

Economic projects in the Sultanate of Oman: investment and development
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Экономические проекты в Султанате Оман: инвестиции и развитие
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Abstract: *the aim of this paper is to examine the main factors driving decisions foreign investment decision in Oman. The paper is intended to give the most important information and answer major questions on the way to start an economic activity in and to know what are the new projects in the Sultanate of Oman.*

Аннотация: *в статье изучаются основные факторы, стимулирующие решения иностранных инвестиций в Омане. Этот документ призван дать наиболее важную информацию и ответить на важные вопросы на пути, чтобы начать экономическую деятельность и знать, какие новые проекты в Султанате Оман.*

Keywords: *companies Law, Foreign Direct Investments, Ninth Five-Year Plan, Project, Oman.*

Ключевые слова: *закон о компаниях, Прямых Иностранных Инвестиций, Девятый Пятилетний План, Проект, Оман.*

The Sultanate of Oman is politically stable and dedicated to ensure open markets and free trading. Furthermore Oman is characterized by its proximity to the United Arab Emirates and in particular to Dubai as an extremely important business location. Due to that and not least due to the efforts of the state to encourage foreign entrepreneurs and investors, Oman is becoming more and more interesting and lucrative for foreign businessmen.

Recently governments in developing countries have been focusing on foreign direct investment (FDI) as a key source of economic development [12]. This led to an intense competition by third world countries to attract FDI. Rolfe and White [6] noted that potential foreign investors are now faced with a dizzying array of host government incentives. Similarly, in Oman, according to recent economic development plans and political rhetoric, the future prospect of social, economic, and political developments of the country is perceived as being ultimately related to its ability to attract more FDI.

The Government [11] would make intensified efforts for diversification of the economy during the Ninth Five Year Plan (2016-2020) so that the tradable sector grows. Promoting and diversifying non-oil exports vigorously is one option to increase exports. Developing large-scale tourism and attracting more tourists could be an option to reduce imbalances in services accounts of balance of payments. With continued focus on higher investment in other key sectors such as manufacturing, logistics, fisheries, and mining, domestic demand could be sustained, and the economic diversification program could be strengthened. This paper is intended to give the most important information and to answer first questions on the way to deciding whether to start an economic activity in the Sultanate of Oman.

The overall objective of this study is to undertake critical analysis of foreign investment promotion in the Sultanate of Oman. The study aims also at giving suggestions on solutions and ways of improving foreign investment promotion efficiency.

The kind of competition that exist among the developing countries in attracting foreign investments in their countries has resulted into a deeper understanding of the main FDI incentives and ways on how to attract the foreign investors, which are of great importance. The purpose of this study is to examine the major approaches adopted by the Oman government in welcoming and encouraging direct foreign investments Basic requirement to be economically active in the Sultanate of Oman is a permission of the Ministry of Commerce and Industry. In order to obtain this approval, various conditions must be fulfilled.

The Foreign Business and Investment Law [1, 3, 4, 7] of 1974 as well as the Commercial Companies Law No. 4/74, the Commercial Register Law and the Commercial Agencies Law as amended by Royal Decree 26/77. The Foreign Business and Investment Law allows foreign companies to: (1) incorporate a local company; (2) establish a branch office; (3) establish a consultancy; or (4) appoint a commercial agent, provided the foreign company is engaged only in providing goods or services to be imported into Oman. Such enterprises must be approved by the Foreign Capital Investment Committee in the Ministry of Commerce and Industry. Ordinarily at least one member of the enterprise must be an Omani national and at least 35% of the profits and capital of the enterprise have to be owned by Omani national. In the public transportation, utilities and real estate sectors, at least 51% of the shareholding must be held by Omani nationals. Foreign persons or companies may participate in four types business associations defined under the Commercial Companies Law, as follows: (1) Joint

Partnership; (2) Limited Liability Companies; (3) Closed Joint Stock Company; (4) Public Joint Stock Company; and (5) The Commercial Companies Law also defines a Joint Venture.

Joint Partnership type of Commercial Registration is meant for a group of individuals who want to start business activities. There must be at least two partners, each have to be either an Omani citizen, a Gulf Cooperation Council (GCC) citizen, a citizen of a privileged country or a citizen of a non-privileged country. The minimum capital required for a Joint Partnership is 3000 OMR. If the company will be subject to foreign investment rules, the Omani capital share ratio will be applied:

- Minimal capital of the company should be 150,000 OMR
- Minimal share of the Omani citizen should be at least 30%.

