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Shaping the future of Sultanate of Oman's Economy: Manufacturing Sector and its Contribution

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Abstract:
This paper examines the importance and role of manufacturing sector in the Sultanate of Oman. Though Oman's reliance on oil-sector is evident in its contribution to the GDP, the government has promulgated various strategies to reduce its dependence on oil revenue and diversify the economy, for sustainable economic development. The various plans, such as Oman Vision 2020 and 2040 has emphasized the importance of manufacturing sector in fostering the economic development. By examining the statistics related to the manufacturing sector in the country for the period 2012-2017, this report examines the growth of the manufacturing sector, its relevance in employment generation, and its contribution in export and GDP. The analysis revealed that manufacturing sector in Oman is concentrated, with reliance on few industries. The contribution of manufacturing sector to employment, exports and GDP are significant. Based on the study, it is suggested the need to integrate an inclusive strategy that focus on all-inclusive development of manufacturing sector, and to achieve the goal "manufacturing for wellbeing" by 2040..

Keywords: *manufacturing sector, gross domestic product, economic development*.

I. INTRODUCTION

Structural transformation particularly towards manufacturing sector has been considered as the key driver of economic development throughout the antiquity of economic philosophy(Okon & Osesie, 2017; Behun et al., 2018). This is supported by considerable realistic proof. The growth of manufacturing sector helped many economies to achieve the status of 'developed nation'. West and Lansang (2018) identified five major dimensions of manufacturing environment to develop the global manufacturing scorecard (GMS). The dimensions included (1) overall policies and regulations, 2) tax policy; 3) energy, transportation, and health costs; 4) workforce quality; and 5) infrastructure and innovation. United Kingdom and Switzerland were ranked first, followed by United States, Japan and Canada. Szirmai (2009) observed that the share of manufacturing in a sample of 29 of the largest developing countries was 11 per cent in 1950, compared to 31 per cent in 16 advanced economies. Developed nations has strong manufacturing base, compared to developing and underdeveloped countries, which of course is a significant reason for its economic development. Manufacturing growth is considered to the main reason for the structural transformation in European economies, the United States and Japan which lead to significant developments in human and social advancement, resulting in diminishing fertility rates, increase in life expectancy, and decrease in poverty and inequality. (United Nations, 2016). Standard of living improved rapidly due to industrialization in Europe and North America in the 19th century and the fastest developing countries in the world today are the recently industrializing economies of Asia.

Oman embraced diversification initiative to withstand its over-dependence on oil revenue. In a report on Oman's five-year plan 2016-2020, the inevitability of diversification is due to the challenges imposed by the fluctuations in oil price(Supreme Council for Planning, 2018). Oil price declined sharply since

2014, posing wide impact on economic growth and the public finances statuses in the Sultanate of Oman. Currently, Oman economy is undergoing a structural transformation with speeding up of non-oil economic activities and decreased dependence on hydrocarbon sector in the last few years due to diversification. The Ninth Five-Year Development Plan, which has been largely obtained from the Vision 2020, made swift growth, giving the indispensable momentum to diversification of economy and buoyancy. Sultanate of Oman's manufacturing sector is a key provider of employment and a progressively developing source of wealth. It is the main pillar of long-term development strategy of Sultanate of Oman. It comprises of a broader range of fields which include petrochemicals, Aluminum, mining and organic beverages. Sultanate of Oman attracts new businesses by offering wide range of industrial estates and special economic zones(SEZ).(Editor, 2019). At present, the manufacturing sector accounts for 10% of GDP, and concentrate on a handful of industrial commodities. To support the strategy of Vision 2020, Sultanate of Oman endeavors to expand the manufacturing sector and improve the present contribution of GDP to 15% before 2020. (Blog, 2018). In order to expand the contribution of manufacturing sector, the country has adopted "manufacturing for wellbeing" as Sultanate of Oman's strategy 2040 (Ministry of Commerce and Industry, 2019).

