Oil price collapse and the political economy of the post-2014 economic adjustment in the Sultanate of Oman

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Introduction

If the onset of the oil age radically transformed economic life in Oman, its decline promises economic ruptures as well. Since the 1970s, the state and the economy have grown dependent on black gold. Not only is oil the main driver of economic growth and government revenue, but government expenditure drives the non-oil economy. Thus, since late 2014, when the global oil market readjusted to lower levels, austerity pressures have mounted. This is not the first time the economy has experienced such economic gravities. Commodities markets are notoriously volatile. How can we understand government economic responses to the oil downturn since 2014 in Oman?

This chapter addresses this question and finds that economic adjustments mirror oil market fluctuations, but fiscal restraint does not adjust as steeply during contractions in the oil market. This illustrates the difficulty in cutting expenditure in spaces where both state and economic life are deeply tied to each other and to oil-supported government spending. Over the next pages, we examine this pattern, with specific attention to policy measures since 2014. First, we introduce the structure of the economy and the role of oil and government expenditure. Alongside this, we discuss government policy initiatives to respond to fiscal pressures and towards the goals of diversifying the economy away from hydrocarbons. The core of the chapter examines a selection of these economic policies and initiatives: government borrowing, labour market regulation, subsidy reduction, the *tanfīdh* programme, and changes in taxation regimes.

Given that the economic downturn and its implications are still unfolding, the policy measures and trends we discuss are still in flux. That said, some patterns are observable. The first pattern is how dependent the economy remains on oil. The entrenchment of policymaking and the limitations on fiscal policy are tied up with the oscillations of the global oil market. The second observation is the impact of social pressure on policy choices. We argue that the government is trapped between socio-economic demands and fiscal realities – a disruption in one can lead to undesirable instability in the other. If the government makes policy changes in reaction to social pressure during a weakened fiscal position, it can damage its financial position and may risk having to revalue the currency peg. However, if the government undertakes austerity measures, these can cause more social instability. The state is in essence caught between a rock and a hard place.

When oil flows, the economy flows

The advent of the oil age restructured developmental possibilities, the government's funding and expenditure structure, and the types of economic opportunities available for society (Al-Yousef, 1996; Valeri, 2009). It facilitated rapid economic growth and change, but also a structural dependence on oil that has proven difficult to loosen. Such a condition is common among rentier states in the global economy (Beblawi and Luciani, 1987; Gray, 2011; Ahmed and Al-Saqri, 2012; Ennis, 2015).

Rentier economies include states characterised by oil abundance, measured by the ratio of per capita oil revenue to all government revenues, and oil dependence, measured by the percentage value of resource exports to gross domestic product (GDP) or the percentage of resource exports to government revenue (Luciani, 1990; Kropf, 2010; Herb, 2014: 11–15). By both definitions, Oman is defined as a rentier economy. Herb categorises it as a 'middling rentier', which is distinguished from the 'extreme rentiers' of Kuwait, Qatar, and the United Arab Emirates, who wield extremely high levels of resource abundance (Herb, 2014: 14). Indeed, as both Kropf (2010) and Herb (2014) illustrate, it is critical to understand the difference between resource abundance and dependence to better explore the impacts of resources on political economies. The comparison of Oman with the Norwegian case – a country which is resource abundant but is not usually considered as suffering from negative rentier effects – offers a useful example. While Norway exported resources amounting to 14 per cent of its GDP in 1970, Oman's resource exports were 89 per cent of its GDP (Kropf, 2010: 111). The crucial difference lay in the different levels of industrialisation between the two countries at the time, with Norway having a well-established manufacturing sector with the capacity to add value prior to export.

What we see in the remainder of this section is the degree to which Oman's resource abundance shaped the economy's dependence on oil. Although its manufacturing capacity has improved dramatically over the decades, the share of oil income in government revenue and in its export structure remains significant. In many ways, Oman's early oil-rentier economy follows the classic depiction where

> *the state becomes the main intermediary between the oil sector and the rest of the economy*. It receives revenues which are channelled to the economy through public expenditure, and since public expenditure generally represents a large proportion of national income, the allocation of these public funds among alternative uses has great significance for the future development pattern of the economy. (Abdel-Fadil, 1987: 83)

As shown in Figure 4.1, government expenditure in Oman has been the function of crude oil export income. This has been the case since the 1970s. The government adjusts its expenditure to how much it has in its coffer from oil income. This relationship between oil income and government expenditure is expected in the short run, but the fact that it has been a consistent story for almost five decades calls into question the ability of the government to sustain its income in the long run, hence its ability to maintain fiscal balance.

This is all the more evident with a view of past oil price drop episodes and their aftermath impact on public finance and the overall performance of the economy. For example, following the 1986 oil price drop of 37 per cent, and the dampened oil prices throughout the 1980s and 1990s, government expenditure increased by just 1 per cent annually in 1986–99. In the same period, GDP experienced an average real growth of 4 per cent annually, down from an annual real growth rate of 10 per cent from 1971 to 1985. Therefore, from the mid-1980s to the end of the 1990s, the Omani government undertook a variety of measures to increase income and restrict expenditure.

