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An economic assessment of Oman's industrial diversification efforts

Introduction

Oman emerged from political isolation and economic backwardness on the accession of sultan Qaboos bin Said in July 1970. Oil had been discovered in commercial quantities in the interior of the country in 1964 and went into production in 1967. The first action of the new sultan was to orient the economy toward rapid economic growth and modernization.

Industry was non-existent in Oman before 1970. From the start, it was the policy of the government that industry should be directed toward exploiting the natural resources of the country to minimize the import of manufactured goods. In the beginning, development was necessarily slow due to the lack of basic infrastructure and of a skilled or semi-skilled workforce. In recent years, however, industry has expanded at a rapid pace.

The purpose of this paper is to assess Oman's experience of industrial diversification. What gains have been made to date? What have been the critical factors responsible for the country's progress? What particular problems has the country encountered in its attempts to increase industrial output? Will these problems exist in the future, and if so to what extent? What strategies might the government adopt to overcome likely impediments to industrial growth?

Recent developments

In 1980 as the result of increased oil output and the bringing on stream of new fields in the southern province of Dhofar, Oman's oil share increased to 69 percent of GDP from a level of 54 percent in 1972. By 1982, however, it had fallen back to slightly under 54 percent as a result of lower production and increases in other sectors; it has been less than 50 percent since 1983 (Tables 1 and 2). In 1985, mining and quarrying (including natural gas) contributed around 48 percent of GDP, but this proportion fell sharply to slightly over 35 percent in 1986 due to the oil price collapse.

The sharp decline in oil prices beginning in late 1985 was met by the government with an immediate 10.2 percent devaluation of the riyal in January 1986. But as crude prices fell even further, the burden on the economy continued to grow as a result of which a plan was introduced in February 1986 to cut government spending and adjust the budget. Ultimately, the country ran into a budget deficit of about $1.8 billion, more than three times the targeted level.

Although oil revenues have fallen off in recent years, a relative advantage enjoyed by the Sultanate is that it is not a member of OPEC and therefore not obliged to adhere to the cartel's production policies. As a result, the country increased its oil production levels to partially compensate for the decline in prices.

Table 1: Oman: Gross Domestic Product by sector (OR million, current prices)

	1981	1982	1983	1984	1985	1986	1988
Agriculture	40.5	45,7	53.4	57.1	67.5	63.8	77.8
Fishing	21.6	20.4	27.1	31.9	28.3	25.5	45.8
Crude Oil	1,456.1	1,402.0	1,353.3	1,408.7	1,609.3	949.	1,143.7
Natural Gas	17.7	18.9	25.8	33.6	36.0	38.5	44.4
Other mining	2.6	3.8	5.5	7.2	8.8	9.3	14.0
Manufacturing	27.0	39.6	67.1	91.2	112.1	178.3	122.7
Electricity	13.9	15.9	16.5	25.2	27.1	29.7	28.4
Water	4.8	5.4	7.5	7.5	9.7	10.6	17.8
Construction	144.9	169.8	187.4	226.9	242.2	220.8	119.4
Trade	251.3	299.5	315.7	369.0	428.0	383.2	388.8
Transport	42.0	49.6	53.3	60.2	68.2	68.7	71.6
Communications	11.8	15.3	19.6	24.3	31.4	33.5	36.7
Banking	44.7	51.8	56.4	66.3	72.9	78.5	77.0
Insurance	4.3	10.0	7.2	12.2	17.0	20.1	11.5
Dwellings	130.8	137.3	152.4	154.1	159.4	143.8	155.7
Business services	28.6	32.1	34.1	43.3	45.6	43.9	25.2
Personal services	16.9	20.7	25.4	31.6	36.0	38.5	45.7
Admin/defense	206.1	234.5	280.9	332.9	373.0	382.8	399.2
Other government services	54.4	70.5	79.1	91.0	104.9	113.0	136.0
Charges and duties	-27.7	-29.2	-27.9	-27.5	-22.5	-34.2	-78.8
Gross Domestic Product	2,490.5	2,613.6	2,739.0	3,046.7	3,455.9	2,797.9	2,912.3

Source: Development Council, Statistical Yearbook

Table 2: Oman: Gross Demestic Product by sector (percent of GDP)

	1981	1982	1983	1984	1985	1986	1988
Agriculture	1.6	1.7	1.9	1.9	2.0	2.3	2.7
Fishing	0.9	0.8	1.0	1.0	0.8	0.9	1.6
Crude Oil	58.5	53.6	49.4	46.2	46.6	33.9	39.3
Natural Gas	0.7	0.7	0.9	1.1	1.0	1.4	1.5
Other mining	ins	ins	ins	ins	ins	ins	0.5
Manufacturing	1.1	1.5	2.4	3.0	3.2	6.4	4.2
Electricity	0.6	0.6	0.6	0.8	0.8	1.1	1.0
Water	0.2	0.2	0.3	0.2	0.3	0.4	0.6
Construction	5.8	6.5	6.8	7.4	7.0	7.9	4.1
Trade	10.9	11.5	11.5	12.1	12.4	13.7	13.4
Transport	1.7	1.9	2.0	2.0	2.0	2.5	2.5
Communications	0.5	0.6	0.7	0.8	0.9	1.2	1.3
Banking	1.8	2.0	2.1	2.2	2.1	2.8	2.6
Insurance	0.2	0.4	0.3	0.4	0.5	0.7	0.4
Dwellings	5.3	5.3	5.6	5.1	4.6	5.1	5.3
Business services	1.1	1.2	1.2	1.4	1.3	1.6	0.9
Personal services	0.7	0.8	0.9	1.0	1.0	1.4	1.6
Admin/defense	8.3	5.0	10.3	10.9	10.8	13.7	13.7
Other government services	2.2	2.7	2.9	3.0	3.0	4.0	4.7

Source: Development Council, Statistical Yearbook

Through the 1980s, there have been considerable increases in the wholesale and retail trade sector and in transport and communications. In the agricultural sector, however, increases in output had, until 1986, been below the overall increase in GDP, with the result of a falling share of that sector in total output. The decline of agriculture has fairly serious implications given the fact that the sector provides employment to a high proportion of the workforce. In 1986, manufacturing accounted for 6.4 percent of GDP, a sharp increase from 3.2 percent the year before.

Overall, the country has been able to sustain very high rates of growth, averaging slightly under 15 percent per annum in real terms over the 1982-84 period (Table 3). Growth has however fallen off sharply in the last several years, averaging slightly under 3 percent per annum.

Table 3: Oman: Recent economic trends, 1982 - 1987

	1982	1983	1984	1985	1986	1987	1988
GDP at current prices (OR million)	2,613.6	2,739.0	3,046.7	3,455.9	2,800.4	3,002.6	2,91
GDP at constant 1978 prices (OR million)	1,367.1	1,585.3	1,850.6	2,105.2	2,165.2	2,095.4	2,21
% real change	11.5	16.7	16.7	13.7	2.9	-3.	5.7

Source: Development Council, Statistical Yearbook

During the country's Second Five Year Plan Period (1981-85), a large number of infrastructure projects were either started or completed. The ones started will be completed during the Third Plan which will have a growth rate target of 4 percent.

