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**LIONS IN THE PATH OF STABILITY AND SECURITY:  
OMAN'S RESPONSE TO PRESSING ISSUES IN THE  
MIDDLE EAST**

by

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December 2008

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OMAN'S RESPONSE TO PRESSING ISSUES IN THE MIDDLE EAST**

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## **ABSTRACT**

Scholars identify numerous factors that create an environment of instability and insecurity of the Middle East. This thesis analyzes two of these factors: (1) a reliance on oil as the primary source of revenue (2) Dealing with subduing an insurgency. It will use the experience of Oman in dealing with these sources of instability to illustrate the challenges they pose to the state and solutions for countering them. Oman's government eventually subdued the insurgency by countering the social factors fueling them, blocking the mobilization of the insurgents, exploiting the social framing of the issues motivating them, alleviating the lack of political opportunities, and defending against their limited repertoire of actions. Finding itself near the end of the insurgency, per capita, one of the elite rentier oil states Oman skillfully began investing its wealth into areas that would build a non-oil economy by developing its human resources, diversifying its economy, and developing a viable private sector through correctly assessing its challenges and charting a workable strategy for addressing them.

A better understanding of these issues and workable solutions to them should be of interest to scholars and policy makers who are working to improve the security of the Middle East.

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# **I. INTRODUCTION**

## **A. PURPOSE**

Scholars and intelligence experts have identified numerous factors that contribute to instability and insecurity in the Middle East. These factors range from large youth populations to Islamic extremism. The thesis examines responses adopted by the Sultanate of Oman when faced with two structural sources of instability commonly found in the Middle East: overreliance on oil revenues and insurgency in the Dhofar region.

The two factors have been studied together because one of the many keys to stopping the resumption of hostilities by a defeated insurgent group is improving economic conditions for the total population of the state. Reconstruction and improved overall social well-being has to outpace the propaganda against the state by the opposition movement that put down its arms. The Omani solutions provide a model for ending rebellions, recognizing economic challenges, and developing a strategy for improving the standard of living for the population.

## **B. IMPORTANCE**

Endemic instability in the Middle East has been a constant in the region's recent history. The people of Lebanon, Iraq, Palestine, Afghanistan and Israel must be weary from the violence. In some nations, numerous generations have grown up under conditions of war. This thesis will explain how one little-known country in the heart of the region achieved a comfortable level of stability and security. It will analyze Oman's stability by explaining how the country has dealt with two sources of insecurity first an insurgency and then an economy overly reliant on oil revenues.

The primary purpose of this thesis is to provide a better understanding of these two critical issues that are part of the complex security picture in the Middle East. A further purpose is to discuss and analyze how one country has dealt with them. A better

understanding of the issues and workable solutions to them should be of interest to scholars and policy makers who are working to improve the security of the Middle East.

### **C. THESIS AND MAJOR ARGUMENTS**

This thesis will analyze the case of the Dhofar Rebellion from 1962-1975 and explain how Oman subdued the insurgency. It explains how the anti-government forces operated and what they demanded from Oman's ruler – the Sultan. The work here will highlight the government's response to the insurgent attacks, first under Sultan Said bin Taimur and then the altered responses under his successor and current ruler of Oman, Sultan Qaboos. Changes in strategy introduced by Qaboos helped defeat the insurgent forces that had been operating in the country for nearly a decade. The analysis of the insurgency will draw upon theories of social mobilization to highlight the sources of social unrest as well as government responses to the threat.

Oman dealt with this threat to its security during the same time it coped with an economy almost entirely dependent on oil revenue for its economic growth. To understand how Oman dealt with the issue of reliance on oil as the primary source of state revenue the thesis reviews Oman's history with oil and compares it with other oil producing nations. Next it determines how much Oman's non-oil economy sectors have grown or decreased since the discovery of oil. This thesis argues that the government is successfully diversifying its economy to decrease its dependence on oil production while investing its oil wealth in an educational system that can provide a work force capable of operating in a newly diversified economy.

### **D. METHODOLOGY AND SOURCES**

This thesis provides a historical analysis in steps. First, identifying the extent of the insurgency and Oman's dependence on oil revenues and how those affected the Omani society. Second, exploring how Oman chose to address the issues and what

effects those choices had on the problem. Finally, determining the long-term outcome of the decisions, by assessing the current status of both.

To evaluate Oman's actions in solving these issues the author utilized numerous resources including a visit to Oman as part of the 2006 Joseph J. Malone Fellowship in Arab and Islamic Studies, where the fellows were able to see, first-hand, the stability and security that Oman has achieved due to its handling of critical issues.

The idea for this study crystallized after reading James Russell's book *Critical Issues Facing the Middle East* and also the National Intelligence Council's 2020 Project called "Mapping the Global Future". These works provide insight into the common insecurities present or predicted in the Middle East.<sup>1</sup> It is this author's belief that further studies on the handling of these critical issues in the region will help develop a more robust repertoire of solutions to assist other states in overcoming them.

## **E. ORGANIZATION**

The introduction will detail the research question, the methodology for this work, and introduce the reader to the county of Oman. The first chapter will examine the Dhofar Rebellion and determine the factors that caused its eventual failure. The second chapter will discuss Oman's oil history in the larger context of the Middle East's oil industry to explain Oman's oil dependence. Finally the third chapter will discuss Oman's efforts to diversify its economy and will evaluate its efforts to date.

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<sup>1</sup> These variables are identified in the series of essays in James A. Russell, Ed., *Critical Issues Facing the Middle East* (New York: Palgrave Macmillan, 2006) and National Intelligence Council, "Mapping the Global Future: Report of the National Intelligence Council's 2020 Project," National Intelligence Council, [http://www.dni.gov/nic/NIC\\_2020\\_project.html](http://www.dni.gov/nic/NIC_2020_project.html) (accessed 11 September 2007). For a detailed listing of some of the other issues that can create instability in Middle Eastern countries see Appendix A.

## F. BACKGROUND: AN INTRODUCTION TO OMAN



**Figure 1. Map of the Middle East**

(Maps in Figures 1 and 2 used with the permission of the United Nations)

A look at the characteristics and history of Oman will enable the reader to understand how the critical issues discussed are related to the Omani society and the larger region. Oman (officially called the Sultanate of Oman, will be referred to as Oman in this thesis) is a medium-sized nation totaling 120,000 square Miles; near the size of Arizona or New Mexico. Iraq covers approximately 168,000 square miles and Afghanistan 250,000 (Figure 1). Oman has over 1,056 miles of coastline that has supported its strong fishing and trade industry since antiquity. The coastline is separated from the interior deserts in the north by a mountain range that reaches heights of 3,000 meters. The southern portion of the country has a more tropical climate and vegetation due to the monsoons that occur seasonally. The country is quite unique because it has

two large enclaves surrounded by the United Arab Emirates. The region of Musandam juts into the Strait of Hormuz bringing Oman physically close to Iran and internationally recognized as the owner of the geo-strategically important shipping lanes (Figure 2).



**Figure 2. Map of Oman and its Neighbors**

Ethnically Oman contains an estimated 200 Arab tribes as well as people of Iranian, Baloch (Southern Pakistan), Indian, and East African descent. Ibadhi Muslims are the majority religious confession at around 75%; the remaining Muslims are Wahhabi Sunni and a small Shi`i population. Hindus and Christians also live in Oman. Multiple languages can be heard in the markets besides Arabic, including English, Farsi, Urdu and numerous Indian dialects.<sup>2</sup> Also worth noting is that Oman practices a distinctive brand of Islam called Ibadhism. The Ibadhi Muslims see themselves as one of the oldest sects of Islam tracing their past to the Muhakkimah that stood firm against the rise of Khawarij sects. The vision of the Ibadhi Muslim society is for a just Imamate that leads a Muslim community and this belief plays a large role in the history of Oman.<sup>3</sup>

## 1. History

Oman's Batinah coastline has been the site of permanent continuous settlement in Oman since 5000 BC.<sup>4</sup> The Omanis have struggled for independence from the numerous empires that have controlled the Middle East for centuries. Their culture has been influenced by successive migrations of Arabs including tribes from all regions of Arabia. Before the arrival of the Portuguese on the Eastern side of Africa the Omanis had already mastered the seas and developed a vast empire in the Indian Ocean. Although finally free from the dominance of external masters Oman after the Portuguese and Iranians were expelled Oman was a divided land with the traditional Imamate supported controlling the interior and the worldlier Sultanate ruling the capital city and much of the coastline.<sup>5</sup>

A pattern of disagreements between the interior and the coast would continue from the 17th through the 20th centuries which would involve the alignment and

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<sup>2</sup> CQ Press, *Political Handbook of the Middle East 2006* (Washington, D.C.: CQ Press, 2006), 303.

<sup>3</sup> For more information on Ibadhism see Amr Khalifa al-Nami, "Studies in Ibadhism" (PhD, Cambridge 1971), [http://www.islamfact.com/books-htm/amribadhismandamribadhismandstudies.htm#\\_THE\\_FOUNDATION\\_OF\\_THE\\_IBADHIAH,\\_AND](http://www.islamfact.com/books-htm/amribadhismandamribadhismandstudies.htm#_THE_FOUNDATION_OF_THE_IBADHIAH,_AND), (accessed 18 January 2008), chapter 1, 183.

<sup>4</sup> Daniel T. Potts, *The Arabian Gulf in Antiquity*, Vol. 1 (New York: Clarendon Press, 1990), 37.

<sup>5</sup> Robert Landen, *Oman since 1856; Disruptive Modernization in a Traditional Arab Society*, (Princeton, N.J.: Princeton University Press, 1967), 1-49.

realignment of the numerous tribes. The current ruling family the, Al Bu Saids, would find themselves in the 20th century controlling of the capital and coast as the Sultan of Muscat while the interior (Oman) was controlled by an Imam in the city of Nizwa; although Oman was divided they were independent economically and nationally, except for a growing dependency on British advice.<sup>6</sup>

The thesis will document the final period of violent national turbulence which left Oman undeveloped economically, lacking in infrastructure, and experiencing contentious tribal relations. The current Deputy Chief of Mission to the U.S. remembers as a child in the 1960s and 1970s that there were only three schools and two hospitals. Many had no running water or electricity and many children died by the age of five. Rich and poor alike rode bicycles or donkeys and most Omanis had little formal education.<sup>7</sup>

Today Oman is a social, economic and political leader in the Middle East. It has a stable crude oil and natural gas industry that trades heavily in East Asia and the Pacific region. It has over 59 hospitals for its 2.7 million people, life expectancy is over 70 years for both male and female, there are over 1,200 schools, and nationwide phone, electric and water services. Tourism and foreign investments have continued to increase in Oman and the government has continued to increase equality for women in many areas. Oman has changed dramatically in 30 years and how it accomplished these changes will provide useful information to developed and developing countries alike.<sup>8</sup>

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<sup>6</sup> Landen, *Oman since 1856; Disruptive Modernization in a Traditional Arab Society*, 50-69.

<sup>7</sup> Discussions with Mahmoud al-Hinnai`i, Deputy Chief of Mission to the U.S. from Sultanate of Oman, 29 March 2006, Washington D.C.

<sup>8</sup> Richard Curtiss, "Oman: A Model for all Developing Nations," *The Washington Report on Middle East Affairs* XIV, no. 2 (Aug 1995), <http://proquest.umi.com/pqdweb?did=509418701&Fmt=7&clientId=65345&RQT=309&VName=PQD>, (accessed 10 August 2007).

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## **II. NEUTRALIZING AN INSURGENCY**

### **A. CONTEXT, ACTIONS AND REACTIONS**

#### **1. Introduction and Findings**

The chapter will analyze the Dhofar Rebellion (1963-1970s) an anti-government insurgency movement that fought against Sultan Said Taimur and his son Sultan Qaboos Southern Oman. Social movement theory is utilized to reveal the causes and dynamics of the mobilization of the insurgents. This study argues that people who can recognize social movements, understand how they mobilize and how they frame their issues, appreciate their political opportunities or lack thereof, and identify the repertoires used by the insurgents can eventually take ownership of the causes of the insurgency and reduce the power of the social movement to acceptable levels.<sup>9</sup>

Some findings of this case study are that the meddling of neighbor states, a long-standing feud between the Imamate and Sultanate, and the repressive regime of Sultan Said Taimur helped to create and sustain an enduring rebellion. Meanwhile the changes in the counterinsurgency strategy and regime made by the new Sultan, his son Qaboos helped defeat the insurgency. The changes Sultan Qaboos made allowed the government to respond to and resolve the issues that were rallying points for the rebellion. Additionally this study found that the inability of the rebels to adapt to the government's new strategy and the insurgents continual repressive acts towards the neutral Dhofari people drove the remaining insurgency supporters into the Sultan's camp. Furthermore this case revealed the importance of understanding a movement's goals and grievances when designing a counterinsurgency campaign; that the application of military force without civil re-construction of institutions and infrastructure is self-defeating; and that

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<sup>9</sup> Some useful works on Social Mobilization/Movements are listed at the end of the bibliography. This chapter benefited greatly from the lectures of Anne Marie Baylouny, "Seminar on Middle Eastern Politics: Social Mobilization," Naval Postgraduate School, Monterey, CA, Fall 2007.

understanding the role and extent of outside influences and removing them is a critical step for isolating an anti-government movement.

## **2. Background and Key Actors**

The Sultanate of Oman experienced its most determined anti-government social mobilizations first in the North and later in the South (Figure 3). The mobilizations were inspired at first by the desire for political change by a few anti-government leaders in the North and later by a Marxist ideology in the South. The Omani rebels were partially backed at different times by the Peoples Democratic Republic of Yemen, Egypt, Iraq, China, the USSR, and Saudi Arabia for differing reasons. Meanwhile the Sultan relied heavily on the militaries of Britain and Iran to assist him in his efforts to defeat the rebels.

