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## Determinants of Foreign Direct Investment in Oman

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## Abstract

Foreign Direct Investment (FDI) has changed worldwide due to the acute financial and economic crises that the world has witnessed in the last decades. The world economy changed rapidly, where many states became hostile towards FDI, particularly in conflict zones. Such an attitude has changed since many countries realized the benefits of FDI and its contribution to their economies. The research uses a qualitative method to provide more substantial evidence for the findings through convergences and rationale of finding. It will also increase the generalization of the results and adds to a better understanding of FDI and encourage researchers to identify the barriers and obstacles in attracting more FDI projects to Oman, such as legislative, bureaucracies, market size, and the investment climates. The outcome of this research reveals the challenges that foreign direct investment in Oman. These are bureaucracy, the investment climate, which is related to the rules and regulation, the market size of Oman, which is considered very small in international scales, and the Omanization project, which aims to replace the expatriate's workforce with nationals. This research paper conducted a SWOT analysis for Oman's investment environment, which showed many strong points as Oman enjoyed many opportunities that the government might take as the opportunities to use those as drivers to enhance the foreign direct investment inflow to Oman. Much of the analysis showed some weak points where the government should tackle it and improve it. This study took Singapore and the United Arab Emirates as secondary case studies, where both states had a successful experience in attracting foreign direct investment due to different policies where the Oman government can learn from such practices.

Keywords: Determinants; Motivators; Foreign; Investment; Oman.

## محددات الاستثمار الأجنبي المباشر في سلطنة عمان

أحمد الخميسي وهاني البسوس

### المخلص:

لقد تغير الاستثمار الأجنبي المباشر على المستوى الدولي بسبب الأزمات المالية والاقتصادية الحادة التي شهدتها العالم في العقود الماضية. حيث أصبحت بعض الدول معادية للاستثمار الأجنبي المباشر، لا سيما الواقعة في مناطق الصراع. إلا أن هذا الموقف تغير منذ أن أدركت العديد من البلدان فوائد الاستثمار الأجنبي ومساهمته في اقتصاداتها. يعتمد هذا البحث على الوسائل النوعية في جمع المعلومات والأدلة للوصول للنتائج من خلال التقارب المنطقي. يعتبر البحث إضافة نوعية فيما يتعلق بالاستثمار الأجنبي المباشر ويشجع الباحثين على تحديد العوائق والعقبات في جذب المزيد من مشاريع الاستثمار إلى سلطنة عمان. وتكشف نتائج البحث عن التحديات التي يواجهها الاستثمار الأجنبي المباشر في السلطنة، وهي البيروقراطية، ومناخ الاستثمار، المرتبط بالقواعد واللوائح، وحجم السوق العماني الذي يعتبر صغيراً جداً في المقاييس الدولية، وكيفية تطبيق مفهوم التعمين بالشكل الذي يؤثر على جذب الاستثمارات. أجرت هذه الورقة البحثية تحليل SWOT لبيئة الاستثمار في سلطنة عمان، والذي أظهر العديد من النقاط القوية حيث تمتعت عمان بالعديد من الفرص التي قد تستغلها الحكومة كفرص لاستخدامها كمحركات لتعزيز تدفق الاستثمار الأجنبي المباشر. أظهر الكثير من التحليلات بعض نقاط الضعف حيث يجب على الحكومة معالجتها وتحسينها. أخذت هذه الدراسة سنغافورة والإمارات العربية المتحدة كدراسات حالة ثانوية، حيث تتمتع كلتا الدولتين بتجربة ناجحة في جذب الاستثمار الأجنبي المباشر بسبب السياسات المختلفة حيث يمكن للحكومة العمانية التعلم من هذه الممارسات.

الكلمات المفتاحية: المحددات، المحفزات، الاستثمار، سلطنة عمان.

## Introduction

Foreign Direct Investment is divided into three different forms: Horizontal FDI is when the firms do the same activities abroad, such as Toyota motors cars, where it assembles its vehicle in many countries around the world. Vertical FDI is where the firm's operations are conducted abroad, where the firms bring their activities near the market. The third type is Conglomerate, where the investment is carried out to acquire unrelated business abroad; it also refers to the investment in products that are not manufactured by the firm domestically. However, FDI usually faces two main challenges: entering a new foreign state and doing business in a new industry (Dima, 2016).

Explanatory research design is carried out to help the researcher find and specify the problem that was not studied before in-depth, which is what this research study is about. The purpose of using the explanatory design is to increase understanding of a topic such as FDI. This design is adopted due to the flexibility of sources as the researcher can find more data and published literature about FDI in Oman. An excellent understanding of the research problem helps to better conclude by using analytical research (Creswell, 2009). This research will review academic work on specific aspects of FDI, including the relationship between economic growth and FDI, the FDI motivators, governance, and regulations of FDI, political stability, and investment climate, FDI in Oman and GCC countries. It will highlight the successful experiments of FDI in the UAE and Singapore.

### Foreign Direct Investment:

Foreign Direct Investment is defined by the World Bank (1993): "is an investment made to acquire a lasting interest in or effective control over an enterprise operating outside of the economy of the investor. FDI net inflows are the value of inward direct investment made by non-resident investors in the reporting economy, including reinvested earnings and intra-company loans, net repatriation of capital, and repayment of loans. FDI net outflows are the value of outward direct investment made by the residents of the reporting economy to external economies." (Abdulla, 2015). Thus, FDI helps increase productivity, national income, improve the per capita income, and improve the standard of living and life quality for any nation. It helps to create job opportunities, enhance human quality, and import new technologies. The most important motivators for any FDI is seeking new markets for its products and finding valuable natural

resources such as oil and gas. Furthermore, many international firms are seeking efficiency and cost reduction (Al-Wahaibi, 2016).

