Chapter No.1

INTRODUCTION
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-: Introduction .1.1
The economic planning in Sultanate of Oman started in 1976 during the reign of Sultan Qaboos Bin Said and has recently celebrated Silver Jubilee. During the last three decades of planning, an objective of economic development was fulfilled in terms of increase in the gross net product along with the increase in the per capita income. It leads to prosperity and the progress of the country which may rank the country in modern states. The planned economic development of Oman helps to maintain the high rate of economic growth. This results in providing the future generation the substantial resources for its progress His Majesty Sultan Qaboos Bin Said had stated that “with the grace of God, the present Oman is prosperous and bountiful” He was aware of the responsibility not to forget the future. This was kept by him as the core of thinking and planning. The topic of the research is “A study of Economic planning in Sultanate of Oman”. The main objective of this research study is to highlight different dimensions of the economic development of Oman along with the relationship of Oman with the rest of the world. The Geo-physical features and social-economic and political features of Oman are studied in the background of this research. The objectives of economic planning during the last three decades are broadly taken into account. Among them the economic resources, population, the natural resources, utilization of these resources and distribution are main objectives.

The results of successful planned economic development can be measured in terms of Gross National Product, Net National Product and Per Capita Income, which may be the best indicator of economic growth. It can be depicted in the following table No(1.1).

(Table No:(1.1)
Main Cores of Planned Economic Development Of Omen during the period to 2005 1976

<table>
<thead>
<tr>
<th>Details</th>
<th>Total Resources</th>
<th>Total Expenditures</th>
<th>Total Investments Public Sector</th>
<th>Total Investments Private Sector</th>
<th>Public Loan</th>
<th>.D.N.I Per Capita (000)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mn.R.O</td>
<td>Mn.R.O</td>
<td>Mn.R.O</td>
<td>Mn.R.O</td>
<td>Mn.R.O</td>
<td></td>
</tr>
<tr>
<td>First Plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1976-1980</td>
<td>Planned</td>
<td>2797.0</td>
<td>2757.0</td>
<td>936.0</td>
<td>420.0</td>
<td>170.0</td>
</tr>
<tr>
<td></td>
<td>Actual</td>
<td>2703.0</td>
<td>3389.0</td>
<td>1203.0</td>
<td>466.0</td>
<td></td>
</tr>
<tr>
<td>Second Plan</td>
<td>Planned</td>
<td>6947.0</td>
<td>7308.0</td>
<td>2155.0</td>
<td>1168.0</td>
<td>648.0</td>
</tr>
<tr>
<td>1981-1985</td>
<td>Actual</td>
<td>6605.2</td>
<td>7872.2</td>
<td>2755.9</td>
<td>1373.5</td>
<td></td>
</tr>
<tr>
<td>Third Plan</td>
<td>Planned</td>
<td>6490.4</td>
<td>8164.0</td>
<td>2276.0</td>
<td>1017.0</td>
<td>847.0</td>
</tr>
<tr>
<td>1986-1990</td>
<td>Actual</td>
<td>16045.0</td>
<td>16043.5</td>
<td>2005.0</td>
<td>920.0</td>
<td></td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>Planned</td>
<td>33091.0</td>
<td>33091.0</td>
<td>2778.0</td>
<td>1319.0</td>
<td>1376.0</td>
</tr>
<tr>
<td>1991-1995</td>
<td>Actual</td>
<td>24207.0</td>
<td>18440.0</td>
<td>2387.0</td>
<td>1470.0</td>
<td></td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>Planned</td>
<td>10092.0</td>
<td>10630.0</td>
<td>3421.0</td>
<td>3900.0</td>
<td>1456.8</td>
</tr>
<tr>
<td>1996-2000</td>
<td>Actual</td>
<td>10189.7</td>
<td>11707.8</td>
<td>3103.2</td>
<td>1884.6</td>
<td></td>
</tr>
<tr>
<td>Sixth Plan</td>
<td>Planned</td>
<td>37446.5</td>
<td>37446.5</td>
<td>3581.8</td>
<td>3105.9</td>
<td>1018.0</td>
</tr>
<tr>
<td>2001-2005</td>
<td>Actual</td>
<td>45233.0</td>
<td>28379.3</td>
<td>5250.7</td>
<td>2107.9</td>
<td></td>
</tr>
</tbody>
</table>

