

Research Paper

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Middle East and North Africa | September 2014

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# Elusive Employment Development Planning and Labour Market Trends in Oman



**CHATHAM  
HOUSE**  
The Royal Institute of  
International Affairs

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## Summary

Oman's economy, like those of its neighbours, is strongly dependent on hydrocarbon revenues and foreign labour. Unlike them, however, it does not have a financial cushion allowing it to procrastinate over reducing this dependency.

In 1995, Oman became the first Gulf Cooperation Council country to develop a long-term development strategy (Vision 2020). Its overarching objective was to overhaul the structural dependencies of the economy in parallel with a fundamental demographic shift. Crucial to this was repositioning the private sector as the engine of economic growth and generating employment opportunities for nationals.

These goals remain far from realization. Instead, the economy confronts relatively high levels of unemployment, especially among young Omanis, while demand for non-national labour has never been greater.

The majority of Omanis are still employed in the public sector. Those in private employment are concentrated in specific economic sectors and occupations. Aside from a few highly capitalized, low-labour intensity sectors where Omanis dominate, the economy is heavily factor-driven with a greater appetite for low-skilled foreign labour. At the same time, the single occupational category where affirmative action for Omanis succeeded – lower-skilled middle-class clerical jobs – is also the one most at risk of technological obsolescence.

The recycling of hydrocarbon windfall into various social benefits over the past four decades of petro-development has created an oil society rather than just an oil economy.

Employment policy changes over the last three years have consisted of ad hoc responses to social agitation, with the overall strategy giving way to tactical manoeuvring. Alongside reversing incentives for structural reform, many of the policies since 2011 have further entrenched the state's position as the country's primary employer. These short-term solutions will have long-run repercussions.

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## Introduction

Addictions are never easy to overcome. Economic ones are no different. Oman's dual dependence on hydrocarbon revenue and foreign labour has beleaguered development planning in the sultanate since its First Five-Year Development Plan was released in 1976. This over-reliance continues to challenge labour-market reform and private-sector development. This paper examines the conditions that make a national addiction to foreign labour particularly difficult to overcome, and assesses its overall impact on citizenship and the economy in the sultanate.<sup>1</sup>

With a GDP of \$78.11 billion, Oman is classified as high-income by the World Bank.<sup>2</sup> Regionally this makes its economy the second-lowest among the Gulf Cooperation Council (GCC) states by total GDP, or the lowest using a normalized per capita measure of \$21,560. However, out of Oman's population of 3.6 million, no more than 58 per cent are nationals.<sup>3</sup> It is the 1.53 million non-nationals, virtually all within the productive age group of 15–64, who are critical to the smooth functioning of the economy.

Yet this snapshot does not capture the pace of change experienced since 2006, with the population growing exponentially. A 3.9 per cent rate of annual growth among Omanis would have already put the country within the top five globally for population growth rates in 2012. In fact, it achieved the top rank according to the World Bank as the seemingly insatiable demand for labour expanded the expatriate population by 17.7 per cent in that year alone.<sup>4</sup> Fossil-fuel extraction continues to underpin the economy, accounting for over 80 per cent of exports and state finances. Hydrocarbon revenues grew by more than 600 per cent between 2000 and 2012, driving excess demand for labour across all sectors.<sup>5</sup> This is an economic characteristic unique to the GCC countries, in all of which the private-sector workforce is predominantly foreign. This condition persists in Oman despite unemployment among nationals that is approximately 15 per cent, and above 30 per cent in the youth segment.<sup>6</sup>

**According to official estimates, only about a third of employed Omanis are in the private sector. This means that the livelihood of a majority of nationals is intricately tied to the state.**

Closer inspection of Oman's abnormal economic structure reveals a further aberration. While private-sector establishments account for nearly 60 per cent of the labour market, their impact on national employment is weak. According to official estimates, only about a third of employed Omanis are in the

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<sup>1</sup> For this analysis we apply an understanding of economic citizenship used by Cordon and Philipps, which encompasses economic security, economic liberty with regard to the right to access markets, economic citizenship responsibilities and participation in economic decision-making. Cordon, Mary and Philipps, Lisa, 'Connecting Economy, Gender and Citizenship', Law Commission of Canada (ed.), *Law and Citizenship*, UBC Press, 2006, pp. 176–207.

<sup>2</sup> 'GCC: A Statistical Glance, 2014', Cooperation Council for the Arab States of the Gulf, Secretariat General, March 2014, pp. 63–64, <http://sites.gcc-sg.org/DLibrary/index-eng.php?action=ShowOne&ID=633>.

<sup>3</sup> 'Monthly Statistical Bulletin 2013', December 2013, [http://www.ncsi.gov.om/NCSI\\_website/book/mb/Dec2013/contents.htm](http://www.ncsi.gov.om/NCSI_website/book/mb/Dec2013/contents.htm). Total population at mid-2012 was 3.623 million, of which 2.093 million were Omanis and 1.530 million were expatriates.

<sup>4</sup> 'Monthly Statistical Bulletin 2013', October 2013, p. 4, [http://www.ncsi.gov.om/NCSI\\_website/book/mb/Oct2013/contents.htm](http://www.ncsi.gov.om/NCSI_website/book/mb/Oct2013/contents.htm). World Bank population growth (annual %), <http://data.worldbank.org/indicator/SP.POP.GROW>.

<sup>5</sup> *Statistical Year Book 2013*, Oman National Centre of Statistics and Information, 2013.

<sup>6</sup> Buckley, Graeme and Rynhart, Gary, 'The Sultanate of Oman – The Enabling Environment for Sustainable Enterprises: An "EASE" Assessment', Employment Report, Employment Sector, International Labour Organization, 2011, p. 51, [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/---ifp\\_seed/documents/publication/wcms\\_167007.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_167007.pdf).

private sector.<sup>7</sup> This means that the livelihood of a majority of nationals is intricately tied to the state, notwithstanding the welfare benefits that extend to the total national population.

Each member state of the GCC is struggling with similar challenges. Each is looking at paths towards a knowledge economy, industrialization and tourism for sustainable futures. What makes the Omani case interesting, however, is Oman's long history of active development planning and the lessons that may be learned from its failures in bringing these plans to realization. In fact, despite being the first Gulf country to develop a long-term development vision (1995), Oman continues to circle back to old patterns, demonstrating a preoccupation with short-term goals over long-term planning and survival over sustainability. As shown below, the successes in increasing the participation of nationals in the private sector in the 2000s have largely been reversed in the post-February 2011 policy environment. Despite its stated intentions to strengthen the private sector and diversify the economy away from oil, the state is more than ever the employer of first choice as well as the social guarantor of last resort.

