

Economic development in Oman - From Magan until the 21st century

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Introduction

The Oman has always benefited from its location at the entrance of the Persian Gulf. In the early history the northern coast of Oman has been a "commercial way station" between Mesopotamia and the Indus Valley. The southern part of Oman has been an important region for frankincense. Nowadays huge tankships transporting oil all over the world have to pass the Strait of Hormuz.

However, the discovery and exploitation of oil has rapidly changed Oman's economy. On this account, this handout is divided into two parts. The first one contains the time period before oil was discovered; the second part is about the subsequent period.

First Part: From Magan until the discovery of oil

Trade in Magan

Magan was an ancient region which was mentioned for the first time in Sumerian cuneiform texts of around 2300 BC as a source of copper and diorite for Mesopotamia. Most of the evidence though - archaeological and geological - seems to suggest that Magan was part of what is now the area of northern Oman (Lawton 1983).

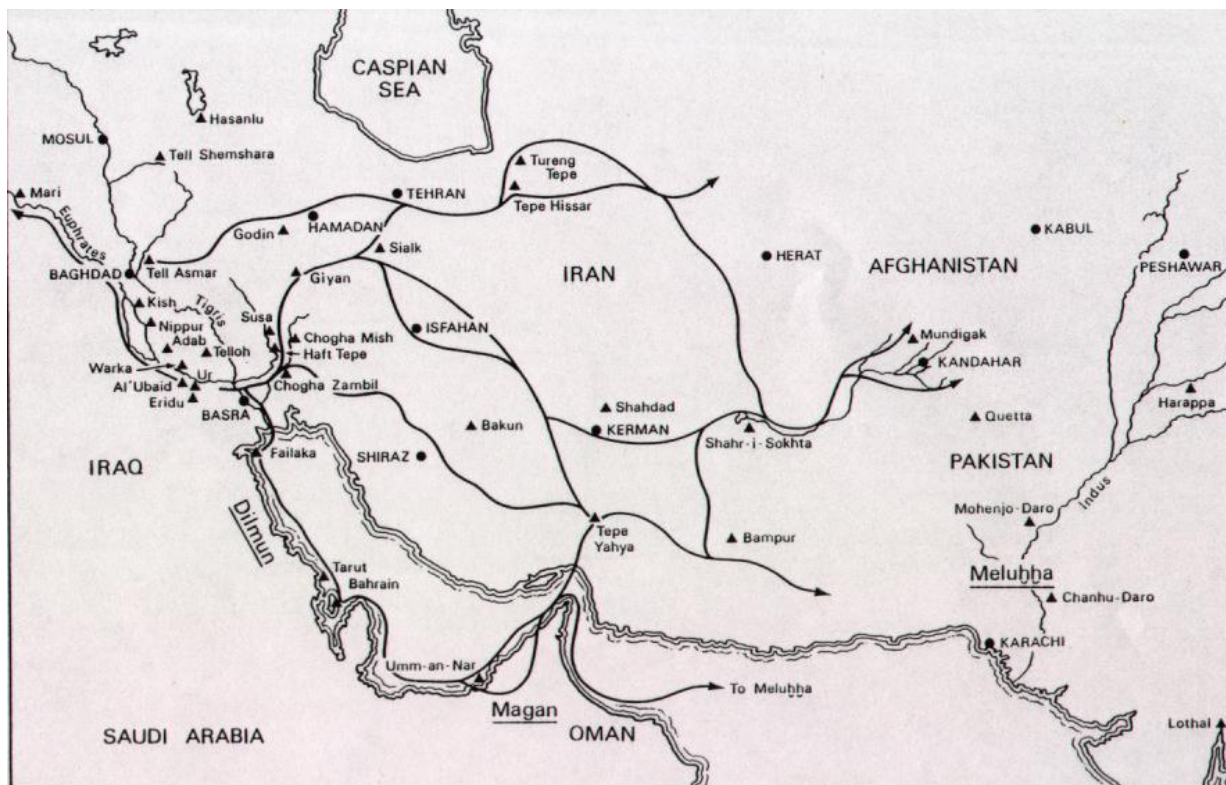


Figure 1: Trade in the Persian Gulf (2000 BC)

At that time trading cities in the Persian Gulf were closely linked with Mesopotamia. In the area between Euphrat and Tigris (Mesopotamia = "land between the rivers") fertile soils could be found, but the region suffered from a lack of mineral resources and lumber. Due to the fact that

they had to import these goods they came into "commercial contact" with Magan to get copper and diorite.