The Vision 2040 contemplates on continuing construction of world-class infrastructure comprising an extensive local train network, information and Communication technology networks, which would support the Sultanate to progress as a viable logistics hub and a focal point for communication among the neighboring nations. The government of Sultanate of Oman acknowledges the utmost significance of the non-hydrocarbon sectors and to reduce the dependence of the economy on the hydrocarbon sector and to make sure the country's medium to long term economic development. Hence, the government of Sultanate of Oman has given importance to diversified economic activities in the Ninth Five-year Development Plan. The National Program for Enhancing Economic Diversification "Tanfeedh", which evolved fromthe Ninth Five Year Development Plan, encompasses five sectors, viz. manufacturing, tourism, mining, logistics and fishing for executing committed programs. Moreover, the government of Sultanate of Oman is encouraging non-hydrocarbon economic activities by developing the business environment, enhancing public-private partnership (PPP) and foreign direct investment (FDI), and privatization of public sector industries. To achieve this objective, the government has taken measures like forming a commercial arbitration center, declaring a new commercial companies' law, streamlining the licensing processes through 'InvestEasy', improving online single-window system for exports and imports, and simplifying processes connected to procuring construction permits, etc. For developing business environment.(Central Bank of Oman, 2018).

According to the International Monetary Fund (IMF), Oman is expected to become the fastest developing country in the GCC region in 2020. The economy of Oman's real GDP is estimated to raise by more than six percent in 2020. Sultanate of Oman is resuming along a steady path of economic growth. Considering beyond the recession, the country has taken several steps for diversification and extend its economy beyond oil and natural gas. Due to this overall plan, major investments have been proposed in the manufacturing sector.

The role of manufacturing sector in economic development is widely discussed. As highlighted in the introductory part, a key quality of developed nations in the post-industrialization era is the presence of a well-developed manufacturing sector. As rightly pointed out by Burange and Ranadive (2014), the manufacturing sector of a country is generally considered an engine of growth. The relative share of manufacturing sector in developed nations experienced a decline in the recent years, alongside a long-term shift towards the service sectors (Joint Research Centre, 2017).

This report examines the current phase of manufacturing sector in the Sultanate of Oman.

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Objectives of the study:

To analyze the importance and the role of manufacturing sector in employment generation in Sultanate of Oman

To study the contribution of manufacturing sector to export and GDP

To find out the various incentives and financial support received by the manufacturing sector

To find out the prospects of manufacturing sector in Sultanate of Oman

Growth of manufacturing sector in Oman

The composition of manufacturing sector in the Sultanate of Oman, in terms of the number of enterprises, over the years, is highlighted in the following table.

Table 1: Total number of Units in Manufacturing sector

S.No.	Industrial Activity	2012	2013	2014	2015	2016	2017
1	Food products	90	80	80	82	89	91
2	Beverages	28	29	24	27	31	31
3	Textiles	10	6	9	10	9	10
4	Wearing Apparel	4	3	3	3	3	4
5	Leather	2	2	2	3	4	4
6	Wood Products	17	18	18	18	21	24
7	Paper and Paper Products	9	7	11	11	12	13
8	Printing	37	33	33	36	35	34
9	Coke and Refined Petroleum Products	9	7	9	13	13	14
10	Chemicals and Chemical Products	50	53	54	56	56	58
11	Pharmaceuticals, Medicinal Chemicals, etc	3	3	1	1	5	5
12	Plastics	58	58	60	61	63	69
13	Other non-metallic mineral products	15	14	16	17	18	19
14	Basic metals	34	28	27	37	36	35
15	Fabricated Metal Products	78	82	85	94	99	106
16	Computer, Electronic & Optical Products	4	3	4	4	4	3
17	Electrical Equipment	3	3	3	3	3	4
18	Machinery and Equipment n.e.c.	10	12	10	8	11	10
19	Motor Vehicles	3	2	2	2	2	2
20	Other Transport Equipment	2	2	3	5	5	5
21	Furniture	17	16	17	20	22	21
22	Other Manufacturing	2	1	5	5	4	4
23	Repair and installation of Machineries	5	4	3	3	3	3
	Total	**490**	**466**	**479**	**519**	**548**	**569**

Source: Annual Industry Report 2018, Ministry of Commerce & Industry, Sultanate of Oman

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Table no. 1 shows the total number of units in manufacturing sector. Food products have the highest number of units out of the total. The number of Food products units reduced in the years between the years 2013 and 2016, again it increased to 91 units in the year 2017. Food products industry is followed by fabricated metal products with 78 units in the year 2013 and steadily increasing to 106 in the year 2017 which is more than food products units. Third comes the plastics followed by chemical and chemical products. The number of units in these two sectors have grown constantly. The other manufacturing sectors with significant number of units include base metals, Printing, Beverages, furniture, Machinery and Equipment n.e.c, wood products, textiles and other non-metallic mineral products. Other sectors have units in single digits and there is not much change in those sectors.