These trends are discussed throughout the paper through three stages of inquiry. The paper begins with an overview of demographic trends in Oman and the constitution of the labour market. This is followed by a discussion of development planning in relation to the labour market, with a closer examination of 'Omanization' policies and their successes and failures. Finally, the paper focuses on the distortions arising in the private sector in the post-February 2011 environment. The paper argues that the state, constrained by historically acquired dependencies, perpetuates unsustainable economic patterns through its habit of tackling symptoms rather than underlying conditions.

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<sup>7</sup> Oil and gas companies and most public-private partnerships are included in data on private-sector establishments. Labour Market Survey, Oman Ministry of Manpower, 2008; *Statistical Year Book 2011*, Oman Ministry of National Economy, November 2011.

## Demographic Divides

Statistics available through international organizations do not reveal the unique demographic composition that characterizes GCC countries. Significant economic trends are often only understood after aggregate indicators are broken down into subsets defined by nationality. Thus the following analysis divides the demography of Oman into national and non-national segments.

Rapid population growth among nationals was evident in the 1993 census, with a total fertility rate (TFR) of 6.2 live births per female of childbearing age. Although TFR has since come down significantly to 3.7 (2010), the national population is still registering high natural rates of growth. The baby-boom cohort of the late 1970s to the 1990s has been moving up the population pyramid and has now entered the age categories where it should be economically active. A youth-heavy population structure can be either a dividend or a burden on the political and economic structures of the state.<sup>8</sup> This frames the long-term context for Oman's development planning.

The other pertinent demographic feature is the large presence of non-national guest labour, temporary by definition yet interminable in practice. This roughly doubles the potential labour force in the productive 15–64 age group, but also masks the fact that this is a population with a high level of dependants – six (mostly children) for every 10 nationals of working age.

Although the population censuses of 1993 and 2003 showed little change in the number of non-nationals in the labour market, the figure doubled between 2003 and 2008. This increase, while contradicting intentions to limit foreign labour growth delineated in development plans and in labour nationalization strategies, corresponds with the rise in oil prices during those years (as discussed in the following section). Meanwhile, over half of the nationals in the workforce remain employed by the state.<sup>9</sup>

Under normal circumstances, one would expect high demand for labour to be matched by greater employment opportunities for the local population. The Omani labour market, however, has difficulty in productively absorbing new national entrants. Instead, unemployment, under-employment and economic inactivity afflict the young and middle-aged segments of the population. That a rising supply of indigenous labour remains unabsorbed while total demand for labour is increasing reveals an incongruity. It illuminates the presence of a disjointed, two-tiered labour market in which nationals and non-nationals have disparate wage expectations and compete for different categories of jobs. This paper shows that the perpetuation of this condition makes solving the country's employment concerns especially challenging. Particularly striking is the difficulty the state has in development planning as it tries to balance growing employment concerns among the young national population and the persistent demand for foreign labour.

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<sup>8</sup> Mirkin, Barry, 'Arab Spring: Demographics in a Region in Transition', Arab Human Development Report Research Paper Series, United Nations Development Programme, Regional Bureau for Arab States, 2013, p. 13, <http://www.arab-hdr.org/publications/other/ahdrps/AHDR%20ENG%20Arab%20Spring%20Mirkin3.pdf>; Assaad, Ragui and Roudi-Fahimi, Farzaneh, 'Youth in the Middle East and North Africa: Demographic Opportunity or Challenge?', Population Reference Bureau, 2007, <http://www.prb.org/pdf07/youthinmena.pdf>.

<sup>9</sup> Labour Market Survey, 2008.

# Development (Re)planning

## A history of development planning and Omanization

The concern with foreign labour and the desire to find meaningful and productive ways of engaging citizens in economic activity have been mentioned throughout Oman's history of development planning under Sultan Qaboos. The emphasis placed on them has heightened with each development plan. Every five years, the latest iteration of a development planning council (the Supreme Council for Planning since 2012, formerly the Ministry of National Economy) releases a development plan that serves as the main vehicle through which the state directs the economy.

The first Five-Year Development Plan (FYP) (1976–80), during the oil boom years, concentrated on the establishment of infrastructure and the expansion of the economy's capacity. Even at this early stage in Oman's modern development, the objective of curtailing the expatriate population was explicit.<sup>10</sup> The goal was to reduce the number of expatriates by 5,000 a year until 1980. Here, it was the remittance burden on GDP that was the driver for reducing economic leakage.<sup>11</sup> That goal was never achieved, however. Rather, private remittances tripled between 1975 and 1980.<sup>12</sup> Moreover, by 2011 the World Bank ranked Oman third globally among top remittance-sending countries.<sup>13</sup> The next few development plans continued to advance infrastructure projects but also augmented the focus on human development. The decline of oil prices in the mid-1980s restricted the ambitiousness of the plans and focused sharper attention on private-sector development. Fiscal sustainability concerns predominated, with plans noting the more immediate importance of economic diversification.

The Fourth FYP (1991–95) clearly identified the need for improved human resource development and expanded indigenous participation in the labour force. The 1990s were also the beginning of labour nationalization strategies. Locally known as 'Omanization', these refer to policies to promote the employment of citizens in the workforce through quota systems and education and training opportunities. Omanization was first introduced in 1988, with recommendations delineated by the State Consultative Council for a job nationalization process integrated into the fourth FYP. Omanization was thus embedded in development policy, and a sum of OMR 40 million (\$104 million) was allocated for its implementation.<sup>14</sup> Ultimately, however, little attention was paid to implementing Omanization until the mid-1990s.

In 1995 a major shift in development planning occurred from short- and medium-term planning to setting a long-term vision for the very first time. After a decade of fiscal deficits and weak returns on oil, it was clear to policy-makers that new economic patterns related to diversification and labour-force indigenization had to be established. At the government's request, the World Bank provided a detailed report on the situation of the economy, with recommendations for moving forward.<sup>15</sup>

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<sup>10</sup> *The Five-Year Development Plan 1976–1980*, Sultanate of Oman Development Council, 1976, p. 54.

<sup>11</sup> *Ibid.* Non-nationals send large percentages of their income to their home countries. These remittances are considered a net outflow from the host economy. The desire expressed above was to limit this amount from escaping national income calculations and to improve financial flows through the domestic economy.

