

Economic Diversification in Sultanate of Oman amidst Oil crises

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Abstract: *The study aims to examine the affects of oil prices on economic growth amidst oil crises in Sultanate of Oman and to find out economic diversification plans in Sultanate of Oman amidst oil crises. Descriptive research design was adopted for the present study. The data was collected through secondary sources and it is found that to diversify economy there must be some shift in economic plans and policies. Diversification is needed due to decline in oil prices as 80% of the country's economy is from Oil. To stabilize earnings and increase revenue of the country's economy diversification can be done by promoting industrial sector, market for non-oil products can be encouraged and marketing of tourism is also one of the alternatives to develop economy in Sultanate of Oman.*

Keywords: *Diversification, Economy, Economic growth, Oman, Oil crises.*

I. Introduction

Sultanate of Oman's economy has seen tremendous growth continuously for the past 50 years. From the year 1999, it improved further due to increase in oil prices. Oil is the major source of income for the economy and more than 80% of the country's economy is from oil. In recent years, due to decline in the oil prices has slowed down the economy and the Government is taking several measures to improve its economy as per the data released by the National center for statistics and information Oman's gross domestic product declines 5% to OMR 25.5 billion in the year 2016 and this fall in economy is due to drastic decrease in crude oil prices in the international marketsⁱOil exporting countries has faced major problems due to several fluctuations in oil prices. Countries whose main source of Income is through oil is facing several problems like slowdown of infrastructure projects, unemployment problems, public spending, etc., which in turn has crippled the economy as a whole. When the prices of oil increases, there will be increase in the spending by the Government to improve infrastructure facilities where as decrease in oil prices forces the oil exporting country to cut down its spending thereby affecting the whole country economy. Oman should try to adopt various diversification policies so as to reduce dependency on the oil revenue and the country can be protected from the risk incurring due to the change in oil prices. Sultanate of Oman has to focus on non-oil activities and there is growth of 0.6 percent at OMR 19,282.3 million in 2016 against OMR 19,170.7 million in the previous year which shows that the non-oil GDP is showing a gradual increase in growth as the government major focus on tourism, logistics and mining sectors.ⁱⁱ The government must try to increase the contribution of non-petroleum activities to GDP within its plan to diversify sources of the national income.

II. Literature Review

Alameen, M.M.Y., (2016) Studied by using historical, descriptive and deductive methodology to specify the valuable Norway experience in the Gulf countries by recognizing the reasons of success, principles and policies adopted by Norway and it also helps the GCC to take various steps to shift concentration from not only producing the oil but to diversifying the economy. Chris et.al., (2015) attempted to find out how economic diversification will improve stable and feasible economic growth in Nigeria and found that to diversify the economy a very Significant fundamental change in economic policies and political will to apply such changes in policies. Data revealed that due to neglect of agriculture there was a constant depreciation in GDP of the country and concluded that there should be an urgent diversification of the Nigerian economy.

Shayah (2015) studied the contribution of non-oil exports to the economic diversification in UAE as it is one of the most diversified economies in Arab countries which do not rely completely on oil as it concentrates on other sectors to play a major role in the development of the country's economy in the form of Trade and Tourism. Marzovilla (2014) examined the extent to which GCC countries can bear the costs of monetary association in the light of the signs arising from the traditional optimal currency area theory and in the contest of the deep structural modifications that characterized their economies and concluded that the GCC countries should launch an exchange rate system that suits the new economy in both the cases whether they introduce the single currency or retain their national currencies.

Hvidt (2013) analyzed past records and future trends of economic diversification in the six Gulf Co-operation Council countries by using content analysis, probable future diversification trends are studied from

current development plans and national vision published by GCC government and concluded that the prospects of economic diversification through refinement of difficult political economic reforms has suffered a noteworthy setback. Noh A (2013) explained Malaysia's potential to diversify its economy and to reduce its dependence on natural resources is determined by two elements and demonstrated that the late entry of commercial oil production and the preceding existence of a booming private sector made it easy for Malaysia to diversify its economy and elude overdependence on natural resources. He also argued in his paper that the path in order to expand economy Malaysia must follow diversification strategy.

Belwal R &Belwal S., (2010) made a study on economic growth and tourism in the post oil Omani economy with three major techniques of strategic analysis viz. PESTEL framework, Porters diamond model and SWOT and revealed through analysis that Oman is at cross roads where there is a need to find out areas that will contribute to the economic development and growth. Two sectors which can help in mitigating the problem is Tourism and real estate sectors. Tasie (2009) examined the effect of the diversification programmes in the 7th five year development plan from 1996 to 2000 in Negara Brunei Darussalam. As per Labour force survey unemployment has increased to 4.9% in 1995 from 3.6% in 1981 to 4.7% in 1991 which has accounted for diversification by not depending on Oil and gas but also provided more job opportunities for the growing work force among the Nationals of Brunei.

III. Objectives Of The Study

1. To analyze the GDP of Oman and its trend value.
2. To examine the affects of oil prices on economic growth amidst Oil crises in Sultanate of Oman.
3. To find out the economic diversification plans in Sultanate of Oman amidst Oil crises

IV. Scope Of The Study

The present study is an attempt to seek out how diversification of the country's economy will enrich stable and sustainable economic growth in Sultanate of Oman. The study focuses on Economic Diversification in Sultanate of Oman amidst Oil crises.

V. Research Methodology

Descriptive research design was used for the present study and the data were collected through secondary sources from internet, official sources and records, journal research articles.