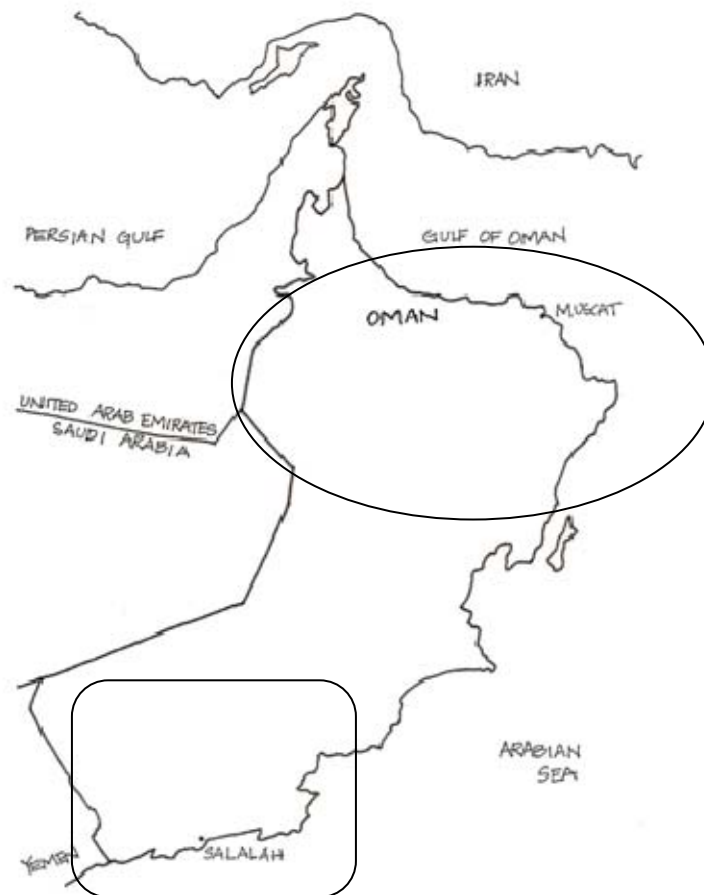
There were three major reasons for the establishment and continuance of the insurgency in Oman. One was the ill-defined borders between Oman, Yemen, Saudi Arabia and the Emirates in the 1950s which created confusion over the ownership of certain oasis towns. Another was the fact that through most of the Dhofar region's history it was considered a dependency of Oman, but was not officially a part of Oman until 1879 and was often neglected.<sup>10</sup> Another is Sultan himself who had an unfavorable reputation due to his restrictive and isolationist rules. The most crucial factor was the exposure of Omanis to social movements with Marxist ideas because of the massive movement of labor throughout the region during the polarized Cold War era. These sources of ideology were not available to them in their closed society.

Prior to the start of the Dhofar Rebellion which is the primary topic of this chapter there are two other key elements that should be highlighted. The first is the Buraimi Oasis Crisis of 1952; an armed conflict over oil exploration between Saudi Arabia and Oman allied with the Trucial Coast. This event would set up the linkage between Saudi Arabia and Omanis loyal to the Imamate after the British decided that the Sultan needed to control all of Oman including the interior and retook the Buraimi Oasis. Talib, the

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<sup>10</sup> Often spelled Dhufar, I will use the Sultanate of Oman's current official spelling, Dhofar.

brother of the Imam escaped into Saudi Arabia and organized a new rebellion that fought the Sultan again from 1957-59.<sup>11</sup> The Imamate failure provided some positive and negative lessons to the Dhofaris that would enable them to develop a resistance that would be even harder to thwart. Second was the role of Britain in Oman. Because the Sultan relied heavily on outside advisors to run his government and guide his military he provided a major cause of resentment for the Sultan by the interior tribes.



**Figure 3. Map of Oman and surrounding States showing insurgency locations**

(The rectangle shows the approximate location of the Dhofar Rebellion. The oval encompasses the areas where the northern revolts took place. [Artwork by Michelle Howk, 2007])

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<sup>11</sup> Jan Morris, *Sultan in Oman* (New York: Pantheon, 1957), 6-7 and Fred Halliday, *Arabia without Sultans: A Political Survey of Instability in the Arab World*, (New York: Vintage Books, 1975), 290-9.

### 3. The Dhofaris and Social Mobilization, 1950s-67

“We never had to deal with wilder men in our lives”

-J. Theodore Bent, fondly recalling his Dhofari guides in 1894.<sup>12</sup>

The Dhofar region, about the size of West Virginia, has a long turbulent past. The British government, securely entrenched in South Arabia in Aden, assisted the Omanis in gaining control of Dhofar for sea route safety. The hilly terrain, monsoon rains and non-Arabic language of Dhofar has played a key role in the lack of unification with Oman. The terrain would impede the movement of soldiers and the rains provided valuable water to the rebels.<sup>13</sup> The non-Arabic language of the nomadic hill people in Oman is called Shahri or Jabali and provides a linguistic link to the Yemenis living closest to Oman’s border.<sup>14</sup> The language and terrain create a natural split between the coastal and hill people of Dhofar that factors into the decades of turbulence.

There were six major sources for the movement’s members; the most important are highlighted here.<sup>15</sup> One source was the Arab Nationalists Movement (ANM) which operated throughout the region taught the Omanis about Marxism and would develop many leaders in the Rebellion. Omanis from this source had often joined al-Ba`th party or some other communist leaning group. A second source of members was the Dhofar Benevolent Society (DBS) which acquired funds for the rebels and provided a legitimate cover for the ANM. The third source of rebels was from a shaykh of the Bayt Kathir tribe. Shaykh Musallim bin Nufal bin Sharfan al-Kathiri was a disgruntled ex-member of the Sultans military. He and his brother struck the first violent blow against the Sultan in Dhofar in April 1963 when they fired upon an oil company truck. The strength of the

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<sup>12</sup> J. Theodore Bent, "Exploration of the Frankincense Country, Southern Arabia," *The Geographical Journal* 6, no. 2 (Aug. 1895), 109-133, <http://links.jstor.org/sici?sici=0016-7398%28189508%296%3A2%3C109%3AEOTFCS%3E2.0.CO%3B2-I>, (accessed 26 July 2007), 118.

<sup>13</sup> Bent, "Exploration of the Frankincense Country, Southern Arabia," 114.

<sup>14</sup> Ray L. Cleveland, "Revolution in Dhofar, Sultanate of Oman," *Middle East Forum* 47, no. 3/4 (1971), 93.

<sup>15</sup> J. E. Peterson, *Oman's Insurgencies, the Sultanate's Struggle for Supremacy* (London: SAQI, 2007), 186-7.

numerous choices of membership methods was that it made recruiting easier; the drawback was that when splits occurred large parts of the membership could leave en masse.

Once these related organizations were united they began to frame their goals and attempt to recruit more members to the new Dhofar Liberation Front (DLF). Their message was anti-imperialist, specifically anti-Sultan and anti-British. They used oil company exploration as a symbol of the imperial and colonial tendencies of the Sultan, who was in their eyes, a British puppet. The DLF merger provided regional contacts to the mostly tribal membership of the movement; it also gave the group a broader scope for its belief in liberation. The DLF started to view the entire Gulf, not just Dhofar or Oman, as an area under siege, requiring liberation.

By the time the first DLF congress met in June 1965, the group was functioning with little external support and the Saudi links were being replaced with aid from Iraqi and Egyptian quarters.<sup>16</sup> The DLF began by organizing an 18-man executive committee that would encapsulate all the various views into a governing body. They agreed that an armed struggle was the best way to achieve the group's goals. They also felt that the tribal divisions in southern Oman could be overcome to allow easier recruitment by dividing Dhofar into three geographical sectors, West, Center and East. They selected certain issues, including unemployment, poverty, illiteracy and disease, to rally the Dhofaris and hopefully other Omanis to join them.

The Marxist intelligentsia in the organization could still be heard in the Rebellion even though the tribal element made up the majority of the group. The Congress's manifesto makes clear the intent of the DLF (Table 1).

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<sup>16</sup> J. E. Peterson, *Oman's Insurgencies, the Sultanate's Struggle for Supremacy*, 196.

## DLF Congressional Manifesto

- a) The poor classes, the farmers, workers, soldiers and revolutionary intellectuals will form the backbone of the organization.
- b) The Imperialist presence will be destroyed in all forms-military, economic, and political.
- c) The hireling regime under its ruler, Said bin Taimur, will be destroyed.<sup>17</sup>

**Table 1. DLF Congressional Manifesto**

The primary violent actions of the rebels during this early stage were sniping, ambushing and sabotage. They were cautious as well, as many men were from the lower caste tribes and unfamiliar with this type of behavior. The Sultan reacted as an authoritarian figure was expected to do. To restore order he began search and destroy patrols, had his forces construct barriers to isolate the rebels, and utilized collective punishment for the entire area. However the opposite goal was realized. The rebels were now hungry and angry, this made face-to-face recruiting effortless. The DLF leadership could not have unified the various tribes as quickly as the Sultan had done. Some of the declarations of the DLF listed below show the messages they wanted their people to grasp.<sup>18</sup>

Arab People of Dhofar! A revolutionary vanguard has emerged from among you...[with] the task of liberating this country from the rule of the despotic Al Bu Said Sultan...identified with the hordes of the British imperialist occupation.

...In the name o the free martyrs...we appeal to the true Arab spirit in you to close ranks against corruption and rally around the fighters of the FLF.

The government of the stooge Said Bin Taimur has enlisted the services of an army of Shu'bi mercenaries to frustrate the goals of the Arab liberation

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<sup>17</sup> D. L. Price, "Oman: Insurgency and Development," *Conflict Studies*, no. 53 (1975), 3. 18.

<sup>18</sup> MERIP, "The Struggle for Liberation in Oman," *MERIP Reports*, no. 36 (Apr. 1975), <http://links.jstor.org/sici?sici=0047-7265%28197504%290%3A36%3C10%3ATSFLIO%3E2.0.CO%3B2-%23>, (accessed 17 October 2007), 13.

in this country...we shall teach this army a lesson it will never forget-the same lesson taught to the imperialist armies in Egypt, Algeria, Iraq and Yemen.

## **B. CHANGE IN STRATEGY**

### **1. Change in Rebel Leadership and Change in Frames 1967-70**

In this section the ability of outside elements to influence the insurgency by providing means and motivation to be successful on the battlefield will be discussed. Also this section examines the time when the tipping point for the insurgency was reached as the rebels start to treat their supporters in the region in the same manner that the government had or worse.

The year 1967 brought many profound changes to the region and to the DLF. The Arab loss in the Arab-Israeli 1967 war, the withdrawal of the British from Aden and the failed assassination attempt in 1966 on the Sultan brought the DLF to a period of introspection. This scrutiny focused on the Arab Nationalist motives of the movement. The result was a more radical political platform, leaning closer to the Marxist ideas of its new ally in South Yemen, the National Liberation Front (NLF). The second congress met on 1 September 1968 and the mantle of leadership moved to Mohammad Ahmad al-Ghassani, a pro-Marxist. The early tribal leaders such as Shaykh Musallim parted ways with the organization because of that shift, but the organization grew in strength because of its new alliances in the region and in Asia.

Now with the support of South Yemen, China, Iraq, some Palestinian groups and the Soviet Union, the rebels were ready to officially expand their goals. They changed their name to the Popular Front for the Liberation of the Occupied Arabian Gulf (PFLOAG) to emphasize their intentions to remove the imperialist nations from the entire Gulf. They published this change in their resolutions along with their intent to extend the revolution and to “adopt organized revolutionary violence.”<sup>19</sup>

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<sup>19</sup> Cheney, *The Insurgency in Oman, 1962-1976*, Chapter 1.

The rise in strength was matched by an increase in military prowess. The Sultans forces were pushed back from rebel strongholds and supply lines from South Yemen were opened to assist the rebels. This time period marked the peak of the rebel movement. They capitalized on their military success with economic and social services for the Dhofari people. Education, food and medical aid all flowed from the PFLOAG. Education was of course political but it was a school environment and the Dhofaris having so long been denied education by the Sultan, absorbed the lessons of Mao, Marx and Guevara.

The new movement's propaganda included collective land efforts, formation of agriculture committees and ending tribal feuds in the region. The movement next planted the seeds for its own destruction through its methods for dealing with Dhofaris who did not want to take part in the rebellion. The PFLOAG used cruel and violent tactics to gain obedience that imitated and surpassed the Sultans treatment. For the tribals, who had never believed in the Marxist doctrine of the rebellion, this change was not acceptable. Besides economic sanctions on the unruly tribesman, the movement's leaders allowed for the murders of those who would not cooperate.

## **2. The Rise of Sultan Qaboos – The Fall of the Rebellion, 1970-1980**

Likely the most valuable decision made by Sultan Taimur during the Rebellion was his acceptance to be deposed. The Sultan's son, Qaboos, from his marriage to a Dhofari bride, easily overthrew his father on 23 July 1970. This decision would have impacts on the Dhofar rebellion, the nationalization of Oman, and the establishment of a unified Gulf Regional Arab Bloc. Sultan Qaboos' rise to power quickly followed the failure of the Northern Liberation forces to capture the key cities around Muscat and Nizwa. Under the title of the National Democratic Front for the Liberation of Oman and the Arabian Gulf (NDFLOAG) the northern movement was never able to overcome its weak repertoire of movement actions. Many times the people were organized and present but not capable of mobilized action. This failure in northern mobilization allowed the new Sultan to concentrate on the southern front.



The PFLOAG absorbed the northern rebel movements but was still not able to revive the political and military campaign after Sultan Qaboos took the helm. Despite the increase in schools teaching insurgency the education was not enough to retain the numbers necessary to maintain the rebellion. Young men and women also attended a Revolution Camp to learn military basics and guerilla theory, but their indoctrination would not sustain them. The Sultan and the British forces were able to capitalize on the rebels' use of new secular language and societal changes that conflicted with ancient tribal traditions. The propaganda coming from the government included claims that the rebels were atheists and that the domestic changes were against tribal teachings of their ancestors.<sup>20</sup> Defections from the movement that the Sultans forces had hoped for were beginning to increase. Marxist propaganda and the heavy handedness of the movement was now driving Dhofaris towards the new Sultan. The Sultan changed his tactics towards a counterinsurgency campaign. He stepped up patrols focused on rounding up people and resources affiliated with the rebellion. The Sultan also employed Civic Action Teams in the contested territory in an attempt to assert, for the first time, a government assistance presence in Dhofar.

As the military and political tide began to turn in favor of the government, the movement met once again to determine its best course of action. An informal meeting in August 1974 led to yet another name modification; this time the movement would be called the Popular Front for the Liberation of Oman (PFLO). The major policy shift was for the group to become more political and less militarily focused. They tried once again to get the North to join the rebellion through the United National Front (UNF) but even with some immediate success the movement could not match the Southern operation. The Northern movement was, however, able to show that the Sultans government could be infiltrated.

