Spring 2011

Made in Oman: Promoting Manufacturing and Export in the Sultanate of Oman

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SIT Study Abroad

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5/9/2011

SIT Oman, Spring 2011

-The Klingon Way, pg. 209

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Abstract: *Oman's manufacturing sector has shown promising growth during the past decades. This paper analyzes the role of the manufacturing and export sector in economic growth and development. Then, after analyzing government policy toward manufacturing in Oman, this paper uses research gathered from companies in Rusayl to determine the biggest problems currently facing manufacturing in Oman and the effectiveness of government policy toward the sector. Problems found included excessive bureaucracy, Omanization, and transport costs. These findings were then presented to the appropriate public institutions, with their reactions documented. Recommendations for change include streamlining government services, expediting the construction of the Gulf Railway, and implementing an innovative credit-based solution to Omanization.*

Introduction

During the past four decades, one of the most salient policies of the Omani government has been the diversification of the national economy away from oil revenue. Each of Oman's eight five-year-plans, issued under Royal Decrees 1/76, 1/81, 1/86, 1/91, 1/96, 1/2001, 1/2006, and 1/2011, has addressed the issue in some form. In Oman's Vision 2020 development goals, issued in 1996 under Royal Decree 1/96, there is an entire chapter dedicated to economic diversification, with other chapters addressing issues ancillary to it. The importance of diversification for Oman increases with each passing year. As the oil reserves, which have supported Oman's economy for the past 40 years, dwindle, Oman is forced to find alternate sectors on which its economy can rely. Sectors such as tourism and agriculture have shown significant growth and should not be ignored, but relative to the size of the national economy they cannot seriously be expected to support the country. According to statistics published by the Ministry of the National Economy in August 2010, the two sectors combined contributed less than 3% of the national GDP (MONE 4). However, one sector which has shown promising growth is manufacturing. Manufacturing, a sector which is second in size only to petroleum-based activities, accounts for slightly over 12% of the national economy – however, with time and prudent governmental policy the manufacturing sector has the potential to grow substantially, especially as more companies begin to export to foreign markets. However, it has been observed that the manufacturing sector development has been met with a lack of enthusiasm by public institutions. For example, on its website the Ministry of the National Economy has no public data available for this sector, despite having significant data in others. This paper aims to identify current governmental policies toward manufacturing and identify faults within or ways in which they can be improved.

The paper is structured such that Section 1 provides a basic overview of the role of manufacturing in economic development, including case studies, Section 2 gives an overview of development in Oman since 10970, Section 3 covers the research and conclusions drawn from field research undertaken for this paper, and Section 4 concludes with recommendations for policy change.

Methodology

Research data for this document was gathered through the following methods:

- Direct interviews with representatives from companies located in the Rusayl Industrial Estate (RIE). Interviews were conducted during a two week period in April 2011.
- Direct interviews with representatives from the Minister of Commerce and Industry (MOCI), the Chamber of Commerce (OCCI), and the Public Establishment for Industrial Estates (PEIE). Interviews were conducted during a three week period in April-May 2011.

- Questionnaires distributed to companies in RIE. Questionnaires were distributed without regard to company size or product. Of the 21 companies approached, responses were received from only 15. Data was gathered during a two week period in April 2011.

As a result of insupressible concerns over anonymity for both themselves and their company from the representatives interviewed, very few of the interviews conducted in Rusayl were recorded – written notes were taken and significant statements (appearing in quotations) were noted verbatim. A similar problem was observed with government officials over their desire not to be recorded 'officially' – the same process was used for them as well.

Section 1: The Role of Industry in Development

Previous Findings on Manufacturing and Export Development

Because of the importance of manufacturing as well as its potential to fundamentally change and economy, there have been incredible amounts of research pertaining to the subject. While industrialization, as a concept, has existed since the 19th century, this paper is mainly focused on more recent findings – specifically regarding manufacturing and its role in global integration. During the past century there have been several successful cases of manufacturing development, two of which, Thailand and Ireland, will be explored later. However, there have also been many cases of failed developmental programs – which also will be explored later in the paper. Manufacturing development is therefore an inherently risk-heavy undertaking which, if handled improperly, can have long-lasting repercussions.

One strategy for development is free market 'shock therapy', referring to rapid removal of trade barriers. This form of market liberalization, a concept championed by Adam Smith, is a policy which, until recently, was long-championed by institutions such as the International Monetary Fund (IMF). It reasons that humans, being inherently rational, actin their best interest, and thus any established trade barrier which stops someone's actions only serves to hinder humans from achieving total efficiency. For example, some economists argue that government intervention can lead to distortion in resource allocation (AlRawas 16). While the concept is appealing, economists like Bruce Greenwald have shown that this only holds true under very specific market conditions, conditions which have yet to occur in any market (Greenwald 2). Moreover, market liberalization before adequate infrastructure is in place can have dire consequences, as was seen during the liberalization of Russia (Stiglitz 133). So government intervention is argued as just as it can correct market failures and facilitate a proper business environment.

Another strategy for manufacturing development is import substitution industrialization (ISI). This model posits that if imports of foreign manufactured products are barred, the market will respond by manufacturing those products itself, thus achieving industrialization. This model, used in Latin America extensively during the 1950s and 60s, has been observed to show initial industrial growth, but, usually because of the small size of the domestic population, the growth eventually subsides (Primo Braga 4). Latin American governments attempted to stimulate more growth through increased spending, however this only served to build foreign debt, thus leading to the Balance of Payment crisis in the 1980s (Primo Braga 5). Today, ISI has largely been disregarded as a sustainable development model, recommended in use in only very limited circumstances with newly developing countries.

A more recent model of development, one which has largely replaced ISI as the preferred, is the export-intensive development (EOD) model, used intensively in East Asia during the 1980s and 90s. This model, rather than employing isolationist ISI policies, encourages rapid, but controlled, global economic integration, with an economy focusing on exports. This is developed through encouraging local industries, building the skills of the labor-force, and especially through attracting foreign direct investment (FDI). FDI is critical as it brings capital into a country. Foreign firms, mostly multi-national corporations, invest in regional production facilities, hiring local labor and thus increasing capital flows.

Although industrial development strategies must be used on a case-by-case basis, economists today tend to favor gradual market liberalization coupled with an export-intensive structure, with government services ensuring fair business practices (Stiglitz Ch. 2).