On the demand side, the country has been able to sustain high rates of investment (Table 4), with rates averaging a very respectable 27.8 percent of GDP over the 1981-86 period. Private consumption increased sharply during this period — from 23.7 percent of GDP in 1981 to 38.2 percent in 1986. Both these trends have taken place in an environment of relatively constant government consumption, and a deteriorating balance of payments — both investment and private consumption have expanded their share in GDP during a period of falling exports and rising imports.

Table 4: Oman: Gross Domestic Product by expenditure (OR million at current prices)

	1981	1982	1983	1984	1985	1986	1988
Private Consumption	590.6	794.7	802.2	938.5	1,171.7	1,020.0	1,179.7
Government Consumption	656.4	715.2	779.8	808.0	894.1	929.0	956.0
Investment	583.5	706.7	736.9	913.2	953.1	898.4	490.6
Net Export of goods and services	660.0	397.0	421.0	387.0	437.0	-47.0	293.0
GDP	2,490.5	2,613.6	2,739.9	3.046.7	3,455.9	2,800.4	2,919.3

(percent of GDP)

	1981	1982	1983	1984	1985	1986	1988
Private Consumption	23.7	30.4	29.3	30.85	33.9	38.2	40.4
Government Consumption	26.4	27.4	28.5	26.5	25.9	30.5	32.7
Investment	23.4	27.0	26.9	30.0	27.6	32.1	16.8
Net Exports of goods and services	26.5	15.2	15.4	12.7	12.6	-1.1	10.0

Source: Development Council, Statistical Yearbook

Falling oil revenues have already affected implementation of the Third Development Plan covering 1986-90, which was cautiously based on an assumed oil price of $20-$24 per barrel at a time when the price was actually higher at $27 per barrel. The subsequent

price declines have threatened to invalidate the plan. However, the government has asserted that it has no intention of abandoning the plan and it is therefore likely that the plan will be only partially successful.

In fact, the country's small financial reserves, limited overseas investments, rapidly rising recurrent expenditures, and sizeable production costs (5$/barrel) for its oil have made the post-1986 period a financially difficult one for the country. Total revenues in 1986 were only OR1,221 million but in 1987 (Table 5) some of the lost ground was recovered and total revenues rose by 20.3 percent to OR1,468 million (of which 81 percent was from oil).

Table 5: Oman: Main components of government revenue and expenditure (OR million)

	1982	1983	1984	1985	1988	1990
Available Resources						
Oil Revenue	1,215.7	1,277.5	1,304.6	1,510.0	1,107.1	1,046.2
Other Revenue	118.1	146.3	208.6	266.2	234.9	269.8
Total Revenue	1,333.8	1,423.8	1,513.2	1,776.2	1,342.0	1,316.0
Expenditures						
Defense	581.3	670.7	728.2	749.9	528.0	501.5
Civilian Exp						
Civil Min	315.7	362.7	409.4	489.0	507.0	517.0
Operational	55.7	58.7	58.5	62.9	68.4	77.3
Interest on Loans	17.5	19.2	39.3	47.1	94.0	100.0
Total Civilian Recurrent	388.9	440.6	507.2	599.0	669.4	694.3
Total Develop	395.2	377.1	464.7	533.7	345.6	333.2

Source: Directorate General of National Statistics, Statistical Yearbook

In terms of expenditures, the cost of supporting the country's military and security forces more than trebled between 1978 and 1985, after a decline during the previous years which had resulted from the ending of unrest in Dhofar. Actual defense expenditure up until 1985 was often higher than planned, a result of the sultan's plans to increase further military facilities in the Musandam peninsula, which borders the Strait of Hormuz.

Civilian expenditure rose quickly from OR383.7 million in 1980 to OR922.1 million in 1985. Together with rising defense expenditure, this led to the first deficit of OR23.4 million (after borrowing) in 1982. Increased borrowing was necessary, but the 1985 deficit still rose to OR87.5 million. This led the government for the first time to call on its reserves in the State General Reserve Fund (SGRF). In 1986, a withdrawal of OR492.4 million was needed to cover that year's deficit. In 1987, the actual government deficit (before borrowing) was reduced by more than had been expected.

Expenditure fell from OR1,887 million to OR1,551 million (by 17.8 percent) mainly due to the reduction in development and military expenditure. Development expenditure in 1987, excluding the government's share in development investment and gas exploration, was OSR229.1 million, the lowest figure since 1980. The 1987 deficit, after borrowing, was OR118.6 million and the withdrawal from the SGRF, was OR88.1 million (18 percent of the 1986 level).

Although Oman contributes to several aid funds abroad, the country itself has been a large recipient of loans and aid from the Arab world and from European lenders. In

addition, the country has a high external debt by GCC standards (Table 6). In 1979 it tapped the international commercial market for a $150 million euroloan to finance the development of the oil fields in Dhofar. A $300 million euroloan was raised in 1983 to finance development and was heavily oversubscribed, reflecting the country's excellent credit rating at that time. However, a $500 million euroloan in 1986 was raised with rather more difficulty, reflecting Oman's weaker financial position after the oil price collapse. No further loans were taken out in 1987, but it is becoming increasingly likely that Oman will be forced to raise further loans.

Table 6: Oman: Public external debt ($ million)

	1981	1982	1983	1984	1985	1986	1988
Total	921.3	1,384.7	1,489.0	1,633.0	2,330.0	2,959.0	2,940.0
Disbursed	537.2	724.0	1,131.7	1,340.0	1,908.0	2,463.0	2,488.0
official creditors	374.1	360.8	344.9	351.0	385.0	404.0	338.0
multilateral	46.5	43.5	44.6	67.0	98.0	126.0	142.0
bilateral	327.7	317.3	300.2	284.7	287.0	278.0	195.0
private creditors	163.0	363.1	786.9	988.4	1,524.0	2,060.0	2,151.0
Debt Service	119.2	117.5	166.0	244.0	289.0	422.0	570.0
principal	84.4	84.0	83.0	129.0	147.0	225.0	348.0
interest	34.8	33.5	83.0	115.0	142.0	197.0	222.0

Source: World Bank, World Debt Tables

To get an idea of the manner in which the Omani economy has evolved since the 1973/74 oil price increases, together with a picture of the critical areas in which the economy differs from that of its neighbors, a factor analysis of several of the major economic structural characteristics of the Arab countries was undertaken. The main features examined were: (a) defense expenditures, (b) government non-defense expenditures, (c) imports, (d) economic size (defined here as the percent of each country's Arab world population times its share of GDP), and (e) the amount of output devoted to distribution, an activity of relatively great importance in the Arab Gulf states.