Manufacturing sector in employment generation:

Manufacturing is vital for the job market. Manufacturing jobs have a tendency to be more fecund than others, and so likely to be well paid and is likely to provide improved labor environment, such as security and employment benefits. This appears to be the manufacturing sector's growth driven structural change hypothesis. In addition, robust productive relationships with other sectors of the economy is naturally related to creating more jobs in other sectors. This sector's jobs have some features which make them more attractive than other types of jobs like more productivity and better wages, improved working environment, greater chances for skill development and more jobs for women. History of advanced and newly industrialized economies point out that increase in wages related to industrializing structural change have significantly supported to remove poverty of large segments of the society. Similarly, manufacturing sector is imperative for providing job opportunities for employees with modest skills with secure jobs and better remunerations.

Economies with lower incomes can make use of low capital-intensive technologies for enhancements in both productivity and employment. Manufacturing continues to be a main employer, with around 470 million jobs globally in 2009 – or about 16 percent of the globe's labor force of 2.9 billion – a number far greater than many could anticipate. For emerging economies striving to retain progress while supporting job creation, manufacturing provides a chance not merely to re-balance the economy in the direction of sophisticated value-added sectors likewise to bring a comparatively extensive employment base with greater than average labor productivity. (United Nations Industrial Development Organization, 2013).Structural transformation towards manufacturing is positively correlated with many social inclusiveness indicators. When the share of employment in manufacturing sector in overall employment increases, poverty reduces. (United Nations, 2016).

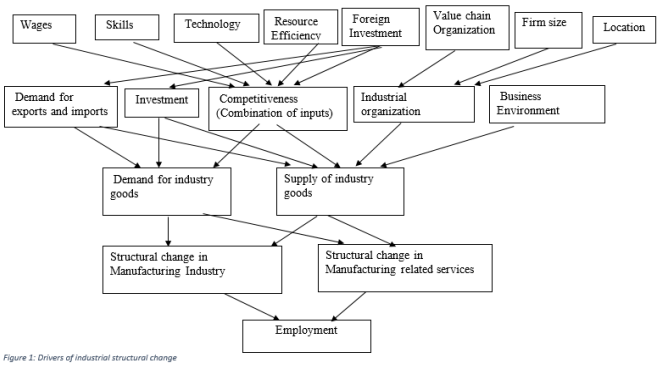

Figure 1: Drivers of industrial structural change

Source: UNIDO(2013)

The public sector continues to be the foremost employer of Omanis, where the private sector employs expatriates by and large. The private sector is creating new employment opportunities for Omanis at a constant rate throughout the past few years and a further development in diversification is expected to produce more such openings. Information provided by National Center for Statistics and Information of Oman (NCSI) says that the total employment in the Sultanate of Oman in the year 2017 was 2.26 million with a small increase of 0.5% compared to the year 2016. Out of the total employees, 19% are local (Omani) and the expatriates constitute the remaining. The employment condition remains to be tough, even though the economic activity has gained acceleration.

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The employment provided by private sector to Omani nationals has seen an increase of 7 percent in the year 2017. (Ministry of Commerce & Industry, 2018).

Table no.2 displays the number of employees employed in the manufacturing sector. Though the number of units in the Other non-metallic mineral products is less compared to many others in the sector like food products, plastics, printing etc. the number of employees in this sector is very high. The number of units in Fabricated metal products have increased steadily as seen from table no.1 as well as the employment provided also has increased with a Compound Annual Growth Rate(CAGR) of 14%.

Compound Annual Growth Rate(CAGR) of wearing apparel and other transport equipment appears to be higher with 28% and 27% indicating higher annual employment growth rate.