Vaulting the Resource Curse

A well-known and much-studied phenomenon regarding countries endowed with natural resources is the resource curse. The resource curse refers to the seemingly inverse relationship between the presence of natural resources and economic prosperity. In countries like Nigeria, the number of people living in poverty actually increased during the exploitation of natural resources (Stiglitz 134). The resource curse also wreaks havoc on development. There is a tendency for the presence of natural resources in a nation's economy to detract resources away from other sectors, manufacturing in particular. When one sector proves to be more lucrative than the others, capital and human resources flock to it. As a result, when the lucrative sector is inevitably exhausted, the economy finds itself with little development in other sectors.

Another element of the resource curse is the 'Dutch Disease', so called because of its associations with the discovery of a major natural gas reserve in the Netherlands in 1959. The Dutch Disease is the increase in valuation of a nation's currency, which in effect raises the cost of goods produced in the economy. This effectively stymies the economy's ability to export its products abroad, as its high-production costs can no longer compete in foreign markets (Stiglitz 148). A solution to this problem, presented in detail in (Stiglitz 149), is the creation of a stabilization fund – a mechanism designed to lower the impact of the Dutch Disease through investment, which usually takes the form of buying foreign debt. This preserves the value of the oil revenue while at the same time keeping the currency stable, thus largely averting the Dutch Disease.

Thailand: The Surprise Asian Tiger

A country which has shown great successes in fostering its fledgling manufacturing sector is Thailand. In the decades leading up to the 1980s, Thailand's economy focused on the export of primary goods and ISI development policies (Hussey 2). While growth was observed, this was mainly a result of the realization of its agricultural sector and the United States' involvement in Vietnam, which increased Thailand's foreign aid substantially. The 1979 oil crisis, falling prices for Thai goods, and the exhaustion of agricultural expansion opportunities all combined to make Thailand's economy one of the slowest growing in Asia during the early 1980s. In response to this decline, government officials and local entrepreneurs considered developing the manufacturing sector. Thailand began implanting policies designed to aggressively attract foreign investment, and it worked. Industrial investment rose from 2,867 baht in 1986 to 24,562 baht in 1989, most of which was focused on companies which exported 80-100% of their products (Hussey 5). Thailand's success in manufacturing development has been attributed to good timing, availability of cheap, trainable labor, sufficient port, air, road, and utility infrastructure, tax incentives, and streamlined, non-bureaucratic government procedures. Also, Thailand had political and racial stability. Finally, unlike its neighbors, such as Malaysia, Thailand did not mandate Thai employment (Hussey 6). The Thai manufacturing sector grew so effectively that, despite only employing 15% of the workforce, it contributed to 50% of the country's GDP.

Critics of Thailand's industrialization policies point out its neglect of impoverished rural farmers, which constitute 49% of the population, its environmental impact, and the 1997 financial crisis. It has been said that Thailand is not an industrialized country, but rather Bangkok is an industrialized city (Hussey 19). Outside of Bangkok there is little sign of Thailand's advancements. Secondly, the rapid, unrestrained industrial process has also taken a toll on Bangkok's environment. Bangkok's water networks once led the city to be called the 'Venice of the East'. However the water today, much to the distress of the Thai tourism industry, has been replaced by a black sludge (Hussey 23).

Finally, given Thailand's rapid growth in the years leading up to 1997, it would seem as though the financial crisis was caused by the development policies. However, as explained by (Stiglitz 95), this crisis came as a result of an 'attack' by currency speculators holding inactive assets in Thailand's currency, the Baht. Investors responded to Thailand's short term debt, thinking that the currency would devalue, by selling their assets, thus causing the currency, and with it the country, to crash.

Ireland: The Celtic Tiger

Another country which surprised the world through its emergence as a world manufacturing hub is Ireland. Ireland, a country which was previously wrought with political turmoil and, to a lesser extent, ethnic stereotyping from abroad, was able to foster a highly advanced manufacturing sectoring during the 1990s. Whereas Thailand capitalized on its availability of cheap, trainable labor, Ireland adopted policies directed towards advancing the skillset of its labor force and aggressively attracting foreign investment through specifically targeted promotion and incentives.

Ireland's model has been dubbed the 'flexible development state' (FDS) (O'Higgins 1), as it created a strong bond between society and state. In its Programme for National Recovery (PNR), started in 1987, the government focused on matching the needs of society, such as companies and employees, with the needs of the government. By altering policy and adjusting to societal needs, the government followed a very personal, flexible development path.

Ireland also benefited from the results of previous initiatives. Free secondary education was provided by the government in 1967 (O'Higgins 3), as a result, by the 1990s over 80% of the labor force had completed secondary education, and more than 40% had third-level education experience. This large supply of skilled labor effectively lowered Irish skilled-labor costs relative to other European countries. Additionally, its labor force was comprised on English speakers, which, especially for high tech, internet oriented companies, made Ireland all the better as a location.

The biggest factor in Ireland's development was FDI (O'Higgins 4). Ireland's Industrial Development Agency (IDA) played a key role in this. The IDA established offices in key cities across the USA, marketing Ireland and establishing personal links with multi-national corporations (MNCs). It was given autonomy and funding to negotiate deals with firms and expedite services to meet demand. This specifically targeted marketing strategy came at a cost, but it worked. With its cheap supply of skilled, English speaking labor, and intensive government campaigns to market Ireland abroad, high tech companies from abroad flocked to the country. High tech MNCs, especially those in the Americas, saw Ireland as a gateway to Europe's 300 million-strong consumer market, opening regional branches across the country.

Zambia: Lessons from a Failed State

While there have been stunning examples of manufacturing development leading to massive economic overhauls, it should be noted that some countries have not been as fortunate, such as Zambia. At its independence in 1964, 90% of Zambia's export earnings came from raw copper sales. The government, devoted to industrializing the country, nationalized nearly all industries, owning 80% of the economy by 1969 (Osei-Hwedie 2). Using revenue from copper sales, the government implemented policies with the set goals of diversification away from copper, Zambianisation, infrastructure development, and employment creation. However these policies were wrought with flaws. The ISI policies instituted were unsustainable and growth quickly dropped, leading to the government injecting a constant stream of capital to keep the policies in place. As most copper revenue was devoted to this by the time the government invested in infrastructure there was little left to save. Without this savings fund Zambia's economy was vulnerable to fluctuations in world copper prices. The ISI subsidized companies proved to be monopolistic, inefficient, and uncompetitive. Additionally, state intervention led to heavy bureaucratization and with it corruption and uncertainty, thus discouraging any meaningful private investment.

