

# Oman's Diplomatic and Economic Strategies in a Shifting Global Order

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Publication date: 14 September 2024**

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In a region marked by volatility and great-power competition, Oman has carved out a strategic approach to diplomatic and economic affairs that reflects a pragmatic and forward-thinking vision. Under the leadership of Sultan Haitham bin Tarik Al Said, Oman is carefully navigating its role as a small yet strategically significant state in the Gulf. The nation's approach to international relations is distinguished by its discreet but impactful diplomacy, which seeks to foster peace amid regional tensions and navigate the complexities of global power dynamics.

## **Balancing Interests and Threats**

Oman has long pursued an independent foreign policy that deftly balances its interests and navigates external threats through a framework of strategic engagement. This approach has allowed the Sultanate to weave a multi-layered security web, with relationships at its core that are both robust and flexible.

Central to this network are Oman's enduring ties with the United Kingdom and the United States. These relationships are bolstered by extensive security agreements that grant basing and access rights to these Western powers, though they stop short of full formal alliances, allowing Oman the autonomy to maneuver diplomatically.

In recent years, Duqm has emerged as a focal point of Oman's strategic diplomacy, evolving into a hub for multiple foreign military forces. The [United Kingdom](#) established its Joint Logistics Support Base there in 2017, and this was soon followed by the [Indian](#)

and [US](#) navies securing port access. Duqm's expanding role as a military hub reflects its heightened importance in the global geopolitical landscape.

The significance of Duqm was further highlighted during the joint naval exercise "[Maritime Security Belt 2024](#)," held in the Gulf of Oman, which involved China, Russia, and Iran. This event not only demonstrated the Sultanate's geostrategic importance but also reflected the shifting dynamics of global politics. The challenge of balancing the interests of Western partners and China's rising economic influence has added new layers of complexity to Oman's foreign policy. China's [potential interest](#) in a military facility in Oman brings the Sultanate's strategic challenges into even sharper focus.

At the regional level, Oman has [quietly built a track record](#) of easing tensions through diplomacy. Over the years, Oman has [leveraged its neutrality](#) to help facilitate an end to the Iran-Iraq War (1980-1988), played a go-between role in the late 1990s with the US and Iran, conducted backchannel negotiations leading to the 2015 Joint Comprehensive Plan of Action (JCPOA, or nuclear deal), and promoted Iran-Saudi détente. During the Yemen war, by refusing to join the Arab coalition, [established](#) itself as a key interlocutor, serving as a base for Houthi negotiators and a primary venue for Western and Arab diplomats to engage with them.

This diplomatic strategy has continued to serve Oman well, particularly in the wake of recent regional tensions. Oman has continued to seek to create spaces for dialogue and cooperation since the Oct. 7 attack on Israel by Hamas. In the months since that assault and Israel's response in Gaza inflamed the region, Oman has held [high-level dialogues with Iran](#), [hosted British Foreign Secretary David Cameron](#) for talks on security in the Red Sea, called for [a cease-fire in Gaza](#), and [brokered talks](#) with Iran to persuade Tehran to curb attacks by Yemen's Houthis.

### **Shaping Oman's Economic Future Through Building Multiple Partnerships**

Oman's [Vision 2040](#) (2021-2040) is the [cornerstone](#) of its economic diversification efforts, seeking to reduce the country's dependence on hydrocarbons and promote growth in sectors like manufacturing, logistics, tourism, mining, and fishing. The Vision sets [ambitious targets for 2040](#), including increasing the non-oil sector's GDP contribution from 73% in 2021 to 90%, raising the Omanization rate in the private sector workforce to 40%, and boosting renewable energy's share of national consumption from 35% to 39%.

Like the other Gulf Cooperation Council (GCC) states, Oman derives most of its state income through hydrocarbon production and export. In 2023, oil and gas [accounted for](#) nearly 70% of expected government revenues. Oman LNG has entered into [multiple long-term supply agreements](#), including a recent contract with TotalEnergies to deliver 800,000 metric tons of liquefied natural gas annually over a 10-year period starting in

2025. Oman LNG also secured an agreement with Turkey's state gas grid operator Botas for the supply of 1 million tons per annum (mtpa) of LNG over the same duration, and a similar 10-year contract with Shell to supply 1.6 mtpa beginning in 2025.

Economically, Oman is forging strong ties with its immediate neighbors, particularly Saudi Arabia and the United Arab Emirates, to advance its development goals. The establishment of the Saudi-Omani Coordination Council in 2021 and the opening of the Rub al Khali land port in 2022 have significantly bolstered economic cooperation between Oman and Saudi Arabia. These efforts are further supported by strategic investments, such as the [deal](#) between Saudi Arabia's Public Investment Fund (PIF) and the Oman Investment Authority (OIA) in 2023, aimed at unlocking new opportunities in the Sultanate.

The Sultanate's [non-oil sector](#) has become a driving force for economic growth, with significant contributions from industrial activities and service sectors. Key initiatives under Oman Vision 2040 aim to reshape the nation's economic landscape by focusing on sectors such as manufacturing, logistics, tourism, and renewable energy. These efforts are reflected in the substantial agreements and projects Oman has secured, such as the \$35 billion [investment partnership](#) with the United Arab Emirates (UAE), and the development of infrastructure and logistics through collaborations with UAE and Saudi Arabia.

