

SULTANATE OF OMAN
STUDY IN ECONOMIC GEOGRAPHY

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Among the characteristics of the economies of the highly developed countries, e.g., the industrial countries, is a diversification of economic activity into as many sectors as possible. This is an attempt to prevent the weakening of one economic sector from becoming a threat to the whole country.

Present-day developing countries were forced into the role of being primarily the producers and suppliers of raw materials of all kinds for the industrialized countries. Usually, these countries concentrated on producing just one product, the sale of which formed their only income. A change for the worse in the demand for this product on the world market could lead to great economic difficulties.

Examples of countries in which the economies are dependent for the most part on one raw material are Iran, Kuwait and Saudi Arabia (oil). And Omani income, which presents the foundation for the modern development of the country, stems to over 95% from oil. Since OMAN also has other economic bases than oil, the economic development plan is diversified. It is not just a question of discovering new oil and gas reserves, but of developing mineral deposits, of improving production in the agricultural sector, of exploiting the riches of the sea, of developing trade, industry, crafts and construction. The government has provided an example in its development of the infrastructure, by direct stimulus and by taking the initiative, also the private sector is following this example but is behind as far as the expected investments are concerned.

Nevertheless, expansion in the private sector is taking place, particularly in the area of trade and construction. It becomes clear that the petroleum industry has risen

considerably in importance since 1970, but it plays only a subordinate role as an employer, as for agriculture, up to now the most important employer in the country, it is continually decreasing in importance, and trade is growing in importance. There have been no substantial change since 1970 in the field of industry (see table 1).

Table 1: Cross national product classified according to its origin in %

Sector	1965	1970	1975	1980
Agriculture, Fishing	36.6	15.5	9.8	2.5
Mining (oil)	30.9	67.9	55.8	64.1
Manufacturing	0.3	0.2	0.3	0.4
Construction	21.4	9.9	14.2	12.1
Transport-Communication	1.0	0.6	2.6	3.1
Trade	2.6	1.5	4.9	6.5
Others	1.0	4.4	12.4	11.3
Total in millions of Omani Rials.	38.8	106.8	169.4	738.8

The statistics cited here are designed only to show the Omani economy is currently expanding. This should give insight into government's intensified efforts to diversify the economy. Only by developing agriculture, fishing and an independent industrial production, as well as through the exploitation of all the country's resources will it be possible to decrease the one-sided dependence on oil and imports.

The developments that have taken place in the different sectors of the economy are the subject of the following studies

1. Mining, Oil

Oman is part of that region of the earth with the largest oil reserves and the largest oil exports (see table 2).

Table 2: Oil reserves and deliveries of the world

Region	Oil Reserves 1980		Oil Deliveries 1980	
	in mill. tons	in %	in mill. tons	in %
Middle East (=Gulf countries)	50079	55.9	966.9	35.8
Western Europe	3453	3.9	23.8	0.9
Africa	8695	9.7	242.0	9.0
North America	5405	6.0	548.5	20.3
Latin America	4972	5.6	222.2	8.2
Far east and Australia	2881	3.2	106.6	3.9
Eastern Europe China, USSR	14066	15.7	591.6	21.9
Total	89551	100.0	2701.6	100.0

Saudi Arabia is the leading country among the oil producing countries in the Near East. It is followed by Iran, Iraq and Kuwait. Oman is in the eighth position but is sixth among the 12 oil producing countries of the Gulf region in terms of its reserves. With the discovery of new oil deposits in the Area of Amal-Marmul in 1978, Oman's position should be further strengthened (see table 3 and illustration No 1).

