The sultanate has every reason to be deeply anxious about the actual and potential conflicts on its northern and southern borders, but it also has an opportunity to turn this situation to its advantage. This has been evident in the recent flurry of activity for projects aimed at developing ports and industrial areas on the country's Arabian Sea coast into bunkering centres for international shipping and major producers of refined petroleum products and petrochemicals.

The Omani government's plans to develop Sohar, Salalah and Duqm into bases for economic diversification go back many years. Their progress has been affected by the pull of investors towards similar schemes in neighbouring Gulf states with more financial muscle, larger markets and better infrastructure. The sultanate has also experienced domestic political tensions, kept in check by tough security measures, and its economic vulnerability was recently highlighted by the credit risk downgrades by global rating agencies earlier this year.

Strategic location and neutral politics boost investment prospects for ports and industrial projects

Oman has sought to remain aloof from regional political conflicts, but this provides no guarantee of security. Its advice to Saudi Arabia and the UAE not to become embroiled in Yemen was ignored, and its attempts to steer a neutral path in the disputes with Qatar and over Iran have not always been appreciated by those two dominant Gulf Arab players. As a form of insurance, Oman has cultivated strong military ties with the US and the UK, as well as fostering close relations with Egypt and Israel.

Complete insulation from conflicts on its doorstep is not possible. Nevertheless, Oman has derived some benefits from both its political stance and its location. It has picked up transit and bunkering business from Dubai following the imposition of sanctions on Qatar by the UAE, Saudi Arabia and Bahrain in 2017, and the recent tensions over the Strait of Hormuz have reinforced the investment case for the country's logistics and industrial projects, which do not rely on access within the Persian Gulf.

Sohar bunkering station to take advantage of new IMO regulations

One of the projects that has made progress in recent weeks is a bunkering station in Sohar that will supply liquefied natural gas (LNG) to international shipping. This is geared towards the introduction of a regulation in 2020 by the International Maritime Organisation (IMO) placing a cap of 0.5% (mass-by-mass) on the sulphur content of ships' fuel, compared with a limit of 3.5% now. One way of achieving that is to use LNG instead of fuel oil (although this may be narrow window, as the IMO is planning to tighten regulations of greenhouse gas emissions over the next 20-30 years). In late July, three companies – JGC of Japan, London-based McDermott International and France's Technip – were picked to carry out engineering designs for the station by the operator, a partnership between Oman Oil Company and Total. It aims to supply up to 1m tonnes per year of LNG to commercial vessels, equivalent to about 10% of Oman's current LNG production.

Plans for Duqm refinery and petrochemicals plant move forward

Another recent milestone was the awarding in June of an engineering design contract to the UK-based Wood Group for an estimated $9bn petrochemicals plant in Duqm. The facility will be integrated with a refinery in the port, which is already under construction. The refining and petrochemical complex is being undertaken by a partnership between Oman Oil and Kuwait Petroleum Corporation. About two thirds of the 230,000 barrels per day of oil to be processed at the refinery will be supplied from Kuwait, and Chinese companies have lined up as prospective buyers of products from both the refinery and the petrochemicals plant. The refinery closed $4.6bn of bank financing at the end of 2018 and is scheduled to come on stream in 2022, while the petrochemicals plant, which will use various feedstocks, including natural gas liquids collected from Oman's central oil and gas fields, is set for completion three years later. In the meantime Liwa Plastics Industrial Complex, being built in Sohar at a total cost of $6.7bn, is nearing completion, and will start producing polyethylene and polypropylene in 2020.

Hydrocarbons GDP set to rise by 10%, boost overall growth

Thanks to Liwa Plastics and other upstream and downstream projects, Oman's hydrocarbons GDP is forecast to grow by 10% in real terms in 2020, according to IMF projections published in early July. This will be reflected in a pick-up in the overall growth rate to 5.9% in that year. The upturn will not be sufficient on its own to prevent Oman's debt levels from increasing – public debt has risen from 17% of GDP in 2015 to an estimated 58.7% in 2019 – but it does at least offer ways for the sultanate to extract more value from its own oil and gas reserves, as well as tapping into the value chain of

Kuwaiti oil.

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