Based on the discussion above, and as an initial hypothesis, it was assumed that the UAE differed from other Arabian Gulf countries in that it has: (a) due to the late start of its industrialization, a smaller share of output accounted for by manufacturing in the years immediately following the oil price increases; (b) as a result of limited non-oil resources, a larger share of oil relative to total economic activity; (c) as a corollary to (a and b) above, a relatively large share of imports in total expenditures; (d) a fairly high correlation between government expenditures (both military and non-military) and oil revenues.

To avoid as much as possible arbitrarily defining the variables used in the analysis, each structural feature (except military expenditures) was represented by two measures: (a) its share of non-oil GDP, and (b) its share of absorption (total consumption plus investment). Military expenditures were depicted by the share of budgetary allocations to defense, and the ratio of military expenditures to non-oil GDP.[1] Based on Eigen values,[2] a four factor analysis was considered optimal.

1 Data are for the twenty member countries of the Arab Monetary Fund, and was taken from: Arab Monetary Fund National Account Estimates, 1974-1985 (Abu Dhabi: Arab Monetary Fund, 1987).

2 For an excellent discussion of the use of Eigen values in selecting factors, see: R.J. Rummel, Applied Factor Analysis (Evanston, Illinois: Northwestern University Press, 1970).

Structural change over time was observed by spreading the factor analysis over five year intervals for the 1975-85 period. The data sample was taken from the Arab Monetary Fund[3] and included the twenty Arab members of the Fund.

As it turned out, the variables defined as shares of non-oil GDP and absorption are correlated closely enough so that each of the factors represented one of the four main structural features. The correlation of a fifth structural dimension, the share of distributive trade in non-oil GDP and absorption, therefore, provides an indication of the degree of association between it and the main structural dimensions of the Arab countries.

The resulting factor scores for each sector, therefore, represent the relative[4] ranking of each of the twenty countries in terms of the development of each sector. More specifically, the factor scores are scaled so that the country with the highest positive factor score on a particular sector possesses the largest share (relative to the other nineteen countries) of that sector in its economy. Similarly, the country with the lowest (negative) factor score has the smallest share of that sector in its economy. The rest of the countries will rank between.

Table 7: Arab world: Structural patterns, 1975 (standardized regression coefficients)

	Factor 1 Oil/Civil Expenditure	Factor 2 Imports	Factor 3 Military Expenditures	Factor 4 Distribution
Variable		Structural Dimension		
gov civil exp/absor	0.96*	-0.16	-1.15	0.08
gov civil exp/gdp	0.95*	-0.01	0.02	-0.05
oil/absor	0.94*	0.00	-0.02	0.07
oil/gdp	0.84*	0.13	0.13	-0.02
imports/gdp	0.00	0.94*	0.15	0.01
imports/absor	-0.04	0.86*	-0.15	0.15
size	0.03	-0.63*	0.62*	0.10
mil exp/gov exp	-0.17	-0.12	1.01*	0.08
mil exp/gdp	0.30	0.21	0.74*	-0.18
distribut/absor	0.06	-0.07	-0.17	0.91*
distribut/gdp	0.01	0.26	0.19	0.87*

(factor scores)

	Factor 1 Oil/Civil Expenditure	Factor 2 Imports	Factor 3 Military Expenditures	Factor 4 Distribution
GCC States		Structural Dimension		
UAE	0.11	0.53	-0.37	1.68
Bahrain	-0.24	2.12	0.79	1.07
Saudi Arabia	2.05	0.06	1.41	-0.98
Oman	0.90	1.92	2.34	-0.80
Qatar	2.53	-0.38	-1.00	1.79
Kuwait	na	na	na	na

Notes: Four factor analysis, oblique rotation. Data from Arab Monetary Fund, National Income Accounts of the Arab Countries (Abu Dhabi, Arab Monetary Fund, 1978). gdp = non-oil Gross Domestic Product; absor = absorption (total consumption plus investment)

3 Arab Monetary Fund, National Accounts of Arab Countries, 1974-85 (Abu Dhabi: Arab Monetary Fund, 1987).
4 Only the results for the Gulf countries are reported here.

Table 8: Arab world: Structural patterns, 1980 (standardized regression coefficients)

Variable	Factor 1 Oil / gov civil exp	Factor 2 Imports Distribut	Factor 3 Military Expenditures	Factor 4 Size
		Structural Dimension		
oil/absorption	1.05*	0.05	-0.11	-0.21
oil/gdp	0.99*	-0.01	0.05	-0.17
gov civ exp/absor	0.68*	0.03	-0.15	0.52
gov civ exp/gdp	0.63*	-0.05	0.06	0.53
imports/absor	-0.03	0.92*	-0.01	0.04
distribut/absor	-0.06	0.92*	-0.31	0.01
distribut/gdp	0.10	0.76*	0.27	-0.03
imports/gdp	0.09	0.68*	0.37	0.01
mil exp/gov exp	-0.14	0.00	-1.01*	-0.19
mil exp/gdp	0.30	-0.05	0.69*	0.34
size	-0.21	0.03	-0.06	0.96*

(factor scores)

GCC States	Factor 1 Oil / gov civil exp	Factor 2 Imports Distribut	Factor 3 Military Expenditures	Factor 4 Size
		Structural Dimension		
UAE	0.53	1.15	0.99	-1.32
Bahrain	-0.35	2.74	-0.60	-0.53
Saudi Arabia	0.88	-0.45	0.73	1.80
Oman	0.68	0.68	2.40	-0.51
Qatar	1.89	0.47	-0.41	-0.05
Kuwait	1.18	0.64	-0.69	-0.42

Notes: Four factor analysis, oblique rotation. Data from Arab Monetary Fund, National Income Accounts of the Arab Countries (Abu Dhabi, Arab Monetary Fund, 1978). gdp = non-oil Gross Domestic Product; absor = absorption (total consumption plus investment)

Several interesting trends (Tables 7, 8 and 9) were identified. In particular, at the beginning of the period in 1975 (Table 7): (1). The highest correlation between structural dimensions was that of oil and government civilian (non-military) expenditures. In other words, the initial impact of the oil price / revenue increase resulted in expanded government expenditure for social and economic activities. (2) The distribution sector's development appears to have occurred independently of the other structural dimensions examined here. In Oman's case there appears to be (relative to the other GCC countries) considerable underdevelopment of this kind of economic activity. (3) Most likely due to lack of industrial development, Oman ranked second (after Bahrain) in terms of import dependence. (4) Even before the country's oil discoveries had a chance to significantly alter the pattern of government expenditure, Oman had by far the highest share of resources allocated to defense.

By the near peak of the oil boom, 1980 (Table 8): (1) Oil sector and government civilian expenditure remained the two most highly correlated structural dimensions. Oman's relatively low factor score (0.53) on this dimension simply reflects the fact that the country is not as well endowed with oil reserves as several of its neighbors. (2) Probably more importantly, the very large (Factor 3) allocation to defense most likely cut heavily into revenues that normally would have been allocated for civilian uses. (3) Due largely to its late start in development, the country had one of the lower economic sizes in the GCC (Factor 4).