By 1974 the Sultan was receiving support in materiel and men from Iran, Britain and Abu Dhabi; while the PFLO was sponsored by the PRDY, Kuwait, China, and the

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<sup>20</sup> Halliday, *Arabia without Sultans: A Political Survey of Instability in the Arab World*, 394-5.

Soviet Union. The recruiting efforts by the rebel movement continued to be done at an early age either through coercion or invitation.<sup>21</sup> The change in military tactics and the willingness of the Sultan to stay engaged and to occupy the Dhofar region in all weather was significantly decreasing the material support reaching the movement. The movement continued to be heavy handed and defections continued to increase. The government had the rebels sealed in and continued to use civic programs including wells, schools, clinics, and markets to show the Dhofaris that the government policies in Oman towards its people had changed under the new Sultan. This had a dramatic effect on the Dhofari people and they were able to withstand the intimidation and violence from the PFLO.

By 1975, the Sultan was capitalizing on the civic success so well, that he developed a Civil Aid Department (CAD) to coordinate civil construction while the remaining mopping-up operations were taking place. The CAD would divide its efforts towards six activities including; water supply, education expansion, health services, storefronts and markets to facilitate distribution of goods, encouragement of religious practice, and assistance with the cattle that are the staple meat source in Dhofar. Tribal police forces were created and a system of government was developed that the Dhofaris would recognize and respond to. The government was now able and willing to help the Dhofaris in ways the rebel movement could not. The latest innovations included a flying doctor service that could reach remote villages, roads, and improved schools.<sup>22</sup>

A cease fire was finally signed with the PRDY in 1976 after cross-border incursions from both sides escalated near the end of the Dhofar Rebellion. The PFLO reluctantly fell as well. Anti-Sultan actions would continue for years, but the movement was now poorly organized and hardly mobilized. The government had succeeded in outmaneuvering the movement leaders though a long struggle. The Sultan would eventually place some of the movement members in his government as part of the reconciliation process and surely to allow him to keep a better eye on their activities.

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<sup>21</sup> Price, *Oman: Insurgency and Development*, 7.

<sup>22</sup> Peterson, *Oman's Insurgencies, the Sultanate's Struggle for Supremacy*, 393.

A new day had dawned in Oman and the Sultanate was fully established. It is possible that the lessons the young Sultan learned about building the Dhofari infrastructure as a way to gain allegiance played a part in his decision to rebuild the social and physical infrastructure of the entire nation. His continued interest in the concerns of the people is demonstrated by his annual nationwide town-hall-style tour of the Sultanate and allows him to remain one step ahead of any anti-government movements.

## **C. OUTCOMES AND LESSONS LEARNED**

### **1. Social Mobilization under an Authoritarian Government**

The dynamics of social mobilization under an authoritarian government are different from those found under a democratic system. The authoritarian actions of Sultan Taimur and opposition's lack of political voice led them to seek outside assistance and an ideology by which to develop a strategy and means to change the status quo in Oman. Consistent with social movement theory the rebel structure and actions closely matched the Sultan's model which the rebels despised and this would lead to the insurgency's undoing. Also, in keeping with current theory, violence played a key role in the insurgency; but the failure of the insurgency to develop a political wing with which the government could negotiate, left no possibility but for the government to defeat the violent wing. Finally, Sultan Qaboos made political changes that allowed the Dhofaris a chance, or the idea for a chance, in government participation, which supported the theory that political access can moderate an opposition group.

The political context for the Dhofar Rebellion included many of the traditional aspects of social mobilization under an authoritarian regime. It required and utilized international financial, ideological, and physical support. There was a reliance on the regional media, mostly radio, because of the absence of media in Oman due to the Sultan's ordinances. There were very few if any links between the Sultan and the affected Dhofari population, which led a likelihood of protest. Many of the protesters and organizations were well under the radar of the Sultan's government to escape detection and often the organization was physically located outside of the Dhofar

dependency to allow it the freedom to plan and communicate. Finally the ultra-centralized system of the Sultan assisted the movement by offering a very easy target to define and attack.

The mobilizing structures of the Dhofar Rebellion movements reveal further consistencies with social mobilization theories. The organization of the movement, in its many stages, was very similar to the political regime of the Sultan, they were both very demanding of the common Dhofari people and quick to utilize repression and violence. An interesting deviation from this thought was that after Sultan Qaboos took control of the government and changed the regime policies, the movement continued to resemble the past Sultan's political structure and outlook. This failure to adapt to the new Sultan's regime enabled Qaboos' forces to quickly gain the upper hand in attracting uncommitted Dhofaris to his side. The violence usually associated with movements under an authoritarian government was always present during the rebellion; in fact violence was part of the first protest in Dhofar in 1963. Finally the informal organization expected in the movement was present from the beginning; the organization was always comprised of a collaboration of numerous groups and ideologies. Its only formality was the occasional congressional meeting that enabled the group to take stock of its positions and revise its strategy.

The role of violence in the development and sustainment of the Dhofar Rebellion movement is clearly evident. Through the 1950s and 1960s violence was involved in nearly every form of protest, it was valuable to the movement because it proved to the uncommitted Omanis that it was possible to stand up to the government and strike a blow against them. Violence was a way for movement members to display their solidarity and inspire more to join. The culture of violence within the movement did finally come to backfire as the Dhofari people tired of intimidation and murder amongst their fellow tribesman. The movement also failed to develop a separate political wing that could take advantage of any possible discussions with the government. By enmeshing the military and political goals so closely with armed resistance, the movement was not able to

benefit from the usefulness of having a violent wing that could drive the government towards negotiation with the non-violent wing.

The government repression that authoritarian regimes usually apply towards social movements was apparent at most times in the campaign until the ascension of Sultan Qaboos. Repression certainly emboldened the violent activities and left the Dhofaris with little chance or reason to form a non-violent movement. Sultan Taimur's bizarre laws prior to the movement's development were stigmatizing enough to push Dhofaris to the edge of civil disobedience, his collective punishments after the Rebellion began surely pushed many uncommitted people over the edge. Also manifest were the career deviants created after the early attacks in the North during the 1950s. These same movement organizers were the main contributors to the southern movement and created links to external resources for the Dhofaris.

Finally the belief that participation in the government, whether through voting, a chance to fill a government position, or developing local government agencies would moderate a movement was proven to be valid. The many techniques employed by Sultan Qaboos to bring the Dhofari people into the Sultanate helped to attract uncommitted Dhofaris to his side. Also, by allowing the Dhofaris to establish police-like forces to regulate their own affairs and by taking members from the movement itself into his government, he moderated and downsized his opposition. Finally the government followed through on its promises to the Dhofari people to bring that region into the country and allow it to reap the benefits of the oil economy as well. Many government leaders renege on their promises to the insurgents once they disarm which only serves to prolong the conflict; in Oman, this was not the case.

## **2. Conclusion**

In summary, meddling of neighbor states, a long-standing feud between the Imamate and Sultanate, and the repressive regime of Sultan Said Taimur helped to create and sustain an enduring rebellion. Sultan Qaboos made changes in his counterinsurgency strategy and regime that helped to decrease support for and defeat the insurgency. These

changes allowed the government to understand and resolve the issues that had been framed by the insurgent leaders as rallying points for the rebellion. Additionally the inability of the rebels to adapt to the new government strategy and the insurgents continual repressive acts towards the neutral Dhofari people drove the remaining passive insurgency supporters into the Sultan's camp.

This chapter demonstrated that understanding the theory of social movement can assist in the study of insurgencies and increase the likelihood of success when conducting counterinsurgency operations. The Omani government forces and their allies' ability to identify the social movement, understand the mobilization of the insurgents, exploit the framing of the issues motivating the insurgents, alleviate the lack of political opportunities, and defend against the limited repertoire of action from the insurgents allowed them to take ownership of the causes of the insurgency and diffuse the social movement to acceptable levels.

Some of the lessons identified are, the importance of understanding a social movement's goals and grievances when designing a campaign; that the application of military force without civil reconstruction of institutions and infrastructure is self-defeating; and that the role and extent of outside influences must be understood and removed in order to isolate an anti-government movement. The nation of Oman was changed for the better when an unpopular ruler was replaced with a more modernizing thinker. At this point Oman stopped tearing itself apart and began to move forward together.

### III. OMAN TRIES TO BREAK THE CURSE OF OIL – BACKGROUND

#### A. THE HISTORY OF OIL IN OMAN

##### 1. Introduction

A description of how Oman has dealt with the issue of reliance on oil as its primary source of revenue will present the background for this chapter. This chapter will answer four primary questions; 1) how well does the “rentier state” label apply to Oman, 2) what is the history and role of oil in Oman, 3) how wealthy is Oman compared to its neighbors, and 4) how much oil does Oman have?

Two key terms that will facilitate the understanding of this chapter. First is the concept of the rentier state and second is the term “concession”. Discussion of the concept of a rentier state in this chapter is not intended as a negative judgment of the Omani government, it is simply a way of describing the main economic engine of the nation. Okruhlik explains that “a rentier state depends on external sources for a large portion of its revenue” and that “these revenues from abroad are called rent.”<sup>23</sup> Beblawi further refines the concept by noting some basic themes that accompany this basic definition. First he notes that rentiers are thought of as the people who do not actually produce anything, but receive money for the produced product. He also notes that every economy has some form of rent in it, but that a rentier state can be judged as different from other states because its revenues are dominated by rents. A third point is that the rents are usually paid by an external, not internal, renter. The final two concepts drawn

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<sup>23</sup> Gwenn Okruhlik, “Rentier Wealth, Unruly Law and the Rise of Opposition: The Political Economy of Oil States,” *Comparative Politics*, 31, No. 3 (April, 1999), <http://links.jstor.org/sici?sici=0010-4159%28199904%2931%A3%3C295%3ARWULAT%3E2.0.CO%3B2-%23>, (accessed 3 June 2007), 85-88.

from Beblawi's concept are very fitting to the case of Oman; 1) there are few people actually engaged in the "generation of the rent" and 2) the government collects and then distributes the rents.<sup>24</sup>

The traditional concession agreements typical throughout the greater Middle East were based on the earlier models used in Iraq and Iran in the 1920s and 1930s. Oil companies with an international reach would sign a contract (concession) with an oil holding state that gave the companies exclusive rights to explore, drill, produce, sell and own all the oil at the wellhead, plus be immune from all taxes and customs from the rentier nation. In return for this "generous deal" the oil holding state would receive an initial down payment from the company and a periodic rent payment. Additionally states could receive a share of the profits or a fixed royalty. States sitting above the oil wells realized they did not receive a very generous "deal" from the oil companies, when they discovered how little it cost to produce the crude. Following Iran's lead, they continued to ask for more of a share in the industry over the decades and by the 1970s most states had a 60% interest in the oil business operating in their nations and some have even taken over oil companies completely.<sup>25</sup>

## **B. IS OMAN A RENTIER STATE?**

Prior to the production of oil, Oman's government revenues were minute by international standards and depended almost entirely on customs, taxes, fees and other smaller sources. Its major exports were limited to dates, fish, fish products, pomegranates, and limes. This all changed in 1967 when the rents from oil altered the

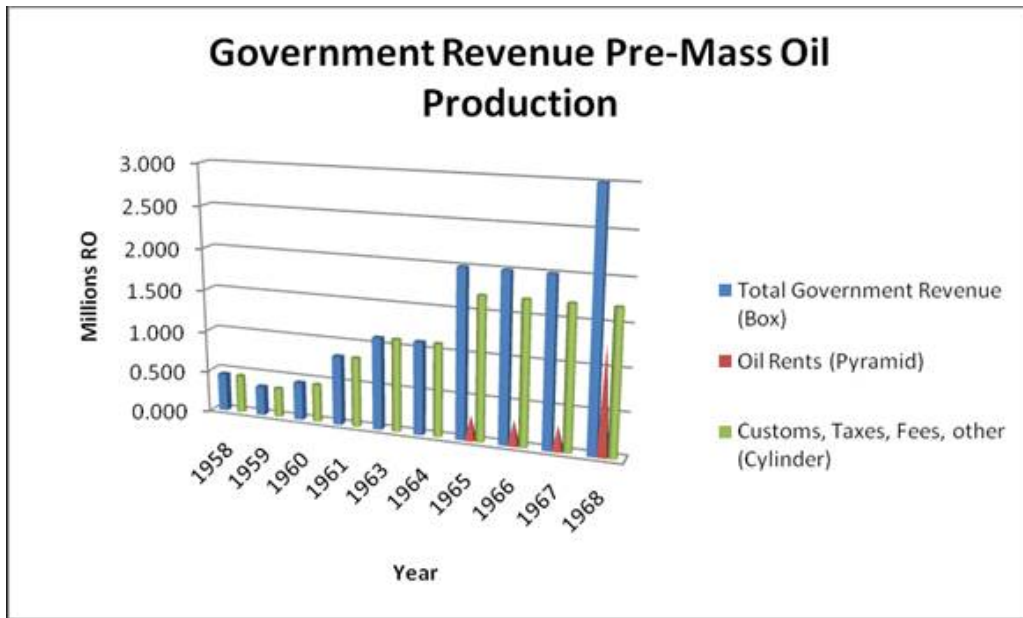
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<sup>24</sup> Hazem Beblawi, "The Rentier State in the Arab World," in *The Arab State*, edited by G. Luciani. (London: Routledge, 1990), 85-98.

<sup>25</sup> *The Middle East and North Africa, 1978-1979* (London: Europa, 1978), 81-89.



