



Foreign Investment Promotion Analysis in Sultanate of Oman: The Case of Dhofar Governorate

Alexandrina Maria Pauceanu*

Department of Marketing and Management, College of Commerce and Business Administration, Dhofar University, Salalah, Oman.

*Email: mariapauceanu@gmail.com

ABSTRACT

The stiff rate of competition among the developing countries to attract foreign investments in the regions of their countries has created the deeper understanding of the main foreign direct investment incentive. It is obvious that the foreign investment became a priority for most of the governments. This research paper aimed at examining the main approaches and factors in foreign investment promotion within Dhofar Governorate in Sultanate of Oman. Data collected from relevant scholarly papers and government reports, interviews with officials in charge of foreign investment promotion and the conclusions from participation in meetings and public debates have been utilized in the analysis. Economic and political stability are among the factors which actually motive foreigners to invest in the region. Additionally, high purchasing power, a big market size and low cost of doing business in the region has been reported to be very desirable. It is evidence that the government from Sultanate of Oman have promoted aspects of foreign investments by offering a number of incentives such as favorable government policies and laws, and offering lower tax rates, creating free zones, business incubators, etc.

Keywords: Foreign Direct Investments, Oman, Investment Incentives, Gulf Cooperation Council, Foreign Promotion Efficiency, Dhofar, Free Zone

JEL Classifications: O53, P45

1. INTRODUCTION

Sultanate of Oman is located within the Arabian Peninsula's southern side. An open economic system as well as a well-established government has been in existence since the 1970s. The unfair pattern of employment recorded in the country's history has been as a result of a large amount of production of oil and labour migration which all began at the start of the Second World War due to the fact that the number of people who were available locally were very insufficient in number and had inadequate skills to provide services to the demand which was ever increasing and growing due to the expanding infrastructure, public and private services, and as the majority of people working in the country during this point in history were foreigners. For the purpose of building the spirit of privatization in Oman's economy, 2 years were decided to be vital in this regard, accordingly to His Majesty Sultan Qaboos (1991 and 1992). In addition to that, 1998 was specifically taken as the year of the private foreign developers. Along with this, the Oman government has also given out infrastructure together with

the institutional and legal framework for the purpose of promoting foreign investment within the country (Al-Hamadi et al., 2007). The private sector has been widely sensitized, in this regard, to help the state implement the regulations on diversification of the economy and within the same period of time increase the share that both the manufacturing and service sectors are having on the gross domestic product. All these aim at creating more employment opportunities for the dwellers in Oman and also economic growth and development.

The major objective of Sultanate Vision of 2020 is supporting and encouraging foreign investments to contribute to the economy of the country. In this regard, the Public Establishment for Industrial Estates (PEIE) has a major role by encouraging the establishment and sustainable development of free zones, business incubators and manufacturing areas.

In the conference held in Oman on the 2020 vision of the economy, which took place in Muscat in 2010, the address to the state

delivered by His Majesty Sultan Qaboos provided more emphasis on the reason why the foreign investors need to undertake an active role in the process of sustainable development of the country. With regards to this, the Omani government have introduced various measures of privatizing some economic activities and at the same time encourages foreigners from all parts of the world to come and invest in the country so that the locals can also be employed and hence promoting economic growth (Al-Hamadi et al., 2007). This kind of privatization policy was mainly directed as a measure towards reducing the oil revenue dependency which comprises the total 70% of the country's national revenue. With the hovering of oil around \$60/bbl., scholars have argued that the economy of the Oman is up in the air (Gulf States News, 2015). Uncertainty in the economy is quite challenging due to the current shortcomings that despite being planned for in a decade, still remain in place.

The Oman government have put in place laws and guidelines on foreign investment and capital contribution to the country as well as guidelines for foreign investment in the Dhofar area of Oman. The nation has special recognition of foreign investments that make great contributions to the developments of resources, industries and infrastructure of Dhofar, and the policy is geared towards welcoming and encouraging direct foreign investments that are most likely to stay long-term and have effects which are of great benefit to the country's economy (Al-Hasan, 2012).

It is relevant to mention here that "as it looks to the remainder of the 21st century and beyond, it is making decisions that will shape the direction of the nation's growth for generations to come. Currently, most of Oman's and Gulf Cooperation Council (GCC) countries' current energy needs are met by oil, and as its oil reserves are predicted to have a remaining lifespan of only 40 years, these countries are facing the pivotal question: What will replace this source of energy when it runs out? The immediate response to this question is that policy is clearly becoming increasingly oriented toward issues of energy management and the cultivation of sustainable energy resources" (Pauceanu, 2015).

The overall objective of this study is to undertake critical analysis of foreign investment promotion in the Dhofar Governorate of Sultanate of Oman. The study aims also at giving suggestions on solutions and ways of improving foreign investment promotion efficiency. Based on the above study objective, this research aims at answering the following questions:

1. What are the approaches to foreign investment promotion in the Dhofar Governorate of Sultanate of Oman?
2. What is the efficiency of these approaches and how can these approaches be improved?
3. What should be the strategic vision for the next 10 years in regard to Foreign direct investment (FDI) policy in Dhofar Governorate?