<sup>12</sup> *The Second Five-Year Development Plan 1981–1985*, Sultanate of Oman Development Council, 1981, p. 23.

<sup>13</sup> Oman is the highest among its listed GCC neighbours. (Not all GCC countries report these data to the World Bank.) *Migration and Remittances Factbook 2011*, World Bank, 2011, p. 16, <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1199807908806/Top10.pdf>.

<sup>14</sup> *The Fourth Five-Year Development Plan 1991–1995*, Oman Development Council General Secretariat, 1991.

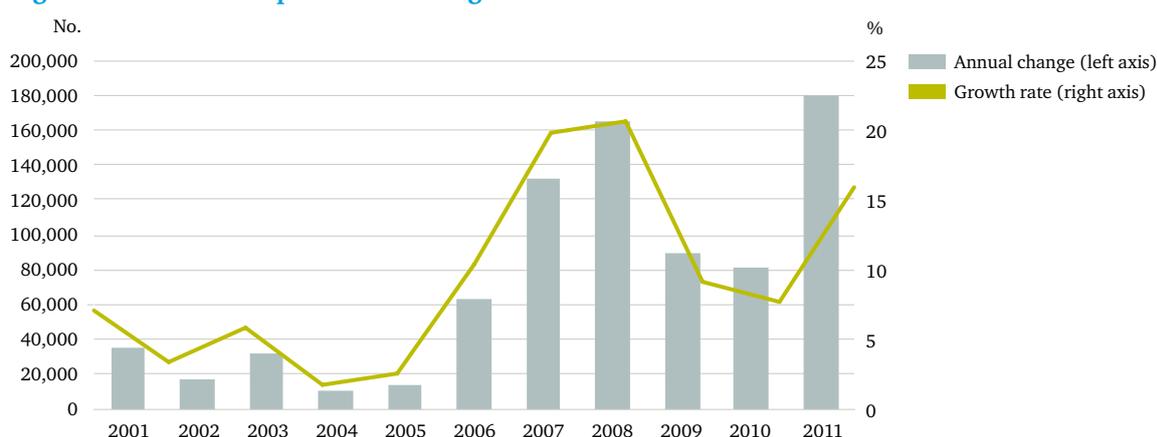
<sup>15</sup> *Sultanate of Oman: Sustainable Growth and Economic Diversification*, World Bank, 31 May 1994.

Informed by this, a massive economic policy plan, *Vision for Oman's Economy 2020*, was released alongside the Fifth FYP. It identified problems and articulated plans and development strategies for the next several decades. Attention was given to policies for sustainable economic growth, with an entire section dedicated to human resources development, another to economic diversification and a final section to private-sector development. Each of these was crafted with the stated goal of transforming the economy into one that would no longer be oil-reliant by 2020.<sup>16</sup> Subsequent five-year plans were to be designed to achieve these broader goals by stages.

The political emphasis on Omanization was intensified in *Vision 2020*. It prescribes an increase of Omanization percentages from their 1995 levels of 68 per cent in the public sector and 15 per cent in the private sector to 95 and 75 per cent respectively by 2020.<sup>17</sup> In a 2004 report, the World Bank lauded Oman's efforts in reducing employment in the public sector, declaring it the 'only' country in the GCC to have taken active steps toward this end.<sup>18</sup> Labour market indicators from 2005, however, suggested that while the public sector as a whole achieved 82.7 per cent Omanization, the private sector only reached 22.5 per cent.<sup>19</sup> Rather than improving, the level declined over the next half-decade.

Two distinct phases are evident in the fluctuation in expatriate labour between 2001 and 2010 (see Figure 1). These broadly correspond to the five-year plans, with the Sixth FYP (2001–05) placing Omanization front and centre, and the first chapter dedicated to labour and Omanization.<sup>20</sup> In this phase, some control appears to have been exercised over the influx of foreign labour, a majority of which has traditionally been drawn from South Asia. Omanization efforts were in full swing, with enforcement of quotas over particular job categories adhered to more closely than others. In comparison, during the Seventh FYP (2006–10), following the higher inflow of revenue with the surge in oil prices, there was an increase in the number of foreigners added to the labour market. This occurred despite the focus on human resource development throughout the plan, and an entire chapter dedicated to Omanization.<sup>21</sup>

Figure 1: Phases of expatriate labour growth



Source: *Statistical Yearbook 2013*.

<sup>16</sup> *Vision for Oman's Economy – 2020: Long-Term Development Strategy (1996–2020)*, 2nd edition, Oman Ministry of National Economy, 2007; *Seventh Five-Year Development Plan (2006–2010)*, Oman Ministry of National Economy, 2006.

<sup>17</sup> *Vision 2020*, pp. 94 and 208. This document remains exceptional in its ambition as well the means towards its achievement: by dismantling virtually all the advantages of public employment, even the working hours.

<sup>18</sup> *Unlocking the Employment Potential in the Middle East and North Africa: Toward a New Social Contract*, World Bank, 2004, p. 160.

<sup>19</sup> *Seventh Five-Year Development Plan (2006–2010)*, pp. 185–88.

<sup>20</sup> *Sixth Five-Year Development Plan 2001–2005*, Oman Ministry of National Economy, 2002.

<sup>21</sup> *Seventh Five-Year Development Plan (2006–2010)*, pp. 180–90.

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## Indigenizing the labour force in practice

The implementation of policies and strategies aimed at increasing the economic participation of Omanis has been inconsistent. The public and banking sectors, for example, are success stories for Omanization. From the 1980s to the mid-1990s, the proportion of Omanis in the public sector remained around 65 per cent. There was a slight decline from 1996 to 1998 owing to a government initiative to retire around one-quarter of Omani civil servants during this period.<sup>22</sup> By the Seventh FYP, public-sector Omanization had reached nearly 85 per cent.<sup>23</sup> Reports from 2004 also indicate that the banking sector attained Omanization ratios of 85.4 per cent for top and middle management, 99.5 per cent for its clerical staff and 100 per cent for its non-clerical staff.<sup>24</sup>

Success has remained more elusive in the private sector. In the 1990s, various mechanisms were introduced alongside Omanization with the goal of making the private sector more attractive to nationals or, at least, making it a more willing employer of national labour. Minimum-wage increases were instituted at various stages. Nevertheless, these have only served to further reduce private-sector interest in hiring Omanis, since expatriates are not subject to the same minimum-wage requirements. On top of this, the minimum wage continues to remain below public-sector averages. Other efforts included the government's adoption of a social security law in 1992 to offer retirement security to permanent private-sector employees.<sup>25</sup> It also tried a small incentive structure for private companies. One aspect of this involved the compensation of private-sector firms during the training period of new Omani employees. Another aspect included a labour levy rebate scheme that subsidized the training and salaries of new Omani employees, measured between two and six per cent of aggregate expatriate compensation.<sup>26</sup> Piecemeal reforms continue to be introduced and then discontinued owing to their ineffectiveness or varying combinations of weak political will, lack of interest by the private sector, and insufficient incentives for national labour.