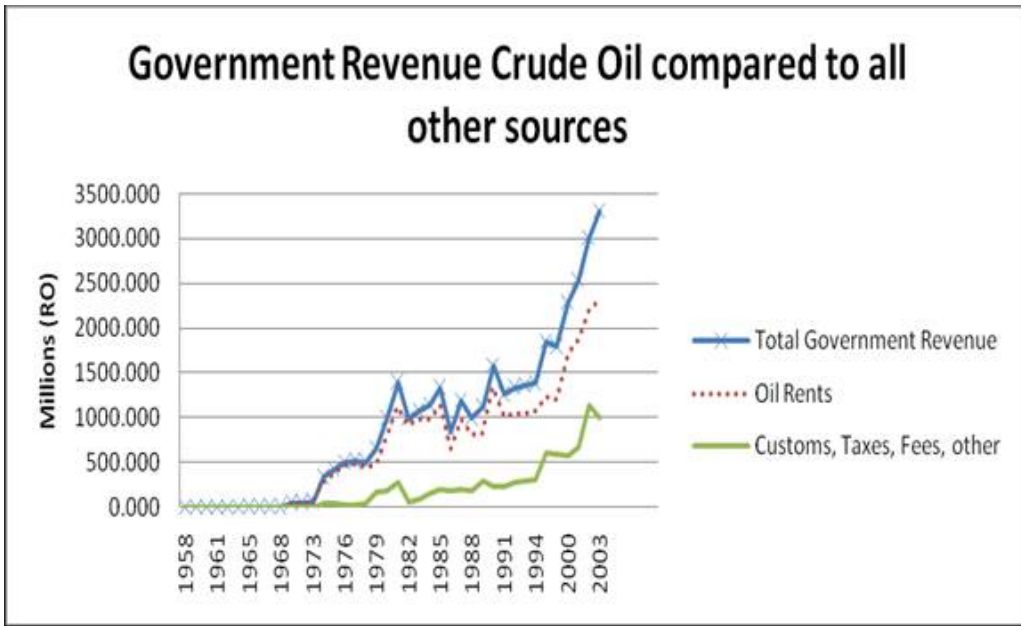
economy and in turn transformed the nation of Oman. The graph below illustrates the transition from government revenues funded solely by customs and taxes to the early stages of a rentier state (Figure 4).



**Figure 4. Oman’s Government Revenues 1958-1968**

A second piece of evidence that indicates oil rents were a critical piece of the Omani budget is that the government revenue numbers over the last 40 plus years have practically mirrored the oil rents in movement. Figure 5 shows whenever there is an oil price drop the government revenue drops and vice versa. Additionally, state budgets show that the state’s reserves are quickly drained during years that oil profits do not reach their planned potential. Approximately 78% of Oman’s government revenue has come from crude oil rents or associated fees with only 22% coming from other sources.<sup>26</sup>

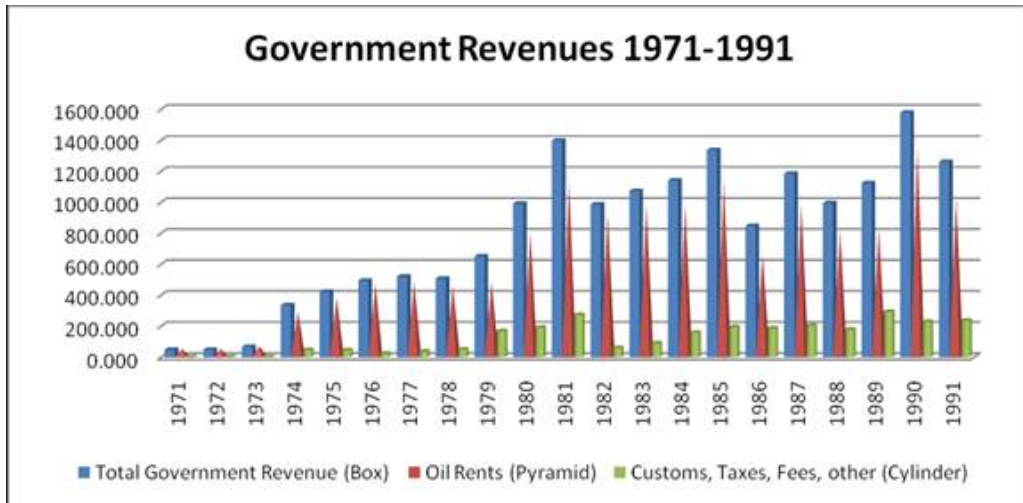
<sup>26</sup> All statistical data related to oil are from the following two sources unless otherwise noted. *The Middle East and North Africa* (Annuals 1948-2006) (London: Europa) and The 2008 British Petroleum Statistical Review of World Energy, <http://www.bp.com/statisticalreview>, (accessed 14 August 2008).



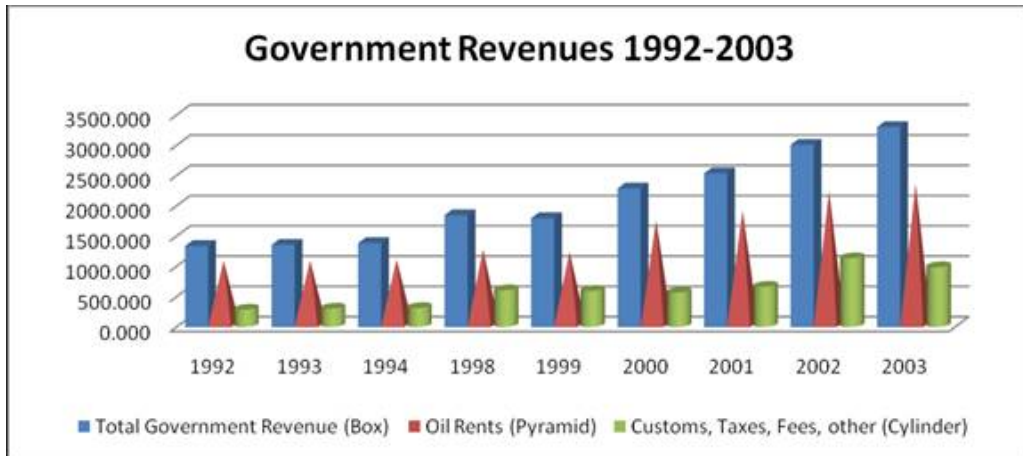
**Figure 5. Oman's Government Revenues 1958-2003**

Clearly after the discovery of oil, the rents on the crude oil and the fees and taxes associated with it increased. Part of the increase in taxes comes from non-oil sectors of the economy that are growing due to the increased economic activity that the oil industry has aided. To further illustrate how oil became the primary source of government revenue, it is helpful to look at its expansion into that role over time. As the following two graphs, display the high mark of oil as the major source of government revenue occurred from the mid 1970s until the mid 1990s (Figures 6 and 7). The average amount of government revenue from oil since it began production is 78%. The high water mark, around 1982 and 1983, saw oil contributing up to 94% of government revenue, while the

years since 1991 have seen it steadily drop to the 75<sup>th</sup> percentile. Over the last few years, the average monetary input into the government budget from oil has hovered around 77.5%.<sup>27</sup>



**Figure 6. Oman's Government Revenues 1971-1991.**



**Figure 7. Oman's Government Revenues 1992-2003**

<sup>27</sup> Sultanate of Oman, Ministry of National Economy. "Major Economic and Social Indicators," <http://www.moneoman.gov.om/book/mb/jun2008/T1.pdf>, (accessed 15 August 2008).

### C. THE HISTORY AND ROLE OF OIL IN OMAN

Oman arrived comparatively late to the oil business compared to most of its neighbors in the Middle East. While Iran, Saudi Arabia and Iraq were producing mass quantities of crude oil by 1938, Oman had just signed its first concession allowing exploration throughout its nation except for the Dhofar region. The Sultan of Oman, in this first concession signed over oil exploration and production to a group of high powered oil companies that also held the concessions in Iraq, Qatar, the Trucial Coast and part of Yemen. These renters included four equal partners at 23.75% each: British Petroleum, Royal Dutch (Shell), Compaignie Francaise des Petroles, and Near East Development (a joint venture between Standard Oil of New Jersey [marketing as Esso, later Exxon] and Socony Mobil Oil). The final 5% was held by Participations and Explorations Corp (AKA, Partex, a C.S. Gulbenkian Estate).<sup>28</sup> The concession for all of Oman, except Dhofar, was called the Petroleum Development (Oman) LTD (PDO). It was signed in 1937 for 75 years giving it an expiration date of 2012. Oman's second concession was signed in 1953 with a group called Cities Service Company which had 100% control. It covered the Dhofar region of Oman and was for 25 years starting at the date of commercial levels of production and included an option to renew for an additional 25 years. This concession was called the Dhofar Cities Service Petroleum Corporation (DCSP).

By the early 1960s, The Shell Petroleum Co. gained the majority shareholder position in the PDO but this changed in 1973 and again in 1974.<sup>29</sup> In 1973, Oman's government became a 25% share owner in the concession and later in 1974 increased its ownership to 60% leaving Shell with a minority 34% share, CFP with 4% and Partex with only 2%.<sup>30</sup> Petroleum Development (Oman) maintained exclusive rights for all the oil production but chose to allow foreign companies to continue exploration in Oman.

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<sup>28</sup> *The Middle East and North Africa* 1958, 17-18.

<sup>29</sup> *The Middle East and North Africa* 1962, 42.

<sup>30</sup> *The Middle East and North Africa* 1976-77, 104.

The company has maintained this proportion of ownership until today.<sup>31</sup> Oman also extended its oil exploration to include offshore sites with the Wintershall Petroleum consortium.<sup>32</sup> Additionally, Oman became an oil refiner in the 1980s when its facility at Mina al-Fahal went operational; it was constructed using revenues from oil sales. It initially began with a modest output of 48,000 barrels per day (b/d), but, by 1988, the facility had enlarged to a capacity of 77,000 b/d surpassing Qatar's capability and reaching the size of many of the facilities found in Iraq, Iran, and Kuwait.<sup>33</sup> Refining capabilities at Mina al-Fahal have continued to increase reaching 85,000 b/d by 2006. Efforts were underway in 2005 to bring online a 116,400 b/d facility in Sohar.<sup>34</sup>

Table 2 below highlights how Oman refined its petroleum products in 1985 to determine if Oman, a comparatively small producer of oil, was making better use of its oil to gain an advantage over its neighbors.<sup>35</sup> These percentages are similar to other oil producing states petroleum products. Interestingly, Oman never joined OPEC or OAPEC because Sultan Qaboos did not feel that there was enough benefit from membership when compared to the costs.<sup>36</sup>

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<sup>31</sup> *The Middle East and North Africa* 1981-82, 127.

<sup>32</sup> The offshore exploration concession for the Gulf of Oman, started in 1968, Wintershall owned 50% while Shell holds 24%, Deutsche Schachtbau held 10% and Partex 7%.

<sup>33</sup> *The Middle East and North Africa* 1986, 122.

<sup>34</sup> Sultanate of Oman Ministry of Information. *Oman 2005-2006* (Muscat: Mazoon, 2006), 146.

<sup>35</sup> *The Middle East and North Africa* 1986, 124.

<sup>36</sup> "Oman The Non OPEC Countries Part 2 The Sultanate of Oman," *APS Diplomat Operations in Oil Diplomacy*, [www.allbusiness.com/government/447928-1.html](http://www.allbusiness.com/government/447928-1.html), (accessed 27 August 2008).

<u>Uses for Oman's Petroleum Products 1985</u>	
34%	fuel oil
33%	gas oil and diesel
18%	gasoline
14%	kerosene and jet fuel
1%	LPG

**Table 2. Uses for Oman's Petroleum Products 1985**

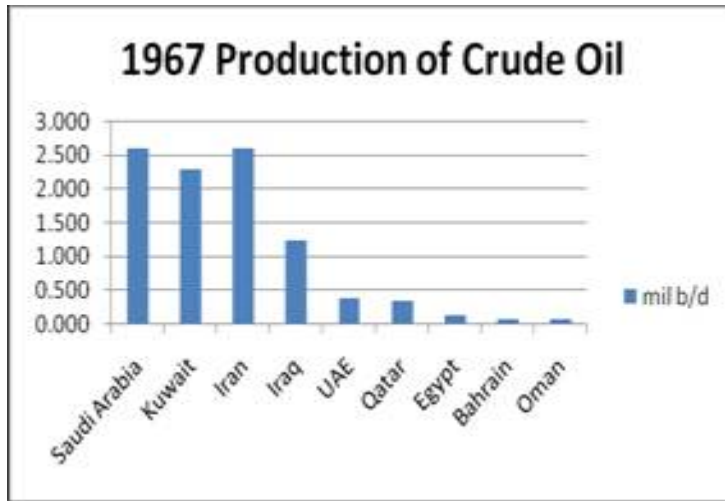
**D. HOW RICH IS OMAN COMPARATIVELY?**

Oil production started in 1967 and records show that Oman produced around 55,000 barrels per day in its first year. While Oman's proven reserves at this time only accounted for 1% of the world's oil, for this small oil country production at these levels brought in a large amount of revenue. Its production levels during the first few years brought them on a par with Egypt and Qatar and above Bahrain and Turkey.<sup>37</sup>

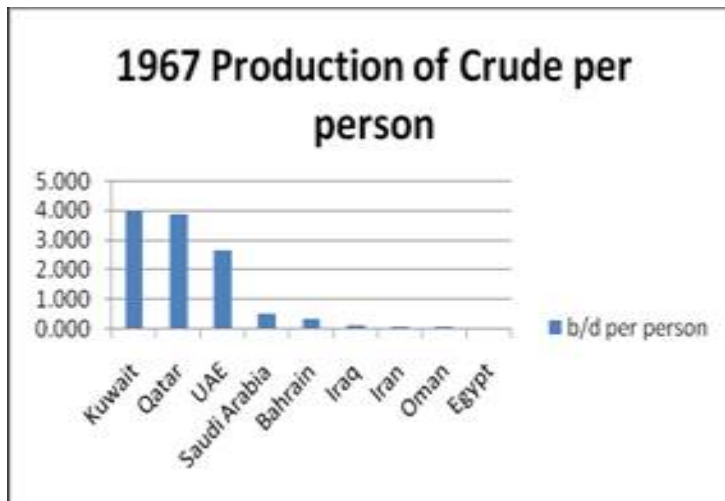
A useful calculation for determining how Oman compares to other nations in the region is to compare its oil production per capita with its neighbors. Comparing how much money per person oil brought into Oman per person can demonstrate how much money Oman's government really had to spend on its development compared to its neighbors. The charts below show the amount of oil produced by Oman and a rank ordering of its neighbors and production-level near competitors. On the next chart is a re-ranking of the same countries showing the position Oman moves into when the small population of the nation is taken into account (Figures 8 and 9).

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<sup>37</sup> *The Middle East and North Africa 1970-71*, 44.