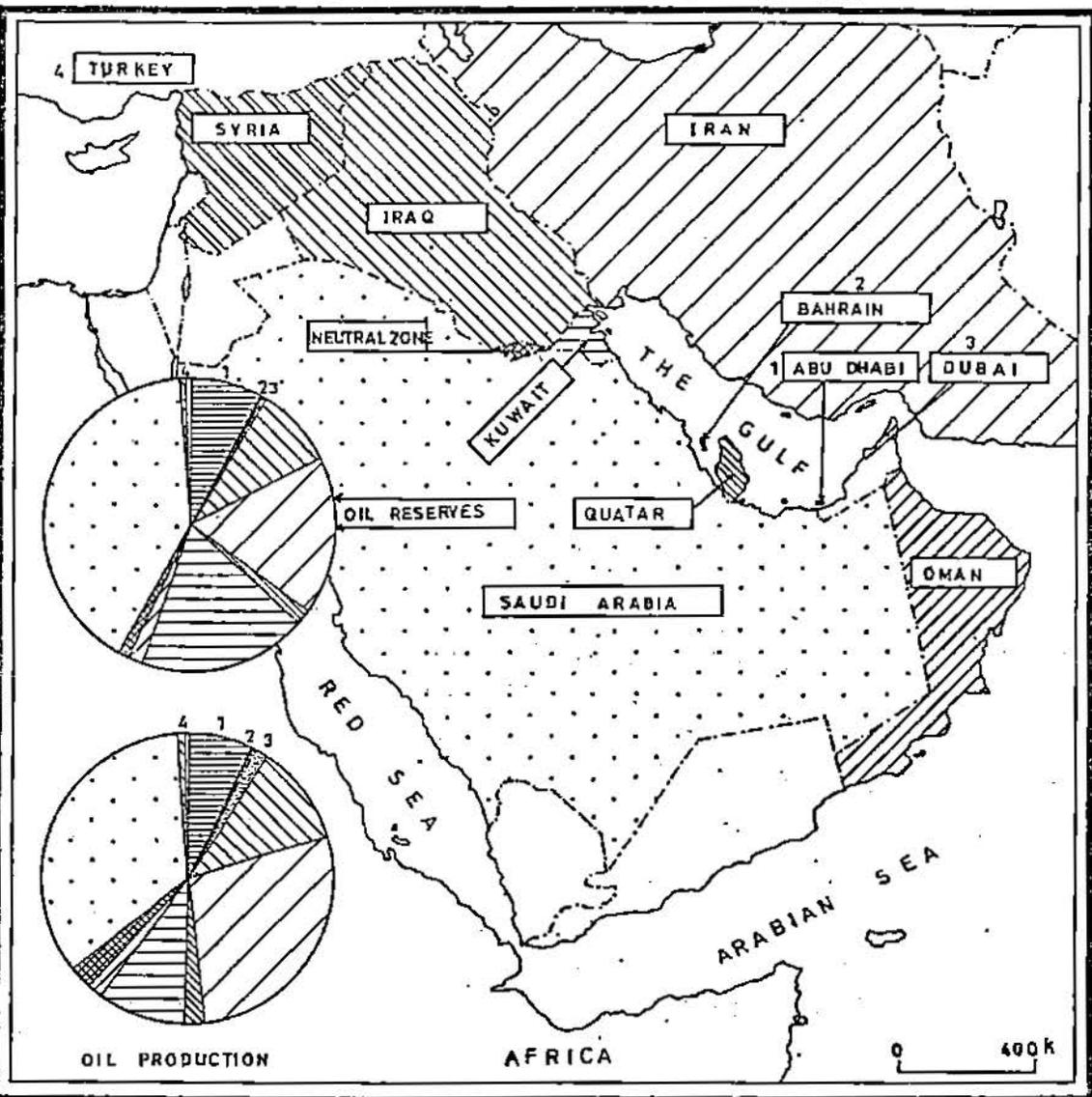
Table 3: Oil Reserves and Oil Production in the Middle East 1980

Country	Oil Reserves		Oil Production	
	<i>in mill. tons</i>	<i>in %</i>	<i>in mill. tons</i>	<i>in %</i>
Abu Dhabi	3875	7.8	64.6	6.8
Bahrain	43	0.1	3.1	0.3
Dubai	179	0.3	12.6	1.3
Iraq	4602	9.2	111.3	11.5
Iran	8752	17.6	268.7	27.8
Qatar	759	1.6	20.0	2.2
Kuwait	9365	18.7	93.3	9.6
Oman	798	1.6	16.5	1.8
Neutral Zone	938	1.9	25.4	2.6
Saudi Arabia	20251	40.5	337.3	34.9
Syria	323	0.6	9.0	0.9
Turkey	15	0.1	3.1	0.3
Total	50079	100.0	966.9	100.0

The history of Omani Oil industry goes back to the year 1945. Concentrated efforts were first made in the year 1952. But these efforts were unsuccessful. Nor did the exploratory drilling near Marmul in 1957 have the expected success. In 1964 drilling was discontinued. Only after the end of the DHOFAR war (1975) was the search for oil taken up again. These efforts were crowned with success in 1978. Valuable quantities of high quality oil were discovered near Marmul.