Limited Liability Company (LLC) type is meant for a group of individuals who want to start business activities. There must be at least two investors. The minimum capital required for Limited Liability Company is 20,000.000 OMR. If the company will be subject to foreign investment rules, Omani capital share ratio will be applied:

- Minimal capital of the company should be 150,000 OMR
- Minimal share of the Omani citizen or company should be 30%.

Closed Joint Stock Company (SAOC) type is meant for a group of individuals who want to start business activities. At least 3 founding committee members should represent at least 60% of the company capital. If a company will be subject to foreign investment rules, Omani capital share ratio will be applied:

- Minimum share of the Omani citizen should be 30%.
- The minimum capital required for Closed Joint Stock Company is 150,000.000 OMR.

Public Joint Stock Company (SAOG) type is meant for a group of individuals who want to start business activities. At least 3 founding committee members should represent at least 60% of the company capital. If a company will be subject to foreign investment rules, Omani capital share ratio will be applied:

- Minimal share of the Omani citizen should be 30%.
- The minimum capital required for Closed Joint Stock Company is 500,000.000 OMR.

A joint ventures (JV) is usually established through a formal joint venture agreement and is formed by two or more parties for specific c projects

As a private arrangement, a JV has no legal status and is not registered in the Commercial Register. An Omani partner must own at least 51% of any JV.

Taxation

All taxable entities must register with the Ministry of Finance's Secretariat General for Taxation and obtain a tax le number Foreign companies operating in Oman will be liable to pay the following taxes [2, 4]:

- Customs duties on imports (certain items such as cement are exempt).
- Income tax on the profit from any business (currently at a rate of 12%).

Oman's income tax law requires taxpayers to keep registers, books of accounts and supporting documents for a minimum period of 10 years from the end of applicable accounting period.

Labour Laws

The Labour Law (promulgated by Royal Decree No. 35/2003) and the regulations and decisions made under it regulate all aspects of employment in Oman, including the hiring of Omani nationals and expatriates. All employees must be employed by an Omani national or a company registered in Oman [4, 8].

o Local workers

Omani employees must be registered with the Public Authority for Social Insurance (PASI). There is a standard form contract, which is used to register national employees with the Ministry of Manpower and PASI.

o Foreign workers

Expatriates require:

- A labour clearance (for the position).
- An employment visa.
- A residence permit.

There is an Omanisation policy in place, which provides a minimum percentage of Omani employees for each employer, based on its sector of operation. Some positions, including drivers, receptionists, Ministry liaison officers and Arabic typists, must be filled by Omanis.

Free Trade Zones

In Salalah, the second largest city in Oman, the Salalah Free Trade Zone, which is adjacent to the Port, is located. This free trade zone offers some excellent benefits for companies. For example, there is no requirement to deposit the initial capital of the company. Furthermore, here it is possible to register a company whose shares are held up to 100% of foreign investors and for example domestic companies are exempt from customs duties on raw materials and finished products. Furthermore, there are no restrictions regarding the transfer and repatriation of corporate profits. Close to the border to the United Arab Emirates in the southwest of the country there the Free Trade Zone Sohar is located, in Muscat there is the Knowledge Oasis Muscat Free Trade Zone, in which technology oriented foreign companies are able to own 100% of the shares of their company. There also is

a free trade zone in Al Mazunah near the Yemeni border in Southern Oman. Furthermore, currently another a free trade zone in Al Duqm, which is strategically favourable located in the center of the east coast, is being built. Particularly interesting is also the 30-year tax exemption on corporate profits and dividends in the free trade zones [2, 4].

Foreign Direct Investment

Foreign Direct Investment (FDI) in Oman decreased by 1035 OMR Million in 2015. Foreign Direct Investment in Oman averaged 351.22 OMR Million from 1998 until 2015, reaching an all time high of 1281 OMR Million in 2007 and a record low of -1035 OMR Million in 2015. Foreign Direct Investment in Oman is reported by the Central Bank of Oman (Chart 1).