Also Timber was imported from the Indus Valley by ship. As one can see from figure 1, Magan was therefore a kind of "commercial way station" between Mesopotamia and the Indus Valley.

Frankincense

Besides copper and wood, Frankincense (or incense) was a very important commodity for ancient Oman. While Magan covered the northern part of the country the region were the "frankincense tree" (*Boswellia sacra*) grows can be found in the southern area (Dhofar). The dried resin of the *Boswellia* tree was – and is even now – highly precious. During the trade peak – around the first century AD – frankincense was as valuable as gold. The Incense had/has many uses e.g. for religious ceremonies, as medicine, for embalming dead bodies, etc. It was transported through the Red Sea to Egypt and the Mediterranean Sea. When the camel was domesticated – approximately 1000 BC - it was also transported on the Incense Road through the Arabian Peninsula. The trade declined when demand in the west declined, especially when the Roman Empire fell.

Just to be mentioned in 1946 an artificial substitute for frankincense was developed in Rome – the centre of the Catholic Church and in former times one of the best customers – after that was possible to create "frankincense" with cheap chemicals.

Trade in the Middle-Ages

As it was already mentioned in the beginning the people at the Omani coast have been gifted sailors since a long time. Due to the fact that the coastline of Oman is surrounded by high mountains and deserts it is easy to understand that for the people – who were used to live at the seashore – the Oman was more or less like an island. Because of that they began travelling around the Indian Ocean very early. In the 8th century an Omani trader – Abu Ubaida` Abd Allah ibu al-Qasim – made the first sea voyage to China. In the 10th century Omani merchants founded a trading centre on Kilwa an island at the Tanzanian coast. Among other events this incident indicated the roots of the Arabian influence on the East African coastline which is well-manifested until now. Since the 12th century clans from Oman – the first one was the Nabhani clan – are permanently resident in East Africa.

At the end of the Middle-Ages Vasco da Gama rounded the Cape of Good Hope (1498 AD) and the Portuguese got access to the Indian Ocean. In 1507 Muscat was occupied. The Portuguese dominated the trade along the East African Coast and the southern coast of the Arabian Peninsula for the next 150 years.

After the Portuguese occupation

Under Sultan ibn Saif Muscat was recaptured in 1650. He built up a huge and powerful fleet and ejected the Portuguese from Zanzibar and from all other coastal regions north of Mozambique. Around 1700 AD Oman was the dominating sea power in the Indian Ocean. Merchants from Muscat were in close trade relations with Western India and East Africa, especially with Zanzibar. The island at the Tanzanian coast emerged as a trading-centre which was controlled by the Oman. Particularly the slave trade constituted an important income source for the Oman.

At that time there was already a flourishing trade between Oman and the British which expanded their influence in the Indian Ocean since the 16th century. The first trade treaty between these two countries was signed in 1646 (Bhaker 1992). And it was some 152 years later (1798 AD) that a full-fledged commercial treaty giving extensive facilities to the British (East Indian Company) was signed between Oman and Britain. According to Bhaker (1992) this

treaty "turned out to be the first step towards the political and economic stranglehold that Britain was to exercise over Oman throughout the nineteenth century and for the best part of the twentieth".

At the beginning of the nineteenth century the slave trade was abolished in Europe. The Slavery Abolition Act (1833) in Britain outlawed slavery itself in the British colonies. In fact, Oman was not a colony, but because of the dependence of Oman on the British Empire (economically and politically), they were forced to give up slave trade. In 1856 the ruler (Said ibn Sultan) of Oman and Zanzibar died and in result of British pressure the country was divided into the Sultanate of Oman and the Sultanate of Zanzibar. These two events led to an economical decline in Oman.

The twentieth century

At the end of the nineteenth and the beginning of the twentieth century Muscat was attacked by "rebels" from the interior several times. The British helped the Sultan militarily and in addition they loaned him money, so that the government's debt rose and the British influence in Oman increased. In 1920 a British political agent in Muscat arranged a peace treaty between the Sultan and the rebels (the treaty granted the imam autonomous rule in the interior Imamate of Oman, while recognising the nominal sovereignty of the sultan).