Different types of literature reviews show that there is a positive relationship between foreign direct investment and the development and the growth of the economy. Many academic works emphasize political stability as one of the most important motivators for foreign direct investment inflows apart from the market size and the investment climate. Many scholars studied the role of governance and regulations and the impacts of the investment laws in the trend of attracting foreign investment to the country. Many case studies have examined this matter and approved that political steps and regulations have a significant impact on the decision of any foreign direct investment around the world. Most of the literature which was examined in this research agree on the importance of the investment climate and supported by statistics from the World Bank. However, not many pieces of literature could be found to examine the FDI in Oman and other Gulf Cooperation Countries (GCC). Still, whatever the study could find shows the foreign direct investment is a crucial driver and source for all GCC countries and has become an essential tool for their economic diversification (Hussein, Muawya & Hana, 2014).

Despite the benefits and the role of foreign direct investment in the development of any host country's economy, the government must consider some drawbacks. Most importantly, most of the foreign investors usually import the requirement for their investment projects from outside, especially if they are not available in the local market or not within the same quality range. Such practices negatively impact the trade balance and do not help the private sector in the country, and such practices are evident in most china's investments. The incentive flow of foreign international companies to a small or medium-size market made from the local firms is crowding out instead of crowding in where they can compete with international companies. The transfer of technology always needs a good technical infrastructure where it is not available in most developing countries. This does not benefit much from the inflow of foreign direct investment to the host states. Besides, some countries are suffering from international companies' intervention in the political decision, which might affect its sovereignty; thus, the FDI might harm the environment. Therefore, the Omani government should consider all kinds of FDI drawbacks to attract

foreign direct investment (Mellahi, al et, 2015).

The global trends of foreign direct investment flow show a decrease in the developed world and a slight increase in developing countries. The total FDI inflow in Oman in 2018 amounts to OMR 9 billion, and the total stock of FDI remains around USD 28 billion. The government statistics showed an increase in the inflow of FDI during the last five years, which indicates a high potential to attract more shares in the region. The main concern about the FDI flow in Oman is concentrated on the oil and gas sector as the Oman economy is characterized as a single source economy. The United Kingdom is considered as the biggest investor in Oman. In the past few years, efforts have been put by the government to attract more FDI, including incentives and tax exemptions. Improving ownership policies in certain areas with certain conditions and developing some investment law situations and presenting the investor's different motivators to encourage them to invest in Oman (Tuwaya, 2018).

The government established "Ithraa" the General Authority for Investment Promotion and Export Development, which is responsible for promoting Oman and provides all the information, support, and assistance for the foreign and local investors. It works as an agent for promoting Oman in different forms and plays a significant role in improving the investment law and the climate of investment. The government introduced a national program to divert its economy and attract foreign direct investment called 'Tanfeedh', but such initiatives face many challenges in terms of execution. In terms of infrastructures, Oman enjoys more than four main free economic zones, including the Sohar free zone, Duqm free zone, Salalah free zone, and Almazyna free zone. All of them have a strategic location overlooks the Indian Ocean and the Arabian Sea. The government has provided a technology park in Muscat, which offers different opportunities for firms and businesses to create solutions, innovations, digital technology, and knowledge. However, such infrastructure should reflect positively in the FDI inflow in Oman (Alamri, 2019).

#### Determinants of Foreign Direct Investment:

There are many determinants for FDI which should be considered to achieve the objective of investing in a foreign state. For example, the high cost of production elements, especially the labor force salaries. Thus, when the price is high, it prevents any FDI to come in.

Moreover, when the rate of growth is high, it leads to the development of the economy, which encourages the FDI, and when the growth is low, it will restrict the inflow of FDI. The most common determinants of FDI are market size, infrastructure, the openness of host state, labor cost, availability of natural resources, economic stability, political stability, corruption, regional integration, government policies, tax, and investment climate (Dellis, al et, 2017).

1. The market size is measured by GDP per capita, and it is considered an essential determinant in economic studies. It is related to vertical FDI and the main factor for horizontal FDI. FDI will move to those states with superior purchasing power, a potentially higher return on their capital, and high profit from their investment. Small market size is a result of low per capita, which occurs more in developing states and discourages FDI most of the time. The large market requires more resources, and as the market grows, the FDI will start further expansion. The market size becomes explanatory variable in most of the empirical studies on the determinants of FDI. Many studies on the FDI promotion in the Sultanate of Oman, conclude that market size tends to attract FDI (Ibrahim, al et, 2017). The GDP has a remarkable positive impact on the inflow of FDI, and the GDP growth rate harms the FDI inflow. Moreover, the FDI will go to those states which have high purchasing power (Kastrati, 2013).
2. Infrastructure is one of the main determinants for many investors, and it includes the transport systems, roads, airports, ports, railways, and telecom systems. Infrastructure is an obstacle for FDI if the local government allows foreign investors to participate in this sector. It is one of the main constraints for FDI in developing countries. The excellent quality and advanced infrastructure raise the state's potential and encourage more FDI flows (Shah & Alam, 2013).
3. The openness of the host country in terms of trade openness is an essential key determinant. It eases the transfer and move of capital between states. Countries that implement restricted trade policy, in the end, will affect the flow of FDI negatively compared to states that adopt a free trade policy. Trade openness is measured by the ratio import plus export divided by the GDP. According to many scholars' trade openness has a positive impact on the flow of FDI.
4. Labor cost is the main factor that encourages

foreign investors to invest in Asian and African countries as the lower wages exist in most countries. The production cost is affected directly by labor cost as it maximizes the profit and makes the state a desirable and potential destination for any FDI (Bahatti, 2011).