The government of Sultanate of Oman has in the recent past been very keen in promoting more foreign investors in the country (Table 1) so as to sustain and enhance its economic growth for the purpose of realizing its main economic diversification strategy. FDI flows to the country have increased somewhat since 2012 (flows exceed USD 1 billion), and growth prospects for the coming years are positive. Investments have accelerated, in particular, due to the development of the Duqm Special Economic Zone, which includes the building of a port, an airport, an oil refinery and tourism infrastructure. This dynamic is expected to continue. The Sultanate of Oman seeks to attract investors by offering tax incentives and customs duty exemptions. Oman has a stable political and macroeconomic situation. However, access to a limited number of sectors and government pressure on foreign companies to recruit domestic workers are major obstacles to foreign investments. Oman ranks 70th out of 189 countries in the Doing Business 2016 report [14] published by the World Bank. The majority of foreign investments continue to go to the oil sector. The country's leading investors are the United States, the United Arab Emirates, Japan and China. The oil industry is the main target of FDI, accounting for half of FDI stock at the end of 2010. The services sector accounts for 32% of FDI stock, which is dominated by finance accounting for 15% of FDI stock; manufacturing makes up the remaining 17% of total FDI stock [9, 13].

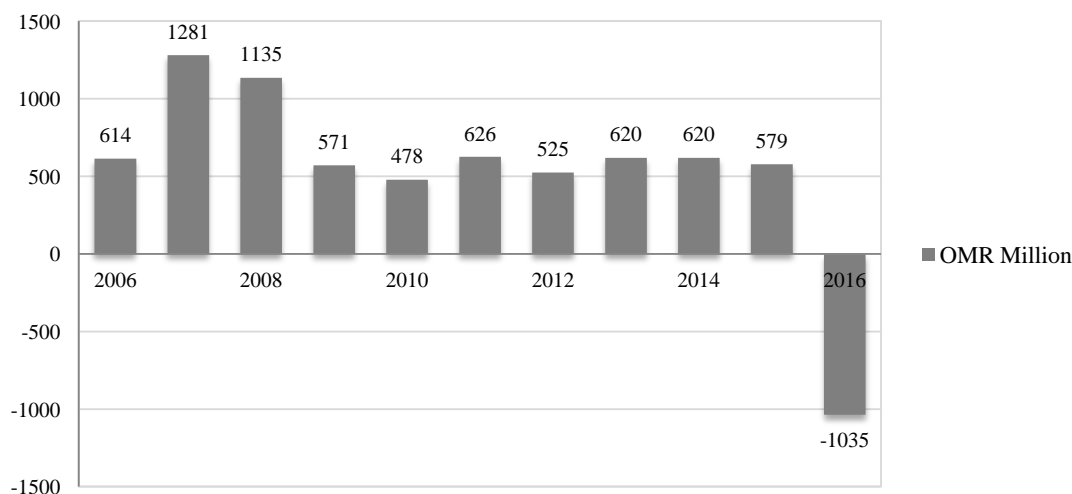


Fig. 1. Oman foreign direct investment

Source: Central Bank Of Oman

Table 1. Foreign direct investment in Oman 2013-2015

Indicator	2013	2014	2015
FDI Inward Flow (million USD)	876	739	822
Number of Greenfield Investments***	18,466.8	19,205.2	20,027.2
FDI Inwards (in % of GFCF****)	57.0	39.0	42.0
FDI Stock (in % of GDP)	24.0	24.7	34.2

Source: UNCTAD, 2016.* The UNCTAD Inward FDI Performance Index is based on a Ratio of the Country's Share in Global FDI Inflows and its Share in Global GDP.** The UNCTAD Inward FDI Potential Index is based on 12 Economic and Structural Variables Such as GDP, Foreign Trade, FDI, Infrastructures, Energy Use, R&D, Education, and Country Risk.*** Green Field Investments Are a Form of Foreign Direct Investment Where a Parent Company Starts a New Venture in a Foreign Country By Constructing New Operational Facilities From the Ground Up.**** Gross Fixed Capital Formation (GFCF) Measures the Value of Additions to Fixed Assets Purchased By Business, Government and Households Less Disposals of Fixed Assets Sold Off or Scrapped.