Table 9: Arab world: Structural patterns, 1985 (standardized regression coefficients)

Variable	Factor 1 Oil / Mil Expenditure	Factor 2 Government Civil / Exp	Factor 3 Imports	Factor 4 Distribution
		Sectoral Dimension		
mil exp/gov exp	1.03*	-0.33	0.03	-0.17
mil exp/gdp	0.87*	0.22	-0.07	-0.18
oil/absor	0.72*	0.29	-0.03	0.31
oil/gdp	0.54*	0.47	0.09	0.35
gov civil exp/gdp	-0.02	0.96*	0.07	-0.11
gov civil exp/abs	0.10	0.87*	-0.16	-0.20
imports/gdp	-0.07	0.18	0.95*	-0.04
import/abs	-0.07	-0.06	0.95*	0.00
size	-0.27	0.42	-0.58	-0.02
distrib/gdp	-0.03	-0.05	0.13	0.94*
distrib/abs	-0.03	-0.35	-0.21	0.83

(factor scores)

GCC States	Factor 1 Oil / Mil Expenditure	Factor 2 Government Civil / Exp	Factor 3 Imports	Factor 4 Distribution
		Structural Dimension		
UAE	1.02	-0.94	0.18	1.49
Bahrain	-0.80	-0.42	1.22	1.58
Saudi Arabia	0.35	1.91	0.13	-0.79
Oman	1.48	0.47	0.42	1.09
Qatar	2.39	0.50	-0.57	-0.04
Kuwait	0.13	1.93	1.11	0.38

Notes: Four factor analysis, oblique rotation. Data from Arab Monetary Fund, National Income Accounts of the Arab Countries (Abu Dhabi, Arab Monetary Fund, 1978). gdp = non-oil Gross Domestic Product; absor = absorption (total consumption plus investment)

Finally by 1985 (Table 9): (1) Military expenditures had replaced civilian expenditures as the dimension most highly correlated with developments in the oil sector. (2) Oman again had a relatively high ranking of this factor, most likely as a result of the high share of government resources allocated to the military. This is also evidenced by the country's relatively low factor score on the civilian expenditure dimension, Factor 2. (3) During the oil boom, the country had been able to significantly expend its distributive trades to the extent that it ranked third, only to Bahrain and the UAE in terms of relative economic importance.

A further understanding of the process of structural change can be gained from a similar factor analysis of Oman's sectoral change over the period following the initial oil price increases. Again using a sample of twenty Arab world countries, the four main non-oil sectors of the economy were depicted by their share in (a) non-oil GDP, and (b) absorption.

Again the results (Table 10) show several interesting patterns: (1) At the beginning of this period, 1975, Oman had by far the lowest level of industrial diversification. Its construction and service sectors were relatively well developed, but as noted above the country's distributive system was underdeveloped at this time. (2) By 1980 the country's service and distributive activities had increased significantly, but manufacturing still lagged considerably behind the other GCC countries. (3) Finally, by 1985, the country had developed a fairly good balance between construction, services and dis-

Table 10: Arab Gulf states: Structural evolution, 1975-85 (factor scores)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distrib	Factor 4 Serv
Gulf Economies		Sectoral Dimension — 1975		
UAE	-1.14	2.00	1.88	-0.91
Bahrain	2.74	-0.35	0.92	0.00
Saudi Arabia	0.90	1.06	-1.00	0.65
Oman	-1.53	1.10	-0.21	0.60
Qatar	0.27	1.82	1.85	0.13
Kuwait	0.05	-0.84	-0.50	2.08
Oil Economies		Sectoral Dimension — 1980		
UAE	0.22	2.06	1.47	-0.81
Bahrain	2.87	-0.46	1.94	0.57
Saudi Arabia	0.97	2.08	-0.96	0.24
Qatar	-1.43	0.20	1.27	0.11
Oman	-1.41	0.67	0.97	2.07
Kuwait	0.18	-0.24	0.32	1.52
Oil Economies		Sectoral Dimension — 1985		
UAE	1.37	1.23	1.34	-0.02
Bahrain	0.86	0.40	1.96	0.59
Saudi Arabia	-1.16	1.60	-0.78	0.57
Qatar	0.79	0.29	0.16	2.75
Oman	-1.53	0.39	1.11	0.23
Kuwait	-0.42	-0.87	-0.22	1.00

Notes: Factor analysis based on orthogonal rotation. Data from Arab Monetary Fund, National Accounts of Arab Countries, 1974-85 (Abu Dhabi: Arab Monetary Fund, 1987)

tributive activities, but the country was still by far the most underdeveloped in terms of industrial diversification.

While the factor analysis points up Oman's failure to close the industrial gap between itself and the other GCC countries, a closer look at the country's accomplishments in this area presents a more optimistic picture.

Development of the manufacturing sector

The Omani manufacturing sector is one of the youngest and fastest growing in the Arab world, and as such is not yet covered in full statistical detail. At the beginning of Oman's First Five Year Plan in 1975, it is estimated that there were no more than ten manufacturing ventures representing an investment of under OR0.5 million.

By 1980, the number of establishments had increased to 410 units, representing an investment of OR28 million, and by 1985, the respective figures were around 3,500 and OR300 million. During this period, the contribution of the manufacturing sector to GDP is estimated to have risen from OR2.1 million to OR92.3 million, or to around 3.03 percent of GDP.

The 1980-85 Plan envisaged a large role for the Oman Development Bank. Since the establishment of the Oman Development Bank in 1979, and up until 1983, the number of loans to manufacturing totalled 110 worth OR24 million. Food processing, beverages and storage facilities accounted for 38 of the loans, construction materials for 30 loans, the chemical sector for 22 loans, paper and printing for 11 loans, metal products for 6, furniture for 2 and textiles for 1. Loans are granted interest free and are repayable over 20 years with a grace period of five years.

The Third Five Year Plan

The Third Five Year Plan approved in January 1986 lays stress on the rapid rate of development and the consequent increase in revenue and expenditure:[5] (1) Expected total revenues for the Plan are estimated at OR8,656 million, as against OR6,947 million for the Second Five Year Plan and OR3,126 for the First Five Year Plan. (2) Fixed expenditures including salaries are estimated at OR6,818 million compared to previous figures of OR5,138 million and OR2,348 million respectively. (3) Development expenditure is estimated at OR2,211 million compared to OR2,115 million for the Second Five Year Plan and OR905 million in the First Plan. (4) Total expenditure for the Third Five Year Plan is estimated at OR9,250 million compared with figures of OR7,368 million and OR3,337 million for the Second and First Plans. (5) Net non-oil revenues for the Third Plan are estimated at OR1,200 million compared with previous figures of OR343 million and OR265 million. (6) Net oil revenues are estimated at OR7,171 million against OR7,092 million for the Second Five Year Plan and OR3,861 million for the First Plan.