At the recommendation of the World Bank and the IMF, Zambia began to liberalize its economy in 1983 (Osei-Hwedie 7). However this served only to worsen Zambia already troubled economy.

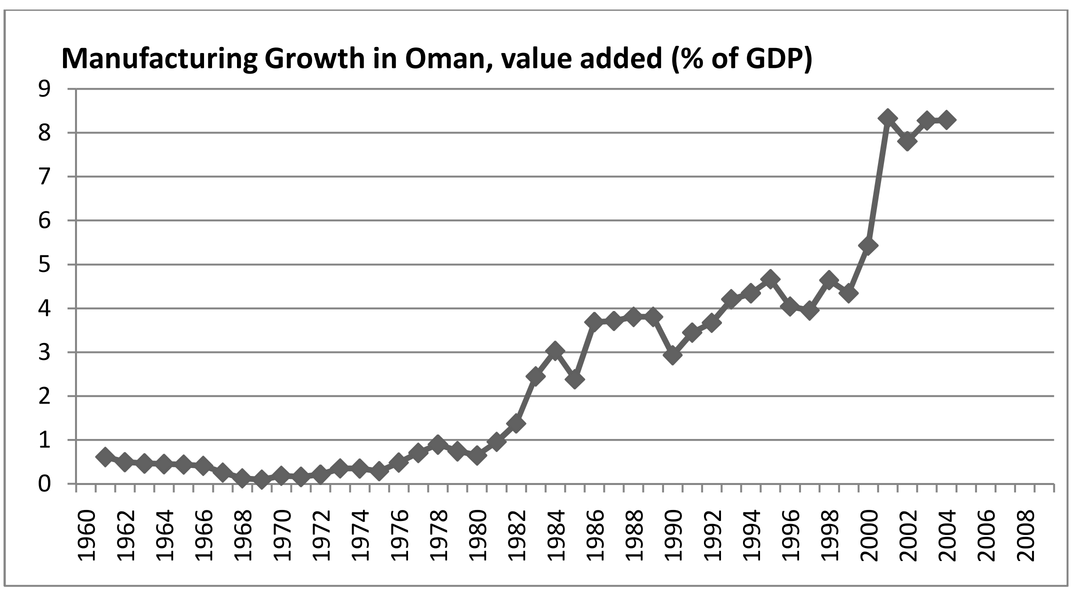
Foreign aid, which increased after Zambia's announcement of liberalization, was mostly diverted to debt reduction rather than development. Additionally, attempts to privatize manufacturing failed miserably, corruption ran rampant, and with Zimbabwean and South African products entering Zambian markets, the country's manufacturing sector was effectively killed. While it once held middle income-status, Zambia now stands as one of the poorest countries in the world (Osei-Hwedie 10).

Section 2: Industrialization in Oman

Industrial Growth in Oman

Oman's manufacturing sector has made a great deal of progress since 1970. Figure 1, below, shows Oman's value added growth in the sector since 1961.

Figure 1



Source: World Bank (2011)

Before 1970, Oman’s economy was largely agricultural, showing very slow development. The recent discovery of oil showed a promising future, but was not being used to its full potential. Upon the ascension of HM Sultan Qaboos, sweeping changes were made to the way oil revenue was being invested. Universal primary education was made a priority, the Oman stabilization fund was created, and infrastructure systems were rapidly constructed. The initial industrial strategy was ISI-based. To attract industry, the Rusayl industrial Estate (RIE) was established in 1983, providing infrastructure needs like electricity, water, and gas. This proved successful, with the manufacturing sector showing significant growth in the following years. By the 1990s, the development strategy shifted from ISI to diversification away from oil. To help increase multiplier effects on other sectors, the government emphasized the creation of linkages between companies. Instead of just export-led development, the government wanted to see companies use local materials.

In 1996, HM Sultan Qaboos issued the Vision 2020 development plan. This plan laid the groundwork to achieve a lofty vision of heavily diversified Oman, with a skilled labor force, global economic integration, and a promising future. By 2020, Oman would get only 19% of its GDP from oil and gas, be globally integrated, and boast an educated labor force. This put a great deal of pressure on government institutions. Industrial states were improved and expanded, infrastructure further developed, and more initiatives were taken to promote Oman abroad.

In November 2000, Oman joined the World Trade Organization (WTO). This has generally been the reason attributed to the increased growth between 2000 and 2002. This gave Oman greater access to international markets to which manufacturers could export. Later, in 2006, Oman entered into a free trade agreement with the US, opening the US consumer market to Omani goods.

Oman's Current Development Initiatives

While Dubai has already earned the dubious distinction of the 'Gulf Tiger', Oman still has the potential to emerge as a key economic player. Oman is politically stable, infrastructurally sound, and maintains an excellent geoeconomic location.

As identified in (Abdulrazzaq 5), there are five significant challenges currently facing all GCC countries. These are economic diversification, human resource development, private sector development, export promotion, and infrastructure development. Not incidentally, each of these obstacles has implications on the manufacturing sector. Oman, in its development plans, has taken notice of this and has put in place initiatives to help overcome these challenges.

Economic Diversification: A very broad term, economic diversification refers to the development of any economic sector that can move the Omani economy away from oil dependency. The Vision 2020 goals laid out programs to help Oman diversify its economy. As was mentioned earlier, Oman hopes to see 81% of GDP come from non-oil and gas revenue. In order to achieve these goals it focuses diversification into sectors like tourism, agriculture, and manufacturing (Vision 2020). In promoting manufacturing growth, the Vision 2020 goals most notably promise export-led development, increased focus on SMEs, the transfer of technology, and increasing R&D (Vision 2020 4-4).

An institution that was created to help encourage diversification was the Oman Development Bank (ODB). Established in 1997, with a reorganizing in 2006, the ODB is designed to provide loans to entrepreneurs looking to start a business in a sector other than the petroleum industry. Unlike private banks, which, acting in their best interests, avoid granting loans to risk-heavy undertakings, a public development bank, which has no vested interest in making a profit, is more likely to give loans to more risk-laden entrepreneurial ventures and thus help development.