The first years of oil exploration in the Omani interior near Fahud-Yibal were likewise without success. Of course oil has already been sought here in 1955, but only in

OIL RESERVES AND OIL PRODUCTION IN THE MIDDLE EAST 1980

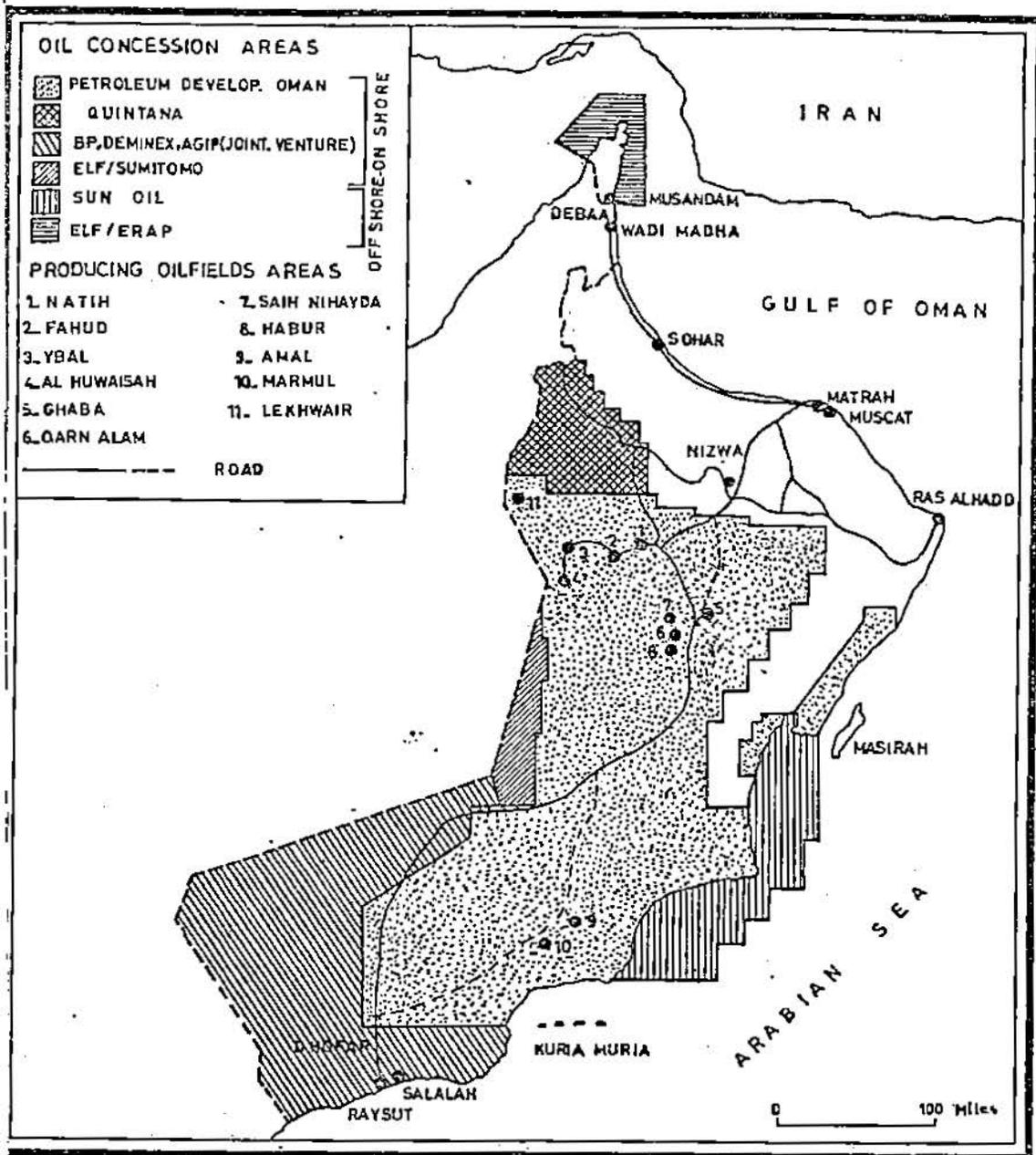


1962 was there success at Yibal-2 and Natih-1, and in 1963 at Fahud-2. However, the export of oil by way of Mina Al-Fahal could only be begun in 1967.