Subsidies to the private sector are estimated at OR121 million. The development of light and intermediate industries is to receive priority treatment in the Third Five Year Plan, with special attention to be devoted to industries that ensure self-sufficiency, with emphasis on consumer goods and foodstuffs.

The Third Plan also stresses more importance of the development of export-oriented products with the purpose of reducing dependence on oil. Here, the private sector is assumed to play a significant role in developing income generating projects, particularly in agriculture and fisheries and light industries.

Government policies toward industry

The Omani government has taken several measures to encourage local industrialization besides offering of concessionary loans. These include the building and provision of facilities at the Rusail industrial estate, exemption from customs duties on raw material and plant equipment, and the cover of a protectionist tariff of 25 percent, which for certain items, like cement, is even levied on GCC-originating goods.

Foreign capital up to 65 percent is allowed and positively encouraged to a maximum of 49 percent of a project by the award of a five year tax holiday extendable to ten.

The government has prepared detailed techno-economic feasibility studies and offered them and industrial licences to potential investors in the following areas: steel structure fabrication, metal furniture, marble processing, electrical transformers, assembly of agricultural pumps, assembly of air conditioners, and blending of lubricating oil.

In addition, the private sector has of its own initiated projects to make automobile batteries, biscuits, glass bottles, toilet soap and detergents, pre-fabricated houses, boilers and pressure vessels. The principle industries are two cement companies, the oil refinery, a lubricants plant, the flour mill, the copper refinery, a projected adjacent ferrochrome plant, and an aluminum extrusion factory.

5 Arab Industry Review 1987/88, p. 114.

The government plans to offer interest free loans for the projects which would be implemented as joint stock companies. In short, the government is interested in attracting small investors and seeing that they also reap the benefits of industrial development. Extra incentives are to be granted firms who set up industries outside the Capital Area. In order to encourage industries in other parts of the country the government has planned to set up industrial estates in Sur, Soshar, Raysut and Nizwa.

Oman Development Bank

Oman follows a policy of free enterprise and the private sector is encouraged through soft loans and participation by the Oman Development Bank in the companies' equity capital.

The Oman Development Bank, in line with overall economic activity in the country continues to play a leading role in supporting private sector projects. The total number of loans approved in 1985 was 33, including 3 under the Small Scale Enterprise Scheme. The total lending was OR5.2 million, as against a total capital investment of OR13 million.

The bank has continued to encourage projects to be located outside the Capital Area. It allocated finance to 18 such projects which are under various stages of implementation. These include beverages, explosives, printing and stationery, furniture, electric wires and cables, metal industries, textiles, steel fixtures and truck bodies.

The Small Scale Enterprise Scheme has entered into operational stages. Under the scheme loan applications are being accepted for projects with an investment value of up to OR100,000. The bank continues to promote and assist projects; this includes project identification, pre-feasibility studies, industrial licence application, commercial registration, advice on machinery selection, advice on raw materials and project implementation.

The bank has now financed 83 projects since it started its operations in 1979. Finance provided amounts to OR38,577,000, out of which OR37,643 was for loans and OR934 was for equity participation.

Problems facing Omani industry

Omani industrialists have long been complaining about the high cost of port handling fees, electricity, gas, petroleum products, telephone and telex changes, which they say place financial stress on a developing industry. Another complaint by Omani businessmen relates to the high rate of interest charged by the banks, which they maintain adds to their costs and leaves them no alternative but to raise the price of their local product. For example, Omani businessmen say the interest charged by the Oman Development Bank is 8 percent for industrial projects in the capital and 5 percent in the interior.

Local businessmen are also demanding protection against foreign goods by having duties levied on them and increasing the existing tariff barriers. They demand easing the restrictions on employing foreign experts and specialized technicians whom, they claim are essential for a developing industry.

In responding to these concerns, the Ministry of Commerce and Industry placed severe restrictions on cement imports in December 1985. According to these restric-

tions, no importer may bring cement into Oman without the express prior approval of the Ministry. The curb on imports of cement was placed to protect the national product after reports of fierce competition in the market from foreign brands, especially from the manufacturers in the neighboring UAE, who were dumping cement in Oman cheaper than the local plants despite a 20 percent import duty.

Outlook

The manufacturing sector contributed OR15.6 million to the country's GDP in 1980. The value added by 1984 had risen to OR91.2 million, a growth rate of 484.6 percent, the highest among all the other sectors. With the completion of many vital infrastructure projects like the oil refinery, the expansion of the natural gas plant, Rusail industrial estate and two cement companies, Oman is now ready to take bigger strides in the industrialization process.

The oil refinery at Mina Al Fahal with its full production capacity of 50,000 barrels a day has enabled Oman to be self-sufficient in refined oil products. The Rusail industrial estate which can house 123 factory plots, already has 79 plots completed and the second phase is underway. Similar estates will be established in Nizwa, Soshar and Salalah. The government-owned Oman Cement Company and the privately owned Raysut Cement Company in the south of the country together produce 840,000 tons of cement a year, 70 percent of Oman's demand for the commodity.[6]

Besides providing facilities like the Rusail industrial estate, the government offers further support to the industrial sector in general and the private sector in particular. It has engaged an international consulting firm to carry out an industrial survey and identified viable projects. It provides tax exemptions to all Omani industrial units and has allocated OR109 million in the Second Five Year Plan to soft loans to private sector enterprises.

Factors affecting the growth of manufacturing

The previous sections gave some indication of the gains made to date and the factors responsible for these accomplishments. However, there remains the question of identifying which key factors may have tended to suppress the growth in manufacturing.

As noted above, Oman has devoted a relatively large share of its resources to defense, even by GCC standards. There is a good chance these allocations may have diverted resources from manufacturing. This, therefore, seems a logical place to begin.

Competition with defense expenditures

To obtain insights into possible competition between defense spending and industrialization efforts, the sectoral factor analysis (Table 10) was extended to include measures of: (a) defense expenditures, (b) non-defense federal expenditures, and (c) absorption (total consumption plus investment).[7] The public expenditure variables were depicted both as its share of: (a) non-oil GDP and (b) total absorption. The absorption variable was introduced as a share of: (a) non-oil GDP and (b) total GDP.

6 Arab Industry Review 1987/88, p. 119.

7 Ideally, it would be interesting to examine the impact of private sector expenditures, however, these figures are not available for the Arab states as a whole. The absorption figures do, of course, comprise a large private sector component for most of the sample countries.