Table 2: Total number of employees employed in Manufacturing sector

S.No.	Industrial Activity	2012	2013	2014	2015	2016	2017	CAGR	
		Number of employees							
1	Food products	9,119	8,525	10,474	10,407	10,437	12,667	7%	
2	Beverages	2832	2284	2571	2674	3055	3428	4%	
3	Textiles	669	412	645	659	586	720	1%	
4	Wearing Apparel	711	265	452	607	580	2,489	28%	
5	Leather	149	118	109	113	171	165	2%	
6	Wood Products	2,611	3,860	4,013	5,277	5,624	5,383	16%	
7	Paper and Paper Products	496	402	601	622	713	931	13%	
8	Printing	1621	1861	1959	1991	1832	1622	0%	
9	Coke and Refined Petroleum Products	1,914	1,780	2,193	2,746	3,019	3,264	11%	
10	Chemicals and Chemical Products	4,877	4,959	5,078	5,173	5,244	5,663	3%	
11	Pharmaceuticals, Medicinal Chemicals, etc	670	618	269	267	698	705	1%	
12	Plastics	4,431	4,054	4,902	4,901	4,794	5,082	3%	
13	Other non-metallic mineral products	15,332	14,759	16,525	17,574	18,287	19,463	5%	
14	Basic metals	8,231	7,659	6,791	9,504	8,492	8,450	1%	
15	Fabricated Metal Products	8,557	12,225	12,470	15,038	16,621	16,409	14%	
16	Computer, Electronic & Optical Products	353	334	346	320	347	331	-1%	
17	Electrical Equipment	3,164	3,188	3,388	3,316	3,629	4,066	5%	
18	Machinery and Equipment n.e.c.	701	720	667	649	1,106	747	1%	
19	Motor Vehicles	133	102	112	133	134	145	2%	
20	Other Transport Equipment	474	1,336	1,575	1,588	1,587	1,581	27%	
21	Furniture	2,927	2,413	2,450	2,683	3,043	2,865	0%	
22	Other Manufacturing	92	27	188	184	153	140	9%	
23	Repair and installation of Machineries	1,270	1,181	773	1,025	1,128	1,150	-2%	
	Total	71,334	73,082	78,551	87,451	91,280	97,466	6%	

Source: Annual Industry Report 2018, Ministry of Commerce & Industry, Sultanate of Oman

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Contribution of manufacturing sector to export and GDP:

Manufacturing is related with economic development. Undeniably, the Sultanate of Oman's economic development has been supported ever since 1999 by manufacturing sector's development. There is also a lot of data to substantiate that this is the situation worldwide. It is challenging to find an advanced country these days that has not industrialized over the past 200 years. Ever since the 1950s, there is a strong relationship between an increasing share, or a huge share of manufacturing value added and increasing income per capita in developing economies. Manufacturing sectorcontinues to be the 'engine of growth' in nations like China, the Republic of Korea, Singapore and Ireland.(Ministry of Commerce and Industry, 2019)

Continueddevelopment of Oman's manufacturing sector will be determined significantly on thedevelopment of its competitive position in net-exports. As the rest of the world isunremittinglyprogressing, this is anextremely dynamic activity.(Peter de Valk, 2015)

Table 3: Contribution of Non-Petroleum Industries to Gross Domestic Product at constant (2010) prices (Rial Omani Million)

S. No	Non-petroleum Industries	2014	2014(%)	2015	2015 (%)	2016	2016 (%)	2017	2017(%)
1	Mining and Quarrying	100	2.03	110.5	2.10	120.3	2.14	133.6	2.41
2	Manufacturing	2501.4	50.76	2602.7	49.50	2679.1	47.64	2701.4	48.78
3	Electricity and Water supply	478.4	9.71	532.7	10.13	560.6	9.96	591.4	10.68
4	Building and Construction	1848.5	37.51	2012.1	38.24	2262.9	40.24	2111.8	38.13
	Total	4928.3	100	5258	100	5622.9	100	5538.2	100

Source: Central Bank of Oman

Table no.3 indicates, the contribution of manufacturing sector to Gross Domestic Product is nearly 50% of the total contribution made by non-petroleum industries. Even though the contribution has reduced slightly in the years 2014 to 2016, it's percentage of contribution has started to increase in the year 2017 when compared with the year 2016. As the contribution to GDP by manufacturing sector to total non-petroleum industries is nearly half, manufacturing sector's importance cannot be denied.