Inward Investments

In 2014, Oman succeeded in attracting FDIs worth \$1180 million according to UNCTAD estimations, which represent 2.7% of the Arab total for the same year. FDI balances incoming to Oman amounted to some \$19.7 billion by the end of 2014, which represent 2.5% of the Arab total for the same period. As for Oman's activity in terms of new FDIs (greenfield), the FDI Markets database published by the Financial Times for the period from January 2003 to May 2015 shows the following (AIECGC) [10]:

- 496 FDI projects are being implemented in Oman by 372 Arab and foreign companies. It is estimated that the total investment cost of these projects, which employ roughly 83 thousand workers is about \$ 39 billion.
- India, UK, China, USA, UAE, Qatar, Canada, Germany, South Korea and Kuwait respectively were on the list of the most important countries investing in Oman, in terms of investment cost of the projects. The share of India, UK and China accounted for around 60% of the total.
- Arab and foreign investments incoming to Oman are concentrated in the coal, oil and gas sector with a percentage of 30.8%, while 20.3% are in the minerals sector and 12.7% in the chemicals sector.
- Alcan Canadian mining company came on top of the list of the 10 most important companies investing in Oman where it implements 2 projects with an investment cost estimated at 2 billion dollars.

Outward Investments

In 2014, Oman succeeded in exporting FDIs worth \$1164 million according to UNCTAD estimations, which represent 3.5% of the Arab total for the same year. Outward FDI balances from Oman amounted to some \$7453 million by the end of 2014, which represent 3% of the Arab total for the same period.

As for Oman's investment activity abroad according to the FDI Markets database for the period from January 2003 to May 2015, it was as follows [10]:

- The number of Omani FDI projects abroad amounted to 63 projects that are being implemented by the Sultanate companies. Estimations reveal that the overall investment cost of those projects, which employ some 505 workers, is close to 222 million dollars.
- India, KSA, UAE, Yemen, Thailand, Qatar, China, Indonesia, Singapore and Brunei respectively were on the list of the most important countries receiving Omani investments, in terms of investment cost of the projects. The share of UAE, UK and Turkey accounted for around 78% of the total.
- Oman Oil Company came on top of list of the most important Omani companies investing abroad, as it is implementing 4 projects with an investment cost estimated at 2.6 billion dollars approximately.

The 9th Five-Year Plan (2016-2020), which is the final five-year development plan for the implementation of the Vision 2010 objectives, aims to promote economic diversification and the growth of the private sector. To support this objectives, five key non-oil and gas industrial have been targeted to provide increased growth in order. These are: 1) manufacturing, 2) transportation and logistics, 3) tourism, 4) fisheries and 5) mining. Together, these five sectors are projected to contribute positively to annual GDP growth by 2020. Over 500 programs and policies to be activated in relation to those sector. The reason for choosing these five sector in our view is mainly its untapped potential and country's determination to transform from an oil producing country to a diversified mix. Apart from that these sectors have the ability of creating significant number of jobs, bearing also in mind the low Omanization rates. Oman is a commodity rich country and further exploration into the mining sector would be utmost important in the wake of further subsidy cuts to reduce operating costs. Last but not the least, geographical location of Oman, has placed it as business and logistic hub for traffic across continents of Europe, Asia and Africa [11].

1. Manufacturing:

It is estimated to contribute 15% to the GDP by 2020 (Oman vision). The 1H'15 contribution stood at 9.3% while 10% for FY'14. It is worth stating that the average annual growth rate during the 8th five-year plan stood at 18.4%.

The major ongoing project within the sector is Liwa Plastic Industries Complex, which is expected to create around 13,000 jobs (1,000 direct, 12,000 indirect). Key facts about the project:

- Will contribute by 2 – 3% to GDP.
- The total cost is around \$ 6.4 billion, to be funded by international financial institutions (60%), local banks (20%) and government as well as Oman Oil Company (20%).
- It will result in Oil Refineries and Petroleum Industries Company (ORPIC) contribution to GDP to reach 9% by 2020.
- It will enable Oman, for the first time, to produce polyethylene. This form of plastic is rated high in terms of global demand. It represents 40% of the total plastic applications worldwide.