**Figure 8. 1967 Oil Production Comparison**

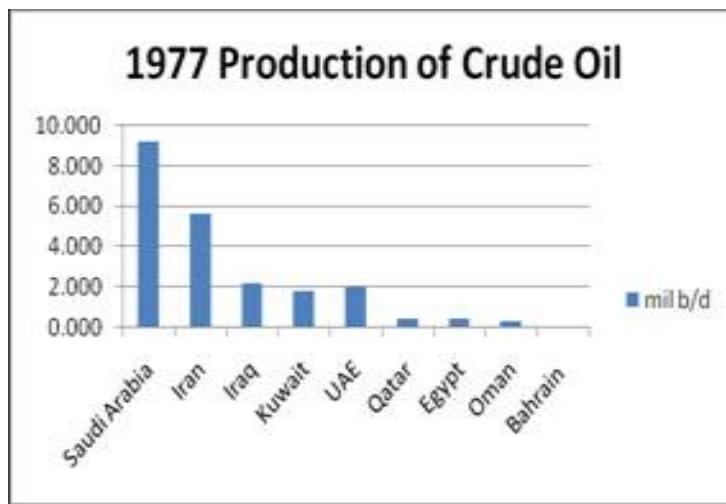


**Figure 9. 1967 Oil Production Per Person**

These charts show that during Oman’s first year of oil production it was at the bottom of the list when compared to the giants of the oil industry and even other small producers like Egypt and Bahrain. The per capita rankings show how much further Oman’s 55,000 b/d would go towards funding its government’s interests. While Oman’s production per person was small at .081 barrels per day; when compared to Egypt (.004) and even the giants like Iran (.099) and Iraq (.134) Oman was already heading towards an economic advantage over its neighbors in its first year of production. This graphic also

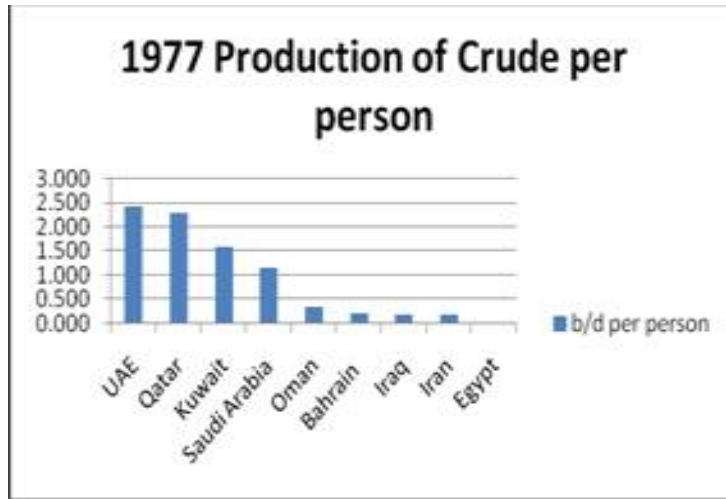
shows the massive economic advantage that large oil producers with small populations have in the world, with Kuwait and UAE producing nearly 4 and 3 barrels per person per day respectively.

By 1977, just one decade later, Oman was able to move ahead of two of the production giants as well as a fellow small producer. Iran (.16 barrels per person per day) and Iraq (.17) were quickly surpassed when Oman reached .335 barrels per day. Bahrain's small population could no longer make up for its small production and fell behind Oman. This perspective shows how far Oman's oil money stretched after just 10 years in the oil business. The only factor keeping the more heavily populated and geographically larger Saudi Arabia competitive in government revenues was its massive production capability (Figures 10 and 11).



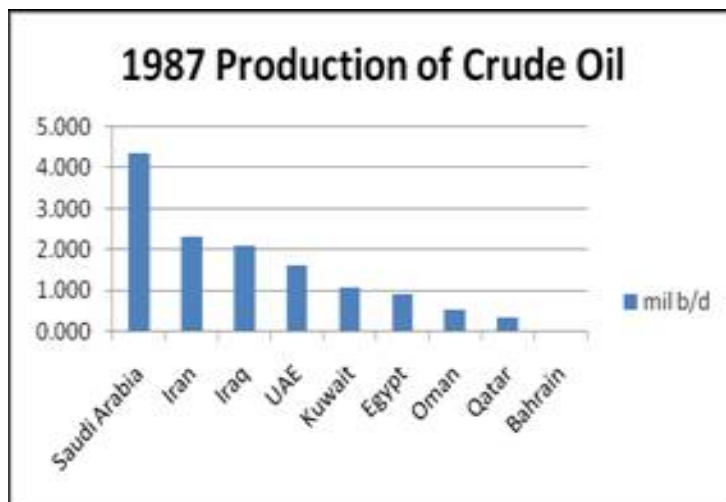
**Figure 10. 1977 Oil Production Comparison**



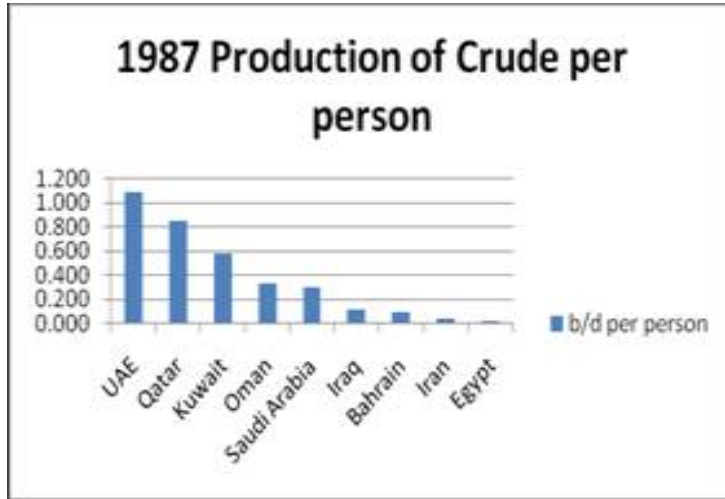


**Figure 11. 1977 Oil Production Per Person**

In 1987 Oman’s capacity eclipsed Saudi Arabia. Oman was now close to the large oil producing yet small population state of Kuwait and it was now clear that Oman’s small population provided a distinct advantage for the government since its relatively few barrels of oil gave the country a large amount of money per person to spend on development (Figures 12 and 13).

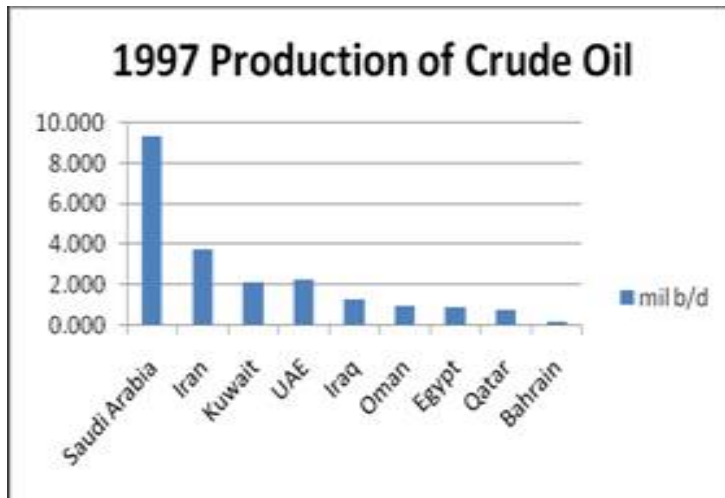


**Figure 12. 1987 Oil Production Comparison**

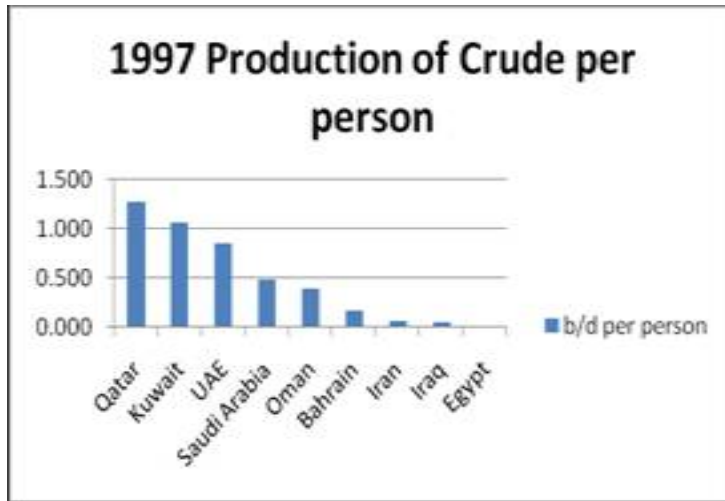


**Figure 13. 1987 Oil Production Per Person**

In 1997 the same five nations were at the top of the list in crude oil production per person except that some of them changed positions based on increased production capabilities. Oman continued to find itself able to raise ten times what its neighbors could raise (Figures 14 and 15).

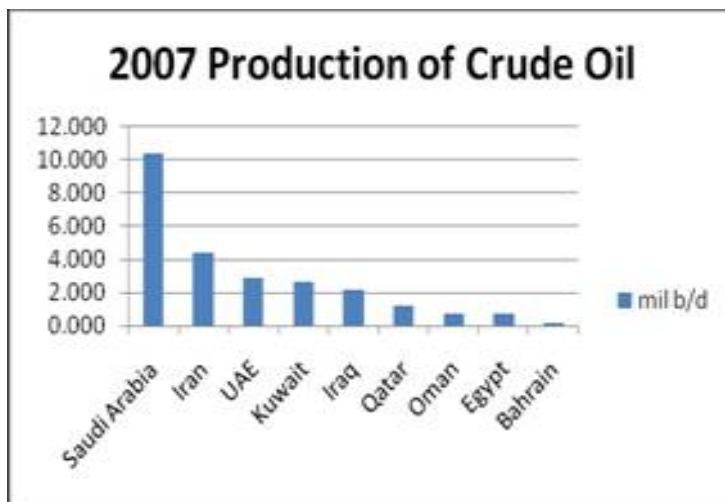


**Figure 14. 1997 Oil Production Comparison**

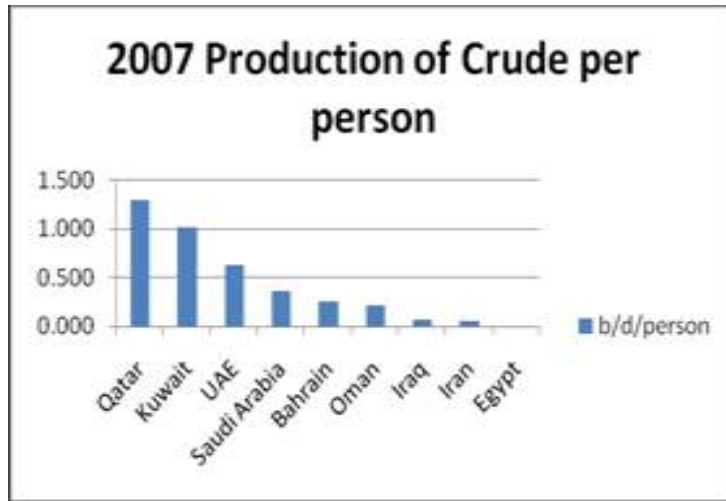


**Figure 15. 1997 Oil Production Per Person**

As of 2007, the decrease in Oman's production output comparatively decreased the amount of money the government was able to spend on development. Today Oman's position compared to its peers and neighbors is shown in Figures 16 and 17. The monetary advantage that Oman held in the previous decades was not squandered on palaces, automobiles or lavish lifestyles for its royal family.



**Figure 16. 2007 Oil Production Comparison**



**Figure 17. 2007 Oil Production Per Person**

**E. HOW MUCH OIL DOES OMAN HAVE?**

By analyzing the past estimates of Oman’s proven crude oil reserves it can be seen that Oman has never planned to have its oil production last longer than 20 years from the date of the estimate. Apparently the knowledge that oil would not last forever helped the Omani government decide on choices about where to spend its funds. The table below shows how many years of oil production Oman estimated it had left at different times over the last 41 years (Table 3).

Oman’s proven oil reserves 1977-2007			
Year	Millions of barrels	Years of production left (based on current production)	End of Oil
1977	5.7	46	2023
1979	2.4	22	2001
1993	4.7	16.5	2010
1999	5.3	15.9	2015
2003	5.6	19.6	2022
2007	5.6	19	2026

**Table 3. Oman's Proven Oil Reserves**

This table clarifies a number of important concepts that help explain why Oman chose to diversify its economy. First, estimates of proven reserves (roughly meaning, oil

that can be retrieved given current technology and cost) vary considerably. This is based on factors such as technology, cost of retrieval, and daily production.<sup>38</sup> Second, Oman was unable to plan on having more than two decades of oil remaining once it began to get accurate readings of its wells. Finally, the amount of oil that Oman thought it had was far below its neighbors. Given a constant increase in demand and increased production, Oman would be expected to run out of oil before other nations in the region. One interesting note about these comparisons is that even though early estimates were thought to be high they actually match up very well with today's estimates. Estimates are not always accurate and advances in technology have extended the life of the wells in most countries far beyond their original lifespan.