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 in Dhofar Governorate that are likely to benefit the country's economy. This study is quite important as it will provide the Omani government, Ministry of Industry and Commerce, Oman Chamber of Commerce and as well as the general public with information regarding approaches to foreign investment promotion in the Dhofar Governorate, the efficiency of these approaches and how these approaches can be improved. With such information, more measures can be taken by the government and other stakeholders on raising FDI for the purpose of Dhofar Governorate's sustainable economic development.

2. LITERATURE REVIEW

Sultanate of Oman is today ranked in the 70th position for the year 2016 out of the possible total of 189 economies that are found within the ease of operating business (for the year 2015 it was classified on 77th position). This is based on the 2016 ranking that was undertaken by the World Bank. Despite the fact that the country experienced a decline in its oil production level, an approach which is steady in the implementation of structural reforms have greatly contributed to the kind of output growth which is not oil (World Bank, 2014). The currently existing medium-term prospect of Sultanate of Oman looks very favorable. This has been given support for a kind of continuous positive outlook for energy prices, climate which is improved for both domestic and foreign and strong investment momentum. Oil prices have dropped to 60\$/Barrel, which has had a negative impact on Sultanate's economy; the country is surrounded by instability and has managed to remain stable throughout the turmoil of the so-called Arab spring (World Bank, 2014).

If we use Hofstede Cultural Dimension model to make an educated guess about Sultanate of Oman cultural profile, it is fair to conclude that it can be characterized as hierarchical order and centralization state, defined by a collectivistic society which takes care of its own, that is neither masculine nor feminine dominant, with a high preference for avoidance of uncertainty (rigid codes of beliefs and behavior, for instance), and prefer to maintain time-honored traditions and norms while viewing societal and/or cultural changes with suspicion.

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. Foreigners owning businesses is usually permitted as long as the unforeseen investment plans to put economic growth of the country as their main agenda. Additionally, there are no turf restrictions on repatriation of capital and exchange currency together with dividend transfer (World Bank, 2014). The Oman government is in possession of a regime of taxation which is substantial in the form of corporate tax and is in most cases very low without existence of individual earnings tax. There also exist labour laws in the country which are very flexible and promote escalation of productivity and at the same time. The cost which is non-salary incurred for employing a worker is also very low. Literature has indicated that the Dhofar Governorate people are regarded as highly hospitable and friendly within the region

Table 1: Foreign direct investment in Oman, 2012-2014

Indicator	2012	2013	2014
FDI Inward flow* (million USD)	1,040	1,626	1,180
FDI Stock** (million USD)	16,901	18,527	19,706.9
Number of Greenfield Investments***	96	52	38
FDI Inwards (in % of GFCF****)	5.5	7.5	5.3
FDI Stock (in % of GDP)	22.4	24.1	25.3

Source: UNCTAD, 2014. *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, Country Risk. ***Green Field Investments Are a Form of FDI Where a Parent Company Starts a New Venture in a Foreign Country by Constructing New Operational Facilities From the Ground Up. ****GFCF Measures the Value of Additions to Fixed Assets Purchased by Business, Government and Households Less Disposals of Fixed Assets Sold off or Scrapped. FDI: Foreign direct investment, GDP: Gross domestic product, GFCF: Gross Fixed Capital Formation

of the Middle East (World Bank, 2014). Foreigners can today compete with the locals in a move which is even more balanced, regarding the locals as extra striking to the employees, though in the real sense it should be those highly-skilled expatriates who have the skills and knowledge of the mobility rights perceived in this case (Al-Hamadi et al., 2007). It is relevant to mention here the reinforced Omanisation strategy which is strongly reinforced but there is lack of skills among Omani workforce; this fact will affect the productivity and company's HR policies and their implementation. A similar policy – emiratisation – is implemented in the neighbour country, United Arab Emirates.

As it was mentioned before, the foreign investors keen to settle their businesses at Salalah Free Zone have the opportunity of participating in the definite export arrangements that are offered to the company's found in Sultanate of Oman by the institutions dealing with finances as well as of the Free Trade Agreements with USA and Singapore. The Salalah Free Zone region is undergoing development of multiple phases (Gulf States News, 2015). There are plans for this Free Zone to provide a variety of warehousing, industrial and research among others as well as office facilities and space for residence.

The other private-public sector is Knowledge Oasis Muscat (KOM). Is a park of technology that is situated more than 30 miles from the main area of Muscat cit. KOM is defined as local, which is quite favorable for businesses that are foreign technology oriented, together with establishing blue chip multinationals, who have the desire of flourishing and innovating within the Gulf setting (Abdallah, 2015). The main incentive provided to the foreign investors comprise of being 100% foreign ownership (there is no need of local sponsors); there is a required minimum investment capital of around Omani Rials 20,000 in a position to access high-speed internet with rates that are very competitive, low level of omanisation required. KOM tenants have the ability of being registered on the tender board and hence capable of bidding for state tenders, no individual earnings tax imposed on the workers and foreign exchange control, a duty-free access of products to GCC countries from Sultanate of Oman, offering foreigners with networking meetings, environment and events that give encouragement of collaboration and mutual support (Abdallah, 2015).