VI. Results And Discussion

Table no.1: Oman's Oil Prices (US \$/ Barrel)

Month	2011	2012	2013	2014	2015
January	83.6	109.33	107.14	105.97	78.24
February	88.93	107.41	106.16	107.88	61.01
March	92.51	110.63	107.78	104.04	46.73
April	100.39	117.32	111.21	105.04	56.21
May	108.95	122.8	105.5	104.36	55.09
June	116.51	117.29	101.81	104.99	58.68
July	109.2	107.68	100.43	105.65	63.62
August	107.84	94.42	100.21	108.08	61.84
September	110.57	99.47	103.59	106.24	56.33
October	105.1	109.05	106.96	102.23	47.88
November	106.96	111.24	108.58	97.26	45.76
December	104.88	108.67	106.7	86.96	46.03
Average (Jan. - Dec.)	102.95	109.61	105.51	103.23	56.45

Source: Ministry of Oil and Gas and National centre for Statistics and Information

Table no. 1 shows the oil prices in US\$ per barrel for the years 2011 to 2015. It was high during the year 2012 and it gradually declined and reached half the price of 56.45 in the year 2015 when compared with any of the previous year prices. Several Five year development plans have been devised by the Government in order to improve the economic growth, education and developing a skilled labour force to match the needs of the industry. The eighth development plan which ended in 2015 had key plans for diversification of the economy, development of labour intensive economic growth industries to provide more employment and to encourage the establishment of small and medium enterprises. This plan also included improvement of agriculture and fisheries to enhance rural employment and national food security. The Ninth five year plan (2016-2020) focuses on improving employment and diversification of the economy. Oman's vision 2020 which also gives importance to diversification and developing private industries was a step towards developing the economy as a whole.

Table no.2: GDP growth and trend value

Year	GDP growth(Current US Dollars)	Trend value
2000	19.51	12.04838
2001	19.45	16.79301
2002	20.14	21.53765
2003	21.63	26.28228
2004	24.76	31.02691
2005	31.08	35.77154
2006	37.22	40.51618
2007	42.09	45.26081
2008	60.91	50.00544
2009	48.39	54.75007
2010	58.64	59.49471
2011	69.52	64.23934
2012	77.5	68.98397
2013	79.66	73.7286
2014	81.8	78.47324
2015	69.83	83.21787
2016		87.9625
2017		92.70713
2018		97.45176
2019		102.1964
2020		106.941

Source: Ministry of Oil and Gas and National centre for Statistics and Information

GDP in current US\$ and its trend value is shown in Table no.2. Trend value and actual value of GDP was almost the same until the year 2014, but in 2015 the actual value is only US\$ 69.83 when compared to the trend value of 83.21 which is due to the low oil prices which prevailed in that year.

VII. Diversification Plans Of Sultanate Of Oman

Sultanate’s diversification plans includes: Infrastructure development and Tourism development. This already has started to produce positive results with more than 2 million tourists visiting Oman during the year 2016 which helped to boost the economy. In addition to this, the Government is giving more importance to entrepreneurship development to bring out the talents and provide better opportunities to the Omanis instead of depending upon employment.

Table no. 3: Annual growth of GDP (%) and Share of petroleum and Non-petroleum activities

Items	2011	2012	2013	2014	2015
GDP at current market price (R.O. Million)	26122	29353.3	30061.3	31450.8	27013.1
Annual Growth (%)	15.9	12.4	2.4	4.6	-4.1
Share in GDP at Current Market Price (in per cent)					
1. Petroleum Activities	53.2	52.3	50.6	47.2	33.9
2. Non-Petroleum activities	54	54.6	57.2	60.2	71.7

Source: Ministry of Oil and Gas and National centre for Statistics and Information

From the table no.3, we can understand that annual growth (%) according to GDP current market price was high (15.9%) during the year 2011. It reduced consistently and in 2015, it was (-4.1%). Contribution of petroleum activities is continuously decreasing due to decrease in oil prices. Due to less oil prices GDP growth rate is also less. In order to overcome the difficulties faced the Government is trying to implement various diversification measures like:

1. Promoting small and medium scale industries
2. Improvement of Agriculture and fisheries
3. Tourism development

In spite of all these efforts, diversification of the economy remains in its nascent stage and the economic dependence on oil has not come down amidst low oil prices. Diversification in Oman has not achieved its expected results due to the following:

1. Lack of trained labour force available in the market in order to attract foreign direct investment
2. Low productivity of local labour force
3. Omanisation policy which prevents low cheap foreign labour to be recruited
4. Labour force not meeting the demands of private sector expectations

The above mentioned issues pose a major threat to the success of diversification of the economy. An effort has been made to study the affect of decrease in oil prices on the economy and the diversification measures taken by the Government to reduce its dependence on oil.

VIII. Conclusion

As the Oman economy is dependent on Oil which is the main contributor to government revenues it has to take some plans and policies on development of new technology, diversification of the economy, controlling of inflation, undertaking unemployment and must try to diversify the economy and develop the country. Diversification is needed to stabilize earnings and increase the revenue of the whole economy. Diversification can be done by promoting industrial sector to increase their output by satisfying the demand in the local market as well as making large export which in turn increase the economy as a whole. Government can also help in promoting and attracting foreign direct investments. Infrastructure need to be upgraded and Financial restructuring i.e. interest rates need to be moderate so that it helps the private entrepreneurs to take loan and the market for non-oil products can be encouraged. Marketing of tourism can also be one of the alternatives to develop economy.

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ⁱ April 24th 2017, Times of Oman news paper

ⁱⁱ April 24th 2017, Times of Oman news paper