

BTI 2012 | Oman Country Report

Status Index	1-10	5.41	# 71 of 128	
Political Transformation	1-10	3.88	# 99 of 128	➔
Economic Transformation	1-10	6.93	# 33 of 128	➔
Management Index	1-10	4.51	# 80 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	2.8	HDI	0.705	GDP p.c.	\$	-
Pop. growth ¹	% p.a.	2.6	HDI rank of 187	89	Gini Index		-
Life expectancy	years	73	UN Education Index	0.539	Poverty ³	%	-
Urban population	%	71.7	Gender inequality ²	0.309	Aid per capita	\$	74.5

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Under Sultan Qaboos, who overthrew his father in 1970, Oman has followed a path of careful and gradual development and modernization. The decision-making process remains uncontested; the sultan enjoys absolute power in governance. Oman's political sector has limited freedom. Candidates for the 2007 parliamentary elections were allowed to publish posters and advertisements, but political parties and platforms are still outlawed. Candidates, therefore, stand for election only in their own name. Oman's representative body, the Majlis al-Shura, has been reasonably active during the period between 2009 and 2011. It has enhanced the powers of specialized committees and increased its oversight of several ministers. During the period from 2009 to January 2011, no major initiative or policy was implemented. Nevertheless, in order to quell protests against corruption and for political reform in spring 2011, the ruler announced his plan to grant more legislative and regulatory powers to the bicameral parliament and to appoint an ad-hoc committee to amend the basic law to this end.

The financial crisis has less impact in Oman than in its Gulf Cooperation Council (GCC) neighbors, given the still limited integration of the country's economy into the global one. High oil prices have continued to feed growth (3–4% in 2009 – 2010) and the government reported a substantial budget surplus in 2010 which has been used to lower public debt and accumulate reserves. Job creation for Omani citizens (the "Omanization process") remains a significant challenge. Unofficial sources estimate unemployment at 15%. A bilateral free trade agreement with the United States went into effect in January 2009. At the same time, Oman confirmed its decision to opt out of the future GCC monetary union. Oman's eighth five-year plan (2011 – 2015) presented in November 2010 concentrates on economic diversification, the creation of jobs for Omanis, the encouragement of foreign investment and an expansion of the private sector's role as the key components of the move toward a post-oil economy. Oman's dwindling oil reserves make this a necessity. It also aims to achieve real GDP growth of 3% annually and keep inflation under control following a sharp rise during the pre-crisis oil-boom period.

History and Characteristics of Transformation

On 23 July 1970, Oman's present ruler, Sultan Qaboos, overthrew his father Said bin Taimur with British assistance, marking a turning point in Oman's modern history. Sultan Qaboos has ruled since then. Soon after taking power, Sultan Qaboos abolished many of his father's harsh restrictions on various personal freedoms, which had prompted thousands of Omanis to either rebel or leave the country. He also offered amnesty to opponents of the previous regime, many of whom took this opportunity to return to Oman. In general, Sultan Qaboos promised his people economic development, an increased role in government and a shift away from his father's policies.

Sultan Qaboos faced many deeply entrenched problems. He confronted an insurgency by expanding and re-equipping the armed forces and the state's security apparatus, and by carefully integrating Oman into the international system. In order to mitigate the country's endemic poverty and illiteracy, the sultan embarked on political and economic reforms and launched major development programs. He also sought international support for his economic policies by promising an extensive modernization program based on oil revenues. Sultan Qaboos has built his regime's domestic legitimacy on a policy of nation building and the assimilation of all of Oman to the oil rentier state framework. The sultan cultivates his own image as the incarnation of the country's post-1970 "renaissance", as the grandiose festivities marking the 40th anniversary of his accession to power in November 2010 illustrated.

Oman is a hereditary monarchy headed by Sultan Qaboos, who rules by royal decree. The sultan's lack of a clear heir raises many questions regarding succession and Oman's stability. Since his accession to power, Sultan Qaboos has endeavored to provide political representation for the country's diverse tribal, regional, and ethnic interests by creating a balance of these groups in his council of ministers, which is directly appointed by the sultan and functions as the sultan's cabinet. The monarch is both chief of state and head of government, as well as the minister of defense, finance and foreign affairs, the commander-in-chief of the armed forces and the chairman of the central bank. In 1981, the sultan created the State Consultative Council (SCC), an appointed body that had a purely informal role.

On 6 November 1996, Sultan Qaboos issued a royal decree promulgating the basic law, which is considered to be Oman's constitution. This document formalizes the principles of royal succession, forbids ministers from holding assets in companies doing business with the government and guarantees basic civil rights for nationals. Moreover, it establishes a bicameral legislature, the Council of Oman, consisting of an upper chamber, the State Council (Majlis al-Dawla), the 75 members of which are appointed by the sultan and have only advisory powers, and a lower chamber, the Consultative Council (Majlis al-Shura), which replaced the SCC in 1991. The Majlis al-Shura, elected by universal suffrage, is a member of the Arab Inter-Parliamentary Union (AIPU). The Council of Oman has only limited power to propose

legislation but the sultan announced his intention to grant this bicameral chamber more substantial legislative prerogatives in March 2011. The next Majlis al-Shura elections will take place in October 2011.