Other than the traditional forms of foreign investments being encouraged by Sultanate of Oman in the Dhofar region, the Government of Sultanate of Oman had also signed an agreement on free trade with the United States of America in which case the American businesses and the kind of establishments that are willing to open branches and provide services or goods in the Dhofar Governorate have the freedom of doing that before they even obtain contracts or conformity with the Sultanate of Oman administration or any of its business or an individual having the shareholding of the government (Abdallah, 2015). The Sultanate has a free trade agreement FTAs with USA. It is not hard to guess the main reason beyond this free trade agreement; we should consider also the case of big companies located in Sultanate willing to enter on US market which are easily accused of dumping practices (it is well-known, among others, the case of Salalah Methanol Company who was recently in this situation).

Consequently, the foreign investment and capital law of Oman states that any non-Omani national, either juristic or natural person who have the desire of engaging in businesses in the Dhofar Governorate or acquire some form of curiosity in the capital of a company in Oman, need to be given a license for doing so from the Department of Industry and Commerce ('Oman: Foreign Business And Investment Law [Royal Decree No. 4/74]', 1985). The license in this case is provided as long as the non-Omani national in this case carries out his/her business during one of the given company types that are recognized by the law of profitable companies with assets that are not fewer than RO. 150,000. Additionally, non-Omani are allowed to participate in the capital of a given company for up to 70%; in some cases which are exceptional, 100% of the company's capital is permitted to be possessed by foreigners by the Industry and Commerce Department. The Council of Ministers, after getting recommendations from the Department of Business and Industry might allow for 100% foreign ownership in a company of Dhofar Governorate from Sultanate provided that they fulfill some conditions like: Their project contributes towards economic development and the assets of the business is at around RO. 500,000 or more (Abdallah, 2015). In addition to that, a subdivision of an overseas business is allowed to function in the Dhofar Governorate of Sultanate as a kind of enduring business without contribution of the Omani (Abdallah, 2015).

It is important to note that only commercial companies have the responsibility of paying levy in Sultanate of Oman. There is no individual revenue levy for foreign investors, wealth levy, gift levy, fringe gain levy or any other type of property task and there exist no trade levy or value added tax. It is the accountability of the secretary general of taxes at the money department to do the assessment and collect income tax from all the commercial companies which are owned by both local and foreign investors (Abdallah, 2015). The government of Sultanate of Oman has a service team that is ready and equipped to provide guidance to both the locals and foreign investors to start their businesses in the Dhofar Governorate (Abdallah, 2015). The personal services provided to both local and foreign investors in the region comprise of a one-stop solution for what the client requires, services incorporation, advice on business structure which is appropriate,

advice on how to select the most suitable type of entity, assistance in the procedures of forming the company, assistance in the method to be followed in selecting the suitable location, post-incorporation services, and lastly sourcing for business partners. The strategy of the government of doing economy diversification is highly reliant on the attraction of direct foreign investments (Table 2) into the country with specification in Dhofar Governorate. The government, therefore, offers quite a number of attractive incentives for foreign investors.

The Sultanate of Oman national development and the kind of experiences existing within its labour is the same as those that are experienced in the GCC countries, though the cost of foreign labour in Dhofar Governorate has been significantly minute when compared to other nations in the region (Economy, 2007). At all times, it provides the foreign businesspersons who are interested in the issues of economics and investment in the Sultanate with the chance of learning about resurgence that happens within the private sector, the various activities concerned, areas of operation and various levels and cooperation networks expansions and the kind of interrelationship that exists between the public and private sectors conforming to a kind of partnership which is genuine that support the trail of social and economic development in the country (Economy, 2007). It is imperative for the Chamber of Commerce and Industry of Oman to contribute and underline the first-class effort in the transfers of its mission and objectives to the community of foreign business as well as introducing its attempt for better results and constructive recommendations that

serve its numerous economic activities (Economy, 2007). Various committees have dealt with the most critical issues for the medium and small foreign companies within the operation, business opportunities available and the projects of self-employment that can benefit the youths of the Omani.

Due to the fact that local populations are very few with knowledge which is insufficient to serve the demand which is high and is rapidly increasing with the aim of expanding infrastructure, public and private services, the GCC has depended much on imports from Arab countries and, majorly, Southern Asia (NSCI, 2014). The GCC governments have delegated the foreign workers in an average way with the major responsibility of directing the majority of their private sector by using rules that strictly tie them to employees from the local region. Since the market of private labourers have been mainly flooded with foreigners who are relatively cheap, GCC regimes have had the opportunity to include a large number of nationals into the works for local government, though with productivity, which is very questionable regarding the fact that a number of locals usually have very high skills.

As from the beginning of the 1990s, Oman has always embarked on a kind of effort of raising the small level of the flow of FDI (Table 3 and Graph 1). The speeding up process of FDI liberalization has resulted in the ability for Oman to expand more of its policies that are somehow open into the area of commerce and industry long measured as responsive and to give permission for some forms