Source: Sixth Five Year Plans, Ministry of National Economy

It is observed from Table No:(1.1) that during the period of planning for the last three decades (1976-2005) the aggregate resources in the first plan had reached (2703.0) Million Rial Omani and the last five years plan (sixth plan) had reached (45233.0) Million Rial Omani.
If we count the differences between them we find out that (42530.0) Mn.R.O. at the growth rate of % 94.1. Where as the public loan had increased from (170.0) Mn.R.O. in the year 1980 i.e. at the end of first plan period to (1018.0) Mn.R.O. at the end of the sixth five years plan even though there were fall back in the fifth plan (1456.8) Mn.R.O. As far as the Level of the per capita income is concerned it is clear that it has increased during the planning years. It was in the first plan (1876.0) Thousands Rial Omani and it has reached (3683.2) Thousands Rial Omani in the last year of sixth five year plan and by this it is clear the growth percentage of per capita income has reached (49.1%).

And as regards to the public expenditure it is clear from going on statistics listed by sixth five year plans there were noticeable increases in it. The expenditures in the end of the first plan was (3589.0) Mn.R.O. and in the last plan it has reached to (28379.3) Mn.R.O. and growth rate was (87.4%). It leads us to state that the planned economic development of Omen has shown positive results.

1.2: Meaning of Economic Planning

There is no agreement among economists with regard to the meaning of the term "Economic Planning". The term has been used very loosely in economic literature. It is often confused with Communism – Socialism or Economic development. Any type of state intervention in economic affairs has also been treated as planning. But the state can intervene even without making any plan. What then is planning? Planning is a technique – a means to an end being the realization of certain pre-determined and well-defined aims and objectives laid down by a central planning authority. The end may be to achieve economic-social-political or military objectives. Therefore. "the issue is not between a plan and no plan. It is between different kinds of plans".

Professor Lewis has referred to six different senses in which the term planning is used in economic literature".
First: there is an enormous literature in which it refers only to the geographical zoning of factors - residential buildings - cinemas and the like. Sometimes this is called town and country planning and sometimes just planning.

Secondly: planning means only deciding what money the government will spend in the future – if it has the money to spend.

Thirdly: A "planned economy" is one in which each production unit (or firm) uses only the resources of men – materials and equipment allocated to it by quota and disposes of its product exclusively to persons or firms indicated to it by central order. Fourthly: "planning" sometimes means any setting of production targets by the government, whether for private or public enterprise. Most governments practice this type of planning if only sporadically and if only for one or two industries or services to which they attach special importance.

Fifthly: here targets are set for the economy as a whole purporting to allocate all the country's labour, foreign exchange, raw materials and other resources between the various branches of the economy.

Finally: "the word (planning) is sometimes used to describe the means which the government uses to try to enforce upon private enterprise the targets which have been previously determined".

But Ferdynand Zweig maintains that (planning) is planning of the economy not within the economy. It is not a mere planning of towns, public works or separate section of the national economy but of the economy as a whole. Thus planning does not mean piecemeal planning but overall planning of the economy.

Professor Robbins defines economic planning as "collective control or supersession of private activities of production and exchange".

To Hayek "planning means: the direction of productive activity by a central authority".
According to Dr. Dalton, "Economic planning in the widest sense is the deliberate direction by persons in charge of large resources of economic activity towards chosen ends".

Lewis Lordwin defined economic planning as "as a scheme of economic organization in which individual and separate plans, enterprise and industries are treated as coordinate units of one single system for the purpose of utilizing available resources to achieve the maximum satisfaction of the people's needs within a given time.