Piecemeal reforms continue to be introduced and then discontinued owing to their ineffectiveness or varying combinations of weak political will, lack of interest by the private sector, and insufficient incentives for national labour.

Omanization targets are established by the Ministry of Manpower on the basis of job categories. Interestingly, some of the earliest categories to be Omanized in the private sector were low-skilled ones. For example, the positions of cashiers, drivers, security officers, receptionists and office clerks were to be completely staffed by Omani nationals from 2007 onwards.<sup>27</sup> Figures 2 and 3 illustrate the current distribution of local and expatriate labour in the private sector by economic sector and by occupation respectively, with the size of the circles corresponding to the number of workers. The figures reveal the unusual structure of the labour market and the employment challenges this has created. To date, only three sectors have an Omani labour majority: finance, utilities and minerals. The largest labour sector, however, is construction, followed by wholesale and retail and then manufacturing. In these categories, the number of Omanis is small (see Figure 2).

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<sup>22</sup> Sassanpour, Cyrus et al., *Labor Market Challenges and Policies in the Gulf Cooperation Council Countries*, International Monetary Fund, November 1997, p. 39, <http://www.imf.org/external/pubs/FT/gcc/>.

<sup>23</sup> *Seventh Five-Year Development Plan (2006–2010)*, p. 185.

<sup>24</sup> 'Omanization in the Banking Sector', *Al Markazi*, November–December 2004, p. 19.

<sup>25</sup> Al-Lamki, Salma, 'Barriers to Omanization in the Private Sector: The Perceptions of Omani Graduates', *International Journal of Human Resource Management*, No. 2, 1998, p. 384.

<sup>26</sup> *Ibid.*, pp. 383–85.

<sup>27</sup> 'At a Crossroads', *Oman Economic Review*, September 2003, pp. 18 and 28–37.

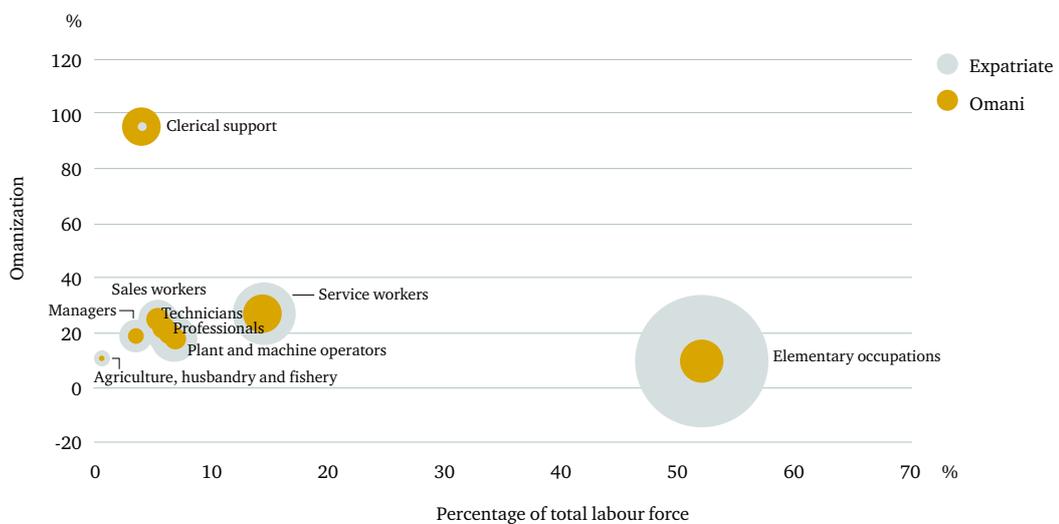
Figure 2: Labour distribution in the private sector, by industrial classification



Source: Annual Report 2011, Ministry of Manpower.

Viewed by occupational categories, Omanization is even less apparent, with one curious exception. Clerical positions have been among the easiest to restrict to nationals, yet these occupations make an insignificant contribution to the economy in relation to the entire labour force (see Figure 3). It is evident that successful labour force indigenization is associated with sectors with high capital investment and low labour intensity, where investing in expensive programmes and confining jobs to nationals is affordable. Given the obvious costs, there is little incentive to do the same elsewhere.

Figure 3: Labour distribution in the private sector, by occupation



Source: Annual Report 2011, Ministry of Manpower.

Moreover, level of education and type of skills limit the employment opportunities for which nationals are competitive. Data from 2010 show that only a small portion of Omanis in the private sector earned monthly wages in excess of OMR 300 (\$780). These salaries broadly reflect the educational and skill levels of the nationals working in lower occupational categories. Poor salaries also help explain the low desirability of employment in the private sector. Typically more laborious and requiring longer hours, these jobs are unappealing in comparison to even the lowest public-sector jobs.

**The level of unemployment in the Omani population remains a consistent problem that the state is tackling in various ways. By 2009, there were more than 100,000 registered job-seekers in the sultanate.**

It is also noteworthy that young females tend to be absorbed in the public sector more readily than their male counterparts. This is due to various combinations of factors, including educational attainment levels and social gender biases. Females tend to achieve higher levels of education than males, leading to a job-skills mismatch in the private sector.<sup>28</sup> Combined with social stigmas related to certain occupations and sectors deemed inappropriate for female labour, this results in a private sector that is often an unwelcoming place for female employees.

The level of unemployment in the Omani population remains a consistent problem that the state is tackling in various ways. By 2009, there were more than 100,000 registered job-seekers in the sultanate.<sup>29</sup> The problem was serious enough for the government to begin seeking placements for nationals in the United Arab Emirates and Qatar. In addition, state-sponsored programmes aimed at promoting self-employment and entrepreneurship have increased. These include financing and training opportunities for new micro firms and, small- and medium-sized enterprises (SMEs).<sup>30</sup> Along with fostering self-employment potential, the broader goal of promoting entrepreneurship was inspired by European and North American cases where SMEs generate the most employment, and East Asian cases where they became the engine for industrial growth.