Table 2: Incentive offered for foreign investors in Sultanate of Oman

Industry sector	Incentives		
	Income tax	Customs duty	General
Industry and mining	<ul style="list-style-type: none"> • 5 years tax holiday (renewable) 	<ul style="list-style-type: none"> • Exemptions on import of plant, machinery and raw material for 5 years from commencement of production (renewable once) 	<ul style="list-style-type: none"> • Repatriation of capital and profits of the project permissible • The businesses may not be confiscated/ expropriated unless in the public interest with equitable compensation • No import registration (upon approval of relevant authority) - import of production accessories, material, machinery, spare parts and appropriate means of transport
Export of locally manufactured/processed products Tourism promotion-operation of hotels and tourist villages (excluding management contracts) Production and processing of farm products-poultry farming, processing/ manufacturing animal products and agro industries Fishing, fish processing and fish farming Public utility projects (excluding management contracts and project execution contracts) Universities, higher education institutes, schools, kindergartens and training colleges Hospitals and medical education institutes	<ul style="list-style-type: none"> • Tax losses incurred during tax holiday may be claimed against future profits (no time bar) • No personal income tax 		
Expansion (increase in capital-increased fixed assets for: increased production capacity, new products, new services/activities) of the above businesses are also entitled to the above concessions Industrial installations (See 2.1.4)	<ul style="list-style-type: none"> • 5 years tax holiday (renewable) • No personal income tax 	Exemptions on import of: <ul style="list-style-type: none"> • Machinery and spare parts for commencement, expansion, modernisation or replacement • Raw material and partially processed goods (for 5 years, extendable) 	Ministry of Commerce Industry may provide: <ul style="list-style-type: none"> • Financial incentives • Subsidised utilities • Preferential land allocation • Trade promotion

Source: (Abdallah, 2015)

of FDI entry that were previously considered as less desirable (Abdallah, 2015). This paper has critically analyzed the key approaches that have been utilized by the Oman to promote foreign investments within the region of Dhofar. Data analysis has shown that stability in both politics and economy are among the top group that influence Foreign Investment in Dhofar area. The findings in this case give assistance, though incomplete, for the first forecast. Those investors who are originating from different nations and regions are likely to put numerous emphases on the different missions existing. The findings report that there is need for Oman to evaluate the country in which the investor is originating from and match the existing kind of incentives that are presumed to be offered and the needs and wants of the investor so as to promote the motives in an appropriate manner (Table 4).

Graph 1: Ease of doing business index Gulf Cooperation Council 6

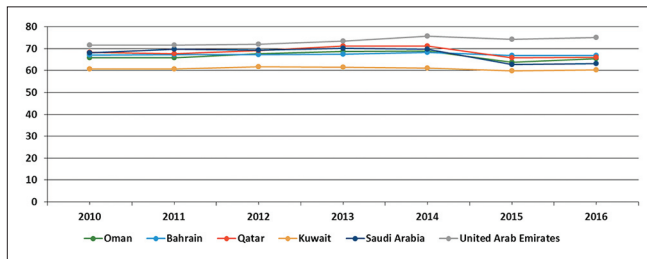


Table 3: Ease of doing business index GCC 6

Ranking	GCC country	Index value
1	United Arab Emirates	75.10
2	Bahrain	66.81
3	Qatar	65.97
4	Oman	65.40
5	Saudi Arabia	63.17
6	Kuwait	60.17

Source: World Bank Doing Business 2016. GCC: Gulf Cooperation Council

Table 4: UNCTAD – Different types of FDI

Motive of FDI	Key determinants
Natural resource-seeking FDI	Abundance and cost of natural resources Physical infrastructure (ports, roads, railways, etc.) Price movements
Market-seeking FDI	Market size and purchasing power (per capita income) Market growth Access to regional and global markets Tradability of product/service Structure of markets
Efficiency seeking, export oriented FDI	Quality and cost of human resources Physical infrastructure (ports, roads, telecom, etc.) Trade costs Quality of suppliers, clusters, etc. Regional integration agreements
Strategic asset-seeking FDI	Presence of firm-specific assets Ease of cross-border M&As Efficiency and transparency of financial markets

Source: Tuluce and Dogan (2014). FDI: Foreign direct investment

3. METHODOLOGY

3.1. Introduction

The methodology part comprises of the research approach, research design, data collection methods and tools, validity and reliability, data analysis, and ethical considerations. A detailed explanation is provided for the strategy adopted in the collection of the required data and information, the steps involved in the analysis and examination of this information, in addition to the relation of this information to the relevant literature materials and models. It gives a guideline as to how the research is conducted to reach the findings, discussion, conclusion and recommendations stated in the thesis.

3.2. Research Design

The literature on approaches to foreign investment promotion in the Dhofar area of Oman is almost inexistent, despite the development of works on entrepreneurship in Oman in recent years (Pauceanu, 2015). Methodology of the research always covers the scope of the study, data collection and analysis, and conclusion and recommendations development. The literature states that the design for research plays a very significant role within the research project since it provides the overall framework for data collection and formulation as always needed in the research (Wilson, 2013).

This researched utilized a kind of qualitative study design in which case information was collected from secondary literature. This kind of study design had been selected for this study due to the fact that it aims to explore the many approaches to foreign investment promotion. It was not limited to any particular theory which also emphasizes quantitative research. Secondly, interviews conducted with officials directly involved in foreign investment promotions and the main author's collected information from participation in meetings, sessions and discussions in this regard were considered and the information was presented alongside.

3.3. Data Collection Tools and the Process of Data Collection

Qualitative approach-based inductive logic was employed due to effectiveness in the context of exploratory research. As a result, considering the recommendations of many researchers, the data gathering method used is based on a review of secondary data, and compared with primary data collected from the field. All the relevant articles were gotten by first looking at the abstract after typing the key words that have been highlighted within the study. Upon getting sufficient related articles, key information was checked and recorded. Analysis on the approaches to foreign investment promotion in the Dhofar area was done. Contribution of professional factors and organization condition on the foreign investment in the region was also done.