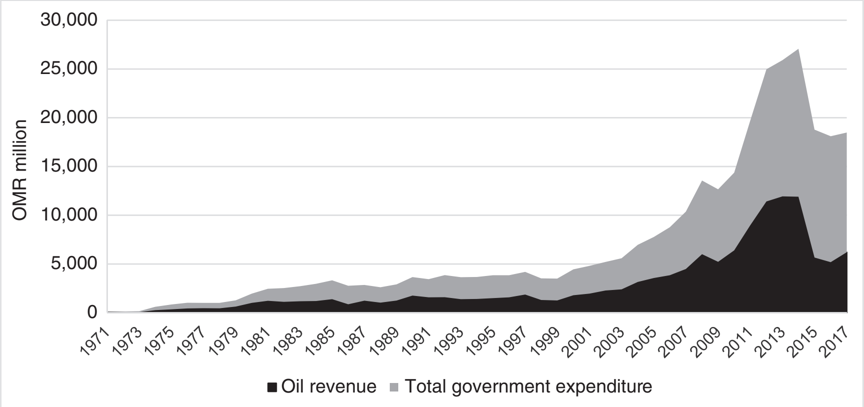

Figure 4.1 Oman's oil exports income and government expenditure, 1971–2017 (in OMR million). Source: NCSI (1981–2018).

In 1986, Oman even devalued its currency peg by about 10 per cent against the US dollar (Luciani, 2011: 27). The reforms implemented during this period allowed expenditure to remain contained, and afforded the government the opportunity to begin discussing a long-term development strategy known as Vision 2020 (World Bank, 1994; Ministry of National Economy, 2007). This Vision was released in 1995, and the five-year plans which followed it were to take the government in steps towards its ambitious diversification and development goals. The contraction of government revenue was the impetus behind the long-term strategy and economic plans.

Then the oil boom of the 2000s hit, allowing a renewed expenditure surge. The data show that from 2000 to 2014 government expenditure hiked by 14 per cent annually following oil income increases of about 17 per cent annually. This oil boom was exceptional in its incline and in the corresponding spending hike. The pace, growth, and duration of high expenditure patterns during this period make the spending even more difficult to reduce during times of austerity. This second wave of plenty saw the average real GDP grow by 13 per cent annually. Expenditure rates increased alongside growth. The data over the past five decades (see Figure 4.1) suggests difficulty in adjusting spending patterns downward.

The sustainability of such a structural pattern becomes even more questionable during oil downturns. Understanding the strength of the relationship between oil income and expenditure underpins the policy challenges that emerge during times of austerity. Public expectations of the state's redistribution of this largesse, not only in the form of infrastructural development and public goods delivery but also in the form of public-sector jobs and subsidised energy inputs and limited taxation, foster both social tensions and policy making quandaries. This section illustrates how central oil is to economic development in Oman's modern economic history. It establishes the background to our claim that the Omani policy environment is trapped between the competing interests of capital, the pressures of austerity prompted by fiscal realities, and socio-economic demands for the jobs and public goods the country and region has grown accustomed to. We agree with Hanieh's claim that, for ruling elites in all Gulf Cooperation Council (GCC) states under the current austerity pressures, 'navigating the tight line between cutting public sector employment and other forms of government provision, while attempting to maintain a social base of citizen support, is a complex and difficult task' (Hanieh, 2018: 225).

Oil exports and government expenditure

This pattern might not be surprising to those familiar with development paths in resource-dependent economies. GDP growth corresponds with oil

Table 4.1 Oman's oil dependence.

	Crude oil exports, % of GDP	Oil revenues, % of total revenues	Crude oil exports, % of total exports
1972	65	100	100
1982	58	92	92
1992	44	84	82
2002	42	76	67
2012	49	85	59
2013	46	86	57
2014	44	84	57
2015	31	75	50
2016	25	68	48
2017	28	73	46

Source: NCSI (1981–2018).

export earnings, which in turn correspond with government revenues. As Table 4.1 illustrates, Oman's oil dependence runs deep; oil dominates the economy and consistently comprises a high share of government revenue, exports, and GDP.

Although the share of government revenue from oil income dropped from 100 per cent in 1971 to 79 per cent in 1986, the overall share of non-oil income has not changed much since then. The non-oil income share increases during periods of international oil price slumps and decreases when oil prices recover (see Figure 4.2). In fact, the average share of non-oil income from 1986 to 2017 is 21 per cent, increasing to 29 per cent in 1986, when oil prices dropped by 32 per cent. Its share increased even more to 32 per cent in 2016, when oil prices dropped by 47 per cent. Overall, the government income structure has not changed much since 1986, and non-oil income plays a minor role in financing government expenditure.

Between 1970 and 1976, government expenditure was used to develop and build basic infrastructure, such as roads, airports, and ports, and provide basic services such as water, electricity, and basic health care. Hence, most of the government's expenses were invested in development projects, peaking to 43 per cent of total government expenditure in 1974 (see Figure 4.3). However, the share of development expenditure in total government expenditure has declined since then, and in 2017, the share was 23 per cent. In addition, recurrent government expenditure increased at substantial rates and peaked at 49 per cent of total government expenditure in 1998 and 1999. In 2017, government recurrent expenditure was 49 per cent of total

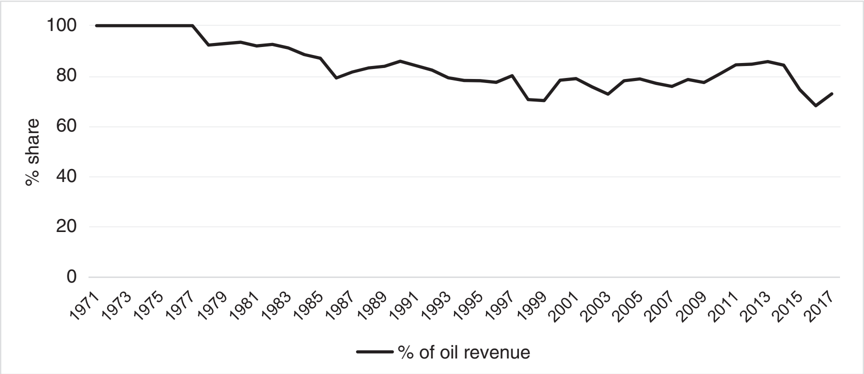

Figure 4.2 Oman's oil revenue, 1971–2017 (percentage share of total government revenue). Source: Ministry of Finance (1975–2018), NCSI (1981–2018).