Human Resource Development: Potentially the biggest and most pivotal challenge facing the Omani manufacturing sector is human resource development. Since 1970, there have been three noticeable stages of human development and education in Oman (Issan 1). Stage one was quantitative, focusing on increasing the number of Omanis attending schools. Stage two, started during the 1980s, focused on the quality of education in Oman. Oman is currently in Stage three, which began in 1995 with the declaration of the Vision 2020 development goals. This stage focuses on preparing Omanis to join the labor force through skill-building and post-secondary education (Issan 1). The most recent five year plan, issued this past January, created programs providing local internships, support for specialized programs abroad, and physical support for national training projects (Oman Observer).

The Ministry of Manpower has implemented several programs dedicated to building the skills of the Omani workforce. Through its Occupational Standards and Testing Center (OSTC), the Ministry of Manpower works with job-seekers to help improve the quality and efficiency of their training. The key to effective training is clear and continuous cooperation between training institutions and the private sector. For the private sector this means providing training institutions with instructions and requirements for the skills they need, and for institutions this means making the private enterprises aware of the importance of properly trained staff. Through effective communication with the private sector, both the skillset of the national workforce can and its net effectiveness can grow (Jax). In addition to providing training services to Omanis the OSTC also, through its SANAD-programme, provides both funding and counseling services to help skilled, job-seeking Omanis with self-employment projects (Jax).

Private Sector Development: Historically, the public sector has been the Sultanate’s primary economic actor. Unfortunately, as is frequently the case with public enterprise, it has been marked by inefficiency and low productivity. By transitioning economic power into the hands of the private sector, as the argument goes, it will allow for competition to force an economy to run at full efficiency.

Encouraging foreign direct investment (FDI) is crucial to building the private sector. One of the most significant measures taken by the Omani government towards this goal was the creation of the Omani Center for Investment Promotion and Export Development (OCIPED) in 1996 under Royal Decree No. 59/96. OCIPED encourages foreign investment by marketing Oman to potential investors abroad. This is through exhibitions and road shows, marketing campaigns, data collection, and finding investment partners (ociped.com).

A piece of FDI-attracting policy championed by the Omani government is the US-Omani free trade agreement (OFTA). While this agreement has been criticized as being one-sided on the part of the United States (Stiglitz 97), both Omani and American representatives have held it in very high regard (PEIE). By giving American businessmen national status, which allows them to start and own businesses just like Omani citizens, the Omani government hopes to see US investors flock to the country.

In addition to these explicit measures, there are several soft elements which help encourage FDI into the Omani economy. Many of Oman's more resource-endowed neighbors, such as Saudi Arabia, Iran, and Qatar, have used the stability of their wealth to promote controversial political goals. Fortunately, Oman has not had such luxury and has remained politically neutral during Sultan Qaboos' tenure. This has helped to make Oman a more attractive place for foreign investors, as Oman is seen as more stable and thus less risky (Wilson 1).

Export Promotion: One of the key elements of global integration is the export of Omani products. Oman is an excellent location geographically. At the base of the Arabian Peninsula it is better able to accept materials imported from abroad at cheaper costs than its neighbors. As a result it has the potential to serve as the supplier for the rest of region.

As OCIPED's name would suggest, in addition to promoting FDI it also works towards export development. OCIPED's primary methods of assistance are promotion through exhibitions and helping companies locate potential market opportunities (OCIPED).

The Omani government also hopes that the OFTA will help promote Omani exports. By eliminating trade barriers with the United States, the largest consumer market in the world, the sale of Omani goods to America is expected to increase substantially in the near future.

Finally, to help combat the effects of the Dutch Disease, Oman established the State General Reserve Fund (SGRF) in 1980. While owned by the Omani government and administered by the Ministry of Finance, the SGRF is a sovereign institution. Its assets are currently valued at over $8 billion USD (Investopedia).

Infrastructure Development: One of the most valuable elements of industrialization is FDI. If a government can entice a firm to start a company there, the company, acting independently, will inevitably bring revenue into the country. One of the best ways governments can spur development is by creating a system in which a company can work effectively. Infrastructural development is critical in this goal. Generally speaking, Oman's infrastructural development has made massive improvements since 1970, however to be globally competitive, it will need to be improved further.

Oman currently has three port facilities – one each in Salalah, Muscat, and Sohar. Currently, the Omani government is working on the construction of a major port and dry dock at Duqm (Oman Observer). The Duqm port, at an expected cost of OR 1.7 billion, is expected to be completed in 2012. The port is designed to be the catalyst for the development of Duqm as a city of industry.

One of the most significant projects Oman has planned for the future is its contribution to the Gulf Railway. Oman, in a joint effort between six Gulf States, will help construct a 2,000 kilometer railway network (Prabhu). The rail will run from Kuwait to Southern Oman, and potentially further into Yemen. The rail network, which will include freight service, is expected to drastically cut the cost of transportation within GCC states. At staggering total cost estimates of up to $25 billion USD, the Gulf Railway is a serious investment, and there is still the inherent risk that it won't spur the economic growth needed to justify its construction.

Section 3: The Implications of Oman's Industrial Development Policies: Have They Worked?

Response from Companies

The primary purpose of this paper is to determine the effect that governmental policies have had on Oman's manufacturing and export sector. Although the sector has shown significant growth during the past decade, this cannot be off-handedly attributed to Oman's economic policies. This paper aims to determine the *causality* of this growth, and then, working from research gathered from companies in the Rusayl Industrial Estate (RIE) as well as public institutions like the Ministry of Commerce (MONI), formulate policy changes which would serve to improve Oman's manufacturing and export industry. The first element of this study was gathering research data from Omani manufacturing companies in the form of surveys and interviews.