In April, a contract was [awarded](#) to a consortium consisting of Siemens Mobility, the German rail signaling and rolling stock manufacturer, and the local firm Hassan Allam Construction, to build the Oman-Etihad Rail, otherwise known as Hafeet Rail. The next month, Etihad Rail Company (OER), Oman Rail, and Mubadala Investment Company signed a [shareholder agreement](#), officially launching the construction of the joint railway project with immediate effect. When completed, the 303-km line will link Sohar port in northern Oman with the UAE National Rail Network. While boosting tourism is one of the project's objectives, the primary focus of the new link is on trade and [enhancing the efficiency](#) of the supply chain system. OER will support logistics operations for the Al Jazeera Steel Products Company's (AJSP) factories in Oman. The ongoing efforts to enhance infrastructure are likely to further strengthen Oman's logistics capabilities and connectivity with key regional markets.

The country has also taken [significant steps](#) to improve its business environment and attract foreign investment. This includes new laws aimed at [fiscal sustainability](#), [tourism development](#), and the regulation of the foreign workforce. Oman's sovereign wealth fund, the Oman Investment Authority (OIA), plays a key role in these efforts through initiatives like the Future Fund Oman, which supports long-term economic growth.

In addition, Oman is partnering with Saudi Arabia to advance regional infrastructure. The two nations [signed](#) an MoU in April focused on financing infrastructure in various

industrial zones in Oman, notably in the Special Economic Zone in Ad Dhahirah. The goal is to develop Oman's industrial and logistical sectors by providing essential services, thereby encouraging private sector involvement in the country's economic growth in alignment with Oman Vision 2040.

In December 2021, Oman's newest — and shortest — overland link with Saudi Arabia, a 720-km carriageway through Rub Al Khali, the world's largest sand desert, [opened](#). The roadway facilitates Omani exports' access to international markets via the Red Sea gateway, while also providing Saudi exports with direct access to global markets through the Sea of Oman and the Arabian Sea. In May, the Port of Salalah in Oman [introduced](#) a multi-modal service linking to the Saudi Port of Jeddah, offering an alternative to the longer route around the Cape of Good Hope. Oman is also attracting Saudi investment. Last year, the Saudi Omani Investment Company (SOIC), a PIF-wholly owned company, [purchased](#) a 20% stake in Abraj Energy Services' initial public offering ([IPO](#)).

Oman's strategic location and neutrality have made it an attractive partner for global powers like the United States, China, and India. Oman's Duqm port has become a focal point for military and economic activities. It is therefore not surprising that Oman is looking beyond its borders to strengthen economic relations.

In April, Oman and the US engaged in the second strategic dialogue in Washington, where they [explored](#) avenues to enhance trade and investment while addressing mutual challenges. Discussions focused on opportunities for American companies in Oman, particularly in ICT, semiconductors, and clean energy, with both nations expressing a commitment to advancing cooperation in clean energy solutions and mineral investments.

Meanwhile, Oman's economic ties with China have [continued to grow stronger](#). Bilateral trade topped \$30 billion in 2023, while Chinese direct investments in Oman rose by 27.8%, reaching \$3.45 billion, primarily directed towards the energy and petrochemicals sectors. Hainan Drinda New Energy Technology has [agreed](#) with the Oman Investment Authority to build a solar cell production facility in Oman, with a total investment of around \$699.4 million.

China, which is the [dominant buyer](#) of Oman's crude oil, has invested significantly in the Special Economic Zone at Duqm (SEZAD). The Duqm Materials Market, the third project within the China-Oman Industrial Park, focusing on light and medium industries, was [officially opened](#) in August. The Materials Market aims to attract Chinese companies to establish factories, utilize storage, and directly sell products, bolstering the import-export sector.

Economic ties between Oman and India are also on the rise, with India emerging as Oman's second-largest crude oil and fourth-largest non-oil export market. Bilateral trade more than doubled over the past decade, [reaching](#) approximately \$12.4 billion in 2022-23. The Oman Investment Authority has strengthened its collaboration with the State Bank of India through the [launch](#) of a new Omani-Indian Joint Fund, focusing on investments in India's burgeoning technology, healthcare, and pharmaceutical sectors. And negotiations on a Comprehensive Economic Partnership Agreement (CEPA) are [nearing completion](#).

### **Leveraging Opportunities and Overcoming Challenges**

The World Bank's latest projections [indicate](#) a favorable economic outlook for Oman, with real growth expected to achieve 1.5% in 2024. The [Spring 2024 Gulf Economic Update](#) attributes this growth to enhanced gas production and strategic economic diversification. The report further highlights initiatives to improve the business environment, support Small and Medium Enterprises (SMEs), and boost investments in renewable energy and green hydrogen. These initiatives underscore Oman's potential to transition from an oil-dependent economy to one more resilient and diversified.

However, Oman faces significant challenges on its path forward. The transition to a post-oil economy is fraught with difficulties, particularly in managing regional security concerns that could destabilize its progress. The tragic [shooting](#) in Muscat in July, where a mosque attack resulted in several casualties, is a stark reminder of the potential threats posed by extremist groups like Islamic State. Although Oman is traditionally seen as a secure nation, such incidents raise concerns about emerging security risks.

Additionally, the [impact](#) of the Red Sea crisis on Salalah port highlights the vulnerability of Oman's critical infrastructure. With a 16% decline in container volumes as ships reroute to avoid conflict zones, the economic ripple effects of regional instability are becoming increasingly apparent. The crisis emphasizes the need for Oman to bolster its security measures and find alternative solutions to mitigate such disruptions.

In contrast to these challenges, Duqm has emerged as a strategic focal point in the global power struggle between the US and China. As both nations vie for influence in the region, Oman finds itself navigating a delicate balance between maintaining strong ties with both superpowers. The establishment of military bases by the UK, US, and India in Duqm further cements its strategic importance but also complicates Oman's position as a neutral mediator.

Despite these hurdles, Oman remains committed to its role as a diplomatic bridge and economic partner, leveraging its unique position to foster stability and growth. The nation's blend of diplomacy, strategic development, and investments in future-ready industries positions it well to overcome the challenges ahead.