In keeping with the development in other oil producing countries, the Omani government also began to participate in growing measure in the companies active on its territory. In 1974 Oman acquired 25% of the stock in the company that had been dominated by Shell with 85% up to that time. Today, Oman holds 60% of the stock and is thus the main share-holder in the Petroleum Development Oman Ltd. Company (P.D.O.) which is active in Oman. In this way, Oman is in a position to run the oil economy within its own borders, to control income, and to make the decisions concerning one of the country's most important resources more or less autonomously. Intensive exploratory work, which is going on in all parts of the country, is a sign of Omani efforts. In addition to the P.D.O. whose oil concession area covers most of the Omani interior and which alone has productive oil fields, there are five other companies participating in the search of oil and gas, three of them on shore and two off-shore in Oman. (see the illustration No 2). Their success will more or less determine the future, since the oil sector is the most important branch of the Omani economy. So, the income from the sale of oil will continue to form the financial basis of the Omani state for an indefinite period of time.

In addition to the efforts to develop and exploit the oil reserves, there are intensified efforts to exploit other mineral resources as well, e.g. natural gas. For the most part, it has just been burned off up to now. Only a small part of the gas from the field at Yibal has been used since 1978 to run the power station and the desalination plant in Al-Ghubra in the capital area. Domestic use of gas for other industrial projects were also planned and executed at Sohar.

In addition to natural gas, the country also has valuable deposits of lime-stone used in the production of cement, of asbestos, of copper and chromium. The exploitation



of the limestone deposits is already going on successfully after the cement factory has been built.

In 1978, the project to build a copper refinery begun, with production 20000 tons. Future annual production is estimated at about 40000 tons at year 1990. Oman could thus become one of the leading producers of copper in the world (see table 4 and illustration No 3) and would then have a second raw material in world-wide demand in addition to oil.

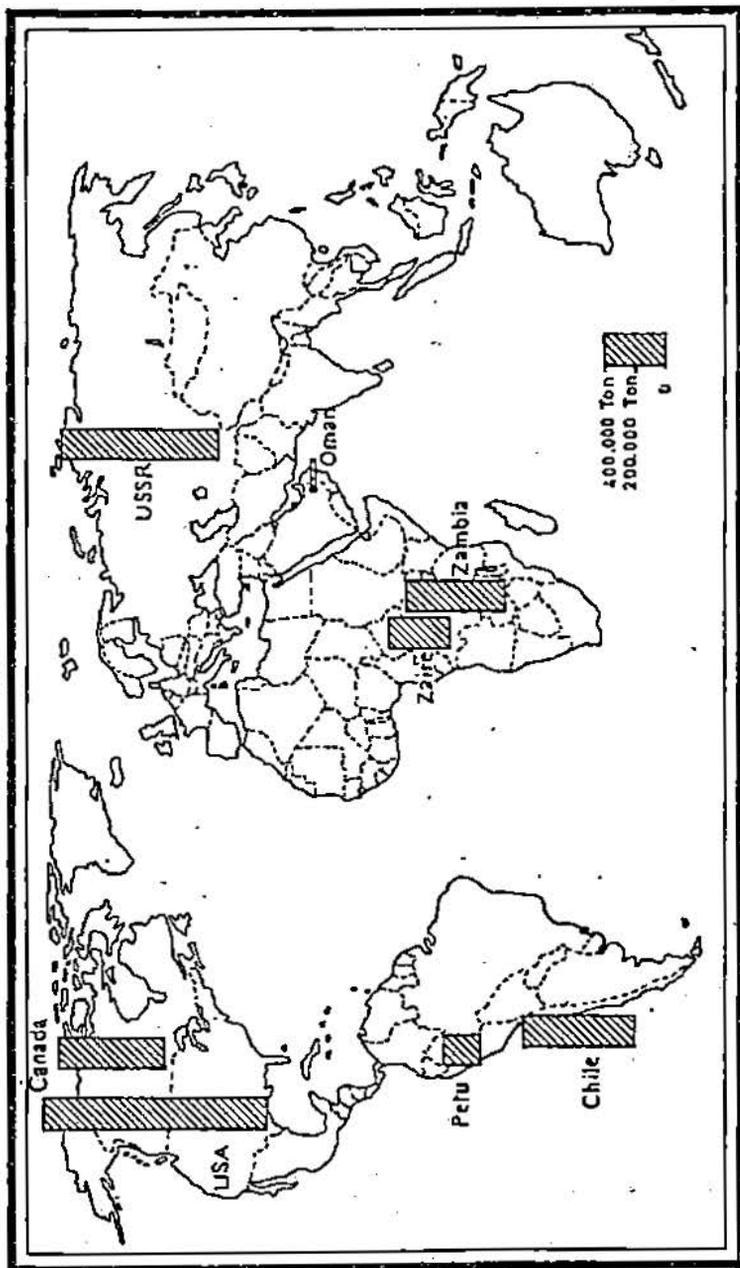
Table 4: Copper production in mill. tons in 1980
(a selection of the most important producers)

<i>Country</i>	<i>Copper Production</i> <i>in mill. tons</i>
USA	1.50
USSR	1.05
Chile	0.72
Canada	0.71
Zambia	0.7
Zaire	0.41
Peru	0.24
Oman	0.04
World production 1980	7.03

The sale of refined copper makes up about 5% of the Omani government's revenue.