Oman is a middle-income economy by Middle Eastern standards. As with other Gulf nations, oil is the mainstay of the economy, providing a large proportion of GDP and state revenue. Compared to its neighbors, however, Oman is only a modest producer with quickly disappearing oil reserves, a fact which poses a major challenge to the state's ability to meet its developmental needs. As such, the government has prioritized economic diversification by promoting agriculture, tourism, the gas sector and non-oil industries. Oman has been a pioneer in the region in terms of privatization. It actively encourages the private sector to play a role in the country's development. No serious domestic political challenge exists in Oman. All reforms, therefore, originate from above. The country's main challenge consists of balancing its rising social costs with its economic resources.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

The Sultan of Oman possesses an almost total monopoly on the use of force. The security forces have complete control over the state's entire territory. There are no areas in which any opposition groups infringe on that control.

Omanis, in general, give their support to the state. Certain Ibadhi groups express a muted call for traditional religious leadership, while in the country's southern region national unity remains an issue long after the area's insurgency in the 1970s. Oman has no organized opposition groups. The basic law ensures that all citizens have the same civil rights. The nation-state is widely accepted as legitimate.

Though Islam is the state religion and Shari'ah law forms the basis for legislation, the regime has been very tolerant of all sectarian groups. The religious establishment is under the state's firm control and can hardly express its voice without the prior consent of the ruling elite.

In 1970, Sultan Qaboos inherited a territory torn apart by competitive local allegiances. One of his major achievements has been to build a civilian state administration that extends throughout the territory. Public security and order are well-maintained. The large size of the state bureaucracy and its lack of technical skills, however, limit the effectiveness of Oman's administrative system.

Question
Score

Monopoly on the
use of force
10

State identity
9

No interference of
religious dogmas
6

Basic
administration
8

2 | Political Participation

Oman is an absolute monarchy ruled by the sultan and his appointed government. However, the sultan has allowed a steady and incremental diversification of the political decision making authorities through the bicameral Council of Oman, which acts as an advisory body. In 2003, Qaboos granted universal suffrage for the lower chamber (Majlis al-Shura) elections to all male and female adults over the age of

Free and fair
elections
3

21. Within limits, the elections were considered free and fair. In 2007, the Majlis al-Shura was composed of 84 members elected for a renewable four-year term. Governorates (wilayas) whose population exceeds 30,000 inhabitants have two representatives, and smaller wilayas just one. Candidates compete in their names only, because the regime outlaws political parties, platforms and public gatherings. In 2007 it did permit posters, banners and advertisements on TV and in the newspapers for the first time. The president of the Majlis is appointed by royal decree. The Majlis is responsible to the sultan and the council of ministers. In January 2011 the Ministry of National Economy announced the introduction of a new system of electronic voting for the October 2011 elections.

Since the defeat of the southern rebellions in the 1970s, the sultan's rule has been nearly unopposed. Although there have been two minor attempts (in 1994 and 2005) by Islamist groups to organize opposition, the sultan enjoys an absolute and almost uncontested power to govern. In summer 2010, intellectuals and human rights activists took the opportunity of the fortieth anniversary of the sultan's accession to the throne to submit an online petition to the ruler calling for widescale reforms, both political (a new constitution leading to a parliamentary monarchy) and economic (particularly measures against corruption among high-level political incumbents). Even if this embryonic movement was largely ignored, it foreshadowed the protests and the demands made in spring 2011.

Effective power to govern

1

The basic law provides a limited right of freedom of assembly, although in practice, prior government approval is required for all public gatherings.

Association / assembly rights

4

The basic law guarantees freedom to form associations with legitimate objectives if their activities are not considered to be inimical to social order. All proposed organizations and their by-laws must receive the approval of the Ministry of Social Development. Associational rights are generally underdeveloped.

As part of the bilateral free trade agreement with the United States, the government of Oman amended its Labor Law. These reforms included a 2006 royal decree that granted private sector workers the right to form trade unions. The Ministry of Manpower later outlined provisions for collective bargaining in the private sector and affirmed the right of private sector workers to stage peaceful strikes.

However, the Omani government will not permit the formation of independent civil society associations or other democracy- or human-rights-enforcing organizations if they are seen as a threat to the throne or the continuation of the present (and stable) system. The government employs the registration and licensing process to obstruct the legitimization of these groups.

The basic law provides for freedom of opinion and correspondence within limits. Freedom of the press is also guaranteed, provided that it does not lead to public discord or violate the security of the state. Eight daily newspapers, four in Arabic and four in English, are currently published. The 1984 press and publication law still authorizes the government to censor all domestic and imported publications and the Ministry of Information can take legal action against any material it regards as politically, culturally, or sexually offensive. Editorials are generally consistent with the government's views. The government influences the privately owned press through subsidies. In practice, these restrictions favor self-censorship. Criticism of the sultan in any form is prohibited.

Freedom of
expression
4

The government owns four radio stations and two national television stations. In 2004, a royal decree gave Omani citizens the right to establish private radio and television companies, as long as they used their own capital to do so. The first private Omani television channel went on air in February 2009. In October 2010 the Public Authority for Radio and Television was established by royal decree which came into force three months later. The Directorate-General of Radio, the Directorate-General of Television and the Directorate-General of Engineering, until then part of the Ministry of Information, were transferred to this authority, which enjoys its own juridical competence and financial independence but remains under the personal supervision of the Minister of Information.