In contrast, to date it is the largest Omani enterprises, comprising 10 per cent of the total, that are responsible for hiring almost 80 per cent of wage-earning nationals in the private sector. The largest companies contribute most to national employment while the least capitalized ones, classified as fourth-grade by the Chamber of Commerce, hire the highest percentage of expatriates.<sup>31</sup> Thus the size of the enterprise reflects the ability of these companies to afford to comply with this policy, as well as the desire of large family enterprises to wish to be seen as contributing to national employment and economic goals. Although they contribute more to national employment than smaller enterprises, their contributions are still marginal. In fact, these companies benefit more from access to competitive foreign labour and large state contracts, and therefore have a vested interest in preserving the status quo and their privileged position *vis-à-vis* the state.

From its outset, development planning in Oman has been characterized by top-down dictates aimed at labour-force indigenization but devoid of actual citizen empowerment in the process of economic development. The private sector appears liberalized, but Omani engagement in it is orchestrated by the state. At times, this regulation has been in pursuit of longer-term economic goals and the

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<sup>28</sup> This is true even in the fields of engineering and information technology.

<sup>29</sup> *Manpower from 1970–2010*, Oman Ministry of Manpower, 2010.

<sup>30</sup> Ennis, Crystal A., 'Rentier 2.0: Entrepreneurship Promotion and the (Re)Imagination of Political Economy in the Gulf Cooperation Council Countries', dissertation submitted to the University of Waterloo, 2013.

<sup>31</sup> *Statistical Year Book 2012*.

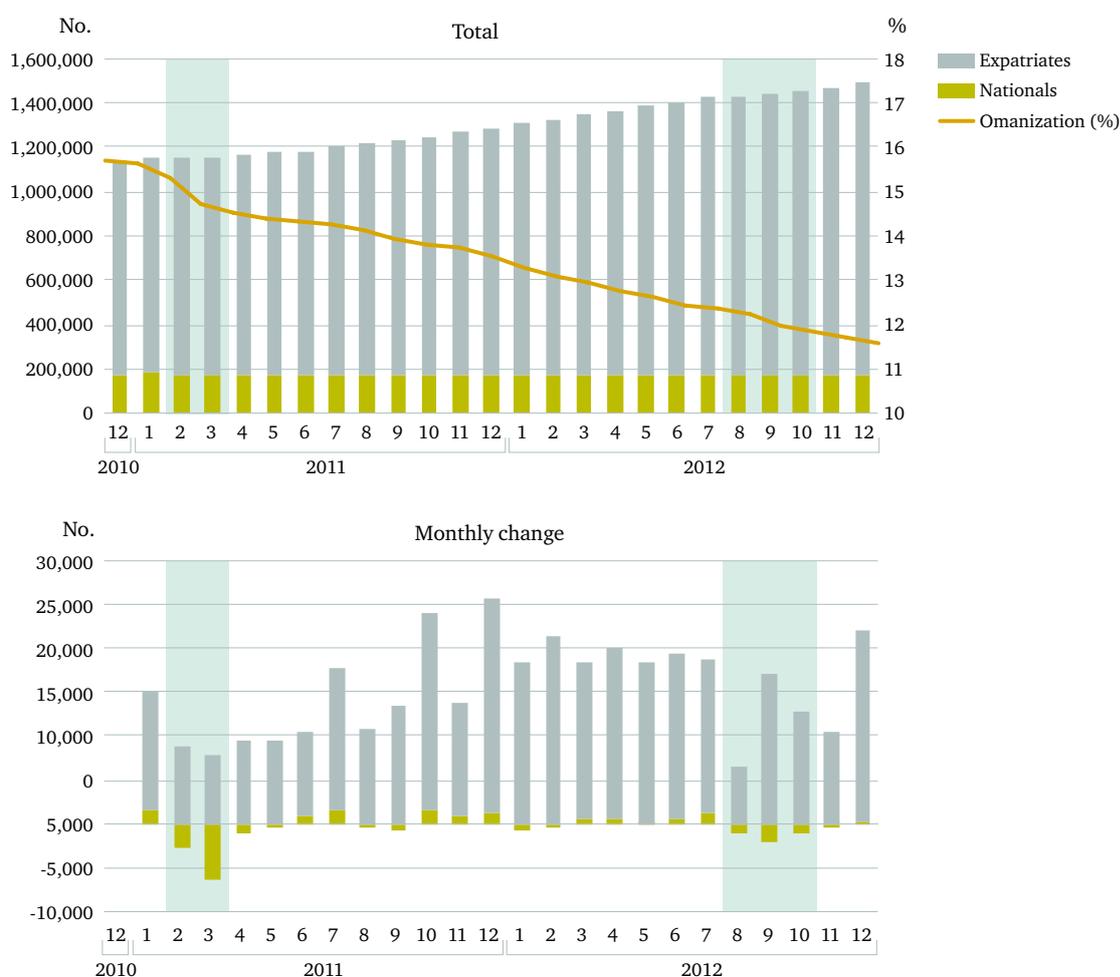
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preservation of social welfare as embodied by the goals of Omanization. Yet at other times, it has offered contradictory policy announcements that further perverted the incentive structures for Omani participation in the private sector. As noted, Oman has a history of thorough economic planning and the early development of a long-term vision. Despite this, however, it has been caught in a cyclical pattern where policy plans struggle to reach implementation. This is clearly demonstrated by the changes made in 2011, when popular discontent prompted government decisions that rolled back earlier progress with labour market reform.

## The Post-2011 Whirlwind

By 2011, the seriousness of the unemployment situation had intensified. In fact, it was one of the concerns that drove young Omani nationals to participate in the street protests that took place between January and May of that year. Although the minimum wage was raised in mid-February from OMR 140 to OMR 200 (\$364 to \$520) per month, the protests intensified.<sup>32</sup> This activism led to a number of government efforts to increase employment opportunities, including the hasty creation of 50,000 public-sector jobs, the establishment of a monthly unemployment benefit of OMR 150 (\$390) and an increase in the living allowance, pensions and social security for government employees.<sup>33</sup>

Figure 4: Omanization in the private sector



Sources: Various *Monthly Statistical Bulletins*, 2010–13.