Exploitation of Oman's chromite deposits, which have been estimated at 10 million tons is also contributing to a broadening of the source of government income. The energy

COPPER PRODUCTION IN MILL TONS IN 1980



No 3

necessary to run the refineries comes from the gas deposits at Yibal. The deposits of Uranium in Northern Oman that became known in the spring of 1985 are also promising. If it should prove that these deposits are worth mining, it would open up an undreamt of economic opportunity for Oman.

These mining projects represent the first step toward placing the Omani economy on a broader, more diversified basis and decreasing the one-sided dependence on oil. This goal of the development of the government is not, however, limited to mining activity but also applies equally to agricultural production.

2. Agriculture and Livestock

There are many conditions favorable to agriculture and the raising of livestock in the Sultanate of Oman. If these natural conditions could be maintained and expanded and if the farming and bedouin economy could be improved, Oman would be in a position to produce a large part of the foodstuffs it needs itself. The import of such goods could then be decreased, especially that the importation of foodstuffs has been rising since 1970. In particular, the import of cheap grains (domestic production = 0.9 Mill.O.R., import = 7.6 Mill.O.R. 1980). Livestock and meat products (domestic production = 15.3 Mill.O.R., import = 5 Mill.O.R. 1980) represents competition for Omani agriculture. But the importation of these products was also necessary since Omani agriculture was not capable of producing enough to satisfy the growing demands when the country was opened up and the population grew rapidly as a result of immigration.

The reason for this was not just insufficient mechanization or the lack of water, but rather the one-sided concentration on the growing of dates, Alfalfa, limes and onions. Grain and vegetables, agricultural products for which there is a growing demand, were grown only for the use of the producer and they were thus not available for sale on the open market (*see table 5*).

Table 5: The agricultural situation in Oman (1980)

Crop	Area devoted to crop	
	in hectares	in %
Dates	13340	37.1
Alfalfa (Lucerne,Cut)	5560	15.4
Onions	3680	10.2
Limes	3560	9.9
Wheat	1200	3.3
Tobacco	1000	2.8
Bananas	880	2.4
Others	6780	18.9
Total	36,000	100.0

Another problem arose for agriculture and livestock raising after 1970. Agriculture lost laborers to the construction industry, trade, the P.D.O. and the administration, because of the higher salaries paid in these sectors. Because of this loss, the raising of livestock and the cultivation of irrigated fields, both of which are costly in terms of labor, had to be limited. In many oases, the garden and irrigation installations are threatened with decay, a fact which pushed the government to make big efforts to protect them. And many bedouins have reduced the number of animals they hold and have limited migratory grazing. With the decline in these two areas of the economy, a movement of the inhabitants from their tribal settlement areas also took place (e.g., bedouins settled near the oases; agricultural laborers moved to the capital area or even to the U.A.E.) and there was a danger that the economic sector that had been the most important up to that point would undergo a long-term decline. A decrease in the practice of migratory grazing, e.g., can mean that the grazing land becomes overgrown with thorn bushes and is made unsuitable for grazing in the future.

This development would not be in keeping with the modern policies of the government which are based on the growth of a broad-based economy. And since Oman is

referred to as the "garden" of the Gulf with some justification, i.e., Oman could also deliver agricultural products to neighboring countries. So that, to realize this development of agriculture and livestock the following measures should take place.

- 1) The development of production farms, research and experimental stations, extension farms, extension centers and extension sub-centers.
- 2) The introduction of fertilizers, machines, new seed, and pesticides.
- 3) The extension of small loans for agriculture and the distribution of land.
- 4) The construction of processing plants for dates.
- 5) The construction of wells and the maintenance of Falaj installations.

In particular we should take note of government farms. The goal is to study the nature of agricultural production in Oman, to develop new technical methods to improve on traditional methods of cultivation, to try out different types of seed and to develop new, hardy breeds of livestock. The knowledge that is acquired on these government farms is then to be passed on to the farmer and the livestock breeder who are then to be taught the new techniques and given a insight into the necessity of increasing production and who are to be won over to producing for the market.