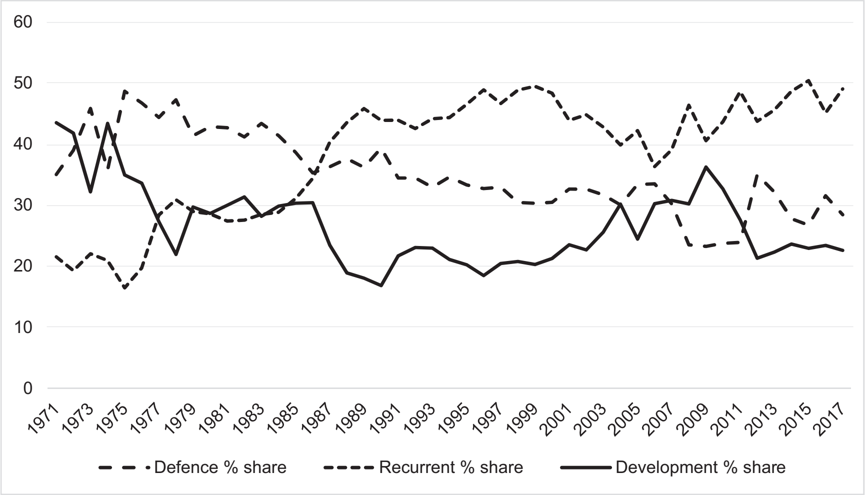

Figure 4.3 Oman's government expenditure structure, 1971–2017 (percentage share of total government spending). Source: NCSI (1981–2018).

government expenditure. Furthermore, defence-recurrent expenditure in Oman is significant, having reached 49 per cent of total government expenditure in 1975.[1] Defence expenditure, as a share of total government expenditure, has declined since 1975 but remains significant, with the average annual defence expenditure in 1976–2017 being 35 per cent. Recurrent and defence expenditure accounted for approximately 73 per cent of government expense in 1971–2017.

Once again, the period between 2014 and 2017 saw real average GDP growth down to 3 per cent, with a negative growth of 0.3 per cent in 2017. While state coffers certainly feel the strain, the government finds expenditure reduction difficult. In fact, changes in oil price levels have direct and immediate impact on revenue levels, revealing the high degree of fiscal dependence on oil income (see Figure 4.4). Meanwhile, government expenditure, while mirroring fluctuations in the oil price, oscillates less intensely, underlining the stickiness of government spending. There is a time lag, hesitancy to announce policy change, and difficulty in implementing unpopular government cutbacks.

Much rentier state literature suggests that governments utilise oil rents to support high government spending during oil windfalls as a means of securing political loyalty and repressing dissent. The case of Oman seems to suggest a less linear narrative. The data presented in this chapter illustrates the stickiness of government expenditure. It also suggests that periods of oil market stagnation seem to maintain or increase the impulse of governments to spend. In the Omani case, efforts to reduce spending and increase non-oil revenue have been amped up since 2014, but overall expenditure contraction proves difficult. As will be shown below, even minor austerity measures tend to be reversed in the face of social anxiety. On one level, this indicates the government's difficulty in balancing fiscal instability with social instability concerns in contexts of entrenched expectations. On another level, it also suggests that scholars may need to revisit some of the core causal mechanisms accepted in much of the literature on rentier states. Now that the global economy seems to be embedded in a 'low for longer' oil price scenario (Malek, 2018), more empirical cases emerge which can be compared with each other, and also with the policy reactions during the 1980s.

Indeed, similar expenditure patterns can be observed in other oil-dependent economies. This seems contingent on the fiscal robustness of the country case under examination. Moreover, the trend does not appear to be limited to authoritarian contexts but extends to democratic ones as well. For example, new research on Argentina suggests that government expenditure in the form of 'patronage spending' increases during oil-rent downturns, especially when this is reflected in 'job destruction in the oil sector' (González, 2018: 101). The Argentine case studies suggest that patronage is used as a means of containing social discontent. Similar to our observations in Oman and other Gulf rentiers, González shows evidence of countercyclical behaviour, with increased state spending during times of crisis to secure political loyalty and fight unemployment. During oil highs, the government is less tied to patronage expenditure and invests in infrastructure and other public goods