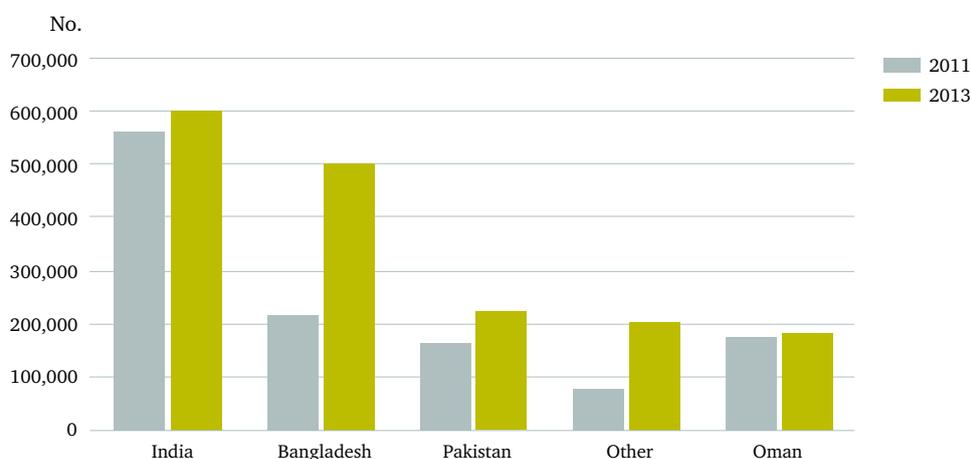
<sup>32</sup> For more information on the 2011 protests, including details on political responses, see Al-Hashimi, Said Sultan, *The Omani Spring: Towards the Break of a New Dawn?*, Arab Reform Brief, Arab Reform Initiative, November 2011, <http://www.arab-reform.net/sites/default/files/Omanenglish.pdf>.

<sup>33</sup> Vaidya, Sunil K., 'Heavy security prevents Friday protests in Sohar, Oman', *Gulf News*, 8 April 2011, <http://gulfnews.com/news/gulf/oman/heavy-security-prevents-friday-protests-in-sohar-oman-1.789074>; Al-Hashimi, *The Omani Spring*, pp. 5–6.

These decisions in March 2011 resulted in a number of distortions in the labour market, compounding existing problems and countering efforts to enhance the participation of Omanis in the private sector. In fact, there was a sharp decline in the number of Omanis in the private sector between February and March 2011 (see the first highlighted section in Figure 4). The minimum wage increase earlier in the year induced private enterprises to rationalize their workforce. More significantly, the announcement of 50,000 government jobs prompted the resignation of employees from the private sector to compete for these jobs. A similar but less pronounced trend occurred towards the end of 2012, following the announcement of a national job-seeker inventory (see the second highlighted section in Figure 4). Survey outcomes would include assistance with a work placement and/or a subsidy for job seekers.<sup>34</sup> Thus Omani participation in the private sector flatlined for two years as a result of government policies and the Omanization level dropped from 16 per cent in 2010 to below 12 per cent in under two years.

Overall, the employment of non-nationals continues to increase at a more rapid rate than in previous years. As shown in Figure 4, there was a monthly growth in the numbers of expatriates added to the labour market. Omani employment in the private sector remained under 15 per cent in 2011, which was comparable to the number of Bangladeshis in the entire labour force. The 2013 data show that the number of Omanis in the private sector is in effect stationary while the numbers of other nationalities continue to climb. The number of Bangladeshis, primarily distributed in the lowest-skilled occupations, has risen dramatically (see Figure 5).

**Figure 5: Labour market participation, by nationality, 2011 and 2013**



In each pair, the left bar is 2011 (private sector for all nationalities) while the right bar is 2013 (total workers for non-nationals; private-sector workers only for Omanis).

Sources: Ministry of Manpower, 2011; *Monthly Statistical Bulletin*, Vol. 23, No. 1, January 2012, Ministry of National Economy; *Monthly Statistical Bulletin*, Vol. 25, No. 1, January 2014, National Centre for Statistics and Information.

In 2013 the minimum wage was again increased, taking it to OMR 325 (\$844.50) per month, with the objective of making private-sector jobs more attractive.<sup>35</sup> At the end of the year, the state revised the public-sector salary structure by standardizing wages across civil service divisions. This added to the state’s financial burden and countered efforts to stimulate the employment of Omanis in the

<sup>34</sup> ‘PAMR, Governors, and Walis/Meeting’, Oman News Agency, 1 September 2012, <http://omannews.gov.om/ona/newsDetailPrint.jsp?newsId=135752&lang=En>.

<sup>35</sup> ‘Council of Ministers/Statement’, Oman News Agency, 2 February 2013, <http://omannews.gov.om/ona/newsDetailPrint.jsp?newsId=160144&lang=En>.

private sector. Moreover, government spending rose by 70 per cent between 2011 and 2014, from 7.9 to 13.5 billion.<sup>36</sup> Already lacking a cushion, the 2014 state budget had initially been planned at a fiscal breakeven oil price of \$105 per barrel. With this additional 'salary harmonization' the new oil price required to balance the budget is now estimated at \$112 per barrel. In fact, the public-sector wage bill is expected to consume \$50 from the proceeds of every barrel of oil sold.<sup>37</sup>

With the reversal of many gains made towards indigenizing the economy while reducing the public employment burden, Oman is falling short of its *Vision 2020* goals. In fact, for the first time since it began preparing them, the state has not published the eighth iteration of its five-year plan, which was due in early 2011.<sup>38</sup> Fiscal crises in the past only delayed the release of a development plan, but never discarded one. Yet with civil discontent in a time of plenty, the strategic vision seems to have been quietly shelved in favour of tactical manoeuvring.

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<sup>36</sup> Amal Rjab, '2014 Budget outlined before Majlis', *Oman Daily Observer*, 27 November 2013.

<sup>37</sup> Amal Rajab and Sarhan al-Mahrizi, 'Rise in public expenditure to record levels is a major challenge facing the government' (in Arabic), *Oman Newspaper*, Economic Section, 27 November 2013, pp. 8–9.

<sup>38</sup> Although the data for the civil investment programme were released, the analysis of progress toward the goals in the Seventh FYP as well as the planning for the next five years were delayed and then omitted completely. This is the penultimate plan in the lead-up to 2020.

## Prospects

With growing constraints on expenditure, difficult policy choices loom ahead for Oman. Continuing to deal only with symptoms at the expense of underlying structural problems will perpetuate existing labour market maladies and feed long-standing economic addictions. This paper has demonstrated that Oman's economic woes are systemic, driven by deeply rooted structural issues. The dominance of hydrocarbons within the national economy lies at the heart of the matter. Beginning with the generation of massive and distorting economic rents, through the recycling of this windfall into various social benefits, what has emerged after four decades of petro-development is an oil society rather than just an oil economy.