"In the words of Zweig "Economic planning consists in the extension of the functions of public authorities to organization and utilization of economic Resources Planning implies and leads to centralization of the national economy".

One of the most popular definitions is by Dickinson who defines planning as "the making of major economic decisions what and how much is to be produced. how. When and where it is to be produced. to whom it is to be allocated. by the conscious decision of a determinate authority. on the basis of comprehensive survey of the economic system as a whole".

1.3. Duration wise Classification of Planning.

Considering the objectives of the planning, the duration of each plan is determined. Broadly the duration of the planning is divided into three periods: (Short Term Plan, Medium Term Plan, Long Term Plan). The details are given below:-

1.3.1. Short-Term Plan:

The time duration for this plan is only 1 year. IT is usually called the execution plan. The short plan represents the method to execute the medium-term plan. The medium plan also represents the method to achieve the targets of the long-term plan. The short-term plan gives more flexibility for the five year plan, where any modifications can be done to face any case of emergencies.
The yearly plans are characterized with detailed objectives and methods and tools used to achieve these targets. It is more detailed than the 5 years plan because it puts the targets in quantity and numerical methods; it also includes the increase in production and savings in costs. In investments, we consider the yearly plans as project’s execution plan. It includes the present stage and ways of financing.

It includes the plan of supply e.g. the plan of distributing of basic materials on different ways of use; it includes details of production objectives for commodity sectors and the needs of these sectors of production requirement and investment of foreign currencies. The preparation of the yearly plan is done 6 months before execution.

All projects identify their targets for the next year according to the present plan, and state their needs of work, investment and foreign currency, and changes of production and supply plan for the project.....etc, then they send their plan to the higher level and so till it reaches the Central Committee for Planning, which prepares the year plan according to sector’s plans within the five year plans which is already prepared. This type of planning is adopted in the Sultanate of Oman where a medium-term plan of five years is prepared, and within which a yearly plan is prepared. Each year has a specific budget and targets. It is called “The Yearly Budget” in Oman.

1.3.2. Medium-Term Plan:

The time duration is from 5-7 years. This plan represents the common type in Russia since 1928 and also the common type in the Sultanate of Oman since 1976. It also represents the main type in the socialist communities. The medium-term plan is mainly a production plan in which investment is the backbone. The medium plan is connected to the long-term plan through the frame of the long-term plan, and is considered as one of the basic tools to achieve the objectives of the long-term plan, so these medium plans are a connected series which leads to the objectives of the long-term planning.
The medium-term plan includes the targets of production development, national income and its contents, and ratio of development of these contents. It also includes levels of development for income and production of different economic sectors, and it contains all details, so this plan includes targets of production and percentage of contents development (construction of commodities of the outcome) e.g., size of production, levels of development. The plan includes the plan of investment showing the strategy of investment and its distribution to sectors and different economic activities. It shows the projects included in investment plan and their priorities, and standards of their selection, it includes the plan of consumption and other types of expenditure, and a plan for manpower.

It includes also the behavior of all other variables as exports, imports….etc.

The preparation of the medium-term plan is through the study of national economy capabilities as financial and human resources and expectations of their behavior in the future, depending on the past experience. Based on these studies, the Political Authority identifies the targets of the plan which shall be translated to details by Central Planning Authority including production, consumption, labourship, standards of growth of all sectors. The central planning authority sends this plan to various levels to prepare more detailed plan within the figures given by the central political authority, then these plans returned to the upper authorities where the central political authority incorporate in one plan.