The financial disarray of Oman led to the appointment of financial advisers to the Sultanate by the British. Their efforts to impose order were unsuccessful (Lunde 1983). In 1932 when Sultan Sa'id ibn Taimur took power Oman was a poor country, debilitated by debts.

The conflict between the Imamate and the Sultanate arose again in 1954, when the Imam led a rebellion against the Sultan's efforts to extend government control into the interior. The Sultan defeated the Imam in 1957 with British help (the last troops surrendered in 1959). This expensive war was partly paid by the selling of the enclave of Gwadar (Balochistan) to Pakistan. With this disposal the Oman lost an important trading outpost again. Until 1970 when Sultan Qaboos bin Said took power Oman was an isolated and indigent country.

Second Part: Modern economy in Oman

History of oil exploration and extraction

Since the country of the Arabian peninsula belonged to tribal leaders that controlled the gulf region these leading families became very rich with the discovery of oil in the early 20th century. Already in these days especially British oil-companies paid high prices for the "black gold".

But even if the traditional leaders kept a lot of money for themselves and their families they spend also some amount of money for gifts for friends and food for poor people. These traditional customs and methods can still be recognised in the modern structures of these countries: Rich people finance infrastructure-, school-, hospital- or other charitable projects. But that of course the tribal leaders gain a lot of influence in their regions.

The Discovery of oil:

The first oil was found in Iran where from 1911 on the Anglo-Persian Oil Company (APOC) produced oil. Further on oil wells were installed for example in Iraq (1918), in Bahrain (1932) and Saudi Arabia (1933). In the 1930s started a hard competition between the United States of America and the United Kingdom for the oil resources in the gulf region. In this time oil was still quite scarce on the world market; first commercial amounts were produced - mainly with technical support by British companies - in the 1950s. Kuwait was the largest oil producer in

1953. The first offshore oil was found in 1960 in the Persian Gulf within the territorial waters of Dubai.

First oil in Oman

In Oman the first oil was found also before the World War II started: but in 1924 only small amounts of oil were produced in the inner country and only used on the regional and national level. The historical split between the coastal and the interior tribes of the country were the main reason for the conflicts in oil exploration as well. The interior tribes claimed sovereignty and attacked over decades the oil producing companies from the coast.

The first oil in commercial amounts was exported from Oman in 1967. But until the middle of the 1970s new conflicts and military conflicts took place. While the Omani Sultan was supported by the British air force the "rebels" of the interior got help from Yemen.

In this time the old Sultan Said ibn Taimur got unpopular and the new one, Sultan Qabus ibn Said, took over the power. He solved the national conflicts with the help of Arabian troops and less British support. From that time Oman was able to install a well ordered national economy, but many other Arabian countries were and are still one step ahead concerning the economical development.

Most important economic sectors

Crude oil and petrols

Today the production and the export of crude oil and oil- and petrol-products create with more than 80% the most important branch in the Omani economy. Responsible for the foreign oil-trade is the Ministry of Petroleum and Minerals and the Oman Oil Company (OOC). Geological and technical problems caused a decreasing oil-production in the 1990s. Today a lot of research is done on new technologies for oil-production. In this research industry Oman is one of the leading countries.