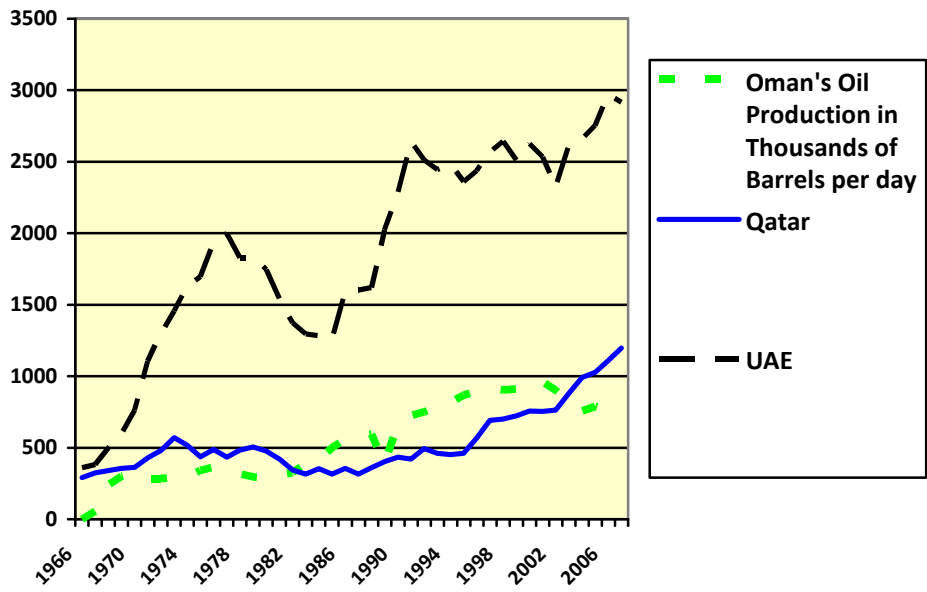
By 1971 Oman's proven reserves rose to a level of 712 mil tons bringing them near or above countries like Qatar, Venezuela, Canada and Mexico but still far behind the giants like Saudi Arabia, Soviet Union, Kuwait, and Iran.<sup>39</sup> Its estimated ability to continue to produce oil at current levels in 1975 was 48 years on par with Iraq, Saudi Arabia, the U.S. and Abu Dhabi. This estimate gave Oman's government a large enough window of opportunity to start investing its revenues in sectors that would be able to create economic growth for its country after the end of oil production. Unlike some other countries, Oman's government heeded the time estimate and invested wisely for the future. Oman has made a focused effort for many years to plan for an economy after oil and the chart below shows that based on production the government opted correctly. It is clear that while other states' production levels have climbed since the late 1990s, Oman's is on the decrease (Figure 18). The Omani government has made it a stated goal to try to keep its production levels steady through advances in technology and it has made some success in stopping the decline of production. However, the rising price of production per barrel will likely push Oman to expand the other economic sectors even faster.<sup>40</sup>

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<sup>38</sup> For further information on proved oil reserves see Appendix B.

<sup>39</sup> *The Middle East and North Africa 1972-73*, 35.

<sup>40</sup> Randa Alami, *Oil in Egypt, Oman, and Syria: Some Macroeconomic Implications*, (Oxford Institute for Energy Studies, October 2006), <http://www.oxfordenergy.org/pdfs/WPM30.pdf>, (accessed 14 November 2008), 32-6.



**Figure 18** Decline of Oman's Oil Production Comparison

## IV. PUTTING OIL WEALTH TO GOOD USE

### A. DEVELOPING AN ECONOMY BEYOND OIL

Reliance on oil income has been a crucial factor in the funding of the development of Oman for the last 40 years. The long-term strategy that Oman has utilized, since Sultan Qaboos assumed power in 1970, to assess the nation's economy, plan for a decreasing oil future, and execute the plans that would lead Oman into modernity will be discussed in this chapter. Oman's non-oil economy sectors have grown or decreased since the discovery of oil will be examined. The role of oil in the current economy and what measures the government has taken to prepare its economy for survival after its oil productivity ceases will be covered. This research finds that the government has been purposely diversifying its economy in preparation for the end of oil while investing its oil wealth in an education system that can provide a work force capable of operating in the expected economy.

Reviewing Oman's Long-term Development Strategy 1996-2020 allows some key conclusions to be drawn about planning for a nation's development. First, the leadership and planners must understand the problems, which in this case were achieved through detailed data collection and the use of information provided by unbiased international experts. Second, the planning process must be well organized, simple, sequential, focused, and fast enough to produce a plan that can be executed before the problems change. Finally, the development plan must be constantly and honestly assessed and improved based on changing data.<sup>41</sup>

Before embarking on a new economic development plan Oman was literally in the dark ages. No electricity to speak of, one bank, no press, three primary schools, one

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<sup>41</sup> Sultanate of Oman, Ministry of National Economy, "The Methodology for Formulation of the Vision for Oman's Economy, Oman: 2020," (Muscat Oman, 1996), <http://www.moneoman.gov.om/book/vision/english/home-eng.htm>, (accessed 15 August 2008). Chapters 1-2.

hospital, water shortages, slavery, an insurgency, many political prisoners, Omani subject's travel restricted (and even if they could travel only 3-6 miles of paved roads existed), gravel trails as primary roads (built by oil explorers), animals the main mode of transport, revenue from exports a paltry 500,000 RO (today roughly 1 million USD), the only industry oil, exports limited to dates, limes, tobacco and fish products, and the majority of the social welfare development funded by Great Britain.<sup>42</sup> Today, decades later, that Oman no longer exists. In 2006, an Islamic and Arab Studies Fellowship team equated Oman to Dubai "sans steroids." The state today is a modernizing, stable, and economically expanding nation. The education system has grown to over 1000 schools including special needs programs and over 100 adult education centers. 13,000 men and women attend the university. Forty-nine hospitals provide world class healthcare. There are organized sports and youth activities. The road network rivals or betters many state roads and federal highways in the U.S. National and domestic security is stable. All forms of media are present (if not always free). Civil rights have been expanded greatly. The economy has blossomed and through all these changes the culture of Oman has been preserved.<sup>43</sup> There are many lessons to be learned from the Omani transformation method for both developing and developed nations. The next section will highlight the process for developing the strategy and the key components of "The Strategy of Achieving Economic Balance and Sustainable Growth" while the final section will evaluate where Oman's strategy has led them to date.<sup>44</sup>

## **B. DEVELOPING A NEW VISION**

The nation of Oman embarked on its new economic plan, developed in five-year plans, starting in 1970 when Sultan Qaboos took the throne from his father. Although initially slowed by the need to battle an insurgency, the nation experienced high rates of

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<sup>42</sup> *The Middle East and North Africa 1958-1970*, Oman Chapter.

<sup>43</sup> Jason Howk, "Field Notes, Joseph J. Malone Fellowship in Arab and Islamic Studies, Oman and Washington D.C.," 2006.

<sup>44</sup> The digital handbook describing this process can be downloaded in PDF from <http://www.moneoman.gov.om/book/vision/english/home-eng.htm>



growth and development. By the mid-1990s the leadership determined it needed to evaluate its past and develop a long range plan for its future. Some guiding principles for this new vision included the following:<sup>45</sup>

1. The past 25 years had laid the foundation for the next step of the economic and social transformation.

2. It was time to change to role of the government in the economy from a dominant role towards a “role of strategic guidance”

3. The private sector would become the dynamic engine of the economy and should be capable of doing so because the government subsidies of the past enabled the private sector to “take initiatives and become self-sufficient.”

4. Maintain “the current level of per capita income” and try to double it by 2020.

5. Use Omani renewable resources to build fuel sustainable development.

6. Shift from oil dependency and foreign labor to “private initiatives, national labour, and renewable resources.”

For the Omani government, this new approach was a major shift from its past economic planning cycle and implementation. The government and the citizens had grown comfortable with an all powerful government carefully dispensing funds into key industries and ministries that ensured that the carefully constructed five year plans were followed in an exact manner to avoid going over budget. It could be considered a brave step to move into a more free market based economy in which individual businesses were to have a larger share of the power. Up to this point, Oman had had no modern experience with what the government was thinking about doing.

## **1. Oman Looks at Itself and then at the Future**

One of the first steps of this re-evaluation process was also its longest step and that was to take a census of the population to develop a starting point. The census utilized the most modern techniques that were available at the time and took nearly two years to move from implementation to publication of results. Prior to starting, the government used an additional 18 months to develop appropriate techniques. This census

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<sup>45</sup> Ministry of National Economy, “The Methodology for Formulation of the Vision for Oman’s Economy, Oman: 2020,” 1-1.

data became the backbone for all the ministries to use to develop, monitor and evaluate their plans. The census results were published in January 1995.<sup>46</sup>

A second information gathering campaign involved understanding and upgrading the National Accounting system. In this regard, Oman became a leader in the region and the world as it became the first Arab state to switch to the United Nation's "System of National Accounts" finished in 1993. After studying so many Middle Eastern states that have experienced major growing pains from complying with the Washington Consensus it seems especially bold for Oman to adopt such a new fiscal idea from the West. This adjustment would allow the country to better record its "national income developments, production, savings investments and consumption processes." The Omani government made use of two outside sources of expertise to make this change; the first was a UN specialist who helped them establish the initial process and the second was an expert from Sweden who worked for the Swedish Bureau of Statistics who was employed to continuously upgrade the system. It should be noted that Oman was not averse to seeking assistance in areas in which the government does not feel confident. This ability to wisely seek aid when necessary from the U.K., the U.S., European countries, Asia's power-house economies and various international organizations seems to have provided a winning strategy for Oman's economy. This process was completed in July 1994.<sup>47</sup>

The Omani government finished the first phase, as portrayed in Table 4, by creating a national location to collect and store economic and social data, conducting a census of the business and agriculture sectors and designing a macroeconomic model for the nation (Table 4). This last step to create a macroeconomic model again proved Oman's willingness to utilize outside sources to create the best model and to train its

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<sup>46</sup> Ministry of National Economy, "The Methodology for Formulation of the Vision for Oman's Economy, Oman: 2020," 1-2-1.

<sup>47</sup> Ibid., 1-2-2.

ministry staffers in the proper function of the model. In this case they used the World Bank and Wharton Econometric Forecasting Associates to upgrade the quality of their Ministry of National Economy.<sup>48</sup>

<u>Development Council Plan to Build a Vision Phase 1</u>	
<i>1. Developing an information base and model to support the strategy development</i>	
1993- January 1995	Census
1993-July 1994	Updating National Accounts Estimates
	Creating a National Center for Economic and Social Information
	Conducting annual economic survey of businesses
1993	Comprehensive Agriculture Census
1994	Conducting the 1 <sup>st</sup> Industrial Census
	Design a Macroeconomic Model for Oman

**Table 4. Establishing a 25 year Economic Vision Phase 1**

The second phase of Oman’s development of a plan that aimed to “achieve sustainable development and economic diversification”<sup>49</sup> was for the ministries to analyze all the data and inputs from outside and domestic sources and then submit their own plans to the Ministry of Development for how ministries and various economic sectors could support the nation (Table 5). One of the useful lessons from the second phase of the economic vision production included utilizing the World Bank experts to make a long term assessment of the country’s economy. This report studied the previous 23 years of Oman’s economic achievements and shortfalls and then provided suggestions for the future that were in line with the nations aims of sustainability and

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<sup>48</sup> Ministry of National Economy, “The Methodology for Formulation of the Vision for Oman’s Economy, Oman: 2020,” 1-2-7.

<sup>49</sup> Ibid., 1-3-1.

diversification.<sup>50</sup> Phase II also took a close look at the constraints on non-oil sectors to determine how to manage policies to remove those constraints.

<u>Development Council Plan to Build a Vision Phase 2</u>	
<i>2. Reviewing the past development process (1970-1995)</i>	
1991-May 1994	World Bank examines Oman's long-term economic prospects at the request of the Omani Government
May 1994	Omani Government compiles suggestions from IMF during their annual consultation
July 1994	Oman's Ministry of Development submits report for sustainable growth and economic balance
September 1994	Proposals from the Ministry of Development for development strategy submitted to the Sultan for review and approval
October 1994	Oman Ministry of Development presents memorandum detailing production and service sectors
October 1994	Development Council reviews memorandum of production and service sectors

**Table 5. Establishing a 25 Year Economic Vision Phase 2**

The final phase of the economic vision production was the rapid movement towards a finished product. This process could be the envy of every government as it shows the depth of advice that was utilized to rapidly piece together the disparate reports into a 25-year economic plan in less than 10 months (Table 6). One of the key lessons from this accomplishment includes selecting members of the committees to ensure that all actors in the economy were included in discussions. Typical membership in committees included ministry officials from all associated sectors, legislative members, and industry or economic sectors. This enabled the groups to rapidly reach consensus

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<sup>50</sup> Technical Cooperation Unit MENA Region World Bank. *Sultanate of Oman: Sustainable Growth and Economic Diversification* (World Bank, 1994), [https://205.155.65.121/+CSCO+1h75676763663A2F2F6A726F7A6E76792E6163662E727168++/exchweb/bin/redirect.asp?URL=http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1994/05/31/000009265\\_3961005020326/Rendered/PDF/multi0page.pdf](https://205.155.65.121/+CSCO+1h75676763663A2F2F6A726F7A6E76792E6163662E727168++/exchweb/bin/redirect.asp?URL=http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1994/05/31/000009265_3961005020326/Rendered/PDF/multi0page.pdf) (accessed 12 February 2008).

instead of forwarding proposals between the different sectors of the government and marketplace to gain approval and solicit ideas.

<u>Development Council Plan to Build a Vision Phase 3</u>	
<i>3. Designing the Vision for Oman's Economy: Oman 2020</i>	
October 1994	Development Council resolution outlining design plan is published
December 1994	Council of Ministers review the proposed program for economic balance and sustainable growth and submit report to Sultan for approval
January-March 1995	Working groups prepare reports of each economic sector to assist with the creation of a future vision of Oman's Economy
February-May 1995	Seven Ministerial councils review the sector reports and produce seven final reports
February-May 1995	The Main Committee reviewed the ministerial reports and approved them in their final format
December-June 1995	Ministry of Development report on primary issues surrounding the performance of the macro economy
March 1995	Committee for the Formulation of the Vision for Oman's Economy finalize a statement for the vision
23 May 1995	The Council of Ministers amend and approve the Vision
23 May 1995	Sultan Qaboos amends and approves the Vision
3-4 June 1995	Vision conference is held (international participants)
10-13 June 1995	Council of Ministers evaluate all reports and forward their recommendations to the Sultan
11 and 14 June 1995	Sultan Qaboos presides over two sessions of Council of Ministers to introduce his amendments; on the 14 <sup>th</sup> the Vision for Oman's Economy is approved

**Table 6. Establishing a 25 Year Economic Vision Phase 3**

## **2. The Strategy for Achieving Economic Balance and Sustainable Growth**

After all the evaluation and discussion, the following strategy became the foundation for the Vision of Oman's Economy 2020: improve the human capital of Oman so that it can create a vibrant private sector and increase the diversification of the economy.

The Oman government had one primary aim for its vision to accomplish over the 25 year period of this economic vision, to “at least maintain the current level of per capita income in real terms.”<sup>51</sup> The government also hoped to double the per capita income in that timeframe and to maintain a balanced budget. The government made a few more promises to the population for this 25-year time period; first it would “strive” to use hydrocarbon revenue to support the diversification plan, and second, it would completely take on the role of extending health, education and training for its citizens.