2. Transportation and logistics

Oman continues to focus on establishing itself as a major international shipment centre for traffic across continents of Europe, Asia and Africa. One of the Oman's key goals is to place Oman within top 30 out of 160 in the World Bank Logistic Performance Index by 2020 (Oman is currently ranked 59). As per the Ninth plan statement; transportation, storage and telecom shall grow on annual average at constant prices by 5% during the plan.

Key projects within the sector include [5, 11]:

- Duqm, the sleeping giant
- Billions of dollars to be invested;
- Port, dry dock complex, an international airport, industrial and special economic zone are some of the projects in addition to Duqm refinery;
- The Special Economic Zone launched much initiative to attract private investors resulting in many on ground key investments.
- Oman Rail Project (Oman Observer).
- The estimated total length of the Oman National railway network is 2135km;
- The total investments are projected between OMR 5 – 6 billion.
- The South Al Batinah Logistics Area
- It is 95 square kilometers in size;
- It includes four main activities: logistics services, commercial activities, light industries and public services;
- Full development to be completed by 2030.

In addition to above, the ongoing expansion in Muscat International Airport, establishing new airports, ports, free zones and infrastructure are few to name about the hyperactivities within transport and logistic sector.

3. Tourism

As per ministry of tourism, tourism sector direct contribution to the GDP is expected to increase from around 2% to 5% by 2020. The added value of the sector reached RO 724 million by the end of 2014, the same sources stated. The strategy for tourism is based on two foundations: 1) a series of tourist facilities in one location; 2) the distinctive tourist experiences. It is expected that more than 100,000 jobs will be created within the sector by 2024. The country emphasis on archaeology, conservation, and natural beauty is a key distinguishing factors from its neighbours.

Key projects within the sector include:

- Madinat Al Irfan
- It is a mixed used development project and investments to be in billions of dollars;
- It is expected to generate notable inbound revenues, and through Public Private Partnerships model, it is targeted to contribute around OMR 450-500 million annually to the GDP upon completion
- The waterfront development around Port Sultan Qaboos
- It is a partnership between the private sector and pension investment funds;
- Planned investments around OMR 500 million;
- Expected to provide 12,000 direct jobs and 7,000 indirect jobs;
- Shall attract 70% of the tourists visiting the port to tour the Sultanate.

4. Fisheries

The focus is mainly to boost fisheries production from currently around 200,000 tonnes per year in 2015 to around 480,000 tonnes per year by 2020 and to create additional 20,000 jobs, as per Under-Secretary for Fisheries Wealth. It is expected that by 2020, the direct return from fishing and fish processing activities to be around OMR 739.2 million. Key projects within the sector include the Duqm Fishery Harbour with estimated investments of OMR 100 million in addition to the adjoining industrial fisheries cluster.

5. Mining

Although, mining and quarrying contributed only 0.4% to the GDP in 2014 and 0.5% in 2015, it grew by 13.8% in 2015 compared to 2014. The new mining law shall ease the procedures and attract more investments in the sector. Moreover, the discovery of sizeable reserves of minerals such as gold, copper and rare earth shall boost the growth in the coming years. Key projects within the sector include mineral processing and refining facilities in the Port of Duqm's industrial zone. On different note, it is worth stating that port of Duqm plans to start export of minerals for the first time in February. The port has already set up facilities of its break bulk terminal for exporting 50,000 tonnes of dolomite as the first shipment. Another key development is related to recent key move about the launching of OMR 100 million mining development company called Mining Development through a partnership between government's funds, Oman oil company and Oman National Investments Development Company (Tanmia). As per the plan statement, it is expected to register an average increase of 6% during the plan in constant prices.

In fine, in recent years if we see above statistics the economy of Oman in FDI sector is going down. But it is a highly potential sector to be a beneficiary owner. Time has come to think about this sector from where we can be benefited easily taking some necessary steps. We know that foreign direct investment is long-term investment by private multinational corporations in countries overseas. There are currently 82,000 multinational corporations operating worldwide with over 810,000 affiliates. By increasing savings, employment, education, training, research, development, technology, tax revenue, foreign, capital, infrastructure improved, choice in market place, lower prices in market place and free trade, foreign direct investment can bring possible advantages for any country. I believe the Oman government will keep an active eye in this sector and justify

positive negative impact to forward Oman's economy.

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