1.3.3. Long-Term Plan:

From 15 to 20 years, the social development and rising of living standards require hard and long work which may extend to more than 5 years, and development needs a suitable strategy. This strategy shall be more successful if it takes a longer time. The adoption of strategy for socio-economic change needs a clear target, therefore, the long-term plan helps to identify the far targets and supreme goals of community, as type of the social combination, type of national income distribution, type of consumption, so these types require a long-term plan to achieve.
The long-term plan is the frame within which short and medium plans are put to achieve the objectives of the long-term plan. The clarity of the targets of the long-term plans helps to build up a successful medium-term plan. There are some projects which may take a longer time than the duration of the medium-term plan, so to complete and assess the impacts of these projects it is important to develop a long-term plan. Planning for industrialization requires a radical change in community, so it’s incomprehensible that the planner will draw a strategy for industrialization for five years and then he changes after the expiry of these five years, so the long-term plan helps to achieve such objectives. Let us assume that a specific society is suffering of Food shortage and at the same time they have deficiency in balance of payments, to face this problem you may take alternative policies with different time duration. The society may import food stuff and this means the continuation of the situation and dependence of imported goods, the society may import pesticides and chemicals to raise production, and the 3rd alternative is to import the necessary equipment to construct chemical factory to produce pesticides, each of these policies include time duration.

As an example for long-term plans that was implemented in Russia between years 1961-1980 to transform the society from socialism to communism and to reach the highest productivity in the world, and the highest living standards…..etc. Another example is the plan implemented in Poland between years 1961&1975 to reach the standard of consumption in West Germany. Another example is the Omani (Future Vision) 2020 for Oman Economy which is considered as a long-term plan(20 years).

The long-term plan is prepared according to the objectives intended to achieve, even if the present situation is not suitable for these objectives. The long-term plan is general and doesn’t concentrate on details as medium and short-term plans. It gives general indicators for the main changes in the National Economy and includes identification of basic relations between main branches of production and ratio of growth.
The preparation of studies for the long-term plan is entrusted to communities and authorities specialized in this field, each carries studies in one of the main problems as consumption, technical development...etc, and gives some forecasts for the changes in the future.

The Supreme Planning Authority collects these studies, and organizes them in a long-term plan which includes the objectives and the methods to achieve, and the nature of the required changes in economic and social structure. The long-term plan is commonly general and doesn’t give details. The Supreme Planning Authority sends this plan to the different levels as indicators and rules to be considered when preparing long and medium-term plans.

1.4: Phases of Plan.

Planning is divided into three basic phases as given below. (Preparation of the Plan, Execution of the Plan, Evaluation of the Plan) the details are given below.

1.4.1. Preparation of the Plan.

To study the present capabilities of community with regards to the past developments, Survey of available Financial and human resources and Review of the execution of the past plans and obstacles faces can be called primary phase for plan preparation, phase of study for preparation. In this phase, a projection or forecast about the main variation in the national economy is done, such as income consumption, investment, industrial production, exports....etc. That means forecast of future variations if the ratio of development continues as in the past projection, or forecast helps planning authority before preparation of plan.

The Supreme Political Authority identifies targets of planning for the next phase according to studies and consultations forwarded by Planning Authority. The Planning Authority suggests a number of alternatives to execute these targets so as the Supreme Political Authority can select one of them.
Then Planning Authority formulates these targets in detailed indicators in the fields of production and consumption…..etc, then sends to the lower levels and at the same time these lower levels should start preparing their plans with respect to their needs and objectives.

1.4.2. Execution of the Plan

There should be follow-up to achieve the objectives of the plan. Planning Authority determines the decisions to be taken by Production Units to execute the Plan, and determines also the indicators of execution as production, costs, level of profits….etc.

The execution of the plan requires formation of the authorities that help Planning Authority in follow-up and supervision which take a technical type and carried by technical systems as statistics system.

It can take a Political type also. The clarity of policies determined by planning authority helps in executing a national plan successfully. In this regard a question can be raised as to what extend freedom is given to Production Unit to use private methods to achieve the objectives of the plan? And what will happen if these methods contradict with those adopted by the Plan?