There were some key outcomes that the policies had to create to meet the intent of this vision. First was a continuous upgrade of the human resources of the country to ensure the Omani people were capable of meeting future demands. Second was creating a private sector that would efficiently utilize the population and make sound ecological use of the nation natural resources. Third a private sector that was not only competitive but would effectively cooperate with the government mechanisms and follow the institutional policies was needed. Fourth was the creation of conditions that could produce real economic diversification and take advantage of the nation’s geo-strategic location and natural resources. Fifth was improvement of the Omani standard of living equally among all people and in all regions of the state. Finally, the sixth aspect was to not to lose any of the ground gained over the prior quarter century and complete the extension of basic services to all.<sup>52</sup>

The Omani government also recognized the challenges that it would face in this process such as: an increasing budget deficit, its dependence on oil, a decline in oil reserves, the large government involvement in the current economy, the lack of business regulations, poor integrations of the economic sectors with the oil sector, chronic symptoms of “low efficiency and poor quality” in the production of goods and services, increases in consumer consumption coupled with low savings and investment, a large expatriate labor pool filling jobs, traditional economic sectors that were not respected or

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<sup>51</sup>Ministry of National Economy, “The Methodology for Formulation of the Vision for Oman’s Economy, Oman: 2020,” 2-2.

<sup>52</sup> Ibid., 2-2.

integrated with the national economy, and the inability of its citizens to keep pace with technological advances in the workplace. Although these problems were not unique to Oman, the fact that the government identified them as issues to be addressed enhances the extensive nature of this change in vision for the country.<sup>53</sup>

To confront these challenges, the Omani government also determined its most valuable potential tools for accomplishing its goals. These factors included: far-sighted national leadership, political stability, free-market orientation, high security, compatible social groups, respect for “individual property rights, abundant resources and important location in the gulf, excellent environment for foreign investment (for over 20 years this has been 50% of its capital formation) and the decision of the government not to nationalize its oil industries when most of its neighbors had done so.<sup>54</sup> The economic strategy divided the policies and mechanisms needed to achieve its aims into seven dimensions (Table 7).

Key Dimensions of the Vision for Oman’s Economy 2020 Strategy

1. Stable macroeconomic framework
2. Increase the role of government in providing basic social service while decreasing its role in production and public service
3. Develop human resources
4. Economic diversification
5. Develop the private sector
6. Raising the standard of living equally
7. Integrate into the global market economy

**Table 7. Key Dimensions of the Vision for Oman’s Economy 2020 Strategy**

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<sup>53</sup> Ministry of National Economy, “The Methodology for Formulation of the Vision for Oman’s Economy, Oman: 2020,” 2-3.

<sup>54</sup> Ibid., 2-4.

Three of these dimensions will be analyzed further to determine their aims and to provide a model for assessment of the “vision” in the conclusion of this chapter (Table 8).<sup>55</sup>

<u>Achieving Economic Balance and Sustainable Growth</u>
1. Develop Oman’s human resources
2. Diversify the economy
3. Develop the private sector

**Table 8. Oman’s Three Main Strategies for Achieving Economic Balance and Sustainable Growth**

To diversify the economy, Oman aimed to focus on nine major dimensions.<sup>56</sup> The first dimension involved using more efficient production methods, utilizing better technology and developing a robust research and development capability. The second dimension was to “adopt an export-led diversification strategy,” which included making Oman a services sector center for the region and world. The third dimension would focus on increasing the number of small and medium sized business endeavors. The fourth dimension would involve developing more freedom in trade and production to tap into the world economy. The fifth dimension was to provide an information technology base for the economy with a focus on telecommunications. The sixth dimension would promote private savings, reduce government expenditures, and reduce the budget deficit to ensure the macroeconomic climate suitable for further development and trade. The seventh dimension involved the improvement of the private sector with a focus towards stabilization on a macro level, providing it proper regulation and incentives, improving the financial sector, finishing the infrastructure developments and preparing the Omani people to work in the private sector. The eighth dimension was the specific focus on human capital development that included basic and higher education that would prepare people for the needs of the market, the inclusion of women, technology training, linking

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<sup>55</sup> Ministry of National Economy, “The Methodology for Formulation of the Vision for Oman’s Economy, Oman: 2020,” 2-1.

<sup>56</sup> Ibid., 4-0.



wages with productivity, and decreasing the number of non-Omani laborers. The ninth and final dimension of the strategy was aimed at caring for its fragile water resources to enable the sustainment of agriculture and health. Oman divided its major economic activities into the following areas (Table 9).

<u>Oman's Major Economic Activities</u>		
Oil	Gas	Agriculture
Fishing	Mining & Quarrying	Manufacturing
Electricity & Water	Trade and Tourism	Construction & Real Estate
Transportation & Communication		Banks, Insurance, & Financial

**Table 9. Oman's Major Economic Activities**

The second primary strategy was the development of the private sector which involved seven dimensions.<sup>57</sup> The first dimension was building the right economic framework to support the private sector such as building a state budget surplus, building reserves, keeping inflation low, and developing the proper mechanisms that would promote competition and end monopolies. The second dimension was focused on ending government involvement in the production business by selling its assets, and providing the policies and regulations needed to ensure a fair and equitable transition towards privatization. The third dimension would improve the legal framework to support privatization. The fourth dimension would create incentives to keep the private sector

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<sup>57</sup> Ministry of National Economy, "The Methodology for Formulation of the Vision for Oman's Economy, Oman: 2020," 5-0.

from burdening the national economy, to make it efficient, and to create priorities that would speed up economic diversification. The fifth dimension was aimed at improving the banks and other financial establishments, as well as establishing real-estate companies and educating Omanis about financial activities. The sixth dimension planned to finish the infrastructure development of Oman by dividing up the remaining tasks between the government and the private sector with a bias toward the latter. The seventh and final dimension again returned to the importance of human resource development by focusing on building an entrepreneurial mindset, encouraging advancements in science and technology, and developing the administrative and finance based capabilities that would be needed to manage the enterprises. In short Oman's goal was to create a better business, technology, and administrative society.

The third primary strategy for Oman's successfully reaching its goals by 2020 was the development of the appropriate human resources. The strategy had six dimensions.<sup>58</sup> The first dimension was to decrease population growth to below 3% by 2020 in order to keep the population and economic growth in balance. The second dimension was aimed at improving health care and decreasing mortality and infectious disease rates. The third dimension intended to extend basic education to all, equally and affordably, to improve the secondary and university education system, and to end illiteracy. The fourth dimension focused specifically on higher education to orient the specialties towards more useful degrees, increase study abroad, and transform the teacher colleges into universities to create more teachers. The fifth dimension was to create a new vocational and technical system that could meet the needs of the new economy and give the private sector a major role. The sixth and final dimension of the human resources development strategy was to provide employment for the large number of future Omanis that would join the workforce with an emphasis on decreasing foreign labor and increasing the participation of Oman's women.

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<sup>58</sup> Ministry of National Economy, "The Methodology for Formulation of the Vision for Oman's Economy, Oman: 2020," 3-0.

## C. OMAN AFTER OIL, IS THE ECONOMIC STRATEGY WORKING?

By understanding the objectives of the Vision for Oman's Economy; namely to ensure economic balance and sustainable growth, the current economic status of Oman can be assessed. Oman has had over ten years to follow the prescription of this strategy, so this section will serve to evaluate how far they have come. Two of the primary current sources for evaluating Oman's progress are a 2006 economic report from a Jordanian Investment Trust company and the IMF's May 2008 regional comparison report. Additional economic indicators were drawn from multiple news agencies and government agencies.<sup>59</sup>

### 1. Human Resources Development

The first strategy examined was the effort to develop the human resources capability of Oman. The first aim of this plan was to decrease the population growth below 3% by 2020. According to the latest World Bank statistics Oman has already achieved its goal.<sup>60</sup> Population growth has decreased annually to two percent from its high of five percent. This was achieved by decreasing the fertility rate (births per woman), decreasing the adolescent fertility rate (women ages 15-19), and increasing the contraceptive use in women ages 15-49. The second dimension was aimed at improving health care and decreasing mortality and infectious disease rates. In this area Oman has also seen a large success.<sup>61</sup> It has increased life expectancy from 42 to over 76 years. The mortality rate has decreased, for children under five from over 280 per 1,000 to 12, and increased the number of births attended by skilled health staff. Another example is

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<sup>59</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*. Jordan: Jordan Investment Trust P.L.C., 2006, <http://www.jordinvest.com.jo/Portals/0/Oman%20Economic%20Report%202005.pdf>, (accessed 12 February 2008) and International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, <http://www.imf.org/external/pubs/ft/reo/2008/MCD/eng/mreo0508.pdf>, (accessed 12 August 2008).

<sup>60</sup> The following is an assessment of Oman by the decade from 1960 through 2006 from World Bank. *Social and Economic Indicators Query: Oman 1960 through 2006*, <http://ddp-ext.worldbank.org/ext/DDPQQ/member.do?method=getmembers&userid=1&queryID=135>, (accessed 14 November 2008).

<sup>61</sup> Ibid.

the increase in immunizations for measles in children ages 12-23 months to over 95%. Two of the factors leading to better health are the increase of sanitation facilities in urban areas that has reached over 97% and the increase of clean water access to over 82% of the population. Some additional pieces of evidence showing Omanis increased capacity to provide proper healthcare are the decrease in diseases such as polio, diphtheria, and malaria. Oman has been polio-free for over 10 years and has decreased its malaria cases from tens of thousands to the hundreds. The expansion of healthcare has reached nearly every region of the country and even reaches its most remote areas through its flying doctor program.<sup>62</sup>

Another focus of this strategy was to extend basic education to all Omanis, equally and affordably, and to end illiteracy. The World Bank lists an increase in the primary school completion rate to 94% and the ratio of girls to boys in primary and secondary education, over 98%. To combat illiteracy, the nation has created a program for mature students to teach reading to adults that did not have an opportunity to go to school. This program includes over 117 literacy centers and 132 adult education facilities. Additionally, educators are using the “educated village” project aimed at creating a model for bringing all villages to 100% literacy. Some of the other dimensions focused specifically on higher education to orient specialties towards more useful degrees, increase study abroad, create more universities and colleges, and create a new vocational and technical system that meets the needs of the new economy. The results in this area are also very good. The private sector has met the government challenge and established three universities and fifteen colleges throughout the nation, not just in one region. The enrollment in these schools has increased six-fold in just five years. Technical and vocational schools have been increased to more than five colleges and over 100 institutes that offer over 35 programs tailored to the needs of the economy. Again this is an area that the private sector has been involved in expanding. Study abroad is also a growing area, in the 2005 academic year over 12,000 Omani students were studying overseas. Scholarships for these programs are based on the students test scores.

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<sup>62</sup> Sultanate of Oman Ministry of Information. *Oman 2005-2006* (Muscat: Mazoon, 2006), 107-112.

To ensure the students are prepared for university abroad, Oman has added the study of English to its curriculum after the first grade.<sup>63</sup>

The sixth dimension of the human resources development strategy was to provide employment for the large number of future Omanis that will join the workforce with an emphasis on decreasing foreign labor and increasing the participation of Oman's women. Jordinvest found in 2005 that the number of Omanis in private sector employment increased by 13% from 2004 to 2005. This conforms with the Omanization plans of the government. On the foreign labor front, there was only a .01% increase due to the massive construction effort to support the service industry. There was also a marked decrease in foreign nationals working the in the wholesale and retail sector and in manufacturing. This is a good situation for Oman as seasonal work, such as construction is an area which can accept foreign labor while increasing the Omani jobs in more permanent sectors. Jordinvest also found government commitment to continuing the Omanization project high, citing 12 different committees involved in replacing foreign labor and over 90% of the committee members working in the private sector.

## **2. Economic Diversification**

The real GDP growth for Oman has seen a constant increase through 2007 and is above the average for the Middle East, the oil producing states and the GCC. Oman is currently number two in the GCC with an increase in actual USD of 5-10 billion per year over the last few years.<sup>64</sup> Through the use of more efficient production methods and better technology, Oman saw its non-oil sectors grow 12.5% overall in 2005, based on key areas: "construction, mining and quarrying, electricity and water supply, and manufacturing."<sup>65</sup> One of the major areas for Oman's increase is from its oil GDP which has two major causes, the rise in the price of oil per barrel and Oman's focus on research

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<sup>63</sup> Sultanate of Oman Ministry of Information. *Oman 2005-2006* (Muscat: Mazoon, 2006), 107-112. 100-105.

<sup>64</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 44.

<sup>65</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 5.

and development to more efficiently utilize its limited oil resources. While the non-oil GDP increase of one half percent annually is not as rapid as Oman would like, the country is one of the higher performers in the GCC. In comparison the lowest performer in non-oil GDP growth is Saudi Arabia.<sup>66</sup>

Oman has made some strides towards making the country a services center for the region and world as their services, wholesale and retail trade, and the transport, storage and communications sectors all have grown during recent years.<sup>67</sup> Another of this strategy's dimensions was to increase the number of small and medium sized business endeavors which Oman has attempted to accomplish in numerous ways. The government has given small loans to entrepreneurs (especially younger Omanis) and by ensuring the success of the agriculture and fishing sectors through economic and academic methods. The constant growth in these areas has been affected by the increase in advisory groups aiding small business owners and the scientific research geared towards agriculture and fishing.

Another dimension was aimed at developing more freedom in both trade and production is an effort to tap into the world economy. Oman has increased its receipt of foreign direct investment over the last decade.<sup>68</sup> In large part this is due to its improved transparency, decrease in corruption and increase in economic freedom. In 2005 Oman was in 16th place out of 127 in economic freedom, number 26 in economic transparency according to Transparency International and rated a two by the World Bank on its anti-corruption scale. All these exemplary ratings aided Oman to secure a Free Trade Agreement with the United States in 2006. In 2005, Oman reached over one billion USD in trade with the United States.<sup>69</sup> The entry into the larger world market has been good for Oman, its goods and services output has doubled over the last decade and is on course

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<sup>66</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 47.

<sup>67</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 5-7.

<sup>68</sup> World Bank. *Social and Economic Indicators Query: Oman 1960 through 2006*.