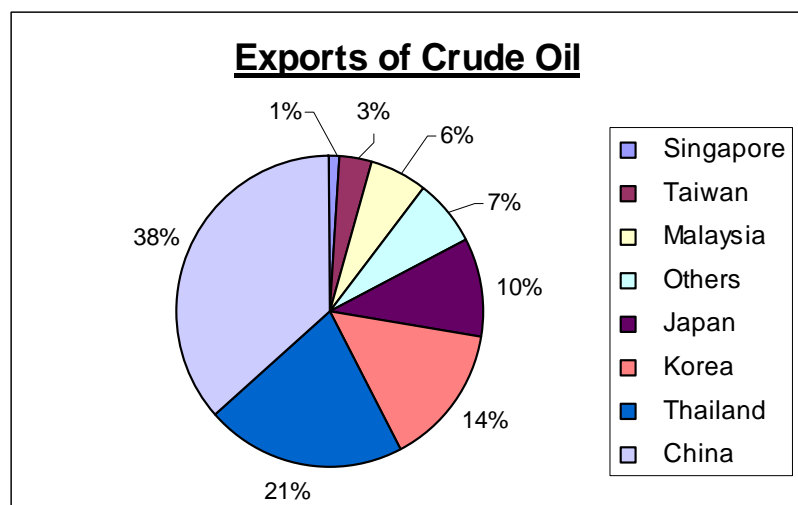


Figure 2: Exports of crude oil from Oman to foreign countries in 2006

Oil production in Oman depends on new techniques because the most oil found in Oman is heavy oil that is difficult to pump. In recent years the oil-price rose, and by that the lower amount of extracted oil could be compensated. So imports and the national budget grew a lot. To ensure crude-oil-sales Omani companies invest in foreign countries in refineries and other oil-based industries. In figure 2 the Exports of Crude Oil from Oman are demonstrated. The total amount of oil-exports in 2006 was 177,839,800 Barrels of which around 75 % were transported to China, Thailand and Korea.

Natural gases

Since the 1970s the Omani government started projects to search for resources of natural gas. It was found in big amount in the interior of the country. Today the gas reserves of the country are estimated to last for some 80 to 100 years more.

Natural gas is mainly used as a substitution for oil in electric power generation that is needed itself by the oil producing firms. So the amount of gas production is highly correlated with the oil production.

The produced gas is transported in elongated pipelines to the southern and to the eastern parts of the country. Some gas is there also used in other gas-based industries for the production of methanol, fertilizers, or methyl tertiary-butyl ester (MTBE). A large amount of gas is also exported to other countries in the form of liquid natural gas (LNG).

In table 1 the extreme increase of the oil-price within one year (2005-2006) can be seen as well as the increase of the amount of produced natural gas in Oman. The importance of both goods is quite obvious.

Table 1: Production, exports and prices of oil and natural gases in 2005 and 2006

	%	2006	2005
Oil Production (000 BBL)	- 4.1	202,544.00	211,205.80
Crude Oil	- 4.8	185,357.70	194,782.30
Total Exports	- 9.0	177,839.80	195,427.80
Average Price (US\$/BBL)	28.5	63.270	49.25
Natural Gas	25.2	778,770.0	621,824.00

Agriculture and fishing

Besides the production of crude oil and natural gases there are two industry-branches that play still an important role in the national economy of the Sultanate Oman: on the one hand agriculture on the other hand the marine fishing industry. Both played major roles in the past before the first oil wells were discovered in the early 20th century. But even today these two sectors employ more than 40 % of the Omani working population, 27% are employed in agriculture and food industry.

The agricultural production centre of Oman is located in the northern Batinah-plains that are the base for the export-oriented Omani agriculture. Important products grown on the watered fields are besides many others maize, wheat, alfalfa, dates, limes and other citrus fruits, pomegranates, in some places tobacco and coffee. In the southern region of the country frankincense is even today a good source of income. Also animal husbandry is common: goats, sheep, camels are the main groups.

Fishing takes place in the Gulf of Oman and the Arabian Sea. Different species like swordfish, tuna, shark, sardines, bluefish, lobsters or oysters are caught by both traditional small boats with outboard motors and big scale fish industry trawlers. Although there are strict fishing quotas given by law over-fishing is a big problem like in most other seas of the world.

Non-oil minerals

Copper was found in Oman already thousands of years ago. Today it is the Oman Mining Company which is owned by the government that searches for the copper ore. Main export

markets for copper as raw material are again countries in the Far East, namely Taiwan, Japan, South Korea.

The Oman Chrome Company (OCC) that is mostly private but by 15 % governmental-owned produces chrome in surface mining. The first geological research concerning this element was supported by French and British geologists. Other mined metals found in Oman that are of economical importance are iron, manganese, nickel, lead, zinc, gold and silver. The latter ones are mainly used for jewellery handicrafts.

For construction and house building purposes tile and marble are produced. Limestone is used for cement production.

In some regions of the Oman coal was found. Like natural gas coal is used in the domestic economy to replace oil in electric power generation, but is not exported to foreign countries.

Other Omani industry-branches / "Omanisation"

It is a known fact that the oil resources in Oman will become scarce within the next 40-50 years. Oil production will stop in Oman even earlier than in its neighbouring countries. That is why the Omani government tries to diversify the industrial sectors: with enormous subsidies the large scale industry (like e.g. the natural gas industry) is, besides the oil producers, supported by governmental help as well as the more small- and medium-sized industries and manufactures.

In the 7th five-year plan (2006-2010) most goals aim in that direction: The installation of medium-sized industrial estates should be promoted as well as the sector of tourism. For these and other goals the government tries to attract domestic as well as foreign financiers to invest in Omani industry.