5. Natural Resources constitute another feature that helps the inflow of the FDI, as in Africa, where natural resources are in the form of mineral, oil, and gas. The FDI inflow in the GCC countries is mostly in the oil and gas industry, as it is the primary natural resource. Such FDI inflow is encouraged by getting the raw materials and availability of different factors of productions. The higher availability of natural resources and raw materials also help in the higher inflow of FDI (Tuwaya, 2018).
6. Economic stability plays a vital role in the inflow of FDI. Instability of the economic environment has a significant impact on the inflow of FDI. Therefore, most of the FDI usually target those countries which enjoy developed and stable economy. The states with a high inflation rate and high-interest rate cause a rise in the cost of investment and negatively affect the return of FDI. On the other hand, lower inflation will encourage FDI inflow; therefore, the increase is used to measure macroeconomic stability (Eduwlla & Shrestha, 2017).
7. Corruption is one of the highest constraints for any foreign investors. Many studies have proved the direct relation between FDI and corruption, as many firms try not to get involved with any corruption process even with the local government or business. Some researchers claimed that corruption scares investors as it is considered illegal and unethical. Corruption also leads to inefficiency in any process of business. In many cases, criminal acts as a helping hand to attract more inflow of FDI and become a part of incentives that are offered, especially for small and medium-sized firms that used to do such practices at home. Many researchers from Africa have studied the impact of corruption on FDI in Africa; they conclude it could be an essential stimulus for attracting certain kinds of FDI (Zafar & Sayed, 2017).
8. Regional integration affects the level of FDI and trade process as the inflow of FDI will be considered jointly as states depend on each other. The market usually seeks FDI to look for a high economic integration market where the investors can enter economies from one country. Also, it helps the investors follow the same rules in the

union, which helps expand within the region. But in the case of FDI resources seeking, economic integration is usually not as high as the cost of trade through a third party. It imposes an extra charge of intermediate goods, making the FDI in the host state more expensive and less worthy.

9. Government policies also help in the inflow of FDI. A lot of studies examined the relationship between the inflow of FDI and government policies. The strength of the relationship between MNCs' strategy and the policies of the local governments in the host states. Foreign investors do not depend on lousy government policies that suffer from political and economic and instability. Many countries suffer from these factors, consequently becoming a determinant and main barrier for any FDI inflow (King, 1999).
10. The literature remains uncertain about whether tax affects FDI but mostly agrees that FDI is sensitive to tax incentives. Many scholars agree that the host states' corporate income tax has an undesirable effect on FDI inflows.

The right investment climate is the most critical determinant in the investors' choice of a destination for FDI. The investment climate in the host countries involves the absence of crime, the rate of corruption, the effectiveness and efficiency of regulations, social stability, political stability, rules of entry and operation, population, location, market size, access to output market, skilled labor, infrastructures, transport, telecom cost, tax rate, investment incentives, investment promotion, and geographical location. There is no widely accepted set of variables factors that can be certainly regarded as absolute determinants for FDI inflow (Dellis, al et, 2017).

#### Motivators of Foreign Direct Investment:

FDI in any foreign state seeks a new market, looking for natural resources, and requesting efficiency. Resources seeking are related to the existence of any valuable natural resources. The availability of resources in Africa as a favorable position in attracting FDI inflow. Most of the FDI is expected to be in the primary sectors, such as the oil and gas industry. Many countries receive FDI mainly in petroleum exploration (Dima, 2016). Market seeking FDI is usually directed to serve the domestic market where goods and services are produced in the host state and then sold to the local market. Regularly such FDI is determined by the demand from the broad market and high income. The countries that host market-seeking FDI



are usually characterized by big market size, high wages, and a high growth rate. This kind of FDI is horizontal FDI as involving production and building some similar facilities in foreign locations (Mellahi, et al, 2015). Many Multinational Companies seek efficiency or cost reduction to make their operations more favorable in terms of costs. The main objectives of efficiency-seeking FDI are to lower the prices used in production at a global level and lower the cost they utilize in government structural imperfection, including tax differentials and diversification of production to reduce the risks. Efficiency involves the cost of resources, the productivity of labor, and input cost. Most of the time, efficiency-seeking FDI is in the states that enjoy high technological and physical infrastructure with skilled and dispelled labor (Nidhal & Wajdi, 2015).

Many countries adopt different motivators to attract more FDI. There are two primary motivators for many companies in the world to become MNEs: market imperfections as companies want to possess competitive advantages in many countries around the world to maximize their productivity, leading to an increase in the rate of profit. Also, many industries try to attract firms due to their competitive structure and to internationalize their sector. Those competitive advantages must not be available for those host state companies at the same price and conditions. According to Dunning (2000), there are three primary motivators for FDI: market seeking, resource seeking, and efficiency-seeking. The activities of resource seeking are motivated by natural resources availability, cheap labor, creative assets, and infrastructures and raw material. Natural resources by itself are not enough motivators for FDI. Incentives are historically found to play an essential role in the FDI process's decision. Besides, claims that the picture of FDI inflow has changed during the last decade. Incentives are becoming an essential factor for international investment decisions due to the impact of globalization. Incentives over time have become a necessary element in the investment decision as most of the host countries offer a package of incentives to attract more international investors. However, tax policy influences the investors' decisions, but that varies from state to another (Nidhal, Wajdi, 2015).