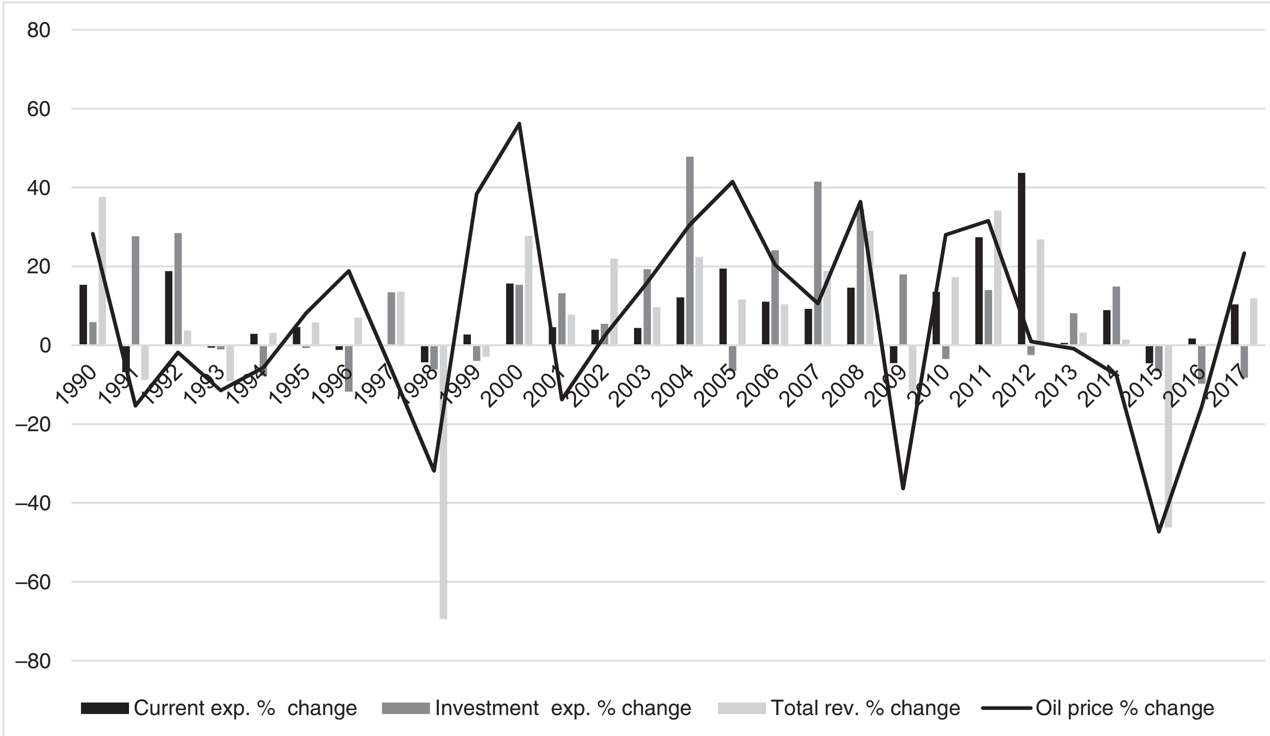

Figure 4.4 Oman's annual change in government expenditure and oil income (percentage). Source: NCSI (1981–2018).

(González, 2018). What is most interesting for the purpose of this chapter is that similar expenditure and patronage patterns are occurring in democratic states and Gulf rentiers alike. This suggests that a concern with stability both motivates and cripples government policy choices across political systems. A large study of multiple country cases with a cross section of political systems would be useful to examine the generalisability of such claims. However, it is important to note here because it helps us de-exceptionalise the narratives around economic choices in the Gulf economies. Our focus in the sections that follow on policy choices and initiatives of the Omani government in the most recent oil downturn illustrates our argument about the tensions between fiscal realities and sociopolitical anxieties.

Sustaining government expenditure during decline

After the oil price declined sharply in the last quarter of 2014, the government had to undertake a variety of actions. Importantly, they reviewed overall income and expenditure with the goal of lowering the break-even oil price. Resolving this meant increasing alternative revenue sources and cutting spending. Several adjustments had to be made, but such reform is always faced with tensions between the demands of fiscal sustainability and social expectations.

In the remainder of this chapter, we explore several reform categories to examine Oman's efforts to come to terms with recent economic constraints while at the same time balancing the need to mitigate the negative social repercussions of austerity. First, we examine the significant increase in government borrowing and the forms and debates around taxation. These debates have a regional dimension, as Gulf states convened to discuss ways of responding to the downturn and craft collective GCC policies – including the introduction of an excise duty and a value-added tax (VAT). Second, we turn to the labour market. As employment pressures mounted, the state pushed the private sector more forcefully to hire local labour and made it more difficult to recruit workers from abroad. Third, we examine subsidy reforms. Finally, we explore a newer trend of state–society engagement around economic development planning. This was made especially obvious through the ways the government engaged with society and the private sector over the shape of economic plans under the auspices of the *tanfīdh* programme. *Tanfīdh*, or the National Programme for Embracing Economic Diversification, was introduced in collaboration with Malaysia's Performance Management and Delivery Unit (PEMANDU), with the goal of accelerating the pace of diversification away from oil dependence. It was operationalised as a way for societal sectors and actors to have an input in the construction of economic strategies and plans (Tanfeedh, 2017). This marked the first time the government engaged with ideas 'from below' in the process of economic planning, and the format has continued through the visioning process for Vision 2040.

Debt and taxes

From 2014 to 2017, the Omani government's oil income dropped by an average of 10 per cent annually, with a drop of 52 per cent alone in 2015 (NCSI, 2018). To meet expenditure requirements, the government withdrew money from the State General Reserve Fund (SGRF) and borrowed from the domestic and international markets. Therefore, both the current account deficit and public debt increased (see Figure 4.5). In 2017, public debt reached 40 per cent of GDP and the current account deficit reached 15 per cent of GDP.

In June 2016, Oman issued its first sovereign bond since 1997. The bond issued was worth USD 2.5 billion. Again, the government issued an international sovereign *ṣukūk* (Islamic bond) in 2016 worth USD 0.5 billion. Since then, the government has been tapping the international market to meet its expenditure demand. In 2017, the government issued USD 5 billion worth of bonds, and in 2018 it issued USD 6.5 billion worth of bonds. By