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Table 1: Export of goods by manufacturing sector in Rial Omani (OMR)

S.No	Industrial Activity	2012	2013	2014	2015	2016	2017	CAGR
1	Food products	208.8	177.8	204.8	362.2	180.7	269.7	5%
2	Beverages	0.9	1.3	1.1	3.6	0.7	1.7	13%
3	Textiles	6.7	4.1	6.6	5.4	5.9	2.6	-17%
4	Wearing Apparel	0.03	-	-	-	-	20.9	264%
5	Leather	0.5	0.6	0.7	0.6	3.8	0.9	12%
6	Wood Products	-	13	14	21	21	18.9	442%
7	Paper and Paper Products	10.2	4.3	11.8	8.9	5.2	15.6	9%
8	Printing	0.4	1	0.3	1.7	1.8	1.8	39%
9	Coke and Refined Petroleum Products	503.5	1,183.90	2,958.90	734.3	950.3	939	13%
10	Chemicals and Chemical Products	2,190.70	612.5	491.3	529.7	454.3	486.6	-26%
11	Pharmaceuticals, Medicinal Chemicals, etc	23	17.1	5.7	6.2	26.4	28.3	4%
12	Plastics	33.3	45	43.4	47.2	46.3	44.8	6%
13	Other non-metallic mineral products	164.4	167.6	151	151.7	130.1	137.7	-3%
14	Basic metals	709.9	603.7	587.2	533.1	526.4	666.2	-1%
15	Fabricated Metal Products	39.2	37.3	97.7	112.4	109.8	95.8	20%
16	Computer, Electronic & Optical Products	41	39.7	41.4	31.7	30.7	32.6	-4%
17	Electrical Equipment	211.3	165.3	157.3	192	122	114.6	-12%
18	Machinery and Equipment n.e.c.	0.2	0.6	0.1	3.1	0.2	19.5	141%
19	Motor Vehicles	-	-	-	-	-	0.3	-
20	Other Transport Equipment	-	-	-	-	-	-	-
21	Furniture	11.9	9.3	7.9	13	6.9	7.2	-10%
22	Other Manufacturing	8.2	-	3.6	4.9	6.9	0.1	-58%
23	Repair and installation of Machineries	0.8	15.3	-	-	-	-	-100%
	Total	4,164.80	3,086.30	2,755.80	2,755.80	2,629.40	2,904.70	-7%

Source: Annual Industry Report 2018, Ministry of Commerce & Industry, Sultanate of Oman

Export of goods by manufacturing sector is shown in Table 4. The overall export of goods by manufacturing sector shows a declining trend until the year 2016, but it has increased slightly in the year 2017 compared with the year 2016. Some of the activities show a very high increasing trend like wood products, wearing apparel and machinery and equipment n.e.c.

Table 2: Manufacturing sector's contribution to total GDP

Detail	2012	2013	2014	2015	2016	2017
GDP at Market Prices (RO million)	29,353	30,352	31,158	26,850	25,694	27,931
Growth Rate (%)	12%	3%	3%	-14%	-4%	9%
Manufacturing GDP (RO million)	3,144	3,280	3,012	2,607	2,449	2,673
Growth Rate (%)	5%	4%	-8%	-13%	-6%	4%

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Manufacturing GDP as % of Total GDP	11%	11%	10%	10%	10%	10%

Source: Annual Industry Report 2018, Ministry of Commerce & Industry, Sultanate of Oman

Table no.5 displays the manufacturing sector's contribution to total GDP (Petroleum and non-petroleum industries).Growth rate(%) is of GDP at market prices(RO million) is positive upto the year 2014 and negative in the years 2015 and 2016 and again it turned to be positive in the year 2017. Growth rate(%) of Manufacturing GDP(RO million) is positive in the beginning i.e in the years 2012 and 2013 and it was negative from 2014 to 2016 and again it started to grow positively in the year 2017.

Financial support received by the manufacturing sector:

The development of any economy either it is developed or developing depends mainly on the sufficient funding for the manufacturing sector. Bank loans and advances given by the financial institutions to the manufacturing sector to improve productivity leads to economic growth. Bank credit bridges the economic gap between the borrower and lender and hence it is known to be the blood stream of an economy. (Michael S. Ogunmuyiwa, 2017). Table no.6 shows the credit provided by commercial banks to various sectors from the year 2016 to 2018. It indicates that the personal loans given by the banks is nearly 40% or more than 40% in all these years. But the credit provided to manufacturing sector is only nearly 7% or little more than7% in all the three years. The bank credit provided to the manufacturing sector is very much left behind when considering the vision 2020 or vision 2040 of the Sultanate of Oman which gives more importance to the development of economy by improving the manufacturing sector.