#### FDI in Singapore (Table1 & Figure1)

Singapore is considered as one of the most stable and wealthy states in Asia. It enjoys political stability and economic, convince public services, a variety

of range of different facilities. Singapore became an attractive destination for expatriates and their families. It offers high-class services and highly developed infrastructures, high quality of life with a lot of international schools and universities, modern lifestyles, which make Singapore the right place for living, studying, and working (UNCTAD report, 2018). Since the early 19th century, Singapore was a commercial trading center. It has gained an international reputation in forms of economic growth, economic stability, and a stable economy. Singapore established itself as the gateways for business to ASEAN. The aim of examining Singapore as a case study is to highlight the government policies, the entry modes, the factors that drive the shift in FDI inflow, determinants of FDI, and the successful outcomes of this experiment. Foreign direct investment in Singapore acquired a primary role in Singapore's economy. Asia is considered as the largest FDI receivers in the world despite the decline in worldwide FDI. Singapore, China, and Hong Kong are the three largest recipients of FDI in Asia, according to the United Nations Conference on Trade and Development (UNCTAD) 2018 report. Singapore is ranked fifth in the top 20 host states of FDI in the world and third in Asia (Tang & Wang, 2017). In 2018, Singapore was considered the fourth largest receivers of FDI in the world, as shown in the next figure, where the FDI inflow in 2016 was USD73 billion and increased to USD 75.7 in 2017 and USD 77.6 billion in 2018. The total FDI stock in 2018 reached USD 1482 billion, and the number of Greenfield investments jumbled from 391 in 2016 to 420 in 2018. More than 7000 international MNCs are operating in Singapore, and more than 10000 foreign SMEs from different countries around the world have set up base in Singapore (UNCTAD report, 2018). Singapore has a vast network of Double Tax Agreements (DTA), which helps avoid double taxes and lower withholding taxes with more than 80 countries worldwide. This DTA network makes Singapore an attractive location for business investors. Besides, Singapore also enjoys a unique advantage of its geography as strategically positioned at the crossroads of many leading trade and shipping routes, such as the sea route between China and India. It is considered an international transport hub. It has many facilities such as Changi seaport, which is ranked as the best seaport in Asia, according to the Asian Freight and Supply China Award, 2018. It has a world-class telecommunication infrastructure. It is ranked one of the two Asian states within the

top 10 worldwide in terms of leveraging information and communications technologies to increase state competitiveness (Tang & Wang, 2017). The Singapore business environment has become an attractive place for skilled and highly qualified workers from the world. The innovative working environment with many talents promotes Singapore as one of the most productive and motivational environments in Asia. Singapore is coined for being a multicultural society, which makes from its differences more cohesive. The human capital of Singapore is considered the wealthiest and most valuable resources (Eudwlla & Sherstha, 2017)

Singapore enjoys an attractive tax regime, as the tax system seen by investors as friendly and straightforward. About 17% is the highest corporate tax rate on taxable income and 0% on capital gains and dividend income. All foreign-sourced income is exempted from tax as the tax is subjected to the state. Singapore offered an attractive framework for foreign investors with no foreign ownership restrictions and no foreign exchange control. The visa schemes provided by Singapore authority help to attract qualified entrepreneurs and professionals labor. Besides, the government tries to attract the most talented people from across the world through liberal immigration policies (Huxley, 2017).

Singapore provides a robust intellectual property right system, supported by secure IP infrastructure and trusted legal system. The legal system in Singapore is inherited from the British and is subjected to the current cultural, commercial, and economic climate. This system has been recognized globally as efficient. Therefore, Singapore is considered as the least bureaucratic state in Asia. The business in Singapore is not constrained by any slow legal process, bribery, or any corruption. Singapore's commercial legal system is always updated to encourage more investors, and the legal services

industry of Singapore is full of talented human capital (Bell, 2011). The MNCs have many entry options to Singapore representative's offices, including subsidiary companies, branch offices. According to the World Bank report 2018, Singapore is ranked as the second-best place in the world to do business and is ranked third by the World Economic Forum in a competitive index.

FDI in United Arab Emirates (Figure2)

The United Arab Emirates is a federation of seven emirates; each emirate has its ruler. UAE is considered one of the most important states in terms of an open economy in the Middle East. According to the UNCTAD investment report 2019, the FDI inflow to the UAE reached 10.3 billion, including the gas sector and digital technologies. In general, the FDI inflow is concentrated on the following sectors: trade, finance and insurance, real estate manufacturers, and construction. The UAE is also considered as the

Table 1: The FDI inflow, FDI stock and number of Greenfield Investment in Singapore (2016-2018).

Foreign Direct Investment	2016	2017	2018
FDI Inward Flow (million USD)	73,863	75,723	77,646
FDI Stock (million USD)	1,112,642	1,393,380	1,481,033
Number of Greenfield Investments***	391	390	420

Figure 1: shows the change in the rate of FDI inflow in Singapore for the last two years, where it shows a significant increase in the total foreign direct investment rate.