To raise the living standard in the country the government spends more money on the development of infrastructure and, especially in the remote regions, on water supply for people and the field irrigation. The promotion of human resources, i.e. basic education, education at highschoools and universities, is another important point in the five-year plan.

In this context an often used keyword is "Omanisation", by which is meant that more jobs should be created for Omani people, especially young people coming from university and school. Responsible for that programme is the Ministry of Manpower (2005) and was supported by e.g. the German Association for Technical Cooperation (GTZ). Some further goals of the "Omanisation" are the following:

- Promotion of private economy
- Higher efficiency in public administration
- Improvement of the living standard and price stability
- Protection of the environment and the national heritage

Tourism

Responsible for the upgrading of tourism in Oman is the Ministry of National Heritage and Culture. In the recent years big hotel complexes were built in the surroundings of bigger cities, especially in Muscat and other coastal towns in the north. International tourists (mainly from India, UAE and Germany right now) should be attracted by new sports facilities, restoration of historical sites and others. Ecotourism is another sub-branch people think about.

The goal is to increase the proportion of tourism in the GDP from 1% by now to at least 3% in the year 2030. By that a lot of jobs could be created, especially for young Omani people.

Transportation

With the development of all economical sectors in the country infrastructure was a big issue starting after 1970. Today in Oman there is a street network with more than 32,000 km; most streets are paved today. For public transport these roads are used by overland bus companies that are frequently used since there is no running railway in Oman.

There are two deepwater ports for container shipping and one oil port that is connected with the oil pipeline network of 7,000 km. Additionally there are two international and several smaller airports.

Military

The expenditures for military participate with the quite big number of 11.4% (2003) in the Gross National Product of Oman. In 2004 the total spending on military was around US\$ 252.99 million. In this economical sector there is still a big cooperation with the British armaments industry; e.g. the British tank "Challenger 2" is in use in the Omani army.

Oman in international economical Organisations

With the development of the modern Omani economy the country aspired to participate in several International Organisations to profit from these networks in terms of security and especially new export markets for goods produced in Oman. Following some important organisations this context are just mentioned but not further described in detail:

- Oman joined the League of Arabic States since 1971. In these organisations 22 members participate today, i.e. countries from Northern Africa and the Arabia.
- In the same year (1971) Oman became a member of the World Bank. Within the Technical Cooperation Program the World Bank financed mainly in the 1970s and 80s several projects in Oman concerning infrastructure, industrial policy, health, education, water, power creation of multi-annual development plans.
- Together with five other Arabian countries (namely Bahrain, Kuwait, Qatar, Saudi Arabia and UAE) Oman found the Cooperation Council for the Arab States of the Gulf (GCC) in 1981. The goals of this cooperation are regional defence, the coordination of policies on trade and economic issues.
- Since the year 2000 Oman joins the World Trade Organisation (WTO) which is an important partner to establish new economical markets worldwide.

Appendix

National budget 2006 bases on an oil price of 32 US\$/Barrel (2005: 23 US\$).

Revenues:	3.64 bn. R.O. = 9.36 bn. US\$	+ 14,2%,
Expenditures:	4.24 bn. R.O. = 11.04 bn. US\$	+ 15,1 %
Investments:	914 mill. R.O. = 2.38 bn. US\$	
Budget deficit:	650 mill. R.O. = 1.69 bn. US\$ (6 % of GNP)	

The deficit is compensated by the "State General Reserve Fund" which earns the surplus of the oil-revenues and by raising of capital in the home and foreign countries.

Categorisation of national economies by the World Bank (examples):

Low income economies	(Ethiopia, Malawi, Yemen)
Lower-middle-income economies	(Brazil, Cameroon, Ukraine)
Upper-middle-income economies	(Oman, Poland, South Africa)
High income	(Canada, Norway, Japan)

Table 2: Gross National Income (GNI) in 2005

	GNI (mill. of US\$)	Per capita-GNI (US\$)
Oman	22,994	9,070
Germany	2,852,337	34,580
Rwanda	2,067	230

Table 3: Economic relations: Oman - Germany

	2004* (1. Half)	2005* (1. Half)	
Exports: Germany → Oman	152,1	215,7	➔ + 41,8 %
Exports: Oman → Germany	4,5	6,9	➔ + 51,5 %

* Values in mill. EUR

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