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A faithful reflection of this Gulf-specific development path is evident across the labour market, through its particular composition and its supply and demand patterns. By examining this third factor of production, greater insight is revealed about the functioning of the macroeconomy than is conveyed by a more typical focus on resources and capital. It is particularly instructive to trace the circuits of production and consumption within the broader macroeconomic sectors through maintaining a labour-centric analysis. First, by looking at the business sector, it is clear that construction is by far the most dominant production activity by intensity of labour. Here, the state directly contracts some of the largest corporates on infrastructure projects, creating a volume of jobs far exceeding the public sector's total headcount. Only a fraction of these jobs are for nationals. Second, closer to the interface between production and consumption are the thousands of microbusinesses that serve the expanding consumption needs of the national population but hardly contribute to their active employment.<sup>39</sup> Third, even in the household sector, comprised primarily of public-sector employees and therefore maintained by government wages, an embedded workforce of foreign domestic help exceeding 200,000 has become instrumental to its functioning.<sup>40</sup> Society is therefore not only dependent on a natural resource that is diminishing, but it is also addicted to another factor of production that it largely imports. Oman may be a high-income country by some measures, yet it displays all the inefficiencies and bottlenecks of a factor-driven economy.<sup>41</sup>

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<sup>39</sup> Neither construction nor microbusiness contribute much to national employment, but rather recycle rent through the economy. Because the majority of the national workforce are public-sector employees, consumption in the economy is intricately tied to the state while most production activities remain under the aegis of non-nationals.

<sup>40</sup> Final consumption in the household sector is largely sustained by government wages, and has been increasingly regulated by consumer protection controls since 2011.

<sup>41</sup> Although the World Economic Forum lists Oman as transitioning from an efficiency-driven (stage 2) to an innovation-driven (stage 3) economy, this paper demonstrates that Oman's development path retains dependencies typical of a factor-driven economy (stage 1). According to the WEF, factor-driven economies 'compete based on their factor endowments – primarily unskilled labor and natural resources'. World Economic Forum, *Global Competitiveness Report 2013–2014*, <http://www.weforum.org/reports/global-competitiveness-report-2013-2014>.

This gap between apparent wealth and actual capability raises a question beyond narrow semantics: has Oman eluded the ‘middle-income trap’?<sup>42</sup> More explicitly, has it shifted ‘from resource-driven growth that is dependent on cheap labour and capital to growth based on high productivity and innovation’?<sup>43</sup> Key to avoiding the trap is to produce a shift away from raw labour towards human capital. Here again, however, existing conditions within the labour market attest more to the presence of obstacles in the path than to prospects for clearing them. With over half the private-sector occupations classified as elementary, positive discrimination has ostensibly indigenized one occupational group: lower-skilled middle-class clerical jobs.<sup>44</sup> Yet it is those same lower-skilled jobs that are being made obsolete by technology, a phenomenon globally referred to as the ‘great decoupling’ between productivity and employment.<sup>45</sup> With hundreds of thousands of its nationals maturing into potential economic participants in the coming decade, Oman will need much more than simple affirmative action to shift indigenous human capital from an economic periphery to the economic centre.

Unavoidably this leads to discussions of what the future entails for a society hooked on a depleting resource. Nevertheless, just as we ponder what the post-oil context means for Oman, it is worth keeping in mind Sheikh Yamani’s remark that the Stone Age did not end for lack of stones.<sup>46</sup> Oman’s ability to sustain oil production from a limited reserve base has been a concern for the country since the 1970s. Four decades later, that 20- to 30-year predicted horizon of oil exports appears neither further nor, for that matter, closer. It would probably be safe to assume that hydrocarbon-based industries (extraction, storage, refining and/or transport) will continue to play an economic role at least until mid-century. Indeed, it is perhaps the changing socio-political role of oil that will mark the onset of a post-oil era.

Just as the country’s leadership oversaw striking development by exploiting one unearned gift, its geologic endowments, it now looks at a future based on monetizing other pre-existing advantages. Oman’s geographic position on the eastern edge of Arabia, bridging the Persian Gulf and the Indian Ocean, is the reason behind one ambitious diversification initiative centred around logistics, multi-modal transport and a greenfield special economic zone. Similarly, given the country’s relative variety in natural attractions, tourism will continue to be a key priority beyond *Vision 2020*. What remains unclear is how far these endeavours will reconfigure the economic structures of the oil era with all its factor-driven propensities. Will they increase economic equity and inclusion for a more socio-politically assertive generation of Oman’s citizenry that possesses a higher level of educational attainment than its predecessors?

Given the penchant for low-skilled labour, inertial forces are already resisting the desired change. Yet one interesting global-to-local dynamic may have further significance. Emerging economies such as India, Indonesia and the Philippines, which have traditionally been key sources of workers for Oman, are becoming more intent on protecting their own expatriate citizens by regulating their

<sup>42</sup> Changyong Rhee of the Asian Development Bank provides a succinct definition: ‘Typically, countries trapped at middle-income level have: (1) low investment ratios; (2) slow manufacturing growth; (3) limited industrial diversification; and (4) poor labour market conditions.’ ‘Indonesia risks falling into the middle-income trap’, *Asian Development Bank*. <http://www.adb.org/news/op-ed/indonesia-risks-falling-middle-income-trap>.

<sup>43</sup> Rajat M. Nag, ADB Managing Director General, Seminar on Asia 2050, <http://www.adb.org/news/speeches/seminar-asia-2050>.

<sup>44</sup> ISIC 88: Elementary occupations ‘consist of simple and routine tasks which mainly require the use of hand-held tools and often some physical effort.’ <http://www.ilo.org/public/english/bureau/stat/isco/isco88/9.htm> and <http://laborsta.ilo.org/applv8/data/isco88e.html>.

<sup>45</sup> Rotman, David, ‘How Technology Is Destroying Jobs’, *Technology Review*, 12 June 2013, <http://www.technologyreview.com/featuredstory/515926/how-technology-is-destroying-jobs/>.

<sup>46</sup> Fagan, Mary, ‘Sheikh Yamani predicts price crash as age of oil ends’, *Daily Telegraph*, 25 June 2000, <http://www.telegraph.co.uk/news/uknews/1344832/Sheikh-Yamani-predicts-price-crash-as-age-of-oil-ends.html>.

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conditions of recruitment and employment. This is already leading to a shifting of patterns within Oman. Alternative source countries, particularly Bangladesh and Ethiopia, have filled the demand gap during the last few years. It is notable that these more recent sources are ranked comparatively lower according to the Human Development Index, with possible implications for broader skills composition within the labour market.<sup>47</sup> This shift in labour supply is a further complication in the path towards an innovation-driven economy.