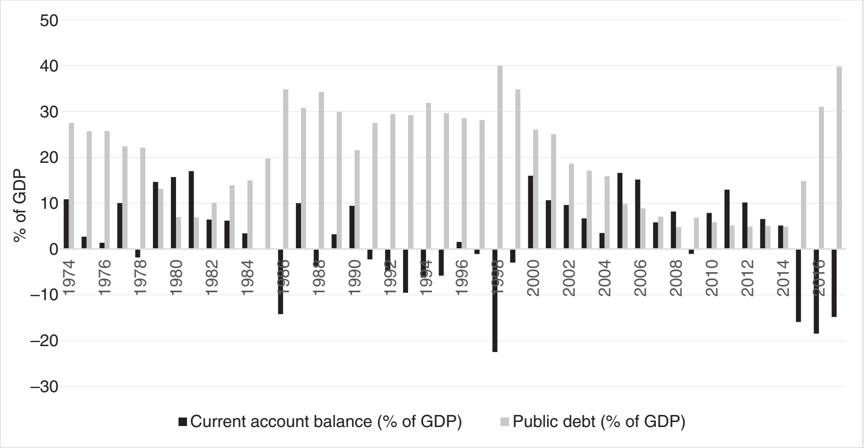

Figure 4.5 Oman's yearly current account and public debt, 1974–2017 (percentage of GDP). Source: World Bank (2019) for current account balance; public debt is calculated from Ministry of Finance (1975–2018).

the end of 2019, the debt-to-GDP ratio had reached 59.9 per cent, with the fiscal deficit at around 6.7 per cent (Bambridge, 2019). The government so far has never had real difficulty in financing its deficit by borrowing from domestic or international financial markets, hence the pressure to reduce government expenditure has been somewhat mediated.

However, the burden of debt has been increasing and the Omani government's sovereign bonds now have a sub-investment grade by all three major credit rating agencies, Standard & Poor, Fitch, and Moody's. In fact, Moody's downgraded the 2019 foreign currency credit rating of Oman on 5 March 2019, from 'Baa3' to 'Ba1' with a negative outlook (Moody's Investor Service, 2019). This policy measure illustrates the oscillating response to fiscal contraction. The state must choose between straining its financial position in global markets to sustain spending or enacting austerity measures and risking social outcry and instability. The Omani government has been walking a tightrope between the two since 2015.

The government not only used debt instruments to sustain spending, but also pursued measures to cut expenditure. Omani government expenditure decreased from Omani riyal (OMR) 15,172 million in 2014 to OMR 12,274 million in 2017 (OMR 1 is about USD 2.6). The average government expenditure reduction from 2015 to 2017 was 7 per cent yearly, in which both defence and recurrent expenditure decreased by an average of 6 per cent annually and development expenditure by an average of 8 per cent annually (Ministry of Finance, 1975–2018).

To increase the efficiency of government spending, state-owned enterprises have been directed to seek financing for their activities through local and international banks, and the government promised to privatise some of its state-owned enterprises in 2016. Until now, no state-owned enterprise has been privatised but various restructuring activities have been ongoing.

The other policy that is usually adopted in this case is to look for alternative sources of income. Fees and taxes are one such source. The government imposed new fees on telecom companies, raising royalties owed from 7 to 12 per cent (Al-Ansari, 2016). By Royal Decree 9/2017, a 35 per cent tax on liquefied natural gas (LNG) exports was issued, and fees for mineral exploitation (e.g. concerning quarries, crushers, and chrome) and for petrochemical companies were increased by 35 per cent (Qanoon.om, 1974–2019).

Moreover, under the amendments to the Income Tax Law, tax exemptions were removed and the corporate income tax rate was increased from 12 to 15 per cent. Changes also saw the removal of the tax exemption for the first OMR 30,000 profit bracket through Royal Decree 9/2017 (Qanoon.om, 1974–2019; KPMG, 2019). In addition, Royal Decree 23/2019 introduced a 100 per cent excise tax for tobacco products, energy drinks, and meat, while a 50 per cent tax was applied on carbonated drinks and alcohol in June 2019 (Qanoon.om, 1974–2019). The introduction of VAT was also announced to the public but not yet implemented by December 2020.

Interesting developments also occurred at the regional GCC level. The statement issued by the Financial and Economic Cooperation Committee of GCC Ministers of Finance on the unified VAT agreement and excise Taxation Agreement of October 2016 was clear about the need to impose taxes to cover government spending and as a tool for financial reform. The statement declared that

> Taxation (especially value-added tax) is one of the most important sources of public revenues to cover the public expenditure and an effective tool in implementing financial, economic, and social policies, because taxes contribute to the provision of financial resources so that governments can finance development projects and provide services. (GCC, 2016; authors' translation)

This means, among other things, that the Gulf states consider income from taxes to be an alternative, important source of income from oil. Moreover, the statement confirms for the first time that the time of dependence on oil revenues to implement fiscal, economic, and social policies is over, and that taxes will become a major source of funding for infrastructure projects and basic services. There is also a tacit reference in the statement that taxes, not just VAT, will be part of economic policies in which governments will work to finance public expenditure. This could also mean that governments of the GCC are looking into other types of taxes.

Oman has yet to introduce VAT, which appears to be an indeterminant delay. It did, however, implement the excise tax in June 2019. Initially, the introduction of VAT was delayed in 2017 with the expectation it would be implemented in September 2019. Yet when the annual state budget was published in January 2019, it made no mention of VAT, and by September 2019 VAT was delayed yet again; this time indefinitely. Despite this, businesses are being encouraged to prepare in advance. According to Sulaiman bin Salim Al-Ameri, General Manager at the General Secretariat of Taxation, the Ministry of Finance does aim to implement VAT, but this depends on the technical preparedness of the system (*Oman Daily*, 2018; Mushtaq and Shah, 2019).

Preparedness of the system is a valid concern, as can be observed in the expected growing pains of neighbour states which have already implemented VAT (Clarke, 2019). However, a cynical assessment could also interpret this as yet another way of delaying uncomfortable reforms. While some of the above government efforts were rewarded with an average increase in non-oil revenue of 3 per cent in 2015–17, the non-oil share of government revenue remains low. Government revenue increased from OMR 7,583 million in 2015 to OMR 8,514 million in 2017, but the non-oil share of this was only 27 per cent in 2017.