Satellite dishes have given a large percentage of the population access to foreign broadcast information. The dramatic increase in internet penetration (from 9% of the population in 2008 to more than 40% in 2010) allowed the emergence of social, economic and even political debates. Nevertheless, the firm web control and filtering exerted by the Telecommunication Regulation Authority led in 2009 and 2010 to the arrest of bloggers and human rights activists who commented on government decisions and policies. Several journalists and writers were questioned by the public prosecution, harassed for criticizing the government or even jailed (i.e. Ali al-Zuwaidi in 2009, for giving evidence of corruption by leading figures of the regime, or Ahmed al-Shizawi in 2011, for his participation in sits-in in Muscat demanding political reform).

3 | Rule of Law

Oman has no system of checks and balances, and thus no separation of powers. All power is concentrated in the sultan. The executive branch of government tries to exercise its powers in a legitimate fashion. Article 59 of the basic law states that "the sovereignty of the law is the basis of governance in the state. Rights and freedoms are guaranteed by the dignity of the judiciary and the probity and impartiality of the judges."

Separation of
powers
1

Oman's legal system is based primarily on the Ibadhi school of Islam. Though the basic law guarantees judicial independence, the judiciary is nonetheless strongly influenced by the executive branch. The sultan makes all judicial appointments and presides over the Supreme Judicial Council, which, in turn, oversees the judiciary and formulates judicial policy.

Independent
judiciary
4

The sultan has repeatedly made it clear that abuse of powers by officials will not be tolerated. Just one example of several similar cases from the period under review: rumors of malpractice and corruption led to the dismissal of the president of the Muscat municipality and the minister of manpower in July 2008. Nevertheless, conflicts between interests held by the ruling elite are common. The majority of cabinet members and senior office holders and some prominent members of the ruling family are directly involved in businesses that benefit from public contracts. Four of Oman's largest business groups are controlled by the Minister of Diwan of the Royal Court, the Minister of Tourism and two special advisers to the sultan, either personally or through their close relatives (brothers and children).

Prosecution of
office abuse
4

Though Oman's legal code theoretically protects civil liberties and personal freedoms, both are regularly ignored by the regime. Oman, therefore, cannot be considered free. Some efforts have been made following bilateral discussions between the United States and Oman since 2008. In November 2008, the government announced that it had amended the law on acquisition of government-owned land for housing to give women equal rights with men. Moreover a National Committee to Combat Human Trafficking was put into place. Amendments were also made in November 2009 to the Labor Law to increase the protection of foreign employees who are unfairly sacked, but these did not loosen the restrictions that prevent expatriate workers working for anyone other than their sponsor (kefala system).

Civil rights
5

The new National Human Rights Commission, established in 2008, is attached to the appointed State Council and chaired by the former Deputy-Inspector General of Police and Customs, and is not independent of the regime.

In domestic life, women and children face discrimination in many areas. "Men are traditionally and legally seen as heads of household, and as such, women are not entitled to certain state benefits including housing loans [...] Women do not have full freedom to make decisions about their health and reproductive rights. Moreover they are afforded unequal rights under the personal status law, which governs marriage, divorce, transfer of citizenship and child custody," as Rafiah al-Talei states for Freedom House.

In June 2009, the UN Committee on the Rights of the Child expressed concern about abuses and ill-treatment within the family and in institutions, and disparities in access to health and education faced by children in rural areas and children of

foreign nationals. The Committee urged the government to create a new independent national human rights institution, and re-examine the reservations Oman registered when ratifying the UN Children's Convention.

4 | Stability of Democratic Institutions

Oman's executive branch is free to manage the country with very limited democratic input. The Majlis al-Shura's powers cannot address important issues such as national security, foreign relations or the structure of the political system. It is limited to providing consultation and advice in economic and social areas, and proposing amendments to laws submitted for its consideration by the sultan's cabinet in these fields. The Majlis cannot initiate legislation, only question ministers about work related to public services. The public has limited access to political information through the media. It does, however, keep the executive under a certain degree of unofficial scrutiny via the internet. The justice system is relatively capable of operating independently of government intervention, except in security-related cases or other sensitive areas.

Performance of
democratic
institutions
2

There is widespread public support for the expansion of the Majlis al-Shura's role. Until March 2011, when popular pressure led the sultan to grant increased legislative prerogatives to the Council of Oman, the ruler had exhibited no sign of any commitment to transforming the lower chamber into a proper legislative body. Political stakeholders agree on the need for good governance, although not necessarily through democratic institutions.

Commitment to
democratic
institutions
2

5 | Political and Social Integration

Oman prohibits the existence of political parties and politically motivated associations. Despite the ban on parliamentary groups within the Majlis al-Shura, lobbies based on shared interests (like justice, education and health matters) are being formed. While the lobbies' ability to influence national policy remains weak, their very existence illustrates a qualitative evolution of some delegates' perceptions of their place in the general balance of powers.

Party system
1

Societal interests are usually articulated and channeled informally through friendships, family and tribal clans, and connections with public figures. These interests are articulated in the political sphere by members of the Majlis al-Shura (even if disillusionment about the actual power of this institution is widespread), local sheikhs and tribal representatives, and even by the sultan himself, especially on his annual meet-the-people tour.