With all these gradual changes in Oman's social fabric, what can be said about possible future contours insofar as economic citizenship is concerned? On the one hand, there is an undeniable trend of increased individual empowerment across the entire Arab region. Today's is a generation that speaks boldly of minimum entitlements. On the other hand, the deepening segmentation of the labour market is an opposing force. The economic confinement of nationals to the public sector and their alienation from productive participation has had a marginalizing effect on their power. This combination of political assertiveness with relative economic confinement and marginalization will have an impact on the modes of collective bargaining.<sup>48</sup> The emergence of zero-sum populist demands could lead to scenarios of hamstrung development, as in the Kuwaiti case.<sup>49</sup>

Contrasting with the vocalism of nationals is the muted voice of non-nationals. While nationals confront economic exclusion, non-nationals experience sustained civil and political exclusion. Rivalry and quiet dissatisfaction over lack of inclusion can result in deeper societal tensions and schisms. These are already beginning to play out, where contestation over perceived economic rights is mixed with what can only be described as a flavour of national chauvinism. Among nationals, a sense of entitlement is buttressed by the state's manufacturing of national pride and heritage. As growth falters and the economy begins to turn from plenty to scarcity, intercommunal tensions could be exacerbated. This would not be the first such manifestation; rather, it could resemble the situation across the Indian Ocean in the half-century leading to the Great Depression. Similarly then, persistent flows of labour from South Asia to other Indian Ocean countries became a source of tension as fortunes turned, resulting in instances 'of communal hostility produced by economic competition'.<sup>50</sup>

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<sup>47</sup> *Human Development Report 2013 – The Rise of the South: Human Progress in a Diverse World*: Summary, [http://hdr.undp.org/sites/default/files/hdr2013\\_en\\_summary.pdf](http://hdr.undp.org/sites/default/files/hdr2013_en_summary.pdf). The reciprocal pattern shift is just as interesting: Oman has become a top destination for Bangladeshi labour. Rabiul Islam, 'Bangladesh likely to lose labour market in Oman', *Dhaka Tribune*, 4 May 2013, <http://www.dhakatribune.com/labour/2013/may/04/bangladesh-likely-lose-labour-market-oman>.

<sup>48</sup> The widespread public outcry in June 2014 over a decision to remove price controls is a good example. This contestation ultimately led to the temporary reversal of the decision. Economist Intelligence Unit, 'Sultan postpones measures on price controls', 2 July 2014, <http://country.eiu.com/article.aspx?articleid=1501976934>.

<sup>49</sup> For the Kuwait case, see Economist Intelligence Unit, 'The re-emergence of populist politics', 15 February 2013, <http://country.eiu.com/article.aspx?articleid=1900164174&Country=Kuwait&topic=Politics>; Michael Peel and Abeer Allam, 'Upheaval increases as Kuwait's economy stagnates', *Financial Times*, 24 April 2013, <http://www.ft.com/intl/cms/s/0/c268ecbc-a830-11e2-b031-00144feabdc0.html#axzz39vgjUlm1>; and Mary Ann Tétreault, 'Looking for Revolution in Kuwait', Middle East Research and Information Project, 1 November 2012, <http://www.merip.org/mero/mero110112>.

<sup>50</sup> Michael Adas cited in Bose, Sugata, *A Hundred Horizons: The Indian Ocean in the Age of Global Empire*, Harvard University Press, 2006, p. 118.

## Conclusion

Rather than a simplistic competition between actors, the main obstacles to economic reform in Oman, as this case study demonstrates, are the embedded structural conditions requiring wholesale changes. At present, the country is mired in a self-perpetuating feedback loop, returning to old patterns and nursing status quo expectations. Where Oman used to be an example to its neighbours of workforce indigenization, progress is being lost as a result of structural obstructions and short-term policy thinking. The post-2011 employment environment has been one of ad hoc fixes in response to discontent. There is little doubt that these were only temporary fixes, which ultimately undermined efforts aimed at resolving labour market challenges.

In some ways, the case of Oman may serve as a cautionary tale to neighbouring GCC countries. So dependent on an exhaustible resource and so addicted to foreign labour, Oman is approaching its post-oil future more rapidly than the wealthier Gulf states of Qatar and the United Arab Emirates. Like them, Oman is in pursuit of an economy based on knowledge and innovation; but unlike them it does not have the financial cushion available for either large investments or procrastination. The history of development planning traced in this paper demonstrates that, over the decades, governments have been aware of the real challenges facing sustainable economic development. Yet data over the same decades show a persistent problem of matching planning to implementation that is arguably intensifying with time.

In the post-2011 policy context, Oman has largely abandoned its long-term plan in favour of short-term firefighting. Much of the ground that had been gained in pursuit of its long-term goals has been lost in relation to the employment of its nationals within a diversified economy. Oman is returning to old economic patterns, extending patronage rather than strengthening economic citizenship. Although there have been improvements in many areas, the continued bifurcation of the labour market and the marginalization of a productive indigenous labour force will continue to have repercussions on both fiscal and political stability. Despite its best intentions and lofty development aims, Oman's path to a knowledge economy is frustrated by its labour market woes. If they do not respond more decisively, other GCC states are likely to confront similar challenges – some sooner than others.

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### Future trends in the GCC Project

This paper forms part of the MENA Programme's ongoing project on 'Future Trends in the GCC'. The project aims to research, analyse and anticipate some future scenarios for the political and economic development of the GCC states.

The research has four main strands:

- **Citizenship and political development:** Looks at citizens' shifting attitudes and political aspirations, particularly those of the under-30s who make up the majority of the GCC's population, exploring the dynamics of reform.
- **Citizenship and the economy:** Explores changing economic realities within the GCC, analysing the potential of GCC countries to reform and diversify their economies and the links between citizens' political and economic expectations.
- **Islamism and post-Islamism in the Gulf:** Considers the diverse aspirations of Islamically inspired movements and their respective trajectories amid regional changes.
- **External 'threats' and internal community relations:** Focuses on the intersections between shifting regional dynamics, transnational movements and community relations within GCC countries.

The project seeks to deepen understanding of these various themes while analysing the prospects for GCC countries to adapt to ongoing changes in the region and develop their systems accordingly. These themes are explored in the context of relevant changes in the wider Middle East region. Engaging with younger-generation scholars, researchers and analysts from the GCC countries is a core element of the project.

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