the two Majlis, and then vote on the draft law in the same meeting. The decisions shall be adopted by absolute majority of the members present, and in all cases the chairman of Majlis Al Dawla shall submit the draft to His Majesty the Sultan along with the opinion of the two Majlis.

Article (58) (bis 38)

Draft laws of an urgent nature shall be referred by the council of Ministers to Majlis Al Shura which shall make a decision for its approval or amendment within a maximum period of one month from the date of referral and then they shall refer the same to Majlis Al Dawla which shall make a decision for approval or amendment within a maximum period of fifteen dates from the referral date. The Chairman of Majlis Al Dawla shall submit the same to His Majesty the Sultan along with the opinion of the two Majlis.

Article (58) (bis 39)

His Majesty the Sultan may promulgate Royal Decrees that have the force of law between the sessions of Majlis Oman and while Majlis Al Shura is dissolved and the sessions of Majlis Al Dawla are suspended.

Article (58) (bis 40)

Draft development plans and the Annual Budget of the State shall be referred by the Council of Ministers to Majlis Al Shura for discussion and to make recommendations thereon within a maximum period of one month form date of referral and then the same shall be referred to Majlis Al Dawla for discussion and recommendations within a maximum period of fifteen days from the date of referral. The chairman of Majlis al Dawla shall return the same along with the recommendations of the two Majlis to the council of Ministers. The council of Ministers shall inform the two Majlis of the recommendations that were not adopted in this respect along with the reasons therefor.

Article (58) (bis 42)

The State Financial and Administrative Audit Institution shall send a copy of its annual report to Majlis Al Shura and Majlis Al Dawla.

Article (58) (bis 43)

Upon a request signed by at least fifteen members of Majlis Al Shura, any of the Services Ministers may be subject to interpellation on matters related to them exceeding their competences in violation of the Law. The Majlis shall discuss the same and submit its findings in this regard to His Majesty the Sultan.

Article (58) (bis 44)

The Services Ministers shall provide an annual report to Majlis Al Shura on the implementation stages of the projects related to their Ministries. The Majlis may invite any of them to provide a statement on some matters within the competences of his Ministry, and to discuss the same with him.

Appendix 5:

Questionnaire Survey and Results

THE PRIVATE SECTOR AND THE STATE IN OMAN: CHALLENGES FOR CHANGING FROM A STATE-LED DEVELOPMENT MODEL TO A PRIVATE SECTOR-LED DEVELOPMENT MODEL

Please answer as many questions as possible by ticking the appropriate box or circling the appropriate answer.

BACKGROUND INFORMATION

Q. Age.

Age	***(Tick the appropriate response)***
21-30	18
31-40	24
41-50	31
51-60	12
60+	0.0

Q. Your current vocation?

Your Current Vocation	***(Tick the appropriate response)***
Business owner/entrepreneur	59
Senior executive in private company	13
Admin	7
Technical	3
Other: please specify	3

Q. Years of experience in this role?

Years of experience	***(Tick the appropriate response)***
0-5	25
6-10	19
11-15	17
16-20	7
21-25	9
26-30	8
31+	0.0

Q. Ownership structure of your company?

	(Tick the appropriate response)
Local	76
Foreign	3
Other: Please Specify:	6

Q. If you are in the private sector, in which sector do you work?

Sectors	***(Tick the appropriate response)***
Finance	3
Oil and gas	3
Mining	4
Fishing	1
Logistics	3
Services	39
Education	0.0
Tourism	8
Manufacturing,	14
Telecommunication	5
Construction	5
Others: please specify	

Q. Where in Oman do you work?

Location	
Muscat	47
Salalah	3
Sohar	7
Sur	5
Nizwa	6
Other: Please specify	17

SECTION 1
THE ROLES OF THE PRIVATE SECTOR AND THE STATE IN THE OMANI ECONOMY

Please rate your response to each comment.