In regard to the primary data analyzed, as mentioned previously, interviews with officials directly involved in foreign investment promotions and information collected through participation in meetings and discussions in this regard were considered and the information was presented alongside. In this way, we ensure the

validity and reliability of data, as well the connection of literature with the ground realities.

3.4. Ethical Consideration

This research was specifically a qualitative research. The findings from other studies and government reports and books were evaluated in the process of getting information regarding foreign investment promotion in the Dhofar and were corroborated with the data gathered from the field. The researcher did ensure that all the ethical considerations were adhered to during the time of data collection and analysis. The study was carried out using steps and procedures that do not give room for violation of regulations on copyright of all the primary sources, presenting a work which has been copy-pasted and give reports on the kind of studies that do not have adequate ethical efficiency or contravenes guidelines and ethics on publications. All the sources used in this study have been appropriately acknowledged. It's also important to note that the researcher did seek ethical permission and approval from all other relevant authorities, like the institutions and database, before getting access to their work.

3.5. Validity and Reliability of the Study

Reliability and validity of the qualitative research are equally important as they are in the quantitative research. For the purpose of collecting the secondary data, the researcher has considered the authentic books and websites which are valid and up to date. Triangulation includes making use of multiple information sources in a research in order to understand. Validity in terms of qualitative research is termed as credibility which ensures that the results of the research are credible as per the knowledge of participants (Wilson, 2013). It is ensured that the research can be generalized and is transferred to some other place based on suggestions and recommendations made at the end of the research. The primary data collected for this research are gathered directly from the reliable resources (officials implicated in foreign investment promotion, meetings and discussions in this regard) which increase the credibility, validity and reliability of the study. For the purpose of ensuring the reliability and validity of data, a triangulation method of analysis was used so that if some gaps are left by one method, the other method can be used to produce reliable results. The research questions were produced in the light of theories and literature to make it more reliable and relevant with which we could generalize the research result to other regions found in Oman.

3.6. Data Analysis

All the information that had been obtained from the review of literature, discussions with officials in charge of promoting foreign investment in Oman and Dhofar Governorate and were analyzed for the purpose of answering the research questions:

1. What are the approaches to foreign investment promotion in the Dhofar area of Oman?
2. What is the efficiency of these approaches and how can these approaches be improved?
3. What should be the strategic vision for the next 10 years in regard to FDI?

Activities found as the major approaches adopted by the Oman government in promoting foreign investment within the Dhofar

region were reviewed and recorded for the purpose of doing some further analysis and discussion. Information coding and results generation from the articles and journals that have been used in the study was done based on the type of information obtained, its source, accuracy and the validity and reliability.

4. FINDINGS AND DISCUSSIONS

The strategy of the government of broadening the economy is very much contingent on attracting FDIs into the Dhofar region so as to make a climate for investment to become investor-friendly as well as conducive. The Chamber of Commerce and Industry of Oman pays a lot of focus on profitable and economical duties and puts more emphasis on the purpose of filling the gap that is likely to be found between the private and public sectors (Abdallah, 2015). Profit making companies that do not have the Omani partners are required so as to comply with the capital foreign investment law provision together with the existing law on commercial companies. It is a requirement for the non-Omanis to obtain a valid license from the industry and commerce department so as to take part in businesses that are found within commercial, industrial and tourism sectors and hence take some shares in the Omani company in terms of law on foreign capital investment.

Applications for license for foreign investment are usually sent to the commercial registry that is found at the department of commerce and industry (Table 5). A license is at times not essential in a number of conditions: Organizations that conduct production by the virtue of a particular contract or agreements with the administration or that is recognized by Royal Decree; and second are services that are presumed essential for the people of Dhofar by the Council of Ministries (Abdallah, 2015). The Table 5 illustrates the conditions that foreign investors are required to fulfill while operating their businesses in Dhofar Governorate.

The period of the last decade in Oman has witnessed the question of replacing workers who come from foreign countries with those of the Omani nationals. It has become one of the sensitive issues within the political and economic debate, though it is not recent within itself. Right away after the end of the Dhofar war, the query concerning Omanisation of the arrangement of the military and the Sultan's Armed Forces have been discussed in great detail (NSCI, 2014). Immediately after the war of Dhofar ended, the question on Omanisation of the Armed Forces structure has always been discussed in greater detail (NSCI, 2014). Prior to the 1980s, the kind of totality that existed in the forceful generals were majorly outsiders, more also from Britain. The first appointment which was initially done on the nationals happened in 1982 for army purposes, and during 1985, on the police side. Up to date, there exist some structure of command that have remained in the hands of foreigners, more also the kind of forces that are devoted personally to the Sultan (NSCI, 2014).