Interest groups
3

Oman's structure as a rentier welfare state has rarely produced conditions conducive to organized societal demands and pressures. Nevertheless an embryonic

civil society, composed of young Omanis with high educational and intellectual capital who make informed criticism of ongoing policies, has been developing thanks to online forums and activism in recent years.

No public opinion poll has been conducted to assess the popularity of the current system. However, it is widely believed that citizens welcome the idea of greater political participation. Despite this, there appears to be a general feeling of apathy among the public because the process of democratization is slow and that the Majlis al-Shura is less powerful than many had hoped. Not surprisingly, therefore, despite an intense government media campaign urging citizens to vote in the 2007 elections, no more than 30% of eligible nationals participated. The promised increase of the Council of Oman's legislative prerogatives in 2011 has thus been received favorably (but cautiously) by many activists, as a first step that must be enforced quickly by wider political reforms.

Approval of
democracy
n/a

Omani political culture is dominated by a respect for patriarchal leadership and a general acceptance of the government's omnipotence, despite society's diversity and its fragmentation between rich and poor, urban and rural, old and young, male and female. The public is generally reluctant to organize itself in any politically meaningful manner. Despite this, demonstrations concerning economic and social issues such as living conditions and salaries are becoming less unusual. In spring 2011, the protests that flourished all over the country (especially in Sohar, Muscat and Salalah) called for the Omanization of jobs, better living conditions, an increase in political participation and an end to corruption, although the protesters also emphasized their loyalty to the sultan and dissatisfaction with officials. Despite the army's bid to control the protests violently, the sultan also carried out an extensive reshuffle of his cabinet, promised to create 50,000 public sector positions and an allowance for job seekers, and granted legislative powers to the Council of Oman.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Given the dreadful social situation in the early 1970s, Oman has realized a considerable level of economic growth in a short period of time, as measured by the UNDP's HDI. In its updated 2010 report, the HDI ranks Oman 56th with a value of 0.85. The state's exploitation of oil rent has enabled previously impossible economic and social development. Oman remains a middle-income economy by Middle Eastern standards. Since 2000 the existence of structural poverty in many rural and urban regions has become clear. The government's declared policy is to

Socioeconomic
barriers
7

widen the scope of socioeconomic development, especially in border towns and remote areas, in an attempt to safeguard the allegiance of these groups by awarding them senior public positions and by directing both public and private investments towards them. This is especially the case in Buraimi, the western slopes of Jebel Akhdar, Dhofar province and the exclave of Musandam. The economic situation in rural areas is still characterized by a migrant workforce with low skill levels. On a national level, foreign labor, especially in the private sector, drives economic development and makes up for the lack of an Omani skilled labor force. Income disparities among regions and social groups have been increasing since the early 2000s, including during the period under review.

Oman has been successful in enhancing the status of women, who – at least in theory – have the same opportunities as men in public and private jobs. Oman's government has a deliberate policy of inclusiveness regarding all segments of the population. In reality, however, women and other groups of society such as the descendants of servant tribes and slave groups (descendants of slaves brought from Africa who are considered not to be of Arab blood) still face high barriers to participation in formal economic activities.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	41901.2	60567.0	46866.1	-
GDP growth	%	6.8	12.8	1.1	-
Inflation (CPI)	%	6.0	12.1	3.9	3.2
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	8.0	4.9	3.2	-
Export growth	%	-	-	-	-
Import growth	%	-	-	-	-
Current account balance	\$ mn.	2462.2	5016.4	-602.9	5096.5
Public debt	% of GDP	7.5	5.1	8.0	5.9
External debt	\$ mn.	-	-	-	-
Total debt service	\$ mn.	-	-	-	-

Economic indicators		2007	2008	2009	2010
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	18.9	14.2	19.9	-
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	2.5	2.1	3.0	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	10.3	7.7	9.7	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

The foundations of a free and competitive market economy are assured. Over time, the government has incrementally introduced laws to ensure a free and fair market, and it has changed and amended earlier rules that seemed to interfere with market-based competition. This was particularly true during its 2000 WTO entry process and the enactment of the free trade agreement with the United States in January 2009. Similarly, Oman's government has initiated laws to encourage and facilitate foreign investment and to offer incentives for both private and foreign investors. The program to privatize a number of wholly or partly state-owned enterprises has sped up considerably since 2003. Rules that regulate the employment of expatriate labor (such as the kefala sponsorship system) and policies for the "Omanization" of the private sector workforce are still in force.

Market-based
competition
7

Anti-monopoly legislation is poorly developed. Members of the sultan's family and its traditional allies, who enjoy the highest decision-making positions in government, managed to create quasi-monopolies before an agency law was passed in November 1996. This law paved the way for more competition in many economic sectors and helped clarify a foreign principal's right to de-register the parties' agreement (at the Ministry of Commerce and Industry) upon expiration or cancellation of the commercial agency. However, the law did not alter an Omani commercial agent's existing contractual rights (including exclusivity) nor the agent's right to claim compensation from its foreign principal for unjustified cancellation or non-renewal of their relationship. The existing monopolies, therefore, were not really affected by the law.

Anti-monopoly
policy
4

Oman has liberalized and extensively deregulated foreign trade. After accession to the WTO in 2000, the government encouraged foreign trade and investment and introduced industrial regulations and labor laws. The 2003 GCC customs union agreement and the January 2009 introduction of the bilateral free trade agreement with the United States suggest that development in this area will continue. In order to lure more foreign investment, the new tax system, come into force on January 2010, cancelled the distinction between local and foreign companies, by establishing a fixed tax rate on profits of 12% for all companies, both foreign and local, after an initial tax-free exemption of RO 30,000 (€4,500) of profits.