Table 11: Oman: Factors affecting relative industrial performance — expenditure effects, 1975 (factor scores)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distrib	Factor 4 Serv
GCC Economies		Factor Scores: Sectoral Dimension		
UAE	-1.15	2.00	1.88	-0.90
Bahrain	2.74	-0.35	0.91	-0.01
Saudi Arabia	0.90	1.06	-1.00	0.65
Oman	-1.53	1.10	-0.21	0.59
Qatar	0.27	1.82	1.84	0.13
Kuwait	0.05	-0.83	-0.50	2.08
GCC Economies		Impact of Government Civilian Expenditures		
UAE	-1.02(+)	2.12(+)	1.64(-)	-1.13(-)
Bahrain	2.71(=)	-0.65(-)	1.06(+)	0.69(+)
Saudi Arabi	0.95(=)	0.91(-)	-1.05(=)	0.88(+)
Oman	-1.43(=)	1.48(+)	-0.57(-)	0.38(-)
Qatar	-0.02(-)	1.11(-)	1.87(=)	0.52(+)
Kuwait	na	na	na	na
GCC Economies		Impact of Military Expenditures		
UAE	-0.99(+)	1.94(=)	2.00(+)	-1.05(-)
Bahrain	2.75(=)	-0.21(+)	0.81(-)	0.14(+)
Saudi Arabia	0.87(=)	1.02(=)	-1.00(=)	0.69(=)
Oman	-1.56(=)	0.87(=)	0.03(+)	0.45(-)
Qatar	0.31(=)	2.04(+)	1.67(-)	0.17(=)
Kuwait	-0.01(=)	-0.98(-)	-0.38(+)	2.02(=)
GCC Economies		Impact of Absorption		
UAE	-1.30(-)	1.82(-)	1.92(=)	-0.90(=)
Bahrain	2.71(=)	0.01(+)	0.77(-)	0.04(=)
Saudi Arabia	0.89(=)	1.42(+)	-1.00(=)	0.66(=)
Oman	-1.56(=)	0.92(-)	-0.11(+)	0.58(=)
Qatar	0.19(=)	1.88(=)	1.84(=)	0.18(=)
Kuwait	0.26(+)	-0.22(+)	-0.74(-)	1.99(=)

Note: ( ) = movement in ranking relative to sector dimension

In each case the country factor scores obtained with public expenditures and absorption were compared with those derived when these variables were omitted. The year, 1981, was used in place of 1980, since this date represents the peak of the oil revenue boom, and is of particular interest for comparative purposes. The results (Tables 11, 12, and 13): (1) The individual factor analysis (not shown here) containing a one-by-one introduction of government expenditures and absorption, indicated that each of the expenditure variables was positively correlated on the manufacturing factor, although this correlation was not sufficiently large so as to combine both sets of variables into one common factor. In general, the standardized correlation coefficients of expenditure on the industrial factor were in the 0.20-0.35 range. (2) In 1975 (Table 11), the country's heavy defense burden does not seem to have been a major factor retarding industrial diversification efforts. On the other hand the government's civilian expenditures appear to have provided a mild stimulus to industry (increasing its factor score from -1.53 to -1.43). In other words, given the level of government civilian expenditures, Oman had increased its relative industrial ranking. (3) As might have been anticipated, the greatest impact of government expenditure was on the construction sector, with the service sector (and to a lesser extent the distribution sector) also positively affected. (4) In general, total expenditures (absorption) had less of an impact on sectoral structures than either type of government expenditures. In Oman's case the effect on industry was neutral.

Table 12: Oman: Factors affecting relative industrial performance — expenditure effects, 1981 (factor scores)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distrib	Factor 4 Serv
GCC Economies		Sectoral Dimension — 1981		
UAE	0.59	1.22	1.26	-0.58
Bahrain	2.32	-0.31	2.26	0.72
Saudi Arabia	0.24	2.07	-0.97	0.21
Oman	-1.67	0.24	1.34	0.36
Qatar	0.50	0.37	0.89	1.64
Kuwait	-0.02	-0.33	0.56	1.36
GCC Economies		Impact of Absorption		
UAR	0.59(=)	1.23(=)	1.29(=)	-0.45(+)
Bahrain	2.31(=)	-0.33(=)	2.15(+)	0.71(=)
Saudi Arabia	0.19(=)	2.17(+)	-0.57(+)	0.45(+)
Oman	-1.69(=)	0.27(=)	1.26(=)	0.35(=)
Qatar	0.43(=)	0.48(+)	1.09(+)	1.72(=)
Kuwait	-0.05(=)	-0.23(+)	0.70(+)	1.40(=)
GCC Economies		Impact of Government Civilian Expenditures		
UAE	0.48(-)	1.33(+)	1.17(=)	-0.44(+)
Bahrain	2.20(-)	-0.19(+)	2.17(=)	0.89(+)
Saudi Arabia	0.13(-)	2.15(=)	-1.02(=)	0.27(=)
Oman	-1.68(=)	0.34(=)	1.24(=)	0.49(+)
Qater	na	na	na	na
Kuwait	-0.08(=)	-0.29(=)	0.49(=)	1.42(=)
GCC Economies		Impact of Military Expenditures		
UAE	0.61(=)	1.43(+)	1.18(=)	-0.45(+)
Bahrain	2.12(-)	0.10(+)	2.41(+)	0.97(+)
Saudi Arabia	0.31(=)	2.27(+)	-1.00(=)	0.36(+)
Oman	-1.69(=)	0.19(=)	1.10(-)	0.49(+)
Qatar	na	na	na	na
Kuwait	-0.02(=)	-0.28(=)	0.50(=)	1.55(+)

Notes: ( ) = movement in ranking relative to sector dimension

By 1981 the situation had changed to the extent that (Table 12): (1) There was an increasingly positive impact of military expenditures (and to a lesser extent non-defense expenditures) on the relative expansion of GCC service sectors. (2) Generally speaking, military expenditures were somewhat neutral with respect to industrial development, whereas non-defense expenditures tended to impact to such an extent on non-industrial activity as to reduce the relative share of this activity in the GCC states. In 1981, Oman followed the standard pattern in this regard. (3) Overall expenditures or absorption tended to have their greatest impact on the relative development of the distributive trade sectors, while remaining neutral with regard to industrial development. Since this expenditure term has a large private sector component, it appears that private expenditures have not played a leading role in GCC industrial development. Instead, these expenditures have facilitated the relative expansion of construction/ distribution, followed by the service sectors. (4) In sum, at the peak of the oil boom, the GCC countries' structures were largely molded by the level and pattern of government expenditures. Private sector expenditures played a smaller role in marginally expanding the non-industrial shares of non-oil GDP/total absorption.