Problems Facing Manufacturing Companies in Oman

The surveys distributed to the companies focused on two categories. The first half covered general problems the company faced. The latter half centered specifically on the company's relations with public institutions. The survey results concerning general problems faced by the company are given in Figure 2. (Data is given in percentages)

Figure 2 – Survey Statements

To what extent do you agree with these statements? (Mark the best response; leave blank if not applicable)

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Our products can't compete in American and European Markets	35.71	42.86	0	21.43	0
There is a lack of skilled management in Oman	28.57	42.86	7.14	21.43	0
Omanization policies have made it difficult to find labor	7.14	28.57	21.43	42.86	0
The US-Omani Free Trade Agreement has helped our sales abroad	0	23.01	46.15	15.38	7.69
Rusayl has enough infrastructure for our business to grow	0	14.29	21.43	57.14	7.14
Omani customs duties hinder our operations	14.29	42.86	21.43	21.43	0
The government does not effectively market Oman internationally	0	53.85	30.77	15.38	0
It is more expensive to produce in Oman compared to elsewhere	0	53.85	15.38	30.77	0
Government services have improved during the past five years	0	0	15.38	76.92	7.69
There aren't enough opportunities to market our product abroad	7.69	38.46	7.69	38.46	7.69
Our company owes much of its success to government assistance	0	38.46	7.69	53.85	0
The US-Omani Free Trade Agreement has harmed our business	7.69	53.85	38.46	0	0
Not enough Omanis are studying what is needed for our business	0	23.08	15.38	53.85	7.69
Shipping costs are prohibitively expensive	0	7.69	23.08	61.54	7.69
Imported foreign machinery is affordable	0	28.57	7.14	64.29	0
The government is doing all it can to help us	0	15.38	30.77	46.15	7.69
There are better ways the government can help us	0	7.69	0	84.62	7.69

Source: McWilliam, Tyler (Fieldwork, April 2011)

Before the analysis of the dataset, it is important to note that these data cannot be read like election results. A majority reporting no problems does not mean that problems do not exist; it means that there is a minority with problems. Under the increasingly liberalized system of global trade networks, in which competition is intense, small problems or areas of even minor inefficiency can have hugely impactful results.

However with that, generally speaking, the survey respondents gave very positive responses to the above statements. None of the respondents disagreed that the government services have improved over the past five years, and only fifteen percent thought the government was not doing everything it could. However, with that a shocking 92% of companies agreed that there are better ways the government can help them, indicating that there is indeed inefficiency in government services.

While company owners did not think that any government services were useless, they did give various suggestions to improve them. From the surveys, suggestions included streamlining government services to a single ‘one-stop-shop’, allowing for more expats to be hired, training Omanis, improving online service, more proactive ‘problem-solving’ services working within a specific time frame, implementing Omanization more gradually, and one company simply requested ‘better service’.

One company manager talked about his problems with government bureaucracy, saying that “to solve a problem, you need to drive to one place, wait in line, drive to another place, wait in line, wait many weeks, and then maybe after that maybe your problem is fixed,” (Personal Interview 2011). He complained that government services do not work within a specified time frame, so when companies need a problem fixed by a certain date, they cannot rely on the government for assistance.

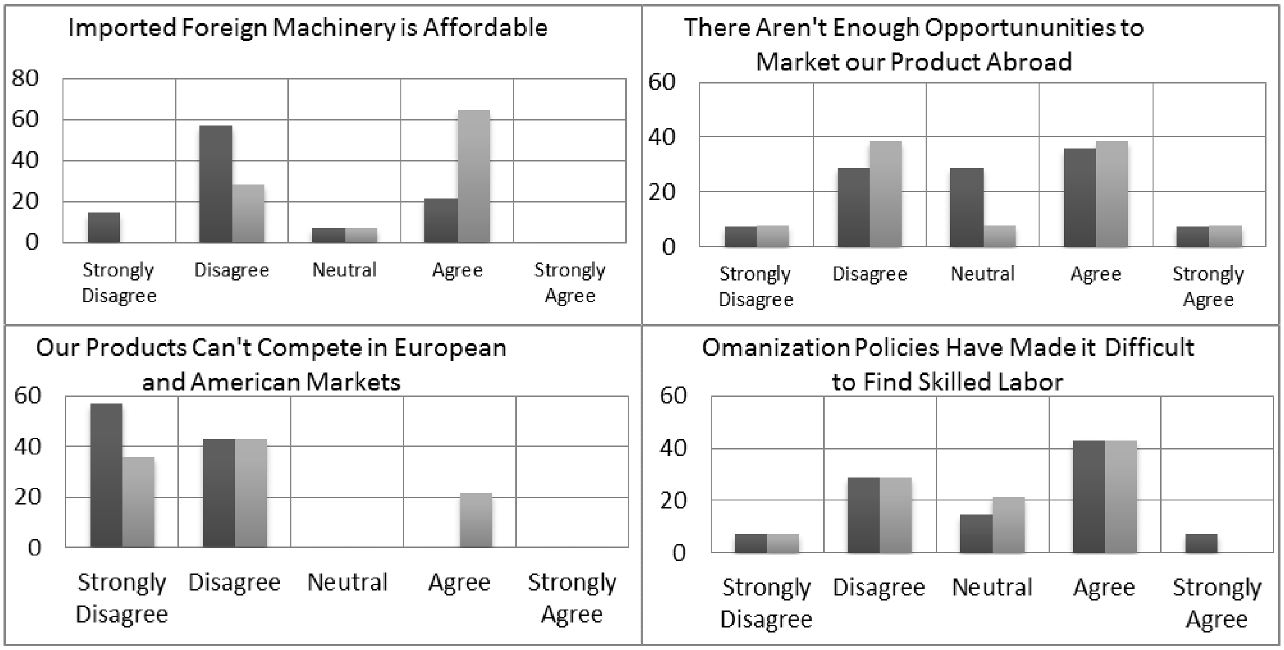
Interestingly enough, few of the companies reported having been positively affected by the OFTA. Only slightly over 20% responded that it has helped sales abroad, with a majority reporting either neutrally or in disagreement. In an interview, the manager of one company even said “We used to export to the US and Canada, but we stopped six months ago because of rising costs” (Personal Interview 2011). The OFTA also seemed to do little in terms of promoting American investment into manufacturing. In an interview with a representative from PEIE, an American-owned company was cited as being an example of the success of the OFTA. However, in an interview with the manager of that company, it was discovered that it had in fact been recently bought buy an Indian investment firm, with “rising costs” being cited as the reason for the sale (Personal Interview 2011). It is important to note that implementing the OFTA came was not free for the Omani government. During negotiations the US insisted that if an FTA were to be made then conditions in the Sultanate needed to be on par with America. As a result the FTA contains passages addressing issues like labor rights, intellectual property guidelines, telecommunications, and business ethics (Tepitino 41). This means that in exchange for access to American markets and investors, Oman now has to pay to enforce copyrights, meet labor needs, and provide infrastructure. If the OFTA fails to live up to its expectations these costs would have been in vain.