Labour market regulation

Alongside increasing indebtedness, some of the greatest challenges facing Oman's economy stem from the labour market. The unrest during 2011 threw the concern of rising unemployment among Oman's youth into the limelight. Since late 2017, employment demands from young graduates have resurfaced forcefully once again – with loud discontent on social media and in demonstrations in front of the Ministry of Manpower. Recent International Labour Organization (ILO) estimates suggest that the overall youth unemployment rate in Oman was 13.7 per cent in 2017, with female youth unemployment estimated at 33.9 per cent (Ennis, 2019a, 2019b; ILO, 2019).[2] Other reports suggest the overall unemployment rate was 17 per cent, with youth unemployment as high as 49 per cent in the same year (World Bank, 2018). At the same time as unemployment concerns sit at the forefront of public policy discourse, the demand for non-national labour persists (Ennis and Al-Jamali, 2014). Data from mid-2018 shows that the private-sector economy continues to rely on expatriates across skill levels (see Table 4.2).

As foreign nationals are not covered by Oman's minimum wage regulation, the cost of expatriate labour results in labour markets where unskilled and skilled-worker salary levels are determined by the market rate in labour-sending countries. This means wages for lower-skilled workers are much lower than the minimum salary an Omani national would be willing to work for and below the cost of living. In many sectors, then, the labour market is segmented, and citizens and non-citizens do not compete for the same jobs. At higher professional levels, the wage differential flattens, and there is more competition for jobs (Hertog, 2013: 179–80; Ennis and

Table 4.2 Oman's private-sector labour nationalisation rates.

Skill level	% of Omanis
Specialists	24.81
Technicians	25.89
Professional occupations	14.81
Skilled workers	9.57
Unskilled workers	8.51
Total private-sector labour	12.53

Source: Ministry of Manpower (2018).

Walton-Roberts, 2018: 173). Oman's history of economic development planning since the early 1970s reveals an acute awareness of the need to reduce its dependence on oil and expatriate workers through economic diversification initiatives. Yet the picture has changed little. The private sector maintains a preference for foreign recruitment, and citizens have an expectation of public-sector employment. This persists in the background even while it has grown increasingly obvious in the public imagination that such labour market bifurcation and expectations are unsustainable.

The government targets national job creation and labour segmentation through two types of interventions. On the one hand, the government uses a combination of human capital investment (education) and more direct labour market interventions like quotas for certain percentages of positions to be reserved for citizens. These policies are known as Omanisation. On the other hand, the government works on the supply side of labour and targets the inflow of foreigners through increasing visa fees for employers or blocking recruitment in certain occupations. The successful implementation of Omanisation policies and foreign visa restrictions has been varied and sector dependent. While the public sector, banking, and insurance achieved high Omanisation ratios, other sectors have stagnated. When oil prices are low, the country faces greater pressure to create jobs for citizens.

As outlined by Ennis and Al-Jamali (2014), successful Omanisation gains during the 2000s were quickly lost after the unrest of 2011, which prompted a series of government measures to quickly quell the discontent. Several of these reversed existing incentives to encourage citizens to seek positions in the private sector. In particular, the creation of 50,000 new government jobs actually saw nationals in the private sector resign to compete for these jobs. Data show that Omani participation in the private sector remained flat for a two-year period, with the overall private sector Omanisation level dropping from 16 per cent in 2010 to under 12 per cent by the end of 2012. This appears to be a direct result of government policy, as decreases occurred during the same months as policy announcements (for data visualisation and discussion, see Ennis and Al-Jamali, 2014: 12–13).

The urgency of job creation has intensified since renewed youth protests for jobs in the autumn of 2017, which have continued on- and offline. In late 2017, the government announced it would again create 25,000 new jobs in the early months of the new year. It soon became evident that these could not all be found in the public sector. Even with the announcement, the Council of Ministers 'urged all private sector establishments to take the initiative and shoulder their national responsibilities in the issue of employment of Omanis' (Ministry of Foreign Affairs, 2017). By January, pressure had grown on various sectors to increase their recruitment of Omani graduates. At the same time, companies were banned from foreign recruitment of eighty-seven different professions for six months in 2018 (*Arab News*, 2018). By May 2018, the Ministry of Manpower had penalised 161 companies for not hiring even one Omani citizen (*Times of Oman*, 2018c). This visa ban has since been extended several times, first until January 2019, then again to the end of June 2019 (*Muscat Daily*, 2019).

On the one hand, the government has pressure from growing numbers of job seekers. On the other, the private sector lobbies for greater labour market flexibility and ease of hiring from abroad. Interests diverge, and pressure for different forms of regulation and deregulation across the labour market try government policy and expand the tension between policy choices and informality. It is no surprise, then, that when oil prices rise, pressure is relieved, and the country easily slips back into a reliance on public-sector hiring and foreign labour recruitment. During times of higher regulation of migrant labour, businesses seek informal channels or personal bureaucratic connections to achieve exceptions or ways around stringent regulatory demands. Perceptions of unwilling private-sector employers among job seekers only exacerbate employment tensions and blend these with allegations of corruption and privilege.

Persistent challenges from the labour market carry the risk of social and political instability, which comes to the forefront of public concern during periods of financial constraint and fiscal uncertainty. The challenges of the labour market are not new. Both an acknowledgement of the problem and various Omanisation goals reappear in each iteration of the five-year development plans, in long-term visions, and in sectoral development strategies (from health care to tourism). The failure to resolve labour market problems rests in the labour market's embeddedness in economic structures and in the state's entanglement between competing directions and competing interests in how to resolve these pressures.