Finally by 1985 (Table 13): (1) Defense and expenditures in Oman were such as to reduce the relative share of industrial output. Several other countries, the UAE and

Table 13: Oman: Factors affecting relative industrial performance — expenditure effects, 1985 (factor scores)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distrib	Factor 4 Serv
Oil Economies		Sectoral Dimension — 1985		
UAE	1.37	1.23	1.34	-0.02
Bahrain	0.86	0.40	1.96	0.59
Saudi Arabia	-0.16	1.60	-0.78	0.57
Oman	-1.53	0.39	1.11	0.23
Qatar	0.79	0.29	0.16	2.75
Kuwait	-0.42	-0.87	-0.22	1.00
Oil Economies		Impact of Absorption		
UAE	1.35(=)	1.28(=)	1.49(-)	0.26(+)
Bahrain	0.86(=)	0.37(=)	1.79(+)	0.53(=)
Saudi Arabia	-0.12(=)	1.58(=)	-0.79(=)	0.47(-)
Oman	-1.56(=)	0.44(=)	1.12(-)	0.32(=)
Qatar	0.72(=)	0.30(=)	0.32(=)	2.78(=)
Kuwait	-0.38(=)	-0.84(-)	-0.27(=)	0.87(-)
Oil Economies		Impact of Government Civilian Expenditures		
UAE	1.17(-)	1.25(=)	1.20(-)	0.02(=)
Bahrain	0.63(-)	0.46(=)	1.69(-)	0.78(+)
Saudi Arabia	-0.23(=)	1.58(=)	-0.75(=)	0.01(-)
Oman	-1.62(=)	0.37(=)	1.10(=)	-0.10(-)
Qatar	0.45(-)	0.41(+)	-0.20(-)	2.87(+)
Kuwait	-0.44(=)	-0.98(-)	0.01(+)	0.13(-)
GCC Economies		Impact of Military Expenditures		
UAE	1.14(-)	1.30(=)	1.23(-)	0.10(+)
Bahrain	0.90(=)	0.39(=)	1.83(=)	0.79(+)
Saudi Arabia	-0.38(-)	1.73(+)	-0.80(=)	0.78(+)
Oman	-1.67(-)	0.49(+)	1.03(=)	0.31(+)
Qatar	0.76(=)	0.32(=)	0.02(-)	3.01(+)
Kuwait	-0.42(=)	-0.92(=)	-0.13(=)	1.04(+)

Note: ( ) movement in ranking relative to sector dimension

Saudi Arabia who also allocated a large proportion of their resources to the military experienced this phenomenon. (2) As in 1981, the private sector was not able to offset the government expenditure effect, and as a result had a relatively neutral impact on industrial diversification in Oman in particular and the GCC in general. (3) While government non-defense expenditures were less influential in affecting the shares of non-industrial output, military expenditures tended to have a major impact on services (and to a lesser extent distributional activities).

Certainly by 1985, Oman's defense expenditures were taking something of a toll on the country's industrial development, as falling oil revenues combined with high defense expenditures created a number of strains on the economy. One resource, industrial manpower, may have been particularly scarce.

In 1985, Oman's labor force was estimated at around 440,000, only 31 percent of whom were Omanis. Of the more than 314,000 immigrants working in Oman, almost 90 percent were from the Indian sub-continent. Most of the migrants work in the modern private sectors. As of 1980 around 62 percent of active Omani nationals worked in the rural and traditional sectors. Most Omanis outside the traditional sector work for the government: by 1985, 25 percent of the total national workforce (including almost all active women) were employed in the public sector. This was more than the number in agriculture, which had shrunk to about 15 percent.

As a consequence of the oil price collapse in 1986, there has been a big reduction in government and oil company contracts and a consequent exodus from Oman of many Asian workers and Western businessmen. However, since the official immigration figures are thought to be understated perhaps by as much as 100,000,[8] the exodus may not be revealed immediately in the statistics. The government stated in 1987 that 50,000 foreign laborers had left the country in 1986, and that another 50,000 would go in 1987.

Competition from imports

As noted above, Oman has historically been a relatively large importer, even by GCC standards. Yet, foreign competition is becoming one of the major concerns of Omani businessmen. Have imports ceased to stimulate industry and in fact now creating disincentives to invest in manufacturing activities?

In order to examine this issue, several factor analyses similar to those presented above were performed. Beginning with the basis sectoral patterns found in Table 10, imports

Table 14: Arab world: Affect of imports on relative industrialization, 1975 (standardized regression coefficients)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distribut	Factor 4 Services
Oil Economies		Sectoral Dimension		
manufact/absor	0.98*	-0.10	-0.02	-0.08
manufact/gdp	0.86*	0.17	-0.04	0.14
Imports	0.80*	0.40	0.01	0.01
construct/gdp	-0.04	1.00*	-0.06	0.03
construct/abs	0.10	0.93*	0.10	-0.05
distribut/gdp	-0.21	0.14	0.91*	0.18
distrib/absor	0.23	-0.07	0.86*	-0.21
services/gdp	-0.01	0.02	-0.06	0.98*
services/absor	0.49	-0.07	0.11	0.63*

(Factor Scores)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distribut	Factor 4 Services
Gulf Economies		Sectoral Dimension — 1975		
UAE	-1.14	2.00	1.88	-0.91
Bahrain	2.74	-0.35	0.92	0.00
Saudi Arabia	0.90	1.06	-1.00	0.65
Oman	-1.53	1.10	-0.21	0.60
Qatar	0.27	1.82	1.85	0.13
Kuwait	0.05	-0.84	-0.50	2.08
Oil Economies		Import Effects — 1975		
UAE	-0.88(+)	2.11(+)	1.75(-)	-1.04(-)
Bahrain	3.27(+)	-0.24(+)	1.01(=)	0.26(+)
Saudi Arabia	0.82(=)	0.82(-)	-0.99(=)	0.69(=)
Oman	-1.06(+)	1.49(+)	-0.41(-)	0.25(-)
Qatar	0.02(-)	1.46(-)	1.95(+)	0.37(+)
Kuwait	-0.08(-)	-0.75(=)	-0.62(-)	1.99(=)

Notes: Factor analysis based on oblique rotation. Data from Arab Monetary Fund, National Accounts of Arab Countries, 1974-85 (Abu Dhabi: Arab Monetary Fund, 1987). Oil = the ratio of the oil sector's value added to total non-oil GDP

8 The Economist Intelligence Unit, Arabian Peninsula: Economic Structure and Analysis (London: EIU, 1988), p. 79.

Table 15: Arab world: Affect of imports on relative industrialization, 1981 (standardized regression coefficients)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distribut	Factor 4 Services
Oil Economies		Sectoral Dimension		
manufact/gdp	1.00*	-0.18	-0.09	0.01
manufact/absor	0.97*	-0.03	0.06	0.01
construct/gdp	-0.04	0.99*	-0.02	0.02
construct/abs	0.18	0.97*	0.07	-0.02
distribut/gdp	-0.19	0.18	0.98*	0.00
distribut/abs	0.24	-0.16	0.84*	-0.10
Imports	0.11	0.01	0.50*	0.42
services/gdp	-0.17	0.14	-0.06	1.00*
services/absor	0.29	-0.18	-0.03	0.81*