Liberalization of
foreign trade
8

The Omani financial sector, supervised by the Central Bank of Oman (CBO), which was established in 1974, has been transformed considerably in recent years. The result is the creation of a modern financial system. The Muscat Securities Market (MSM) was established in 1989 and was the first Gulf stock market to set up a separate regulatory body, the Capital Market Authority (CMA). In January 1999, the new capital market law came into effect, enabling the CMA to oversee the MSM, where all listed shares are traded.

Banking system
7

Though Oman has been less affected than many Middle East countries by the 2008 – 2009 international financial crisis, the central bank made a massive injection of extra dollar liquidity into the domestic banking system in 2008. In January 2009, the government banded together with pension funds and the domestic financial sector to form a \$389 million fund to stabilize the country's stock market, which shed 41% of its capitalization in 2008. The Omani government contributes 60% of the fund. For the first semester of 2010, local banks posted net profits of around \$315 million, some 5.9% down on their performance for the first half of 2009. The CBO said this result was in part due to provisions taken on loan losses. But a recent increase in credit levels is a sign that Omani banks are shrugging off the residual impact of the financial crisis, with the total of outstanding credit growing by 7.6% compared to November 2009, reaching \$27.5 billion in November 2010.

8 | Currency and Price Stability

The Omani riyal has been pegged to the U.S. dollar since 1986. In practice, this means that domestic interest rates follow those in the United States. Oman has historically had extremely low inflation. However, inflation began to pick up in 2005, partly because of the weakness of the U.S. dollar against the currencies of Oman's main import suppliers (particularly the European Union and the United Arab Emirates) and because of the boom in foreign investments by GCC nationals in Oman. The increase of 12.4% on average consumer prices in 2008 contributed to the January 2009 decision not to join the GCC monetary union. On the contrary, the

Anti-inflation /
forex policy
8

2009 and 2010 slowdown of economic growth and of foreign investments meant that inflation rates were contained under 4%.

Oman's macroeconomic performance remained strong during 2009 and 2010. Due to high oil revenues, the effects of the new liquefied natural gas facility and growth in the non-oil sector, real GDP growth was over 3% in 2009. Fiscal policy has been prudent between 2009 and 2011, resulting in high budgetary surpluses. The government has devoted these surpluses to accumulating foreign assets and to lowering debt (public debt is estimated to amount to only 4.5% of GDP in December 2010). The reserves are invested in the State General Reserve Fund (SGRF), which acts both as a stabilization fund and as a means of saving excess oil export revenues for future generations. However, Oman's macroeconomic stability continues to be hostage to the country's over-reliance on oil revenues (77% of total state revenues in 2009), the fluctuation of both the value of oil prices and the U.S. dollar.

Macrostability

8

9 | Private Property

The basic law states that private property is protected and that nobody shall be prevented from disposing of property within the limits of the law. Nor shall anyone's property be expropriated or confiscated, unless in compliance with the law and with proper compensation. In 2006, GCC nationals gained the right to freely own residential and commercial properties anywhere in Oman. For non-GCC citizens, this freedom only applies to designated tourism projects.

Property rights

7

Oman's government has a deliberate policy of encouraging private sector growth. Since the early 2000s, the government has viewed private companies as the primary engines of economic growth. The government has been a regional leader in the privatization of state-owned enterprises. However, a number of oligopolies continue to operate with state investment.

Private enterprise

7

10 | Welfare Regime

Oman provides its citizens with extensive social services. Human development indices have improved with respect to income, education and health, life expectancy, and education. Government assistance for the poor is insufficient but contributes to reducing poverty to some degree. According to the Ministry of Social Development, 51,000 people benefited from social assistance programs in 2009. Pensions and social insurance have been widened to include both public and private sector employees. Nationals employed in the private sector are guaranteed a minimum monthly wage (raised by 43% to OR 200, or €363 in February 2011). The foreign workforce is not included in welfare schemes. State-sponsored insurance

Social safety nets

7

schemes do not exist but a monthly OR 150 (€72) allowance for job seekers registered at the Ministry of Manpower was introduced in February 2011 by royal order.

The basic law prohibits discrimination on the basis of “gender, origin, color, language, religion, sect, domicile, or social status.” There are no formal restrictions for either males or females in education, jobs or public services. Nevertheless, opportunities for descendants of servant tribes or slave groups to get managerial positions in the civil sector are still rare, while the recruitment of individuals on the basis of common tribal or ethnic background is still practiced on a large scale – especially in this period of increasing unemployment among the young. Omani women, who are severely under-represented in the legal field, continue to face difficulties gaining justice through the courts. In order to address this, the government passed a law in 2008 stipulating that men’s and women’s legal testimonies should be considered equal. Most men must still be seen as being opposed to women working in public places.