There exist a number of business promotion agencies/strategies in Sultanate that help promote foreign investments in the area of Dhofar. The first and most vocal is the Ministry of Commerce and Industry. The Industry and Commerce Department has developed a one-stop shop in which foreign investors are assisted in getting

Table 5: Conditions that foreign investors are required to fulfill while operating their businesses in Dhofar Governorate

Structure	Activity	Conditions	Registration
Joint-stock company (up to 10096 foreign shareholding)	Deemed in the “interest of the national economy” by the Development Council, upon recommendation of Ministry of Commerce and Industry	<ul style="list-style-type: none"> • Min. capital RO 500,000 • FCIL license from Ministry of Commerce and Industry 	<ul style="list-style-type: none"> • Commercial registration • OCCI registration
LLC (70% max. foreign shareholding)	As approved by Ministry of Commerce and Industry	<ul style="list-style-type: none"> • Omani shareholding min. 3096 • Min. capital RO 150,000 • FCIL license from Ministry of Commerce and Industry 	<ul style="list-style-type: none"> • Commercial registration • OCCI registration
Branch Office (Temporary status)	<ul style="list-style-type: none"> • Government Contracts; • Businesses Declared’ necessary for Oman’ by the Council of Ministers 	<ul style="list-style-type: none"> • Foreign participation Limits in FCIL not applicable • Sponsorship by Omani agents in specific circumstances 	<ul style="list-style-type: none"> • Commercial registration • OCCI registration
Representative Office	<ul style="list-style-type: none"> • Trade, industry and service sectors 	<ul style="list-style-type: none"> • May not import, export or sell its products • Promote and market own products only • Subject to Omanisation rules 	<ul style="list-style-type: none"> • Commercial registration * OCCI registration
Agencies	<ul style="list-style-type: none"> • Foreigners in retail/wholesale trade • Exporters of goods and services to Oman 	<ul style="list-style-type: none"> • Foreigners required to do business through Omani agent as per Commercial Agencies Law <p>Note: WTO membership has resulted in relaxing of these requirements</p>	<ul style="list-style-type: none"> • Commercial registration • OCCI registration • Register Agency agreement in Register of Agents and Commercial Agencies

Source: The Oman Chamber of Commerce and Industry and staff of Morison Muscat, 2015. OCCI: Oman Chamber of Commerce and Industry, LLC: Limited Liability Company

the required clearance for operating business in the country (World Bank, 2014). The requirements in this case include among others: Business registration from the Industry and Commerce Department; doing some registration with the Chamber of Commerce; and obtaining operation license from the regional Municipality of Dhofar that are strictly needed before starting to do business in the region.

The other body that takes part in promoting foreign investment in Oman is the Oman Chamber of Commerce and Industry (OCCI). OCCI is considered as the summit body of representation of all those found in the private sector including foreign investment. The Chamber of Commerce of Oman give out business, legal and economic consultation assistance services to investors who happen to be foreigners, while at the same given time promotes a kind of business which is bilateral, and technical expertise exchange among the locals and foreigners (World Bank, 2014). Any kind of business that is commercially register, both foreign and local in Dhofar Governorate is required to join OCCI branch which is found in the region of Dhofar.

The fee required for one to become a member within this situation varies depending on the activity of the business that is being undertaken and the amount of capital that has been invested in that given business. The third agency or body is the Oman Centre for Investment Promotion and Export Development (OCIPED). The center in this case was specifically established to do promotion on foreign private entrepreneurship in Oman (World Bank, 2014). The center’s main objective is to boost both the international and local private sector investments that are considered as very important in the economic development of the country and to work together with other related kind of businesses that are found within Oman to promote export of

products from Omani and other services to the global market found in the world. OCIPED works under two greater divisions: The General Directorate whose responsibility is to promote foreign businesses in the country and also the directorate general who is responsible for development of export services in the country. In addition to that, quite a number of free trade zones established for foreigners (Table 6), also referred to as free zone have been developed by the Royal Decree. This kind of free/manufacturing zones are within the jurisdiction of the department of industry and commerce, under a specialized department called PEIE (World Bank, 2014).

The Oman Central Bank has been in the process of pursuing a strategy of strengthening the existing organization of the financial sector and also doing deregulation to the sector for the purpose of liberalizing the sector and increasing participation in the organized financial sector (Table 7). Foreign banks have been given permission to register their branch offices and also foreign shareholding within the local banks so as to benefit from synergies (Al-Hasan, 2012). The country’s local banks are also encouraged to expand beyond the country’s boundary. Currently, quite a number of both foreign and local banks are operating within the Dhofar region. Literature reports that the bank finances up to 56% of all the project cost if it is located within the region of Dhofar at an interest rate of 3%. Zero interest loans are hence offered for small projects that have capital not exceeding R.O. 20,000 (Al-Hasan, 2012). Islamic banking is also available here and can be accessed by the interested parties.

For the purpose of a better understanding of the situation, we consider crucial to make a SWOT analysis to better accomplish the purpose of our study. Knowing the weaknesses and the threats will give an overview to the decision-makers and the chance to

Table 6: Free zones within the region of Dhofar and incentives for foreigners to establish their businesses

Free Zone	Location	Advantages	Incentives
Salalah	Dhofar	<ul style="list-style-type: none"> Near Salalah Port; World class infrastructure and support services; Easy access to the Gulf region, Red Sea, Indian Ocean and East Africa 	<ul style="list-style-type: none"> 50 years lease (renewable); 100% foreign ownership; Zero Customs duty-imports and exports; No minimum capital investment; 30 years tax holiday; Only 10% Omanisation requirement; Fast track customs handling and processing
Al Mazunah	Dhofar	<ul style="list-style-type: none"> Proximity to Yemen border, trade opportunities with Yemen; 260 km from Salalah Low cost skilled labor 	<ul style="list-style-type: none"> Located outside Oman's tax boundaries Therefore visa/border procedures not required between Oman and Yemen