The production farms in Nizwa, Sohar, and Rumais and in Salalah are engaged in an attempt to translate the knowledge that has been won into the production of products for the market. The intention here is to stimulate the farmer and to provide him with an example. The success that has been achieved up to this point is promising.

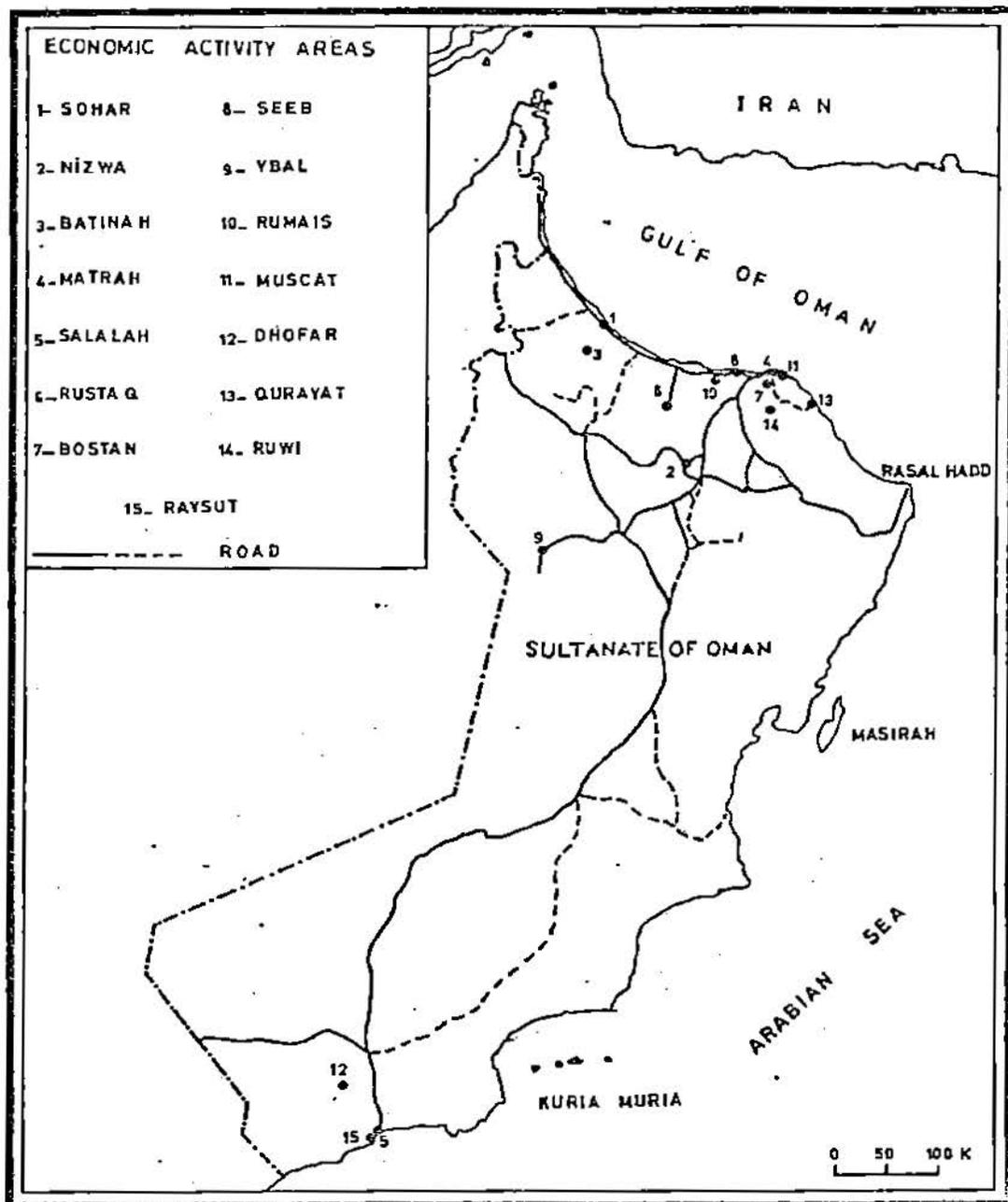
The extension farms, extension farms, extension centers and extension sub-centers, which are to be found in 30 of the oases in the country, are to be spread the new ideas of the government thus contributing to the improvement of agricultural production; but it is also their task to act as advisers and to set an example for others to follow. In laying out new date groves, e.g., the distance between trees necessary for optimal production is

adhered to; there is an increasing use of fertilizers, and there is a growing use of tractors. Most impressive are the results achieved up to this point is the production of vegetables, fruits and milk products. Oman is not dependent on import in this area now (see table 6 and illustration No 4).