Equal opportunity
7

11 | Economic Performance

The Omani economy maintained its upward momentum in 2009 and 2010, registering a praiseworthy increase of 3% in its nominal GDP in 2009 – the second best in the GCC – despite the financial crisis. Data for the first eight months of 2010 indicate robust revenue growth, outpacing strong increases in expenditure. Data from the Ministry of National Economy has shown that the Omani economy grew by 33% in nominal terms in the first half of 2010. Oil and natural gas sectors constitute 77% of industrial activity in the country. Allowing for oil prices, the year 2010 is estimated to end with a budget surplus reaching RO 500 million (€97 million). During the same period, the non-oil sector experienced sustained growth. Overall, the economy’s robust performance reflects the government’s focus on developing the non-oil sector, economic diversification, the privatization of state-owned assets and recent structural reforms. No official rate of unemployment is available, but estimates show a persistent average unemployment level between 12 and 15%, while unemployment in the 18–24 age group runs at 20%. These figures omit what is probably a considerable rate of underemployment, particularly in rural areas.

Output strength
8

To kickstart the country’s eighth five-year development plan (2011 – 2015), which targets real GDP growth of 5% over the whole period, the government unveiled a budget for 2011 based on an ambitious per-barrel price of \$58. Based on this assumption, the government expects a deficit of RO 850 million (€1.54 billion), to be financed by the SGRF.

12 | Sustainability

Oman faces water scarcity and periodic droughts. Irrigation-intensive agriculture in the most fertile region, the Batinah coast, often leads to the saline intrusion via aquifers. Overgrazing and desertification are becoming a growing problem in the south. In principle, the sultan has demonstrated a personal commitment to environmental protection, and the country has a sound record of environmental law, enforced by the Ministry of Environment and Climate Affairs. Environmental concern tends to lose pre-eminence with increasing frequency in the face of private interests and the development of tourism, real estate and industrial projects.

Environmental
policy
5

Oman has placed great importance on education since 1970 and over 25% of government civil spending goes to education (3.5% of GDP in 2009). By 2011, Oman had over 1,000 schools, 90% of which are government-run and provide education at primary, preparatory and secondary levels. Girls represent 49% of all pupils registered until secondary school certification. If the challenge has been met from a purely quantitative perspective, the education system suffers from structural qualitative deficit. The Oman 2020 plan emphasized the necessity of upgrading the level of education by improving basic education and technical and vocational training. In the academic year 2009 – 2010, the sultanate had 24 private institutions of higher education. The government funds and subsidizes all of them. While the opening of many technical institutes during the last decade constitutes progress, vocational training remains the Achilles heel of Omani education. An important gap remains between education and training on the one hand and market needs on the other. Research institutes are still nonexistent and R&D was evaluated at 0.1% of GDP in 2007. The government has started to address this deficiency by creating a Scientific Research Council (established in 2005 by royal decree), but has exhibited no real political determination.

Education policy /
R&D
5

Transformation Management

I. Level of Difficulty

Structural constraints on Omani governance are limited. The royal family does not have a great deal of power over the sultan himself or the government, which includes only a few royal family members. Despite the high ethnic and tribal diversity of the national population, one of Qaboos' major achievements is the strengthening of the idea of an Omani nation as a collective framework of belonging. Even as recent economic difficulties produced growing frustrations and demands based on local identities, heterogeneity did not lead to openly-expressed ethnic or religious tensions. Instead of stoking division, different societal groups vie to win senior public positions and government support for their regions. Despite the return of many Omanis to the country since the 1970s and the growing expatriate workforce, one of the main constraints for management performance remains the lack of a skilled national labor force that can meet the needs of the new economic sectors that the government wants to develop in the post-oil era.

Structural
constraints
4

Oman has a very limited civil society tradition and no tradition of civic engagement in NGOs. The government's fear that social or public associations could polarize society or galvanize public opinion has prompted it to ban any sort of politically oriented civil society organization or association. The government has slightly relaxed its stance on civil society organizations but continues to control them by issuing licenses only to those deemed apolitical.

Civil society
traditions
8

Although Omani society is split along social, ethnic and regional lines, the regime has been highly successful in imposing the idea of an Omani nation as the collective framework of belonging. The lack of a dominant group or dominant tribe has encouraged this sense of national identity. This, coupled with the state's power and its even-handed policy in creating equal opportunities for all citizens regardless of their background, has mitigated any cleavages within Omani society and thus any potential societal conflict. Ten years of structural unemployment has, however, produced growing frustrations and mutual prejudices, which could contribute to a re-polarization of the society and an increase in competitive declarations of loyalty to the nation by intra-national groups. This type of competition has not yet reached a level that could threaten national unity.

Conflict intensity
1

II. Management Performance

14 | Steering Capability

Question
Score

The sultan has made some cautious reforms to address the need expressed by the younger generation and by the international community to increase political participation. The 2011 removal of cabinet members widely perceived as corrupt and the promise of increased legislative power for the Council of Oman illustrate this. There is widespread agreement on key elements of the country's mid-term plan for economic development. First, the plan calls for Oman to develop and upgrade its human resources to better cope with international competitors. Secondly, the plan specifies that Oman's private sector needs to be made capable of using human and natural resources effectively and sustainably. In general, the economic plan pushes Oman to utilize the value of its geo-strategic location, optimize the use of its natural resources, promote economic diversification, and distribute the fruits of development equally among all regions and all citizens.