While most companies faced no problems with the infrastructure in Rusayl, a shortage of natural gas has wreaked havoc for gas-burning companies planning to expand. The manager of a steel-rolling mill in Rusayl explained how this shortage of natural gas had “caused [the company’s] plans for a new factory, a $12 milion USD project, to be stopped,” (Personal Interview 2011). An interview with an employee from another company revealed that they were facing problems with the lack of physical space. He lamented that in order to make room for their latest factory expansion, “[The company] had to break many mountains,” (Personal Interview 2011). These faults in infrastructure availability hinder growth, and, if the problem persists, can potentially discourage FDI and local entrepreneurship.

Whereas one of Oman’s goals is creating ‘upstream’ enterprises, or enterprises that are vertically linked, only 35% of the responding companies used Omani raw materials, with the remaining 65% relying on foreign imports. When questioned about this, companies primarily cited the lack of domestic resource availability as the reason for import.

In 2003, under the direction of the Dubai-based Gulf Research Center, a survey including similar questions was distributed to 31 companies in the Sohar Industrial Estate (SIE), from which 14 responses were received. The following Figure 3 shows the results of select questions from the Sohar study matched with their appropriate counterpart from this study. (Data from 2003 is on the left, represented by darker shades)

Figure 3 – Improvements Since 2003

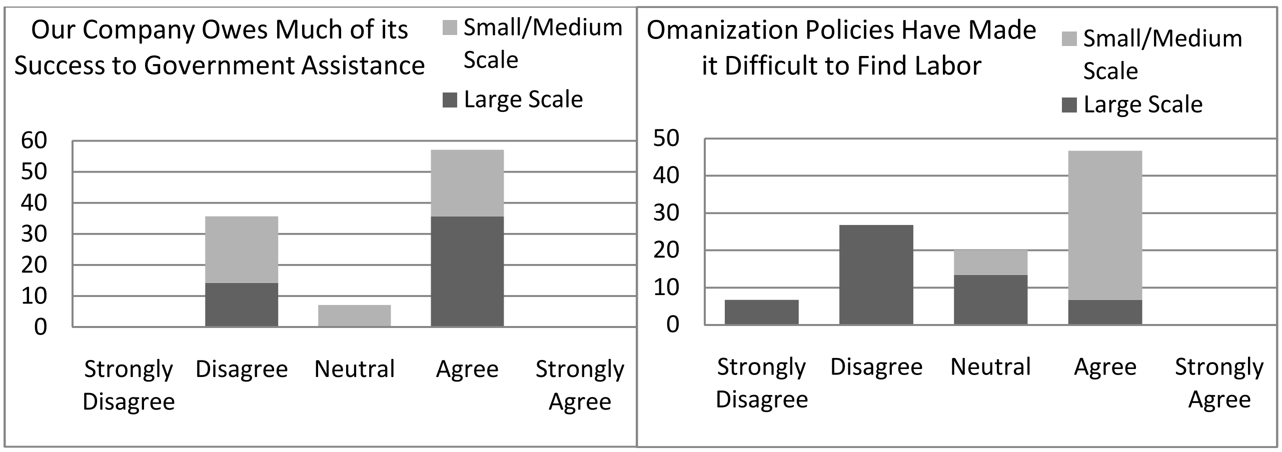


Source: McWilliam, Tyler (Field Work, April 2011); Bakheet, Adil-Hassan (Fieldwork, June-August 2003)

This comparison works on the assumption that problems facing companies in Sohar can be applied to companies operating in the Rusayl Industrial Estate. Under this assumption, one can observe a clear change in the question "Imported foreign machinery is affordable" Whereas in 2003 nearly 60% of companies cited this as a problem, the results were nearly reversed come 2011, with just over 60% agreeing that machinery costs are manageable. Both the 2003 and 2011 survey results showed a clear split on whether or not there were enough opportunities to market abroad. If anything, there was a drop from 'neutral' to 'disagree' during the past decade. This indicates that government services towards helping promotion abroad have largely stagnated since 2003. Omanization was and still is a problem for many companies. Results from 2003 are nearly identical to 2011, showing that there still is not a sufficient supply of skilled and willing Omani laborers.

It was also observed that there was a correlation between responses and the relative size of the business. For example, larger businesses tended to have little difficulty meeting Omanization requirements, less trouble meeting costs, and more favorable opinions of government policies. A selection of responses where these differences were particularly noticeable is shown below in Figure 4. (Size was determined by the respondents own judgment)

Figure 4 – Responses by Company Size



Source: McWilliam, Tyler (Fieldwork, April 2011)

It is apparent that there exists a duality between new, smaller companies and the more established, larger ones. This duality is the most noticeable in the response to Omanization. Omanization policies negatively affected SMEs far more often than they did large scale enterprises. Additionally, a higher proportion of large scale companies owed their success to government policies. However, despite this difference, in interview, companies of all sizes cited the hard work of their employees as their primary force for success. One manager of a large enterprise who described himself as “100% capitalist” said that government plays only a minor role in how he runs his business, saying that “the only times I talk to them is when I need their permission for something,” (Personal Interview 2011)

The second part of the distributed surveys focused on the relationship between companies and public institutions. This was divided into two parts, the amount of communication and the amount of help received. The raw data is shown below in Figure 5.

Figure 5 - Relationship with Public Institutions

How much do you communicate with the following institutions? (1 Not at all; 2 A little; 3 Some; 4 A lot; 5 A great deal)

Institution	1	2	3	4	5
OCIPED	3	3	3	2	0
The Chamber of Commerce and Industry (OCCI)	1	5	3	4	0
The Ministry of Commerce and Industry (MOCI)	1	1	5	5	0
The Public Establishment for Industrial Estates (PEIE)	1	1	4	5	1
The Ministry of Manpower	1	1	5	2	4

How much do the following institutions help your business?