Source: The Oman Chamber of Commerce and Industry and staff of Morison Muscat, 2015

Table 7: Tax rate levied on both foreign and local business entities in Dhofar Governorate

Business entity	Taxable income (RO)	Tax rate
• Sole proprietorship-Omani/ GCC national	Up to 30,000 Above 30,000	Nil 12%
• 100% Omani company		
• Company with up to 70% foreign ownership		
• CMA Investment Fund		
• General joint-stock company (public shareholding co's)		
Branch office (100% foreign ownership)	Up to 5,000	Nil
	5,000-18,000	5%
	18,001-35,000	10%
	35,001-55,000	15%
	55,001-75,000	20%
	75,001-100,000	25%
	Above-100,000	30%*

Sources: The Oman Chamber of Commerce and Industry and staff of Morison Muscat, 2015. GCC: Gulf Cooperation Council

establish new measures to transform the weaknesses into strengths and threats into opportunities as much as it can be done (Table 8).

FDI flows to the Dhofar area increased greatly as from 2012 and the prospects of the growth within the years to come appear to be positive. The growth of foreign investments have accelerated, in particular as a result of the development of the Duqum Special Economic Zone which comprise of the building of a port, an oil refinery, an airport and also tourism infrastructures (The OCCI and staff of Morison Muscat, 2015). This current dynamic is expected to continue even further. The Sultanate of Oman is seeking to attract investors by offering a number of tax incentives and exemptions of custom duty. The Sultanate in this case benefits from a kind of stable political and macroeconomic situations (The OCCI and staff of Morison Muscat, 2015). Access to a small number of sectors of economy and the kind of pressure originating from the government that mandate foreign companies to mainly recruit domestic employees is a major obstacle to foreign investments promotion in the Dhofar region (The OCCI and staff of Morison Muscat, 2015). Most of the foreign investments continue to move towards the oil sector. By 2013, the Sultanate had signed an agreement with BP to start the exploitation of the new gas field. Most investors

of the Dhofar region comprise of the United Arab Emirates, United States, China and Japan (The OCCI and staff of Morison Muscat, 2015). Information about the influx of FDI in the region of Dhofar can easily be found in the Global Investment Trade Monitor which was published by the United Nations Conference on Development and Trade.

Different groups of people comprising of administrative officials, businessmen, industrials, company Chief Executive Officers and Shura Council members have put more stress on creation of a kind of atmosphere for the development and investment in Dhofar Governorate and have requested for concerted efforts from the private and public sectors to achieve this noble goal (Al-Hasan, 2012). This group did come out with a number of important recommendations after experiencing a kind of hectic discussions with administrative officials, company CEOs and Shura members and the chairpersons of a number of establishments. The meeting in this case was titled "Raysut economy and development" and was held on the date of 8th April 2015 at the Crown Plaza Resort Salalah (Gulf States News, 2015). It had been organized by the Studies Center of the Middle East and Salalah chapter of Oman Chamber of Industries and Commerce officials. These participants did call for setting up of a number of headquarters for industrial incubators in Dhofar area for the purpose of facilitating small and medium size enterprises (SMEs) with training, on assistance on jobs as well as financial support within the areas like outlets for spare parts, food processing units, and raw materials (Gulf States News, 2015). The major recommendation given was with regards to setting up of a technical service area for the foreign and domestic investments in the field of information technology and population relocation from Raysut and the Free Zone area of Salalah to save them from the kind of pollution that are likely to be caused by the industries that are yet to come within the near future (Gulf States News, 2015). The recommendations made in this case cited Liva, the area found within the North Batinah Governorate, as a good example for all these suggestions. Mohammed Al Mashani, who is the chairman of the Committee for Foreign Investment Promotion at the Oman Chamber of Commerce and Industry Salalah did put a lot of emphasis on the need to develop Salalah Free Zone so as to promote foreign investment in the Dhofar Governorate. Ali bin Suhail Tabuk, who is also the Chief Executive Officer for the Middle East Consulting and one of the organisers of the seminar, also put more pressure on the development of free zones

Table 8: SWOT analysis of foreign investment business opportunities and environment in Dhofar Governorate of Sultanate of Oman

<p>Strengths</p> <ul style="list-style-type: none"> • Free zone areas offer good incentives and advantages to foreign investors • Free Trade Agreements with United States of America (2009) and Singapore • Very low tax on company's income • Easy to manage around with English language • High level of security within the country • Port of Salalah – the gateway to the world (the cheapest transportation is on water) • Good infrastructure • Easy access to GCC market • Well-developed banking system • Favorable geographical location of Dhofar Governorate • Existence of several bilateral agreements on investments protection • Investor-friendly environment and modern business law framework • Contract sanctity • One-stop shop at the Ministry of Commerce and Industry • Oman is WTA full member and abides its duties and obligations • Oman is subject to TRIMs obligations (trade related investment measures) and fully respects it • No risk of expropriations <p>Weaknesses</p> <ul style="list-style-type: none"> • Rial Omani (OR) is strictly paired with US dollar (1 OR is the equivalent of 2.58 USD) which can lead to imported inflation • Omanisation policy enforced and difficulties in finding skilled workers among locals • Difficulties in getting work visas for skilled foreigner workers • Discrepancies in regional development • Considerable influence of oil trade on economy • Raising deficit of skilled labor force • Insufficiently developed technological transfer • Discrimination at salary level between Omani and non-Omani and also the preferential treatment and prerogatives granted to locals 	<p>Opportunities</p> <ul style="list-style-type: none"> • Commercial gate to the world and especially towards Africa (towards countries like Somalia, Sudan, etc.) • Cost competitive advantage to enter on markets like USA or Singapore due to the Free Trade Agreements • Competitive taxation for the companies and in some cases excerpt from taxation for few years <p>Threats</p> <ul style="list-style-type: none"> • Political instability at the border • Rarely, some extreme natural phenomena like Chapala Cyclone. • High regional competition for attracting foreign investors • High level of competition from other GCC areas with excellent incentives and facilities
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Source: Compiled by the author from field collected data and observations. GCC: Gulf Cooperation Council