Table6: Production and Import of Agricultural Commodities 1980

	<i>Production in mill. O.R.</i>	<i>Import in mill. O.R.</i>
Vegetables	8.5	2.2
Fruits	27.4	4.0
Dairy products	7.5	4.9
Wheat, Flour	0.9	7.6
Meat	15.3	5.0
Rice	----	6.5

There have been changes in the ways in which water is procured. The traditional draw wells are almost all equipped with motorized pumps, and numerous new wells have been drilled. This is especially true where the distribution of land through the government has made the most progress. This includes the Batinah and the oases in inner Oman in whose vicinity the bedouins have settled and have turned to the cultivation of the land. In the Batinah, a chain of gardens and farms has been established on both sides of the Muscat-Sohar road each of which has several wells that bring the ground water to the fields by means of strong motorized pumps. The production results that have been achieved are promising, but it must not be forgotten that the large amount of water withdrawn can disturb ground water conditions, in the Batinah and in some places, it has already done so. The reasons for this are to be found in the fact that sea water with a high salt content penetrates underground and that this penetration in land is more rapid the lower the pressure in the water beneath the Batinah that comes from the mountains. If the ground water pressure is lowered by the numerous motorized pumps, sea water



No 4

penetrates more easily. The ground water of the Batinah is becoming increasingly salty and thus unsuitable for irrigation. The fact that date palms are dying in different places in the Batinah is a certain sign of this development. This process is reinforced by the limited amounts of precipitation or by the lack of precipitation in the mountains altogether, since that means that the flow of ground water from the mountains is decreased and the infiltration of sea water made easier. This problem has been realized by the government and it conducts different tests and experiments in order to overcome this problem, and to keep Batinah as an important agricultural area.

An expansion of the cultivated area around the oases is taking place. The prerequisites for this development are being fulfilled by the drilling of new wells. The areas are being used for the cultivation of grain, alfalfa, and above all for vegetables. The produce from these areas is sold in the local markets and especially in the Capital Area. Expansion of the road network and the use of motor vehicles permits rapid delivery of fresh goods. The support necessary for further development could come through the founding of distributing organizations commonly found in Germany, or France, for instance; through price controls, and through the supervision of imports of foodstuffs that are also produced in Oman.

Such measures are also necessary in the field of animal husbandry if one of the traditional branches of the Omani economy is not to be lost. In Saudi Arabia, Kuwait and Syria, domestic animal husbandry has decreased to such an extent that the need for livestock and meat products cannot be covered without imports. Certainly the wide, open areas of inner Oman and the slopes of the Oman and Dhofar Mountains do not offer a rich supply of fodder, but it is sufficient to maintain a migratory form of animal husbandry. It does not have to take the form of nomadism, i.e. the migration of herds and families, it can be intensified by the use of herdsmen and by introducing regularized migration with the use of additional or supplementary fodder.

The government has also been active in improving animal husbandry. The cultivation of fodder and breeding experiments with cattle in Wadi Qurayat, Salalah and in Rumais were the first steps taken in this direction. But the energetic help of the population is necessary for an increase in the production in the livestock industry. And this is a branch of the economy that has a long tradition in Oman and in which the Omani people have vast experience.

3. Industry and Crafts

If one follows the history of the industrial development of present-day industrialized countries, it becomes clear that this is a process that has taken centuries and that is not to be attributed to one single cause. Certainly the highly developed crafts and the active merchant and trade class of the Middle Ages were important preconditions.

If one studies the industrialization of countries in the Third World, it is clear that it is only taking place slowly and that it is limited to a few products. Either they are producing goods for their own market, in order to become independent of the industrialized countries and the import of these goods (this process is called industrialization through import substitution), or they are producing goods that are to be sold in foreign markets as well as in the country of origin (this process is called export oriented industrialization). The goal in both cases is to develop a domestic industry in order to create jobs and in this way to increase the buying power of the population and to expand the domestic market. This provides the stimulus for the development of new industries, new jobs, etc. But this process quickly reaches the limits set by the competition of the industrialized countries. Most countries in the Third World (so called developing countries) have not gone past the very beginnings of the development of their own industry. The economic importance of these countries is therefore still concentrated in the provision of raw material and energy for the industrial countries.

The oil producing countries, however, enjoy a favored position among the developing countries. They have at their disposal the most important current source of energy, oil, which is also the foundation for a diversified industry. In addition, the production of oil provides these countries with the financial means to acquire the technical equipment and the knowledge of how to use energy and oil as well as other raw materials from agriculture or mining for the development of their own industry. Oman is one of these countries.