Prioritization
5

In the minds of most of Oman's citizens, the Omani model of development is intimately linked to Sultan Qaboos. The ruler has no heir and does not want to designate one. At times, he seems to show little concern for the long-term development of the dynasty or the country. This reluctance seems to be supported by the conservatism of prominent figures of the regime who owe their influence to their proximity to the sultan, some of whom were removed from their positions in 2011. But these reshuffles have not altered the growing feeling of anxiety among the population concerning the perceived lack of long-term vision and a future without the reassuring paternal figure of Qaboos.

Thus far, the government has been quite successful in setting, maintaining and even achieving some of its development objectives – in particular its goals for economic reform and liberalization. With regard to politics, the regime has initiated some measured reforms, though this has not changed the fact that power remains heavily concentrated in the hands of Sultan Qaboos and his protégés. Some senior members of the government have remained in office for a very long time, which has bred sluggishness and a certain degree of political malaise. This stagnation, together with the absence of an active prime minister (the sultan also acts as prime minister), contributes to the government's inability to set and maintain strategic priorities in a coherent manner. Because the political leadership must satisfactorily serve the sultan in order to remain in the cabinet, the issues that interest the sultan have priority over all others.

Implementation
4

Oman's delicate political situation and limited economic endowment make the government very cautious about mistakes and failures. This explains the relatively slow and gradual nature of political development. The leadership responds quickly to mistakes and takes corrective actions, but this has not always proved to be sufficient. The cabinet, on the other hand, due to a general lack of coordination and long-term perspective, has shown few signs of learning from past mistakes.

Policy learning
5

15 | Resource Efficiency

While the government has been relatively successful in making efficient use of its available economic resources, it has mixed results in its husbandry of human resources. Undoubtedly, since the 1970s the government of Oman has adopted a wider definition of human resource development and now considers the strengthening of human resources to be the ultimate goal of the national development process. The government has tried to realize its human resource objectives by achieving economic equilibrium and sustainable growth, diversifying income sources, and by developing the private sector. However, success has been limited and many young people remain unemployed. In addition, a large portion of the Omanization policy of employment, implemented to increase the rate of nationals in the private sector, has dealt with low or unskilled positions. Appointments of civil servants are predominantly motivated by the necessity to maintain balance between various kinship and regional groups instead of purely rational criteria of competence. Though some young, skilled technocrats have been offered decision-making positions in the cabinet since the end of the 1990s, a major change in the general human resource policy has not occurred. Moreover, the state apparatus remains highly concentrated in Muscat, as the fear of a possible emergence of alternative political power centers has prevented the establishment of any form of substantial decentralized administration.

Efficient use of
assets
6

Government objectives and priorities are generally clear and well-understood by the population. The implementation of these objectives, however, is not as straightforward. Intra-government frictions, conflicting personal and local interests and cleavages occasionally hinder this implementation. Sultan Qaboos often seems to have imperceptibly stepped out of the decision-making arena, allowing government members to pursue their personal interests without regard for the nation as a whole. The sultan's central role and his strategy of limited cabinet reshuffling, on the other hand, promote continuity and allow the government to plan ahead. Coherence in policy formulation and strong cooperation among all concerned parties are strongest when the sultan expresses particular interest in a given objective.

Policy
coordination
6

Oman has no special anti-corruption agencies or organizations. Instead, corruption falls under the aegis of a number of security services like the Royal Oman Police, the Internal Security Services and the Ministry of Palace Office. In 2002, the sultan created the money laundering law, which established the National Committee for Combating Money Laundering under the chairmanship of the Under-Secretary for Economic Affairs of the Ministry of National Economy. Strict rules have been stipulated and any person convicted of money laundering is jailed for between three and 10 years. The Ministry of National Economy was dismantled in 2011 and there are subsequently uncertainties as to how these anti-corruption policies will be continued. Bankers who do not comply with the law are also increasingly subject to jail sentences. Article 53 of the 1996 basic law forbids members of the council of ministers to “combine their ministerial posts with the chairmanship or membership of the board of any joint stock company,” and led to two prominent businessmen leaving their council seats in the months after it went into effect. In the long run, however, this law has not cleansed Oman’s political system of conflicts of interest. A substantial share of the cabinet members currently works directly or indirectly in business. Media access to information on public spending (and control of it) is virtually nonexistent.

Anti-corruption
policy
4

16 | Consensus-Building

The sultan has consolidated a sense of national unity by balancing competing interests and building national consensus. This consensus, in turn, generated support for social transformation. In principle, all major political and social actors agree on the goal of stable and steady movement toward political participation and a market-based economy. Yet reform has always come from above. Some Islamist groups were arrested in the 1980s and 1990s, and also in 2005, for demanding more democratic rights, though they stopped short of calling for regime change. Apart from these cases, the religious establishment and tribal leaders generally fall in line with the government’s policy of gradual and cautious reform.

Consensus on goals
6

Although authoritarian, Oman’s political leadership demonstrates some responsiveness to public demands and a willingness to take corrective action. Apart from traditional and religious establishments, which call for reforms in accordance with the cultural values of society, Oman has no anti-reform veto actors – on the contrary, a growing fringe of the young urban educated society demand a more active move towards political liberalization and more freedom of expression. The government has been largely successful in co-opting and using societal forces to enhance its own plans. It has implemented gradual political liberalization so as to avoid consistent democratic reforms. The 2005 arrests of some Islamists were clear signs to the population that open repression remains a last resort to choke off disagreement and to reassert the regime’s political power.