Institution	1	2	3	4	5
OCIPED	2	4	3	2	0
The Chamber of Commerce and Industry (OCCI)	1	4	4	4	0
The Ministry of Commerce and Industry (MOCI)	1	3	4	4	0
The Public Establishment for Industrial Estates (PEIE)	0	5	4	2	2
The Ministry of Manpower	0	6	2	2	3

Source: McWilliam, Tyler (Fieldwork, April 2011)

One of the most troubling results from these two datasets is the amount of help provided by OCIPED. Most companies reported OCIPED as helping either a little bit or not at all. While some reported OCIPED's services as helping 'a lot', this number is not as high as it should be. Half of OCIPED's purpose is the promotion of exports, so it would be expected that their assistance would be higher than reported.

Companies, when asked to describe how these institutions help them, mainly cited 'approvals', 'market statistics', and 'infrastructure'. While these help companies start and plan their business, they do not, with the exception of ‘market statistics’, help companies once they have begun operating.

From the research, it would appear that, once established, companies have generally been responsible for their own growth. Institutions like the Oman Development Bank and industrial zones like Rusayl have helped encourage companies to start, but after that government services tend to wane in their efficiency.

Response from Public Institutions

The above research data and conclusions were presented to appropriate public institutions. Their responses varied from concurrence with the data to its outright rejection.

One public official working in the Ministry of Commerce remarked how several of the results found matched his expectations. In relation to the problems facing SMEs, he said “SMEs are very important, they account for ninety percent of businesses in Oman, but only produce three or four percent of GDP; they must be developed more,” (Personal Interview 2011). He recognized the faults of Omanization, saying that Omanis have a tendency to leave jobs shortly after being hired, making them not as dependable as expat workers.

Despite the faults, he expressed confidence in manufacturing growth. He explained that “[Oman] has the potential to have a good manufacturing sector because of oil revenue,” and that, with current growth trends, the manufacturing sector will far surpass the 15% of GDP goal set forth by the Vision 2020 goals.

In response to the natural gas shortage, a representative at PEIE explained that “it is not under [PEIE’s] authority”. He said that natural gas is under the jurisdiction of the Ministry of Oil and Gas, expecting them to fix it sometime during 2012. Although no date was given, he said PEIE also plans to have increases in online service and the eventual creation of a ‘one-stop shop’ which could better assist companies.

One official, speaking on behalf of the Chamber of Commerce and Industry, remarked that the sample size of the survey was too small to determine true national interest. He determined that "the only way to truly discover the companies' interests is through a comprehensive survey administered by Omani businesses," (Personal Interview May 2011) He argued that companies were too self-interested, using their membership in the chamber only to promote their own companies goals. In relation to international exhibitions, he said that "it is in the national interest is to promote Oman, however the companies want only to secure contracts," He cited conflicts of interest and how the policies proposed by companies focus on very specific issues. With respect to the official, this is a very jaded view. Companies, in a free-market system, do not advertise nations, they advertise products. It is to be assumed that companies, and their representatives, will work primarily towards bettering their own situation. The OCCI is facing a form of the principle-agent problem. While those in charge of the OCCI want to see it work towards their interests, those composing it want to see it work towards theirs. Companies will produce recommendations which help companies. The OCCI is a semi-governmental institution, serving only an advisory role in policy making. Recommendations from its members channel upwards to the chief of the committee. However, it is under his discretion whether or not these recommendations actually proceed from the Chamber to the Ministries. If they are judged to be not in line with national interest, they are discarded. This creates a great deal of inefficiency.

Section 4: Recommendations for Policy Change

As explained earlier, the purpose of this document is to find ways that the government can better help to provide for its fledgling manufacturing and export sector. Recommendations were formulated using the input from companies in Rusayl as well as officials from the Ministry of Commerce and Industry, the Chamber of Commerce and Industry, OCIPED, and the Oman Development Bank. Based on this research, this document presents five recommendations for policy change that will better help facilitate manufacturing and export development in the Sultanate.

Government Streamlining

Private enterprise dependency on government support is a bad thing. The Omani private sector would seem to agree, as it has become apparent through conversations with business owners (some Omani, some expat) that they don't want to rely on the government for support. Several factory managers, purely free-market capitalist in their outlook, simply wanted the government to provide a business environment in which they can freely operate.

Many factory managers expressed frustration with the complexity of government services. By streamlining services to a single window, or better yet, a single website, factory owners would be able to focus more on running their business. The 'one-stop shop' promised by PEIE helps to meet this, but it should be expanded to cover the services provided by all government institutions. As was seen with the natural gas shortage in Rusayl, there is still the potential for problems to simply be handed off to other ministries. Streamlined service would allow for a single administration to handle any problems companies would face.

To help attract FDI, OCIPED should be restructured after Ireland's IDA. It should be given more autonomy and the funding to open offices in key cities around the world, such as Silicon Valley, Seoul, and Tokyo. This would help to establish personal contacts between potential foreign investors and also in finding potential contracts for Omani businesses. Government services should help to improve the availability of information. As one of the causes of market failure is imperfect information, services should help to provide companies with contract opportunities, material prices, and potential investors. These facilities should also be made readily available online.

Omanization

One of the biggest problems facing companies in Rusayl, especially SMEs, is Omanization. Omanization policies, while they cost the government little to enact, are not free. The costs of Omanization flow directly to companies. When companies need skilled labor, and the supply is not available in Oman, they must look abroad for expat labor. However, when Omanization policies prevent them from hiring more foreign labor, costs are incurred. Some companies simply accept running inefficiently with unsuitably skilled employees, while other companies may hire an Omani in a 'window seat' position, one which has little real responsibility or productivity, simply so they can open up space to hire more skilled expats.

SMEs have proven to be critical in industrial development, as was seen in the case of Thailand, wherein fifty percent of companies employed less than twenty workers (Hussey 8). It is important that the government therefore ensure that they are not being overlooked when drafting policy.

It would appear as if the Omani government is faced with two options: either continue Omanization policies at the expense (and potential loss) of fledgling SMEs – thus leading to continued unrest from disgruntled Omani business owners, or, cancel Omanization and face continued unrest from unemployed Omanis, disgruntled by the governments apparent apathy toward their plight. This would seem to be a Morton's Fork of sorts, a decision wherein each choice leads to the same, unpleasant outcome. However, a solution to this dilemma has been presented by (Al-Rawas 2009).