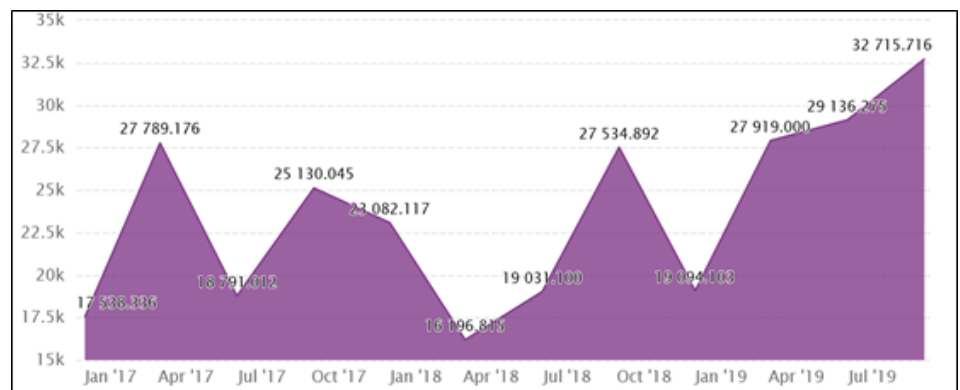
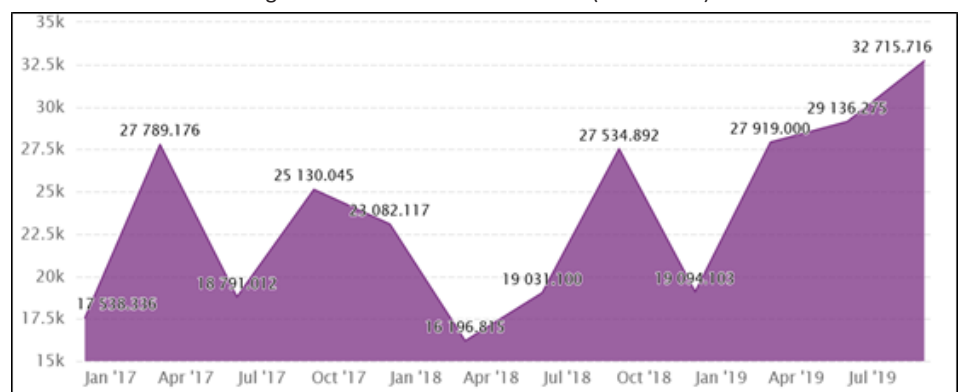


Figure 2: The FDI inflow in the UAE (2007-2018).



(ceicdata.com)

primary source for the outflow of FDI as it has invested in Oman for more than USD 1.4 billion. Besides, Dubai is considered as the leading emirate that attracts the largest recipient of FDI (Foreign Direct investment in Dubai, 2019).

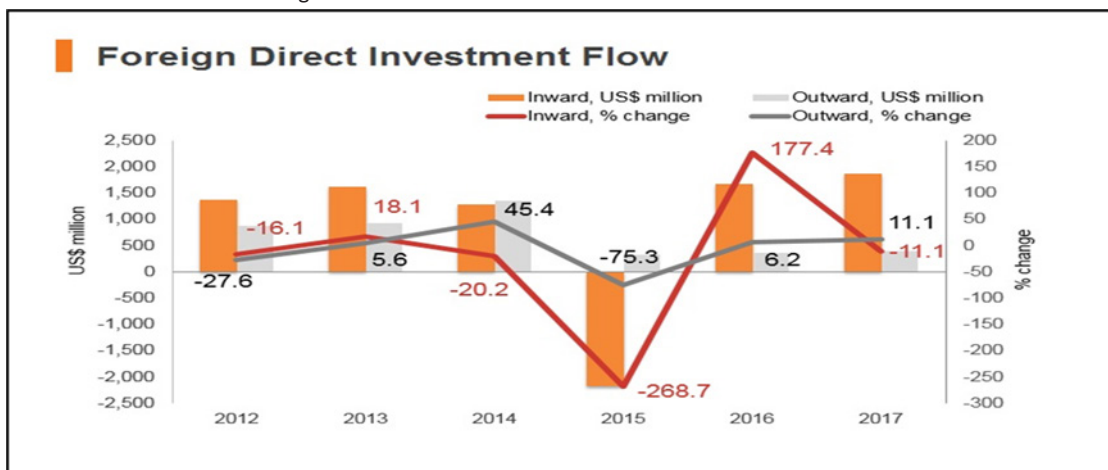
The UAE's ability to attract a significant amount of FDI is based on different factors such as easy access to all resources, low energy costs, high purchasing power, and willingness to diversity. The absence of direct business taxation in most business and direct income taxation, a profitable and robust banking system, and the availability of enormous expatriate's labor from different nationalities attract FDI. The UAE government in 2018 introduced a law that allows foreign investors to own 100% of their firms. Such a decision is expected to raise the inflow of FDI to 15% - 20%. According to the World Bank, the UAE, doing business report 2019, is ranked 11 out of 190 states. Also, the World Bank rated the UAE as the best place in the world to ensure access to electricity for new businesses and pay taxes (Foreign Direct investment in Dubai, 2019).

There are many strengths of the UAE for attracting FDI, including the following: no direct taxation for corporations except the sectors of oil, banking, insurance, and individuals, also no foreign exchange control on the repatriation of funds. The climate of business in the UAE is one of the strong points, and the UAE enjoys long term political stability even though the UAE is involved in many conflicts in the Middle East, such as the Yemen war and Labia. The economics of the UAE characterized as diversified and dynamic economies. Moreover, the UAE has vibrant hydrocarbons resources. The banking sector is reliable and profitable with a robust sovereign fund, and the country always offers some favorable regulations for foreign investors. The location of the UAE makes from

the emirates a high potential platform of influence in the region and the Middle East. The hydrocarbons resources financed an excellent production infrastructure and transport. Foreign labor is available at a low cost, and the country provides access to low-cost energy. These factors help the UAE be the top attractive destination for FDI in the Arab World and among the GCC countries (The DFI in the UAE, 2019). The seven emirates have introduced a specific measure to create a more favorable environment for FDI. For example, Dubai, Abu Dhabi, and Sharjah adopted very flexible procedures in terms of the acquisition of real state property for foreigners. The government vision of 2021 favor FDI as the main factor for the UAE economic diversification. The government also introduces a new company's law and allowed foreign investors to hold 100% of a company's share in free zones. The Federal commercial companies Law published in 2015 improved the legal framework for firms and facilitated many businesses. Also, there is a new law for FDI under discussion in the Council of Emirates. The government of Abu Dhabi has a new plan to improve the investment climate by introducing a separate law of FDI as a part of the Abu Dhabi Economic Vision 2030 to attract more FDI and ensure more economic diversification. The legal framework favors the national over the foreigners, and the ownership of land still restricted. Also, the foreigner's investors suffered from other weaknesses, such as intellectual property rights and the lack of transparency (Foreign Direct investment in Dubai, 2019).