Closing the subsidy tap: Cutbacks and leaks

Similar to the story of the labour market, high fiscal pressure since 2014 has also trapped the government between competing desires for stability as it grapples with subsidy reforms. External pressure from international financial institutions comes in the forms of warnings concerning the necessity of austerity measures to reel in government expenditure (IMF, 2018). Internal pressure from below reacts to mentions of price increases. The government is caught between the threat of financial market instability and social instability. This is especially evident around fuel subsidy reforms.

The first price adjustments targeted industrial producers rather than prices that directly affected citizens. For instance, in January of 2015 the government doubled the price of natural gas for industrial producers, and in January of 2017 increased electricity prices for large industrial, commercial, and government electricity consumers (*Times of Oman*, 2016: 40; IMF, 2017: 40). It was not until the rise in fuel prices in January 2016 that households were directly affected by subsidy reductions. Petrol prices increased by 23 per cent, with monthly adjustments thereafter to reflect price changes in global oil markets and fuel-price changes in neighbouring economies.

Social reaction to these changes was immediate, and by February 2017 a public protest was staged outside of the Ministry of Oil and Gas against what was seen as a 75 per cent increase in the cost of fuel at the pump over the year (Al-Shaibany, 2017a). Moreover, *majlis al-shūrā*[3] members and trade unionists argued for more stable prices or ways of easing the burden on low-income earners (Gulf Business, 2017a, 2017b). The reaction of the government was equally swift, revealing the deep concern about spiralling social unrest. The same week as the protests, the Council of Ministers announced a price cap (Al-Shaibany, 2017b). By August, a pilot study of a fuel subsidy scheme for the poor was rolled out, and by mid-December the government had adopted a fuel subsidy card scheme to replace the cap (*Times of Oman*, 2017a, 2017b). All citizens over eighteen years of age earning less than OMR 600 a month were eligible for a subsidy card which guaranteed they would pay no more than OMR 0.18 per litre (approximately USD 0.43) of fuel for up to 200 litres per month. Within just ten days of launching the card, over 100,000 citizens had registered for the national fuel subsidy system (*Times of Oman*, 2017c). By June 2018, the subsidy scheme was expanded to include all citizens earning less than OMR 950 per month, increasing the eligibility to around 69 per cent of the working population (*Times of Oman*, 2018a; Oman Fuel Pricing Committee, 2019).

Government action and reaction to reducing fuel subsidies reveals the tension around such economic policy choices. The tension is reflected across all discussions of subsidy reductions that directly impact households. 2018 also broached the topic of electricity subsidy reform for households. This public discussion was accompanied by careful messaging about the level of subsidies and the necessity to reduce them with protections for low-income earners in mind. When electricity authorities conducted a study, they learned that a section of the Omani population was not aware that they were being provided energy subsidies (*Times of Oman*, 2018b). Thus, the discussion has entailed raising awareness of the subsidies in place, their cost, the opportunity cost involved, and demonstrating an awareness of the necessity of a social safety net being in place. The reaction to fuel subsidy changes revealed the necessity for incremental government messaging to prepare the public for any changes.

The tanfīdh *programme and state engagement with the private sector and society*

Amid the uncertainty stemming from the oil price shock, the government introduced the *tanfīdh* programme to implement the ninth five-year development plan (2016–20) with the aim of 'deepening' economic diversification, reducing dependency on oil sector activities, and diversifying the base of government income (Tanfeedh, 2017). *Tanfīdh*, introduced at the start of this section, is described as an 'action-oriented' programme:

> [It] aims to identify the responsibilities, resources, and timeframes needed for implementation of initiatives that drive economic diversification; set clear standards and Key Performance Indicators (KPI) for said initiatives; and provide periodic reports on the progress achieved in the implementation of the initiatives to ensure that the public is routinely informed of the Program's progress. (Tanfeedh, 2017: 8)

This programme is the short form and most popular name for the development programme called the National Programme for Enhancing Economic Diversification. The *tanfīdh* initiative was especially remarkable for efforts to engage society in decision-making. The Arabic word *tanfīdh* literally means implementation and inspires a sense of a proactive government interested in strategising and then executing the ideas curated from the societal constituents. The government for the very first time invited the private sector, civil society, and the broader public to participate in crafting and prioritising *tanfīdh* programmes. This follows earlier messaging from higher ranks of government all the way to Sultan Qaboos, who, in his Annual Council of Oman speech in November 2012, stated: 'As the necessary infrastructure is almost complete, we have directed the government to focus on future social development' (Al-Said, 2015: 549).

Within the framework of *tanfīdh* in October 2016, civil society, the private sector, and officials were invited to participate in the programme laboratories. The labs lasted for six weeks. The concurrent labs focused on manufacturing, transport and logistics, tourism, finance, and the labour market – all areas identified as key targets of economic planning. The programme designed 121 initiatives and projects with the aim of generating 67,000 jobs for the labour market by 2020, 30,000 of which would be technical and skilled labour positions reserved for Omanis (Tanfeedh, 2017: 110). The proposed initiatives were also intended to provide investment opportunities estimated to be worth OMR 14 billion, nearly 93 per cent of which was expected to be financed by the private sector (Tanfeedh, 2017: 30–1).

Further labs followed the first phase of *tanfīdh*, in energy and mining and the fisheries sectors. The energy and mining sector lab focused on renewable energy, gas, metal and non-ferrous metals, and the governance of the sector. The energy and mining programme came up with forty-three initiatives and projects. These initiatives are designed to generate 1,660 jobs for Omanis by 2023 and provide investment opportunities worth OMR 797 million, 99 per cent of which is expected to be financed by the private sector. The energy sector hopes to generate 11 per cent of energy requirements from renewables by 2023.