As was mentioned earlier, there is a duality between SMEs and large-scale companies. While the SMEs struggle to meet Omanization requirements and keep costs down, large-scale companies far surpass their requirements. An ingenious solution for this problem which capitalizes on this duality was developed by Basil Ahmed Al-Rawas. Al-Rawas, inspired by the credit-based cap-and-trade system developed to lower carbon emissions, suggests that Omanization can be improved through the creation of labor credits. Al-Rawas explains the following:

> *"Firms achieving more than 35 percent Omanization can gain extra credits points. For instance, firm A could receive 5 points if it achieves 40 percent Omanization. It could then sell these credits to firm B that has a 30 percent Omanization ratio and cannot achieve the target ratio of 35 percent. The price of the permits, (5 percent of Omanization), that would be paid by firm B to firm A would not exceed the marginal cost of firm B of achieving the extra 5 percent Omanization. The payment would go*

> *directly to the MMP which will transfer the credit to firm A in the form of free training programs for their extra Omani workers,"* (Al-Rawas 43)

Expats from South-Asia generally live away from their families, sending money to them home in the form of remittances. Al-Rawas explained in an interview that, "If [South-Asian expats] fear that they will be replaced, they will be more hesitant to bring relatives to Oman, and instead will keep sending money out of Oman," (Personal Interview 2011). This credit-based system of Omanization would give expats more job security, and thus they would bring their families to Oman, which would help to keep the money from flowing from the country.

A perceived flaw in this program is buying the credits from the Ministry of Manpower and funding sales with training programs. If the companies themselves were able to sell their credits, there would be more of an incentive to meet Omanization requirements. Credits would be seen as a valuable commodity with a tangible value. The revenue from credit sales could then be spent under the company's own discretion, which might even include the training programs.

As was seen in the case of Thailand, which was able to outcompete its neighbor Malaysia because of its lack of mandatory Thai employment, labor force nationalization policies can wreak havoc on attracting FDI and development. This solution would help to lower the costs Oman has undoubtedly incurred through Omanization.

Building the Skills of the Omani Labor Force

The Omani government is well aware of the need to create a skilled local labor force, and it has established policies to help facilitate it. While it is hard to judge the effectiveness of current initiatives, as it will not truly be known until students enter the labor force, there are changes that can be made to these policies that would better help the manufacturing industry.

Specialized vocational and technical education programs should be more readily available and subject to government subsidy. While formal education and the creation of experts would be ideal and should still be developed, these are long processes and will not produce results until several years from now. Technical schools are able to help Omanis join the labor force in far less time.

On-the-job training programs, which are used by many of the manufacturers in Oman, should be subsidized by the government. By eliminating the cost of training, companies would be more likely to consider hiring unskilled Omanis over skilled expats. Additionally the savings on training could be used on to help the company in other ways, such as R&D.

Infrastructural Development

It was observed that shipping costs proved prohibitively problematic for nearly all companies surveyed. Currently, Oman's plans for the Gulf Railway have it run south from the UAE border and eventually terminate in the southern port city of Duqm. This paper cannot stress enough the importance of this rail network and applauds the initiative of the Omani government. The speedy completion of this network should be a top priority for government authorities.

Additionally, the possibility of extending the terminus further west to the Yemeni border has been considered. However, this is not yet official. This document strongly recommends taking this course of action. Although Yemen is currently facing devastating problems in economic development as well as political unrest, the fact remains that Yemen's situation will eventually improve. Yemen has the potential to become a key export market for Oman. With a population of nearly thirty million, rivaling that of Saudi Arabia, Yemen's burgeoning consumer market will demand great amounts of imported goods. This of course could take many decades, but if Omani companies are able to establish their products early in the Yemeni markets, it could prove to be a very valuable investment when the time eventually comes.

Increased Government Openness

This recommendation comes not from the companies interviewed, but rather from the researcher's personal opinion. Most factory owners interviewed showed a distinct apprehensiveness when learning of the purpose of this research. This was even more visible when managers were pushed to give their own personal opinions on government effectiveness. It is feared that this apprehensiveness may have even affected the survey results.

It is no secret that public criticism of the Omani government is highly discouraged and in some cases even illegal. Companies are extremely hesitant to criticize government policies, even when they have suggestions, which in some cases may even be better than the current policies. A representative of the Chamber of Commerce and Industry argued that "government represented by OCCI and OCIPED opened the door to commercial openness," (Personal Interview May 2011). The OCCI, which is made up of private sector representatives, helps, but many businesses, specifically SMEs, cannot afford to represent themselves, and there is still hesitation to publicly oppose policies. This is not about political philosophy, but rather economic efficiency. Can a government which does not encourage constructive criticism be as effective as one that is open to suggestions? The rentier-state model, of which Oman is an example, suggests that citizens give up personal liberty in exchange for government benefits. This is generally done to help ensure that the current government remains in place. However, in Oman there is a genuine respect for the government. It has, historically, acted in the best interests of its people and improved life in the Sultanate greatly over the past 40 years. It has earned the trust of its people. However, it is in the opinion of this researcher that through the government's closed-door tendency it has missed the opportunity to hear the true problems faced by SMEs and thus has failed to reach its fully efficient potential.

Conclusion

Despite the critical approach taken by this paper, it is important to note that many of the survey responses were indeed supportive of most government policy, indicating that much of Omani policy has indeed worked. However, the recommendations given in this paper, if followed, will enhance the growth of Oman's manufacturing and export sector. Of course, it is entirely possible that the Omani government has considered taking the actions recommended above, yet has chosen not to enact them. This could be because the Omani government simply does not want to see Oman become a major manufacturer. This would explain its heavy emphasis on national image and tourism, which, in this researcher's opinion, is disproportionate to the emphasis placed on manufacturing. The creation of an export-intensive economy would drastically change Oman's image, and image held highly by the Omani government.

Oman has worked to create its international image as one of a historically rich people, with a country decorated with forts, castles, dhows and mountains. To create an economy based on industry and manufacturing would serve to potentially disrupt or possibly even destroy this image. This research understands that the government may simply not wish to see its country change in such a way. But as oil revenues decrease and eventually cease, the time Oman has to commit to a sustainable path to development slims. What is the cost of protecting this image when faced with such a closing window of opportunity? This is a decision that must soon be made by the Omani government.

So there it is.

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