<sup>69</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 23.

to triple by the end of 2008. That equals an increase from 10 billion in 2000 to over 25 billion in 2007. On the other side of this equation, while the Omanis have increased their amount of imported goods and services, they have managed to remain the second lowest importer in the GCC.<sup>70</sup>

The fifth dimension of the economic diversification strategy was to provide an information technology base for the economy with a large focus on telecommunications. As mentioned in the previous section Oman's expanded education programs have used much effort to improve the technological capabilities of its citizens. Evidence of this change can be seen in the increase in internet users, now over 11 of every 100, persons and the increase in the number of fixed line and mobile phone subscribers.<sup>71</sup> Additionally, the communications sector of the economy has seen steady growth.<sup>72</sup>

A key dimension in this strategy was for the government to set the proper climate for economic diversification. In this area there has also been a steady improvement. The government has functioned on a budget that has steadily decreased external debt from its recent high in 2000, increased the GDP, and decreased military expenditures as a percent of the GDP which is down to 11 from high of 17.<sup>73</sup> Oman created a sovereign wealth fund called the State General Reserve Fund that can protect its government and people during times of oil "busts," by providing the capability to continue creating jobs and maintain the standard of living. This type of institution is considered critical by the IMF in oil producing nations. While Oman's fund is nowhere near the size of the UAE or Saudi Arabia Oman does keep more than Iran on hand. Examining the numbers, based on population, Oman is not far behind Saudi Arabia.<sup>74</sup> However, when it comes to spending money, the Omani government, by comparison of percent of GDP, has one of

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<sup>70</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 56-57.

<sup>71</sup> World Bank. *Social and Economic Indicators Query: Oman 1960 through 2006*

<sup>72</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 6-7.

<sup>73</sup> World Bank. *Social and Economic Indicators Query: Oman 1960 through 2006*.

<sup>74</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 34-6.

the largest habits, placing them above all the averages for the Middle East and other oil states. But, there are some bright spots in this comparison as well. First, the government expenditure is dropping annually, and second Oman is spending money it has. Oman's government debt as a percentage of the GDP has shrunk over 20 percent in the last decade and now is below the average for the Middle East, is the second lowest in the GCC, and fourth lowest among the oil producing states.<sup>75</sup>

Recent increases in oil prices have come at a perfect time for Oman. The unplanned increase in revenue allowed the government to work towards the final dimension of this strategy which was to prepare Oman's economic regulations, infrastructure and human capital to improve the private sector. Oman has maintained a surplus while continuing to invest in its infrastructure and as previously detailed in its human capital through education. The fact that Oman planned for the worst in its budgeting of oil revenue (its planning factor was 32USD per barrel) has allowed Oman to continue to invest in itself more freely without compromising its budget.<sup>76</sup> Oman has also passed many regulations and policies in the banking, investing, privatization, and securities market.<sup>77</sup>

### **3. Private Sector Development**

The first dimension of the private sector development strategy was building the right economic framework to support private sector growth. In this area Oman has been able to keep consumer price inflation from wildly fluctuating although it is steadily climbing. Oman is currently in the center when compared to its neighbors in the GCC.<sup>78</sup> On the other hand, Oman is one the lead nations in the Middle East in keeping its

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<sup>75</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 55.

<sup>76</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 17.

<sup>77</sup> Sultanate of Oman Ministry of Information. *Oman 2005-2006*, 138-145.

<sup>78</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 49.



government fiscally balanced.<sup>79</sup> Further investigation into the 2005 inflation increase found that major price increases were in the areas of recreation, entertainment, and tobacco while medical care, energy and housing saw only minor increases. Unfortunately food and beverages both saw a major increase as well.<sup>80</sup> Oman sought to have the government out of the production sectors as part of the second dimension. Evidence of this trend can be seen in the 2001-2005 development cycle when it allowed for privatization in wastewater management, power generation, telecommunications, flour milling, and cement production. Additionally Oman is also preparing to privatize even more government owned areas during the 2006-2010 cycle.<sup>81</sup>

Another dimension was aimed at creating incentives to help the private sector to take over industries that would be a burden on the national economy and to create priorities that would speed up economic diversification. Proof that these programs are finding success was highlighted by Jordinvest when it found positive movements in private ownership into electricity and water, telecommunications, natural-gas, tourism, and non-oil merchandise industries.<sup>82</sup> The fifth dimension was aimed at improving the banks and other financial establishments; here Jordinvest found that the adjustments to the banking institutions were allowing them to set “attractive conditions” for furthering the advancement of private sector growth.

The final dimension of the private sector development strategy was to finish the country’s infrastructure development by dividing the remaining tasks between the government and the private sector with a bias toward the latter. Luckily for Oman its largest development scheme was set to take place during one of the largest price increases of oil per barrel in recent years. Because the country had based its estimates for budgeting at 32USD per barrel, Oman has been able to surge its infrastructure

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<sup>79</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 15.

<sup>80</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 7-8.

<sup>81</sup> *Ibid.*, 27-28.

<sup>82</sup> *Ibid.*, 27-28.

development. Additionally, because of its past investments in infrastructure such as roads, ports, energy and communications, the state has prepared itself for even more privatization. Oman was found to be one of the more friendly foreign investment environments in the region and this can only help to continue the trend toward privatization of infrastructure upgrade projects.<sup>83</sup> In the past decade, the number of Omanis working in the private sector jumped from 27% to 37%, and in the following year, over 44,000 other private sector jobs became available. This is the kind of change that the Omani government was seeking in its vision to expand the private sector and decrease the number of Omanis dependent on the government for employment.<sup>84</sup>

#### **4. Conclusion**

In conclusion, it is necessary to identify areas that are not proceeding according to the economic plan and the growth factors that will create new problems for Oman. First is inflation. The rise in inflation in the region has not exempted Oman and in two key areas Oman is a leader. Oman has a shortage of housing and this is driving rents up to almost twice as much as in neighboring states. The only state with a similar problem is Qatar.<sup>85</sup> The other inflation issue that will hurt the Omani economy is in the food and beverage area. A major increase in this area can be absorbed by tourists but not by average Omani citizens.

A second area of concern for Oman is the revenue of its non-oil sectors. The ability of the Omani government to maintain a growing positive fiscal balance is twice the average of the other Middle Eastern states and about in the middle of the GCC states. Unfortunately, the non-oil fiscal balance remains steadily in the negative figures and near the bottom among oil production nations in the Middle East and South Asia. Fortunately,

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<sup>83</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 9-14, 23, and 28.

<sup>84</sup> Sultanate of Oman Ministry of Information. *Oman 2005-2006*, 103.

<sup>85</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 13-14, 39.

the non-oil revenue percentage is climbing in Oman and the country is right in the middle when compared to a ranking of the GCC states.<sup>86</sup>

A key sign of economic progress is also the final area of concern for Oman its increase in energy consumption. The World Bank is tracking a major increase in Oman in the consumption of electric power and oil products as well as an increase in CO2 emissions. These issues might impact the economy of Oman as its output of oil decreases, the price of electricity increases, and environmental laws tighten worldwide.

Jordinvest's evaluation found that, overall, the economy was strong but, as mentioned in a previous chapter, both the production, and as a consequence, the exportation of oil is declining in Oman from the highs of the previous decade. This is during a time while other GCC states are increasing their outputs.<sup>87</sup> The Omani economy must continue to aggressively diversify before the end of its oil supply is reached.

There is no doubt that the Jordinvest team found the Omani economy to be overly dependent on oil, but they did find many promising efforts to undo this condition. Oil and gas in 2005 accounted for over 83% of Oman's exports which was a two percent increase from 2004. The oil sector alone brought in over OMR4 billion compared to OMR464 million in non-oil exports during the first 10 months of 2005. While this is an increase of 35% for non-oil exports, it is still only a 7% piece of exports. Oman is working hard, according to Jordinvest, to ensure its oil industry remains viable as long as possible through conservation and technology. Oman is also expanding their gas sector to try to meet the increasing domestic consumption by Oman's growing mining, power and industry sectors.<sup>88</sup>

A quote from the Jordinvest report may provide a caveat to all oil producing states, because Oman has been one of the most aggressive in attempting to break its

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<sup>86</sup> International Monetary Fund. *Regional Economic Outlook: Middle East and Central Asia, May 2008*, 51-3.

<sup>87</sup> *Ibid.*, 48.

<sup>88</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 24-28.

reliance on oil during the last 30 years. “Despite numerous efforts to boost the contribution of non-oil sectors in the GDP, the oil and gas sector remains the main artery of the Omani economy.”<sup>89</sup>

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<sup>89</sup> Jordinvest. *Oman: Moving Towards a Non-Oil Economy*, 24.

## VI. CONCLUSIONS

Oman is a country that has weathered a divisive insurgency and decided to wean itself off oil; there are several lessons to be learned from both of these events. By analyzing Oman's experience with an insurgency this thesis identified three major principles: (1) counterinsurgency strategies must be built upon the governments willingness to understand and resolve the issues that had been framed by the insurgent leaders as rallying points for the rebellion; (2) when rebels are incapable of adapting to the new government strategy their repressive or violent acts towards the population can drive the remaining passive insurgency supporters into the government's camp; (3) understanding the theory of social movement can assist in the study of insurgencies and increase the likelihood of success when conducting counterinsurgency operations. Some of the specific lessons of this insurgency campaign are, the importance of understanding a social movement's goals and grievances when designing a campaign; that the application of military force without civil reconstruction of institutions and infrastructure is self-defeating; and that the role and extent of outside influences must be understood and removed in order to isolate an anti-government movement.

The chapter explaining Oman's history with oil revealed that although Oman arrived later than most Gulf countries to the oil industry they quickly grew to become one of the elite rentier states because their small population created a per capita advantage over their neighbors. Further the nation's oil production increased rapidly allowing them to invest in the infrastructure of the industry. The chapter also notes that Oman's oil production capability (never very large) is presently decreasing while their neighbor's capacity is increasing. Oman had never planned to have more than 25 years of oil production capability and that may have had a great influence on their decision to invest in an alternate economy.

The strategy to develop a non-oil economy was explored in the third chapter. The analysis of Oman's strategy to develop its human resources, diversify its economy and develop its private sector revealed many successes and some issues for concerns. Oman

has met many of its benchmarks for creating a workforce that is healthy and equipped with skills that will allow them to join the non-oil workforce. Their advances in healthcare, education, and social welfare are numerous. Its attempts at diversifying the economy have also been successful; for example it has have increased the number of small and medium sized business, increased its receipt of foreign direct investment due to its improved transparency and decreased corruption, and focused on telecommunications and information technology related education programs. There were also areas that are not proceeding according to Oman's economic plan. Concerns include inflation, especially in the housing and the food and beverage area; small non-oil sector revenues (although they are growing); and increased energy consumption. The overall economy is strong but the need to continue aggressive diversification before the end of its oil supply is reached is critical.

Oman has visibly changed. The results of the last 30 years of modernization are visible throughout the country. Although Oman is stable and secure compared to its neighbors it will face a large test in the coming years as Sultan Qaboos ages. The nation still has not achieved the level of democratization that experts deem necessary for a smooth transition of power and the Sultan has no sons. It would seem a great concern for the country is the possibility of political violence as the government and society continue to liberalize and a change of power takes place.

On the economic front, it is possible that by continuing to diversify, the next 12 years may bring Oman close to its goals set out in its economic Vision 2020 strategy. A future assessment will reveal whether Oman benefited enough from the recent increase in oil prices to allow the country to rapidly implement its strategy. Oman has made great strides in education and technology and applied them to its economic institutions to make the state more privatized, to entice foreign investment and to take part in free trade. The true test will be how Oman reacts to the world banking crisis and the rapid decrease in the price of oil per barrel.

Further studies of Oman might focus on its moves towards a liberalized government, its developments in civil society, relations with Iran, or Oman's role in the Middle East in regard to many of the critical issues facing this region.

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## APPENDIX A. INSTABILITY FACTORS IN THE MIDDLE EAST

### Instability Factors in the Middle East

#### Security/State Monopoly of Violence

- Terrorism
- Insurgency
- Drug trafficking
- Organized Crime
- Militias
- Nuclear Proliferation
- Conventional Weapons Proliferation

#### Governance

- Political Islam
- Islamic Extremism
- Government (dis)functions
- Human Trafficking/Human Rights
- Corruption
- Poor Leadership
- Popular Participation
- Infrastructure
  - Transportation
  - Communications

#### Foreign Affairs

- Palestinians
- Israel
- Iraq
- Iranian influence
- Saudi Arabian Influence
- Evolving U.S. Strategic Framework

#### Economics

- Population growth/Youth Explosion
- National Budgeting
- Smuggling/Black Market
- Health
- National Economic Growth Rates
- Lack of Private Sector Development
- Housing
- Trade
- Human Capital Inefficiencies:
  - Women's Rights
  - Non-Native Labor
  - Structural Unemployment
  - Education

#### Environmental Resources

- Water
- Oil
- Other Natural Resources
- Environmental degradation

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## APPENDIX B. OIL ESTIMATION FORMULAS

### Conversion factors for world average crude oil gravity:<sup>90</sup>

- 1 long ton = 7.42 barrels
- 1 short ton = 6.63 barrels
- 1 metric ton = 7.30 barrels
- 1 barrel = 35 imperial gallons
- 1 barrel = 42 US gallons
- To convert metric tons per year into b/d (barrels per day) divide by 50
- To convert long tons per year into b/d divide by 49.2
- To convert millions of barrels per day (mil b/d) into barrels per year multiply by 365 days.

Example: 340,000 b/d x 365 days = 124,100,000 b/y

- To determine the estimated number of years of production for a proven reserve at current annual production rate divide total estimated reserves by annual production.

Example: 5.9 '000 million barrels or 5,900,000,000.00 barrels divided by 124,100,000 b/y = approximately 48 years

**Proven reserves:** estimates vary widely; the following facts are useful to understanding

- Does not equal the amount of oil in the nation's wells.
- Does equal the amount of oil in a nation that is proven to exist and that can be recovered at the current price with the current technology.
- A reasonable estimate is that proven reserves are only one-third of the actual amount in place.
- Higher oil prices usually increase the proven reserves because it is then worth the cost to extract it.
- Proven reserves can increase without finding more oil, because they are finding a new way to retrieve the old oil.

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<sup>90</sup> *The Middle East and North Africa* 1984-85, p106 and my own rules of thumb for oil estimation.

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