1.4.3. Evaluation of the Plan.

The evaluation of Planning means the assessment of the success of the Plan in achieving objectives, and the success of methods adopted. In this phase, the Planner takes a comprehensive outlook to the Plan. He evaluates the reasons of delay as to whether they relate to lack of information, or skills, or resources of investment, or mismanagement. The evaluation is important in both cases of success or delay. Without evaluation it shall be impossible to avoid the mistakes in the future. This is a general look on the phases of Planning, and now we will discuss an important dimension viz. Time Duration. The Plan is aiming to change the present economic structure to reach a new economic structure, Here comes the importance of Time Duration.
The plan differs in its methods and objectives according to time duration. Plans are divided with reference of Time duration in three types – Long-term plan, Medium-term Plan and Short-term Plan. Each of these plans differs in its objectives and methods. Actually all Planning experiences of the Socialist Countries includes second and third types of these plans (Short and Medium Terms). The 5th year plan was the common type plan in Russia. The main reason behind this time duration was that they consider these five years as enough for projects profiting. From the end of the fifties writings were caring about the Long-term Plans. The volume of literature in this subject showed its importance.

1.5: The Background of Planning in Oman.

Oman began to acquire a position of importance in the area after the discovery of the Cape of Good Hope and its subsequent use as its international trade route. Oman witnessed an important place of development during the 17th century. In 1649 Oman's succeeded liquidating the Portuguese presence in Oman and East Africa. The percentage were forced to pull out of the territories they were occupying and suffered heavy losses in ships and equipment. This was beginning of a new chapter in the history of Oman and of the presence of the Oman's in the Africa Continent. Oman was able to maintain a strong deal and emerged as the most important navel power in the Indian Ocean. Oman sailing ships were familiar sight in the ports of Africa, the Far East, the Gulf and the Indian Ocean. Oman witnessed a long era of booming trade, construction and development, and territorial extension.

A vast empire was formed extending from Baluchistan to East Africa. The empire continued to develop its naval power. The boom period continued until the 19th century when the international situation had changed and the great powers began to reinforce their presence in the area supported by strong naval power consisting of steam driven ships. In addition the international trade route was diverted from the Cape to the Suez Canal.
A long period of stagnation followed to be interrupted in 1970 when His Majesty Sultan Qaboos Bin Said came to power in Oman.
The period of stagnation continued until after oil was discovered in 1964 and its export began in 1967. The quantities produced and exported were limited and in any event it was not until 1970 that oil revenues were used to develop the country. In fact the development of the modern Oman only started in that year. Before 1970 Oman completely locked the basic requirements of a modern state. There were no government agencies or ministries in the modern sense. There were no asphalted roads to link the various parts of the vast country. Only one small port existed and this had a limited capacity with no modern equipment. Educational and health services and public utilities such as electricity and water scarcely existed. Oman was completely isolated and hardly affected by the developments that were taking place in other parts of the world. Before 1970 there were no ministries in the modern sense and only a limited member of government units. Top priority was therefore given to the establishment of an efficient administration to carry out the different administrative and executive functions of government in general, and to plan and execute the economic development schemes in particular. This organizational and administrative reform was effected gradually and in phases, keeping in mind the development of the country’s resources. The outcome of this reform was the emergence of an organized administration which assumed the responsibilities and functions of a modern government.

1.6: National Accounts Estimates:
The first estimates of national accounts for Oman have been prepared by the missions of the International Bank for Reconstruction and Development. The latest estimates refer to 1974.
Table No: (1.2) below shows gross domestic product at current prices classified by industrial origin. The following basic economic features can be seen from the table:

( Table No: ( 1.2
The gross domestic product at current prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and Fisheries</td>
<td>16.6</td>
<td>16.8</td>
<td>17.0</td>
<td>16.7</td>
<td>17.4</td>
</tr>
<tr>
<td>Mining (oil)</td>
<td>71.6</td>
<td>73.9</td>
<td>76.4</td>
<td>94.5</td>
<td>389.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>0.2</td>
<td>0.2</td>
<td>0.3</td>
<td>0.6</td>
<td>2.0</td>
</tr>
<tr>
<td>Construction</td>
<td>8.5</td>
<td>20.4</td>
<td>22.6</td>
<td>24.0</td>
<td>58.0</td>
</tr>
<tr>
<td>Transportation and communication</td>
<td>0.7</td>
<td>2.1</td>
<td>3.2</td>
<td>4.4</td>
<td>12.3</td>
</tr>
<tr>
<td>Electricity and water</td>
<td>0.1</td>
<td>0.3</td>
<td>0.7</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>Trade</td>
<td>1.6</td>
<td>2.8</td>
<td>3.8</td>
<td>8.3</td>
<td>27.2</td>
</tr>
<tr>
<td>Banking</td>
<td>0.6</td>
<td>0.7</td>
<td>0.8</td>
<td>0.9</td>
<td>3.5</td>
</tr>
<tr>
<td>Ownership of dwelling</td>
<td>1.5</td>
<td>2.1</td>
<td>2.5</td>
<td>2.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>2.3</td>
<td>4.1</td>
<td>11.0</td>
<td>13.1</td>
<td>46.4</td>
</tr>
<tr>
<td>Other services</td>
<td>1.0</td>
<td>1.7</td>
<td>2.5</td>
<td>3.1</td>
<td>6.7</td>
</tr>
<tr>
<td>G.D.P. at market prices</td>
<td>104.7</td>
<td>125.1</td>
<td>140.8</td>
<td>169.4</td>
<td>568.5</td>
</tr>
<tr>
<td>Minus indirect taxes and net Factor income remittance abroad</td>
<td>19.3</td>
<td>1.1</td>
<td>30.6</td>
<td>42.7</td>
<td>88.9</td>
</tr>
<tr>
<td>G.D.P. at factor cost</td>
<td>85.4</td>
<td>104.0</td>
<td>110.2</td>
<td>126.7</td>
<td>479.6</td>
</tr>
<tr>
<td>Total consumption</td>
<td>33.9</td>
<td>47.4</td>
<td>76.8</td>
<td>103.6</td>
<td>246.8</td>
</tr>
<tr>
<td>Gross domestic Fixed capital Formation</td>
<td>13.1</td>
<td>35.6</td>
<td>42.0</td>
<td>44.4</td>
<td>174.1</td>
</tr>
</tbody>
</table>


A) Gross domestic product at factor cost increased from ( 103.6) Mn.R.O. in
1970. to 566.2 Mn.R.O. in 1974. Showing an increase of 446.5 percent.
It is worth mentioning in this respect that the largest part of this increase was
effected in one year, i.e. in 1974 when the gross domestic product increased from
167.7 Mn.R.O. in 1973 to 566.2 Mn.R.O. in 1974. The greatest proportion of this
increase was a result of the increase in oil prices in that year.

B) The sector of agriculture and fisheries and the manufacturing sector showed
only a slight growth over the period. The sectors of electricity and water,
banking, house ownership and other services showed moderate growth rates.
The sectors of Mining (oil), construction, transport and communication, trade
and public administration and defence have shown high rates of growth.

C) The ratio of expenditure on consumption growth government and private
sectors, to gross domestic product at market price rose to 43.3% in 1974 from
32.4% in 1970. This represents a considerable increase in the monetary value of
consumption expenditure, which rose from 33.9 Mn.R.O. in 1970 to 246.8
Mn.R.O. in 1974 that is, it rose to more than seven time its 1970 level.

D) Finally, it is worth noting that about 93% of government investment
expenditure in the period 1970 – 1974 was directed towards projects for the
development of economic and social infrastructure which though important and
necessary are, by their nature, not income yielding. Furthermore they
necessitate additional government recurrent expenditure for their operation and
maintenance. Consequently, one may say that the period ending 1975 represents
a stage of building up economic and social infrastructure without which no
economic growth could be achieved.