But the industrial development of Oman is still, in spite of satisfactory results, in its beginnings. The construction industry enjoys at the moment the greatest importance. It is along with agriculture and the government, the most important employer in the country. But the construction industry does not produce goods that can be exported. To the contrary, it uses up the money that Oman acquires primarily through the sale of oil. Nevertheless, the construction industry contributes to the diversification of economic activities and to the increase in the number of jobs.

Above all, the goal of industrial development must be to develop a type of production that (a) provides jobs for the greater part of the population, and (b) produces goods whenever possible on the basis of domestic raw materials that can be sold at a profit on the foreign and domestic market. Oman has raw materials from both mining and agriculture at its disposal, and there is a long tradition of crafts of all kinds that the government tries to develop, so that it can be integrated into the production process.

We have discussed the raw materials. The industry based on these materials is only at the beginning of its development. Finished products for the world market can be expected from the planned petrochemical industry which is to be linked to the oil refineries and run by gas. Artificial fertilizers, synthetic products and fibers could be produced. Finished products from the cement industry, while ores (chromium, copper and uranium) will certainly enter the market in processed form as crude metal.

Industrial production in Oman has been undertaken up to this point primarily in relation to agricultural products and is to be further developed. The beginning was the construction of date factories in Nizwa and Rustaq. The dates are processed in these factories, and numerous products are then attractively and hygienically packaged for sale on the market. These products meet even the highest international demands. The construction of a grain mill in Matrah is a further substantial step toward the development of domestic industry. The mill was planned with a capacity that would make it possible to use it for neighboring countries as well. There are also factories for the production of beverages, and the processing of domestic products is planned (e.g. mangoes, limes, bananas). The construction of canned-goods factories is also being considered (e.g. for vegetables, fruits, meat). But making these plans a reality still requires thorough preparation.

4. Coastal Fishing

A special opportunity for building up an independent industry is presented by the wealth of fish in Omani waters. Development of an Omani fishing fleet and the scientific investigation of fishing areas, a catch larger than that necessary to cover Oman's needs can be landed. At present the fish is delivered in special containers to all of the markets in Oman by refrigerated transporters. A prerequisite for the storage and preservation of the fish were the cold storage facilities financed by the government (e.g. an ice factory). The development of a fish-processing industry is planned for the future; above all it will produce canned fish of all kinds for the international market. Since many workers are needed here as in all food-processing industries, this sector should acquire special importance for the future job market in Oman.

In addition to these industries, which are based on domestic raw materials and which are all in the process of development, the first furniture factories have been built

as well as production plants for asbestos-cement pipes, moulded cement blocks and cement slabs, and a number of shops for crafts of various kinds: e.g. automobile repair workshops, paint shops and glass works, carpentry shops, workshops for the construction of water tanks, tailors' shops and many others. And the government is trying through the Ministry of National Heritage to preserve and improve the traditional crafts. Pottery making, weaving, leather working, the traditional art of boat making, and copper, gold and silversmiths are receiving such support.

The conditions necessary for a diversified industrial development in Oman have been established by the government through the expansion of the infrastructure, the creation of government initiatives, and above all by the extension of credit and the creation of special industrial areas. The first of the industrial areas to be developed was that in the southeast of Ruwi on the road to Bostan. Mainly construction firms and suppliers of building materials and vehicles have established themselves here. An extensive "industrial area" has been laid out in the Southern Province between Salalah and Mina Raysut. The first companies, construction firms and wholesale dealers in building materials have established themselves here.

The Rusayl industrial area developed west of Seeb International Airport. The grounds, 300 sq Km in area equipped with all of the necessary features (streets, water, electricity, gas) and it plans particularly for light and medium industries which in no way pollute the atmosphere.

In Oman, there is above all a need to develop an industry that creates many jobs. The population is growing as a result of the high birthrate and immigration, e.g. from East Africa. And even more people who were formerly engaged in agriculture and animal husbandry or the children of such people, will be let go as a result of the coming rationalization in agriculture and will need work. And within the foreseeable future, the construction industry, which has grown so rapidly up to now, will cease to expand as it

has and will have to let workers go. They will need new jobs. The planned and developing industry of Oman can absorb the majority of these workers. But this means that automation cannot be allowed to determine the process of industrialization. Automation could mean high production, but the expected large number of people seeking jobs could not be absorbed. This is a problem in many developing countries.

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