The Current FDI Situation in Oman (Figure3): Since the Sultan Qaboos bin Said became a new ruler in 1970, the country started developing its economy after the war in the South of Oman, which ended in

Figure 3: The FDI inflow to Oman between 2010 and 2018.





1975. However, the Omani policies towards foreign direct investment started only after the 1990s. It introduced new strategies to attract FDI through a legal framework, providing facilities business, start liberating some sectors of its economy and promoting Oman as a suitable destination for FDI. Currently, Oman acknowledges that FDI is one of its primary goals to decrease dependency on one income source and diversification of its economy. Oman's economy is dominated by an industry, oil, and industrial gas sector, representing 43% to the total GDP, and the mining sector amounts to 22% of GDP. Oman is working on many full-size infrastructure projects such as new hospitals, roads, trade and industrial centers, and tourism facilities (Foreign Direct Investment Regulation, 2019).

Oman is an active member of the Gulf Cooperation Council (GCC). There is a typical market between GCC members, which was launched in 2008; it aims to provide a fully integrated single market. The customs union between GCC was launched in 2003 and is fully operated since January 2015. Besides, Oman is a member of the World Trade Organization (WTO), which supports free trade between states. Joining the WTO has helped Oman to shape its trade policy, set an acceptable trading standard, and promote a low tariff system. Oman has demonstrated a strong commitment to liberalize its market membership of the WTO and signed several bilateral and multilateral trade agreements. According to the World Bank report in 2019, the total export of the Oman economy amounted to \$47.7 billion, and the total imported \$38.1 billion, which resulted in a positive trade balance. Fuel represents the most crucial export sector, with 62% of full export. The Foreign Direct Investment represents 8% of the GDP in 2018. The annual GDP growth of Oman's economy was 2.3% per year, and the total investment rate was 31% of GDP and the inflation rate was 1.6% in 2017.

Foreign direct investment plays a crucial role in developing Oman's economy in terms of enhancing national income, providing jobs for nationals, and importing technology and expert knowledge. The regular decline in the oil prices imposes many challenges to Oman's economy. Therefore, economic diversification becomes essential for the Oman

government as it depends on one economic source of oil and gas. However, attracting foreign direct investment to the country has been a challenge based on the current trends and statistics (Pauceanu, 2016). According to the Ministry of Finance report 2019, the total FDI at the end of 2018 amounted to OMR 9.7 billion. Most of the inflow of FDI is in the oil and gas sector, representing 65.5% of the total FDI in Oman. The financial services sector is the second contribution, with 14.6%, followed by manufacturing sectors with 11 %. In contrast, the activities of real state leasing and business activities grew by 6.9%, and other economic activities represent 11%.

According to the UNCTADs world investment report 2019, the total FDI inflow to Oman reached USD 4.1 billion in 2018, with an increase of USD 2.9 billion compared to 2017, as shown in the Table 2.

The total stock of FDI remains strong at USD 28.2 billion with the help of the development of the Duqm special economic zones where much investment goes

Table 2: The FDI inflow stock and number of green field investment to Oman from 2016 to 2018.

Foreign Direct Investment	2016	2017	2018
FDI Inward Flow (billion USD)	2,265	2,918	4,191
FDI Stock (billion USD)	21,099	24,017	28,207
Number of Greenfield estments	36	38	57

UNCTAD, 2019

Table 2: The FDI inflow stock and number of green field investment to Oman from 2016 to 2018.

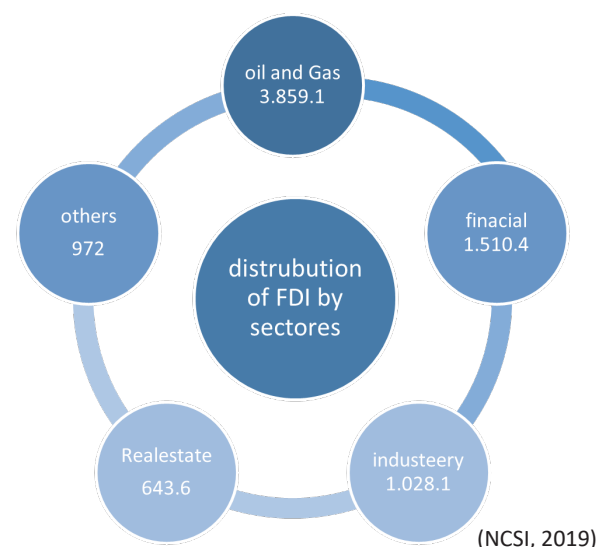


Table 3: The countries with the total FDI inflow that invest in Oman and in which sectors.