Anti-democratic
actors
3

A regime's strategy has been to co-opt the most powerful societal elites (religious leaders, tribal and ethnic notables, business leaders) into the system. The government has tried to enhance national unity by appointing cabinet members from different regions and ethnic groups. Moreover, many tribal sheikhs, remunerated as employees of the Ministry of Interior, act as intermediaries in small disputes between individuals and the public administration. This policy has so far successfully pre-empted the outbreak of ethnic and tribal cleavages in the political sphere.

Cleavage /
conflict
management
5

The government does not encourage civil society organizations and associations but does grant licenses to those it deems apolitical (i.e. organizations that provide services to women, children, the disabled and the elderly), and in some cases the government even supports them financially. Propositions and demands by embryonic independent civil society organizations are usually ignored, and actors are sometimes bluntly harassed.

Civil society
participation
3

No large-scale injustice has taken place in Oman that would require major reconciliation efforts. In an effort to assert the stability of his rule, Sultan Qaboos proclaimed a general amnesty toward his and his father's former political opponents and offered them seats in the government and top positions in the central administration.

Reconciliation
n/a

17 | International Cooperation

Since 1970, Oman has pursued a moderate foreign policy and expanded its diplomatic relations dramatically. Sultan Qaboos' government has made great efforts to fully integrate the country into the international community. In 1971, Oman joined the League of Arab States and the United Nations. Diplomacy has always been a means to assert the regime's stability in a troubled region. Fear of external interference prevents Oman from doing more to get international aid for specific projects. The best example of this came when the Gonu cyclone hit the eastern coast of Oman in June 2007. The country carefully turned down all proposals for foreign assistance, considering them potential sources of undesired political interference. Nonetheless, the government works closely with international organizations such as the World Bank, the IMF, the United Nations and other Arab regional developmental and financial institutions.

Effective use of
support
5

Oman acts as a reliable partner in its relations with the international community. Oman's foreign policy since 1970 is based on four tenets. Firstly, Oman strives for the development and maintenance of good relations with all its neighbors, the GCC and Iran, Pakistan and India. Secondly, Oman maintains close relations with the United Kingdom, the United States and their Arab allies (especially Egypt and Jordan). Thirdly, Oman exhibits a pragmatic approach to bilateral relations,

Credibility
7

emphasizing underlying geo-strategic realities rather than temporary ideological positions. Finally, Oman works to establish security through cooperation rather than conflict.

Oman works closely with neighboring states and has developed close ties with them. It is a founding and active member of the GCC, which was established in 1981. Oman was particularly active, for example, in the GCC's negotiations of bilateral free trade agreements with the European Union, Singapore and India in 2008. Furthermore, Oman was one of the 14 founding members of the Indian Ocean Rim Association in 1997. Recent tensions with the UAE should not substantially damage Oman's good relationship with its neighbors. Oman fully supported the Bahraini regime in spring 2011, and was also grateful to receive military help from Saudi Arabia to deal with its own protesters.

Regional
cooperation
8

Strategic Outlook

Since the early 2000s, Oman has undergone substantial economic reform and some degree of political reform. The regime's prioritization of its own stability and consolidation of its power should not obscure the fact that major steps still remain to be taken. Overall reforms are needed in order to restore popular confidence in the government's coordinated and long-term goals. The massive increase of internet penetration rate in a few years time, and its use as a tool to orchestrate the diffusion of dissonant voices among the urban, educated population, shows how eager young citizens are to be granted the capacity to participate in social and political debates at both local and national levels. Since January 2011, most towns (mainly Sohar, Muscat and Salalah) have been the scene of protests by Omanis, alerted by websites and online social networks, demanding higher salaries, better living conditions, a tougher fight against corruption and substantial political reforms. In terms of political participation, mass abstention in the 2007 Majlis al-Shura elections showed a widespread refusal to endorse a legislative body without real power. In order to curb this popular disillusionment with representative institutions and to quell the unrest, the regime has promised to grant the bicameral parliament wider legislative and regulatory powers on the occasion of the October 2011 elections, but the practical implementation of these announcements in the basic law and in the concrete redistribution of political powers is taking a long time. Fundamentally, the sultan does not seem to be ready to prepare his succession through the long-awaited nomination of a heir or to pass on some of his multiple prerogatives to a prime minister. Concurrently, civil society organizations and associations should immediately be strengthened and encouraged; the expression of alternative voices should be tolerated; and the oppressive climate of forced national unanimity should be relaxed.

More broadly, Oman's main structural challenge lies in the transition from an over-reliance on oil revenues to a diversified economy in which the national workforce will be in a position to play its full role in the creation of wealth. In order for this to happen, educational reform needs to feature high on the reform agenda. Oman's education system is still locked into a system of low expectations and low performance. Curricular focus must center on the promotion of personal initiative and critical perspective. In addition, professional vocational education and training is required to produce a sufficient and qualified national labor force to balance (or even reduce) foreign labor. A further structural obstacle to long-term reform lies in the political-economic conflict of interest at the top levels in the country. A substantial number of cabinet members are involved directly or indirectly in business. These decision-makers often fail to promote the nation's general interests (like the Omanization policy and the reform agenda) when they act as businessmen. Instead, they advance their own private interests through the influence they have as statesmen. From this point of view, the official challenges of Omanization and economic diversification go far beyond the employment issue and call into question the whole economic structure on which Oman has relied for 40 years.