%	Agree Strongly	Agree	Neither Agree nor Disagree	Disagree	Disagree Strongly
The private sector can lead the national economy	34.5	48.8	10.7	4.8	1.2
The State intervenes in economic activities	23.2	45.1	18.3	12.2	1.2
The private sector is dependent on government expenditure	22.6	40.5	21.4	13.1	2.4
The private sector can grow without government expenditure	12.0	25.3	25.3	30.1	7.2
State-owned enterprises compete with private sector companies	23.8	44.0	20.2	9.5	2.4
State-owned enterprises are an obstacle to private sector companies' growth	18.1	42.2	22.9	13.3	3.6
The private sector could manage state-owned enterprises more successfully and more efficiently if they were privatised	31.3	38.6	21.7	6.0	2.4
State-owned enterprises will be more successful once privatised	27.7	44.6	20.5	4.8	2.4
The government should only privatize certain economic sectors	40.2	42.7	11.0	4.9	1.2

Q. What sectors would you support to be part of the privatization programs? Please put in order (1 is first, 9 last).

Sector	Number	Order
Oil and Gas	28	=6
Mining	28	=6
Telecommunication	46	2
Logistics	51	3
Tourism	54	1
Services	45	=4
Agriculture	40	=6
Fishing	35	=6
Manufacturing	49	=4
None of above	5	n.a.
All of above	26	n.a.
Others: please specify	4	n.a.

SECTION 2
STATE-PRIVATE SECTION RELATIONS IN OMAN

Please rate your response to each comment.

%	Strongly Agree	Agree	Neither Agree nor Disagree	Disagree	Strongly Disagree
The government involves the private sector in making economic policy	27.6	27.6	19.7	17.1	7.9
There are clear government economic growth policies	4.0	25.3	33.3	28.0	9.3
Communication channels between the private sector and the government are satisfactory	8.5	15.9	18.3	42.7	14.6
The role of Oman Chamber of Commerce and Industry is satisfactory	2.7	20.2	32.0	25.3	20
The Oman Chamber of Commerce and Industry fully represents all industries and companies equally	2.4	19.5	32.9	28.0	17.1

SECTION 3
THE BUSINESS ENVIRONMENT IN OMAN

Rate your level of satisfaction as to the quality of each element from 1 = very low to 5 = very high.

%	1	2	3	4	5
Efficiency of State institutions	10.7	28.6	46.4	10.7	3.6
Appropriate infrastructure (roads, transportation, communication, electricity)	4.8	14.5	39.8	33.7	7.2
Obtaining licenses to start a business	19.0	21.4	31.0	22.6	6.0
Labour regulations	31.0	21.4	31.0	13.1	3.6
Business regulations	23.4	24.7	40.3	9.1	2.6
Judicial system	23.4	24.7	40.3	9.1	2.6
Education and training outcomes	22.6	20.2	39.3	15.5	2.4
Easy to trade internationally	15.5	29.8	31.0	17.9	6.0
Omanisation policies	22.6	22.6	34.5	19.0	1.2
Competition Protection and Monopoly Prevention Law	24.1	34.9	32.5	6.0	2.4
Ownership laws and property rights	14.5	24.1	39.8	18.1	3.6
Government financial support	28.9	20.5	30.1	19.3	1.2
Tax policy	19.3	28.9	28.9	13.3	9.6
Obtaining finance	27.7	30.1	32.5	7.2	2.4
Availability of goods in the market	14.5	33.7	33.7	16.9	1.2
Skilled, efficient manpower	21.7	27.7	39.8	8.4	2.4
Investors' protection	15.7	25.3	41.0	14.5	3.6
Work ethic of the national workforce	9.6	24.1	41.0	18.1	7.2
Resolving trade disputes in the courts	16.9	24.1	44.6	10.8	3.6
Government support for national manufacturers to compete globally	20.5	36.1	30.1	10.8	2.4

Please rate your response to each comment.