together with promotion of the Port of Salalah within the region and also countries which are far away.

The Salalah Port Services Co. SAOG. (SPS) is a kind of joint venture company that is 70% owned by the Omani and 30% owned by foreigners, and it operates a world-class container hub terminal and port (Gulf States News, 2015). The strategic location of Salalah Ports at the transshipment of the region interchange has made Oman become a center for sea trade and has placed the Dhofar region in a better position for the services of the feeder to the main ports that are established in the Gulf, Red Sea and Yemen together with Mumbai and Karachi. The Free Zone of Salalah usually provides investors with some natural edge in terms of accessing the market targeted in Australia, Africa, Asia, and Europe. Other than the advantage of having a proximity to Salalah Port, which has space for more than four million TEU yearly, the initial low cost for establishing a business and a center for obtaining permits, visas, licenses, and customs clearance among others, Salalah Free Zone provide a number incentives that are investment friendly which comprise of (for not less than 50 years and can be renewed for another 50 years): Foreign ownership being 100%, zero customs duties on exports and imports, no minimum investment capital that is needed, no taxes on dividends or profits for 30 years, no levy on individual earnings that exist, no form

of limitations on repatriation of capital, investments and profits, low levels of Omanisation necessity, and lastly fast-track customs processing and handling (Table 9).

5. CONCLUSION AND RECOMMENDATIONS

The major policy implications for Oman are: Approaching all the existing sectors with a uniform kind of promotion, and construction and banking are mainly interested to the size of the market unlike manufacturing. The second implication is that the government needs to adopt a kind of combined strategy so as to highlight the relevant motives, and lastly they need to capitalize on the top most four motives: Investment incentives, the policy of the government towards FDI, economic stability, and political stability.

The Development Bank of Oman was set up to encourage and promote all forms of economic development in the regions of Oman. It gives financial and practical help and consultative services to medium, small and large businesses that are owned by both locals and foreigners within the fields of manufacturing, agriculture, fisheries, animal resources, professional services, and education, among others. The bank has a number of subsidized loan products for projects owned by foreign investors.

Table 9: Effects of FDI on host country

Direct Effects	Indirect effects
1. Commercial and Trade exchange increment	1. Network opportunities development
2. Technology and workforce transfer at lower costs	2. Firms development and better performance needed
3. New products/services inflow	3. Technology and know-how transfer easily and at lower rates
4. Resource usage	4. Competition increase and consumers demands/expectations become more refined
5. Capital inflow and balance of payment	5. International trade integration results
6. Employment rate increase	6. Human capital will require specialization and more training to compete in a more skilled environment
7. Tax revenue	

Source: Compiled by author from literature review and field collected data. FDI: Foreign direct investment

The fact that Omani nationals are more likely to be paid more when compared to foreign employees is a major challenge that needs to be addressed by the government. Moreover, the government of Oman should come up with non-discriminative policies that promote foreign investment in the Dhofar region so that the region can become a hot bed for economic growth and development within the next 10 years. If Omani authorities will play their cards smart, Dhofar region can become a golden mine for the country, locals and third parties (Table 8).

It is of vital importance the establishment of a business incubator in Dhofar Governorate, or precisely in Salalah. It will assist and contribute significantly to sustainable regional development, creation and know-how transfer and, as well, know-how implementation assistance. In regard to foreign investment promotion, it is necessary to create and implement a more aggressive marketing plan doubled by the accelerated development of the free trade area in the region. Also, Salalah Port needs to diversify its activities and partnerships, and one vital direction is tourism with all possible facilities (restaurant, shops, rent-a-car, touristic information point, etc.). All these plans must come with tailor-made implementation solutions developed especially for Dhofar Governorate. The area has several specificities that must be considered and addressed. Also a better relation and collaboration between ministers with the purpose of attracting foreign investors would be very useful.

The findings in some way maintain the initial suggestion. They tend to lend confidence to the case that position determinants of the inner Foreign Investment to have significant differences with different countries. Firms coming from the other GCC countries are not very much attracted by the country's offer of having the

ability to repatriate profit when compared to the EU, United States and Asian companies. It is not surprising as companies from GCC nations have frequently been given room for moving all their capital without taxes within the region of GCC. That is to say, even as tough weight on moving capital freely is a kind of warranted initiative by the Oman government to promote foreign investment in the Dhofar region, it is not very likely to yield results which are effective when targeting GCC countries.

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