(Factor Scores)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distribut	Factor 4 Services
Oil Economies		Sectoral Dimension — 1981		
UAE	0.60	1.21	1.26	-0.58
Bahrain	2.32	-0.32	2.26	0.72
Saudi Arabia	0.24	2.07	-0.97	0.21
Qatar	0.50	0.25	1.34	0.36
Oman	-1.67	0.37	0.89	1.64
Kuwait	-0.02	-0.33	0.56	1.36
Oil Economies		Import Effects — 1981		
UAE	0.57(=)	1.22(=)	1.17(=)	-0.62(=)
Bahrain	2.39(=)	-0.32(=)	2.70(+)	1.11(+)
Saudi Arabia	0.25(=)	2.07(=)	-0.86(+)	0.29(+)
Oman	-1.67(=)	0.25(=)	1.22(-)	0.27(+)
Qatar	0.46(=)	0.38(=)	0.59(-)	1.34(-)
Kuwait	-0.03(=)	-0.34(=)	0.52(=)	1.29(=)

Notes: Factor analysis based on oblique rotation. Data from Arab Monetary Fund, National Accounts of Arab Countries, 1974-85 (Abu Dhabi: Arab Monetary Fund, 1987). Oil = the ratio of the oil sector's value added to total non-oil GDP

were introduced to the factor analysis. The difference in factor scores between the base index and the results obtained after inserting imports provides an indication of the impact imports have had on the country's industrial diversification efforts.

Again using a three period analysis the results (Tables 14, 15 and 16) show several distinct changes taking place over time: (1) At the beginning of the period, 1975 imports tended to be highly and positively correlated with industrial diversification (Table 14). At this time Oman's factor score on manufacturing increased considerably with the imports included in the analysis. (2) By 1981, the height of the oil boom, imports were only slightly correlated with industrial diversification in the Arab world. Their effect on Oman's industrial development was neutral (Table 15). (3) Finally by 1985 (Table 16) imports had a negative correlation on the region's industrial diversification. Given Oman's high import component, the effect was particularly serious for that country's industrialists.

Clearly, increasing foreign competition is becoming a major problem for Omani firms. They have, however, received some help from other GCC states in amendments to the Unified Economic Agreement of 1981. The UEA's first three articles provide for the waiving of customs duties on trade among the GCC states themselves. For product to qualify as nationally manufactured and become eligible for exemption, its domestic

Table 16: Arab world: Affect of imports on relative industrialization, 1985 (standardized regression coefficients)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distribut	Factor 4 Services
Oil Economies		Sectoral Dimension		
manufact/absor	0.98*	-0.11	0.12	0.02
manufact/gdp	0.85*	-0.09	0.12	0.15
construct/gdp	-0.21	0.99*	0.07	0.07
construct/abs	0.03	0.97*	0.09	0.01
distribut/gdp	0.00	0.11	0.95*	0.04
distribut/abs	0.38	0.06	0.81*	-0.16
services/gdp	0.16	0.17	-0.14	0.84*
services/absor	0.44	0.13	-0.13	0.68*
Imports	-0.38	-0.25	0.40	0.65*

(Factor Scores)

	Factor 1 Manufact	Factor 2 Construct	Factor 3 Distribut	Factor 4 Servies
Oil Economies		Sectorial Dimension — 1985		
UAE	1.37	1.23	1.34	-0.02
Bahrain	0.86	0.40	1.96	0.59
Saudi Arabia	-0.16	1.60	-0.78	0.57
Oman	-1.53	0.39	1.11	0.23
Qatar	0.79	0.29	0.16	2.75
Kuwait	-0.42	-0.87	-0.22	1.00
Oil Economies		Import Effects — 1985		
UAE	1.14(-)	1.10(-)	1.33(=)	-0.06(=)
Bahrain	0.42(-)	0.11(-)	2.25(+)	1.19(+)
Saudi Arabia	-0.22(-)	1.44(-)	-0.67(+)	0.76(+)
Oman	-1.28(+)	0.39(=)	1.06(=)	0.30(=)
Qatar	1.40(+)	0.74(+)	-0.53(-)	1.96(-)
Kuwait	-0.42(=)	-0.87(=)	-0.15(=)	1.32(+)

Notes: Factor analysis based on oblique rotation. Data from Arab Monetary Fund, National Accounts of Arab Countries, 1974-85(Abu Dhabi: Arab Monetary Fund, 1987). Distribution = the share of distributive activities in total absorption

value added must constitute at least 40 percent of the cost of the finish end product and GCC nationals must own at least 51 percent of the equity of the firm producing it.

Yet Oman is seen as a special case, having embarked on its development effort later than its neighbors. The UEA said that consideration will be given to differences in levels of development and that member states may be temporarily exempted from applying certain provisions. As a result: (1) When tariff barriers between Gulf states came down in 1983, Oman was allowed to go on imposing tariffs on imports of certain products, including cement, aluminum products and plastics. (2) Oman raised the duty on cement imports from 20 to 50 percent in the spring of 1987 to protect local producers from alleged dumping, thereby causing great concern among cement producers in the UAE. These exemptions were to have expired in March 1988, but were extended for a further five years.[9] (3) Oman has made it clear that it has no intention of removing tariffs until other states reduce their subsidies.

Whether or not Omani industrialists will be able to receive higher tariff protection in the future is difficult to predict. It appears, however, that the country is suffering to a

9 The Economist Intelligence Unit, Arabian Peninsula: Economic Structure and Analysis (London: EIU, 1988), p. 23.

large extent from being among the less developed GCC countries and therefore somewhat unprepared to compete on an equal footing. Perhaps as a result of this concern, Omani imports from other GCC countries have been falling in relative terms over the last few years.

Conclusions

From the start, Omani development proceeded at a rapid pace, but was well planned. By comparison with some of its neighbors, Oman's oil resources were modest. It therefore avoided prestige projects and concentrated on the building of sound infrastructure, and on education and health. By good fortune the financing of development was greatly aided by the steep increases in world oil prices in the 1970s.

As Oman began oil production and general development quite recently, the country will be heavily dependent on current oil revenues for most of the rest of this century. External asset accumulation has only been proceeding for a few years while the economic base of the country and the shortages of sufficiently skilled Omanis make substantial imports of goods and labor unavoidable. Fortunately considerable potential remains for finding new and viable oil and gas fields and the relative ease with which Oman finds customers for its oil suggests that the development process will pick up pace again once oil prices and revenues recover.[10]

The large potential still existing for import substitution in some basic manufacturing industries and in services, combined with the government promotion of the private sector, suggests that continuing rational projects selection will lay the basis for a permanent and prosperous domestic economic base.

Whereas other Gulf countries are constrained by labor resource limitations, Oman's relatively large indigenous population and the quality of education now being offered to the majority of those of school age suggest that considerable expansion of the non-oil economy may be possible during the Third and Fourth Five Year Plans.

The main threat to such as expansion would appear to lie in the excessive military development plans of the Sultanate, and the possibility that competition for resources might create an inflationary environment not conducive to domestic production. In general, however, the Omani administration is credited with the necessary control and conservatism to avoid damaging the solid base it has built for the future.

10 The Arab Economies: Structure and Outlook (Manama, Bahrain: Arab Banking Corporation, October 1986, second edition), pp. 119-120.