No	1	2	3	4	5	6	7	8	9
Countries	UK	UAE	Qatar	Kuwait	Bahrain	USA	India	Switzer	Holland
Total FDI	3382	943.7	457.5	429.4	371.5	349.3	303	289	270.8

(NCSI, 2019)

to the construction of the Duqm port, the airport, the refinery, and other facilities. The number of Greenfield investments increased from 36 in 2016 to 67 in 2018. The Duqm area has attracted USD 11 billion of investment. According to the business report 2019, which was published by the World Bank, Oman was ranked 78 in terms of establishing and doing business. This shows that Oman has lost seven places compared to the previous year, indicating that Oman must do a lot in improving the investment climate to attract more FDI (UNCTAD, 2019). According to the National Centre for Statistics and Information (2019), the UK is the biggest investor country in Oman with OMR 3.299, followed by the United Arab Emirates amounted of OMR 934.7, then Qatar with OMR 457.5, Kuwait, Bahrain, USA, and India as shown in Table 3. The foreign direct investment law was launched by a Royal Decree number 102/94. It provides a legal framework for FDI in Oman. At the beginning of this law, it imposes the main barriers of investment by restricting foreign ownership and imposing a 30% minimum of local ownership. Attracting FDI and facilitating investment in Oman was tasked by the Public Authority for Investment Promotion and Export Development (PAIPED). This government institution provides foreign investors with the regulations and information needed about FDI in Oman. This agency has a representative in many countries around the world, such as the UAE, China, Australia, the US, Hong Kong, and Germany (Ithraa, 2019).

The FDI legislation in Oman has been amended many times. In 2011 a new draft of FDI law reviewed by Shura council and State Council. The new FDI law allows better ownership and control to foreign investors; also, it will enable the foreign investors to buy the residential property but within a designated tourist complex. GCC nationals and companies hold more advantageous positions such as own land under certain conditions. In 2017, the Ministry of Housing regulated the requirement of ownership of the real estate. The real estate investment fund licensed and regulated form the forms of the fund and share capital, limiting the rights of non-GCC nationals to own real property in Oman.

The government of Oman offers different incentives for foreign investors, including land lease, plan of the plot, reduction of services fees, and tax exemption. Also, tax exemption is a part of the companies' taxation that works in industries such as mining and agriculture, fishing, tourism, and the export of manufactured. This exemption lasts for five years after the production

starts. Also, exemption includes other sectors such as foreign air and cargo companies, universities and colleges, higher education institutions, training institutions, and specialized hospitals. Also, foreigners are given the privilege of land ownership according to real state ownership law, especially to establish a tourism complex, which applies to GCC nationals. The royal decree 12/2006 allowed non-Omani to own real estate in tourism complexes. The 100% ownership is permitted in a sector, such as banking and a certain area like economic free zones. These restrictions are not applied to GCC nationals. For the foreigner investors, 70% ownership is allowed, especially in real estate and tourism sectors, such as establishing integrated tourism complex and tourism projects like golf courses and hotels (Ithraa, 2019).

Oman allowed companies that conduct business in Oman to establish branches and representative offices, especially those that have a contract with the government or with Petroleum Development Oman (PDO) or with Oman Natural Gas Company. However, before establishing any business, every company must have registered at the Ministry of Commerce and Industry. Also, those companies which practice business activities in Oman can open a representative office. Oman has also allowed establishing different forms of businesses such as public shareholding companies, limited liabilities companies, and the holding company. But other entities like bubble-sharing companies and limited shareholding have restricted ownership. Moreover, the Sultanate has many commercial ports in many locations around Oman in Muscat, Sohar, Salalah, and more than six civil airports. Two of them are international airports. These airports and seaports connect Oman regionally and globally.

The banking system in Oman is considered the primary source for long and short credit, and there are no restrictions on obtaining credits from abroad. The Oman Development Bank (ODB) is responsible for providing funds for small and medium businesses. The maximum loan that is offered by this bank is only one million Omani Rials. Also, another financing institution for investors is the Gulf Investment Authority, which is a part of the GCC, which provides loans on new projects and liquidity investment. There are ultimate freedom and no restrictions on financial transport abroad, debt, capitals, benefits, partnerships, and personal savings (Foreign Direct Investment Regulation (2019)). Oman adopts an economic policy that helps control the public debt, exchange rates, and the ration

of inflation; there are no restrictions on financial remittance abroad, capital interests, liabilities, partnership, interests, profit, and personal savings. The foreigner investors can transfer foreign capitals with benefits freely according to the Foreign Capital Law article 11. All investors can participate in all national economic sectors, but they must have local partners amongst Omani with no less than 51% out of capital (National Centre for Statics and Information, 2019). Moreover, the foreign investors can own shares in the Omani company by 70% and entitled to have 100% participation in specific trade activities. Still, it should not be less than 390.000 USD. Foreign ownership is modified in the latest FDI law to be 100% for companies to help foreign investors enter the Omani market. Oman has also allowed the foreign investors to import production requirements without any restrictions or import it by itself or through other partners, including the material, machinery, spare parts, and productivity requirements (Foreign Direct Investment Regulation (2019).

Oman, according to the World Economic Freedom 2018 was ranked 18th among 141 states worldwide where the freedom measured by economic activities without government interference. Oman adopted free economy policy and updated laws and regulations that fulfill the requirements of free economy policy orientation and not force any new customs obligations or restrictions and provide different forms of incentives and facilities that help increase the profitability of the projects. Oman enjoys a modern infrastructure which is complying with international standards and measures. It is always improved with new communications. Oman has allowed foreign investors to recruit foreign labor to accomplish any big project in Oman, such as Muscat International Airport. Oman enjoys different promotion aspects that help attract FDI inflows such as political and social stability, security, and a peaceful atmosphere among the sectors of society, the official and legal system based on justice where all people are equal. Also, Oman provides a different form of elements of production, such as the number of industrials states, services, and facilities, strategic location, number of export ports (Muawya & Ahmed, 2014).