%	Agree Strongly	Agree	Neither	Disagree	Disagree Strongly
To what extent do you believe there are monopolies in the private sector	34.6	34.6	27.2	3.7	0
Reforms should be made to the current Competition Protection and Monopoly Prevention Law	37.0	46.9	14.8	1.2	0
The government should reduce subsidies, such as for energy, in certain sectors	14.8	30.9	34.6	13.6	6.2
The size of the market in Oman affects the contribution of the private sector to the economy	29.6	43.2	21.0	6.2	0
Government financial support to the private sector is satisfactory	3.7	25.9	27.2	32.1	11.1
The private sector faces difficulty in obtaining financing from local banks	33.8	25.7	36.5	2.7	1.4
There are sufficient channels through which to obtain information on sources of funding	2.7	23.0	35.1	27.0	12.2

Please rate your response to each comment.

%	Agree Strongly	Agree	Neither	Disagree	Strongly Disagree
The current tax policy encourages private sector investment	9.9	37.0	27.2	12.3	13.6
There should be tax breaks for a certain period to encourage investment in the private sector	25.9	51.9	17.3	3.7	1.2

Q. In which sectors should the government be increasing its tax take? Please tick all that you feel are appropriate.

Oil and gas companies	37.8
Financial institutions	25.6
Real-estate companies	3.7
Retail companies	1.2
Manufacturing companies	3.7
All private sector businesses	12.2
State-owned companies	9.2
Others: please specify	6.1

Q. *Which sectors should benefit from tax breaks for certain period to encourage investment in the private sector? Please put in order.*

	Number	Order
Oil and gas	18	=7
Finance	15	=9
Mining	21	=7
Fishing	24	5
Logistics	31	6
Services	40	3
Education	46	2
Tourism	51	1
Manufacturing	36	4
Telecommunication	18	11
Construction	18	=9
Others: please specify	3	12

Rate your level of satisfaction with quality of each from 1 = very low to 5 = very high

	1	2	3	4	5
Contribution of family businesses groups to the national economy	22.8	16.5	31.6	20.3	8.9
Contribution of family businesses groups in job creation for Omanis	17.1	27.6	31.6	15.8	7.9
Contribution of foreign direct investment to the national economy	12.0	30.7	32.0	17.3	8.0
Contribution of foreign direct investment in job creation for Omanis	13.3	30.7	29.3	18.7	8.0
Contribution of foreign direct investment in technology transfer and knowhow	16.5	24.1	34.2	16.5	8.9

Please rate your response to each comment.

%	Agree Strongly	Agree	Neither	Disagree	Disagree Strongly
Foreign direct investment can contribute significantly to private sector growth	19.7	35.5	40.8	1.3	2.6
Foreign companies compete with local companies	14.5	42.1	27.6	11.8	3.9
The family businesses groups compete with other local companies	18.7	45.3	22.7	8.0	5.3
Family businesses should be converted to public joint stock companies	2.0	38.7	26.7	10.7	4.0
The current Omanisation policy is hindering the growth of the private sector	21.3	30.7	28.0	16.0	4.0
The government should operate open labour market policies	34.1	31.7	15.9	13.4	4.9
Oman has benefitted from joining the World Trade Organization (WTO)	9.8	34.1	42.7	12.2	1.2
Oman has benefitted from signing free trade agreements with several countries	24.4	37.8	30.5	7.3	0

Appendix 6:

Government Ministries

- Internal Security Service
- Royal Oman Police
- Ministry of Housing
- Ministry of Information
- Ministry of Awqaf & Religious Affairs
- Ministry of Regional Municipalities & Water Resources
- Ministry of Environment and Climate Affairs
- Ministry of Commerce & Industry
- Ministry of Heritage and Culture
- Ministry of Education
- Ministry of Higher Education
- Ministry of Social Affairs
- Ministry of Foreign Affairs
- Ministry of Civil Service
- Ministry of Interior
- Ministry of Defence
- Ministry of Agriculture & Fisheries
- Ministry of Tourism
- Ministry of Sports Affairs
- Ministry of Legal Affairs
- Ministry of Health
- Ministry of Justice
- Ministry of Manpower
- Ministry of Finance
- Ministry of Oil & Gas
- Ministry of Transport & Communication

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