The banks are expected to do more to augment the output of the manufacturing sector by providing more credit to the sector. The positive relationship which exist between the bank credit and manufacturing indicates that the government should direct its financial institutions and commercial banks to intensify lending to the manufacturing sector. This proves to be the only desired way to increase productivity through which the diversification of the economy can be accomplished.(Michael S. Ogunmuyiwa, 2017).

Table 3: Distribution of Commercial banks credit by economic sectors (Rial Omani Million)

S.No.		2016	2016(%)	2017	2017(%)	2018	2018(%)
1	Import trade	1179	5.33	1134	4.82	1140.8	4.55
2	Export trade	19.9	0.09	20.5	0.09	16.9	0.07
3	Wholesale and Retail Trade	717.1	3.24	858.3	3.65	949	3.78
4	Mining and Quarrying	910.9	4.12	1054.5	4.48	984.3	3.92
5	Construction	2855.7	12.90	2630.3	11.17	2763	11.01
6	Manufacturing	1557.5	7.04	1593.3	6.77	1905.5	7.59
7	Electricity, gas and water	797.5	3.60	935.4	3.97	1041.9	4.15
8	Transport and Communication	1016.3	4.59	1118.9	4.75	1264.7	5.04
9	Financial institutions	1007.3	4.55	1019.9	4.33	1201.6	4.79
10	Services	1765.3	7.98	2102	8.93	2470.7	9.85
11	Personal loans	9123	41.22	9642.6	40.96	10,006.90	39.88
12	Agriculture and Allied Activities	58.4	0.26	63.6	0.27	55.3	0.22
13	Government	107.3	0.48	34.6	0.15	39.5	0.16

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14	Non-Resident lending	270	1.22	278.3	1.18	327.5	1.31
15	All others	745.2	3.37	1057.4	4.49	926.1	3.69
	Total Credit	22130.4	100	23543.6	100	25093.7	100

Source: Central Bank of Oman

Future prospects of manufacturing sector:

Political stability, security with predictable investment environment, modern infrastructure to access global markets gives Oman a strategic advantage for foreign investment. Manufacturing sector has been given more importance due to its ability to contribute to the economic growth and employment opportunities it can provide to the country.

The objective of economic diversification continued to be the primary goal and a persistent feature in the succeeding economic development plans in the sultanate of Oman from the beginning. Immense steps have been taken by the country to achieve this objective. Rusayl, Sohar's industrial estate and free zone, Nizwa industrial estate and Salalah's industrial estate and free zone and the Duqm SEZ are real evidences that the government has taken real steps to diversify the economy. In order to improve the country's competitiveness, the government has invested heftily in manufacturing infrastructure by building special economic zones and free zones mentioned above. These Special economic zones and free zones contribution was 44.4 percent of the total manufacture in the year 2017. Given the Government's contribution and its vision to diversify the economy and develop the manufacturing sector, the manufacturing sector's future looks to be bright. (Industry, 2018)

Conclusion:

Oman Vision 2040 has three themes which were built on vision 2020 objectives. Oman Vision 2040 has already been implemented which are: 1. People and society, 2. Economy and development and 3. Governance and institutional performance. The second theme 'Economy and Development' targets at accomplishing the ensuing four pillars like 1. Generating wealth by means of economic diversification and private sector partnership,2. Guaranteeing balanced governorates development, 3.Conserving environmental sustainability and constructing world-class infrastructure and inhabitable cities. (Industry, 2018).

Oman is committed to move away from its dependence on a particularproduct now more than ever. For the past 15 years, Oman's non-oil GDP has enhancedwith low inflation and internal and external surpluses. Besides, population of Oman has been increasing, providing Oman with a young and energeticlabor force. The country's natural resources not only include oil and gas reserves but also includes minerals and abundant fishing resources. These valuable human and natural resources combined together, there is no doubt the country has a strong prospect to develop a diversified economy. (Industry, 2018).

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