The new FDI law exempts foreign investor's projects from income tax five years from the date of establishment. It can also be exempted from customs duty against the imports of machinery, equipment, and materials necessary to establish the projects that are not available in the local markets. This exemption

will be only once and this exemption and renew issued by the office of Deputy Prime Minister for financial and economic affairs. The tax imposed on companies is 12% of revenues for those companies exceeding 30.000 OR, and the foreign companies with no representatives are subjected to 10% from total income. The government of Oman keeps changing the tax rate from time to time to create and improve the investment climate by minimizing the tax percentages (Pauceaun, 2016).

The investment climate is affected by economic, legal, tax, security, administrative, and organizational factors. Therefore, the appropriate investment climate is to attract investment and capital in economic development and should not be affected by bureaucracy. Many economists believe that bureaucracy has a significant impact on economic efficiency among developing countries due to the failure to establish a competitive market for all the elements of production. If the bureaucracy harms economic activities, this will hurt the climate of foreign direct investment, which is one of the critical sectors in which all countries should give it special attention as it is so sensitive to such an obstacle (Alqaisi, 2017). Bureaucracy has a different meaning from sociological perspectives. It is the rational and intelligent management of organization and administrative bodies. Still, from the public point of view, it is meant to slow to act and react to the complexity of procedures' inadequacy of an organization to meet citizens' interests. It is also defined as the overriding of the administrative routine and the lack of attention to society's benefit and not attempt to show the importance of people's requirements. The more the procedures are complicated, the more we need to find out about the importance of the right employees in charge. This always leads to more exaggerated complexity of any government procedures, and thus, inflexibility may often lead to more counterproductive results (Eudwlla & Sherstha, 2017).

The project of Omanization of jobs and occupations in the Sultanate is aimed to reduce the level of unemployment rate in Omani society and help to improve the standard of living of its citizens by adopting new developing plans to replace the expatriate workforces based on studied programs targeting the Omani youth (Shipton, et al, 2011). Omanization is a general concept of resettlement of jobs and occupations in Oman. It refers to the plans aimed at the expatriate's workforce within a specified program, including education, training, and

qualification, during a specific time. However, the Organization rates were not promising as the national workforce in the private sectors only represents 12% of the total workforce in the industry compared to more than 1.727 million expatriate workers who represent 88% of the entire workforce. According to the Ministry of Manpower, there are only three sectors where the Omanization rate exceeded 31%: financial mediation 80%, electricity, gas, and water supplies 74% mining and quarrying 70% (National Centre for Statics and Information (2019).

### SWOT Analysis of FDI in Oman

This research uses Strength, Weakness, Opportunities, and Threat (SWOT) techniques to analyze Oman's current position, which is related to the foreign direct investment environment.

#### Strengths

- Strategic location of Oman is one of the most strategic positions in the world, which provides excellent air and sea connectivity and access to many GCC states. It is just outside the Strait of Hurmuz along busy shipping lanes.
- Long term political stability
- No personal income tax
- Repatriation of capital and net profit
- Good infrastructures, health care, and education
- Proximity to other markets especially GCC market

#### Opportunities

- Many free zones are established around Oman, such as Salalah Free zone, Salalah port, Sohar industrial port, Sohar free zone, Mazyona free zone, and Duqm free zone.
- Peace and political stability
- Noteworthy tourism potential

#### Weaknesses

- Time to set up business outside the free trade zones
- Bureaucratic process in obtaining operating licenses
- Exposed to hydrocarbon price violation
- Omanization policy (to employ Omani national
- Legal obstacles to foreign investments such as 49% of the shareholding of a local company and obligation to use a local agent service for branches and representative offices.
- Oman imports a lot of manufactured goods
- Lack of flexibility in monetary policy
- Shortage of local skilled labor

#### Threats

- Conflict and disputes in the region
- Fluctuation of oil and gas prices
- China investment strategy in the region
- Currency exchange rates
- Instability of Oman economy and high rate of unemployment

#### Recommendations:

The Government of Oman should offer different incentives for foreign investors. There should be no restrictions on foreign exchange transactions and remittance in Oman. In the form of portfolio investments, there also should be no limitations over the flow of capital and the repatriation of profits. Foreign investors should be encouraged to invest in the Muscat securities market, and the fund which deals with Oman securities should be exempted from tax. The Omani Government should allocate suitable plots of land for foreign investors, lease of building for industrials projects for a competitive price. It should provide the necessary facilities such as electricity, water, and fuel. Moreover, FDI projects such as education and medical institutions should be exempted from taxation. There should be opportunities for foreign investors to own different types of properties, including tourism-integrated complexes, apartments, and commercial shops.

#### Conclusion:

There are different forms of foreign direct investment: horizontal FDI, vertical FDI, and conglomerate, where the investment conducted out of their country to acquire a business overseas. The determinants of foreign direct investment include the law and regulations of FDI, the political stability, market size, the availability of infrastructures, labor cost, the availability of natural resources. Also, the openness of host state police, the labor cost and availability of skilled labor, corruption practices, economic stability, government policies for licenses and doing business, investment climate, and the economic stability. Foreign direct investment has become an important economic tool for many countries around the world. It occupies a critical position for developing countries due to the need for economic diversification. Oman is highly dependent on oil and gas as the primary source of its economy. Thus, Oman vision 2040 aims to ensure economic diversification and economic growth. Therefore, Oman must look for new opportunities. Foreign direct investment has a high potential to contribute to the growth of Oman economies and



provide another primary source for the national income.

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