The objectives of the fisheries sector are to increase its contribution to GDP from OMR 225 million in 2016 to OMR 781 million in 2023, and to attract the private sector to finance 80 per cent of the sector projects and generate at least 8,600 new jobs by 2023. The ICT sector is currently being examined by the private sector and the government. On 1 July 2019, the sultan issued four royal decrees (50/51/52/53/2019) (Qanoon.om, 1974–2019), including laws of bankruptcy, public–private partnership, privatisation, and foreign capital investment, with the objective of creating a favourable regulatory environment for public and private partnership and investment.

It is still too early to evaluate the effectiveness of these initiatives. This is partly due to the fact that the Supreme Council for Planning (SCP) has not been releasing the promised regular reports on the programme. *Tanfīdh* is supposed to 'provide periodic reports on the progress achieved in the implementation of the initiatives to ensure that the public is routinely informed of the Program's progress' (Tanfeedh, 2017: 7). In news articles in the official dailies which announce job creation, there is usually one sentence that points to *tanfīdh*. However, official reporting and analysis has not yet appeared beyond policy discourse. As per the eight-step programme methodology, following the labs (step number four), KPI are supposed to be announced before implementation, and following implementation, an independent international audit firm is supposed to review and validate the results, after which the results are expected to be published. However, steps five, seven, and eight have not been forthcoming, and no explanation has been provided (Tanfeedh, 2017: 19). It thus remains to be seen how successful the *tanfīdh* programme will be in attracting private investment and generating jobs.

What the state has done is take efforts to continue to strengthen communication with the community on a continuous basis, including civil society. As one measure towards this end, the government established the Government Communication Centre in the General Secretariat of the Council of Ministers in October 2017 (*Muscat Daily*, 2017). Since its inception, the centre has taken upon itself the task of communicating with civil society on an ongoing basis to explain government plans and programmes, as well as the various policies adopted by the government, including policies that may not be popular, such as eliminating subsidies on fuel and utilities, VAT, and taxation. This reflects government learning on the importance of political messaging to prepare the public sphere for difficult policy decisions. This is intended to help ease negative social reaction. The centre adopted a direct approach of communication to civil society and seems to encourage key members of civil society organisations to speak to official and private media on its behalf. In this way, the state becomes more effective at framing the public discourse around economic policy.

Whether theatrical or genuine, the government appears to find this deliberative framing of public discourse and engagement with civil society to be an important activity. This practice has continued, and notably civil society was again invited to participate in Oman's Vision 2040 workshops. The workshops were intended to formulate the strategic directions and long-term objectives for Oman. There have been ongoing, meaningful attempts to engage with society in the construction of the vision. In many ways, the engagement with civil society appears to be a positive development. However, it may also indicate a desire to centralise discourse on alternative economic development programmes and, even more cynically, provide an additional means of identifying and surveilling civil society actors, concerns, and activities.

Conclusion

This chapter shows that economic adjustments in Oman reflect oil market fluctuations, but expenditure does not adjust as steeply during contractions in the oil market. We have argued that the Omani government is pulled in opposing reform directions as it tries to respond to the oil price downturns and is mired in what presents as an impossible pendulum between financial instability and social instability. If the state prioritises its declining global financial position and growing indebtedness in financial markets, it will have to take socially difficult austerity measures. The IMF Article IV consultations repeatedly underline its typical range of subsidy cutbacks and labour market reforms (e.g. IMF, 2018). At the same time, these types of measures prompt social discontent, and therefore the state regularly rolls back or revises reform announcements to calm social reaction, as illustrated above. Throughout this oscillation, we continue to observe high government expenditure. Even with government cutbacks, the revenue–expenditure gap widens. In illustration of this argument, this chapter has examined several interesting fiscal adjustment trends under oil price downturns in the Omani case. First, Oman has targeted the usual policy spaces to deal with contractions in its revenue stream. Increasing taxation regimes, and sources of taxation, combined with subsidy cutbacks have been key components of the policy discourse. Policy implementation hesitancy, reversals, and/or softening of the social impacts of these measures indicate not only a governmental concern with welfare, but also a concern about rising levels of discontent. The concern with discontent is also evident in the evolving policy measures around nationalising various occupations in the labour market and expanding available employment. This policy space also illustrates the broader tensions between private-sector interests and public expectations that pull the government in different directions. Second, the challenges of reforming the labour market demonstrate the stickiness of jobs among expenditure lines. Crucially, they underline the embedded structures of the economy that obstruct limited policy measures in the absence of deep structural transformation. Indeed, promises to increase the quantity of available jobs seem to be a sure measure to, at least temporarily, ease social pressure around employment. Third, the intensity of financial concerns and constraints is countered by the intensity of concerns around potential social instability. The government has navigated this tension by softening policy measures while delaying or rolling back others, as well as increasing its spending capacity by borrowing on the international market and drawing on sovereign funds.

At a minimum these findings show us the divergent concerns of the 'middling rentiers' versus the 'extreme rentiers' (Herb, 2014). More broadly, they suggest that an analysis of countercyclical spending across oil-dependent cases in the Middle East and also in other regions and across political spectrums will provide a stronger understanding of expenditure and patronage patterns in resource-abundant states. Observing patterns, or breaks from these, in contracting rentiers offers important insights to our theorising on extractive industries and on the economic and political behaviours of resource-dependent countries.

Notes

1 Defence expenditure was particularly high from 1970 to 1975 because of the Dhofar War. When Sultan Qaboos took power in 1970, he inherited a war from his father in the province of Dhofar in southern Oman.

2 To read more about the employment gender gap in Oman and other Gulf economies, see Ennis (2019a, 2019b).

3 *Majlis al-shūrā* refers to the Consultative Council. This is the elected, lower chamber of government.

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